The Economic Club of New York

310th Meeting
78th Year

The Honorable Robert S. Strauss
Former U.S. Trade Representative

and

The Honorable Clayton K. Yeutter
U.S. Trade Representative

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Introduction

Chairman Dwayne O. Andreas

Ambassador Strauss, ladies and gentlemen, welcome to this 310th dinner in the 78th year of the Economic Club of New York. I wish our past-chairman Ross Johnson could have been here tonight so that we could express to him in person our thanks and our appreciation for his leadership these last two years. But I know I speak for all of you and all of us in saying that the energy and the enthusiasm that he brought to the chairmanship have given us a new inspiration.

Having just become the new chairman, my own hope is that I can maintain the standards that Ross has set. Now tonight’s program is one of the timeliest the club has ever had. Trade policy has erupted as the hottest political issue of the fall season. I deny the rumor that I started myself that we have stirred up all this holocaust in Washington just to attract attention to our dinner. (Laughter) Congress has more than 300 bills before it offering protection for everything from ammonia to waterbeds. Nowadays it seems that almost everybody is suddenly talking about trade. Our good fortune tonight is that we have two speakers on the subject who know what they’re talking about.

Clayton Yeutter, the present U.S. Trade Representative, and Robert Strauss, the former U.S. Trade Representative, are our speakers. Our first speaker is the former Trade Representative, Bob Strauss. Bob has become a Washington legend. He’s been a fixture on the Washington scene since 1970. At that time he became Treasurer of the Democratic National Committee. But he started in politics a long time earlier. When Lyndon Johnson first ran for Congress, Bob was there. When John Connally became Governor of Texas, Bob was there. Then he served as Chairman of the Democratic National Committee and it was under President Carter that he served as U.S. Trade Representative as well as the president's personal representative for Middle East negotiations. And then he was named by President Reagan as a member of the Kissinger Commission on Central America.

If you took an informal poll of both Republican and Democratic political leaders, one of the few things they would agree on is Bob Strauss' political savvy. But there's something else about Strauss that's also very important, that goes to the heart of why Republican and Democratic presidents alike have admired and respected him. He is one of those political professionals who are totally dedicated to his party and also totally dedicated to the welfare of his country. His style is not to exploit disagreements, but to forge agreements. One of the hallmarks of his career was his great success in getting Republican support for his trade program when he was the ambassador. This is one of the keys to why he's so successful a negotiator and why Bob Strauss has become one of the most admired and respected men in Washington. Ladies and gentlemen, here's the Honorable Ambassador Strauss.

The Honorable Robert S. Strauss

Former U.S. Trade Representative

Thank you very much. Mr. Chairman, ladies and gentlemen, fellow Democrats...(Laughter)...yes, there are three of them. I'm pleased to be here. I can't tell you how pleased I am. It's one of the nicest things that's happened to me in a long time, being asked to speak to the New York Economic Club. I was saying just before I got up here that stepping before this podium, before this crowd is a long, long way from Stamford, Texas in the 1930s, a little West Texas town of about of about 2,800 where my brother Ted, who is in the audience tonight, and I grew up. And I was thinking, as I was mentioning it, about life in Stamford, Texas, how much it really related to what I want to talk about tonight.

We grew up in this little West Texas town in the 30s where our whole life seemed to revolve around whether or not it rained within five miles of the town square. If it rained, the cotton grew and things were good. The farmers could pay their bills and buy a used car and a used tractor. The banks got paid up. And it was a good year. And our whole entire economic existence seemed to depend upon the rain that fell or didn't fall within five miles of the town square.

And today, unlike the 30s in Stamford, Texas, decisions that are made in Riyadh and Tokyo and London and anywhere else you name have a more dramatic impact 50 years later than did the rain that fell or didn't fall. And conversely, decisions that are made in New York and in

Washington affect life in Riyadh and in Tokyo and in London just as dramatically as did the rain that fell or didn't fall five miles of the town square in Jones County, Texas.

And so it is in that theme, it's in that theme that I want to speak tonight for a few minutes. And I want to depart, if I may, from the usual perspective of statistics and cliches relating to our trade problem and begin my remarks tonight by putting the alarming trade posture of this country into a political perspective if you will. First, because I understand the political perspective as well as most and better than I understand the rest. And also because it's from the, it's within the political arena and from a political perspective and from political pressures that the subject of our trade, our current economic situation will be addressed by the Congress, by the administration, and by the president.

Within the last few days, the press has reported that Senator Lloyd Bentsen, a Democrat, with a long and free, long free trade posture has said, "When the president won't do anything, the Congress has to look at its options and stop the hemorrhaging of the industrial base of this country."

And Senator Danforth, a Missouri Republican and Chairman of the Senate Trade Sub-Committee, also a longtime friend of open trade says, "I don't like the idea of Congress managing trade policies, but we have no alternative."

And John Heinz, a Republication Senator from the state of Pennsylvania says and I quote, “I think the administration is becoming more practical. There is a growing realization at the White House that many of the issues the administration has had on the back burner or didn’t even know were cooking in the kitchen, like trade, will not go away.”

And Roger Stone, a Republican political animal, says, “President Reagan was an active president in his first term, an activist president in his first term. He can’t afford in his second term to be a stand-pat political figure. He just can’t say I’m a free trader and that’s the end of the trade problem.”

And finally, Fred Bergsten, Democrat and Director of the Institute of International Economics has stated, “There is a mistaken impression in Congress that changes in the trade policy would turn around the deficit.” Bergsten estimates that ending other country’s unfair trade practices and protecting some American industries would not shave more than $10 billion or $15 billion off of this $130 - $140 or $150 billion deficit.

And this, my friends is the political climate Ambassador Yeutter faces as he attempts to guide U.S. trade policy. And I don’t envy him. I do say that we are indeed fortunate to have him there because Clayton Yeutter has a background and an experience in both the public and private sector that this terribly difficult situation needs.

And I also didn't envy his predecessor, Bill Brock, another simply first-rate public official because I saw his frustration as he tried to get, in vain to get if you will, the administration to focus on what was happening to this country in the trade field. And while this administration has had many great successes and ought to be applauded for it, trade never really received the attention it deserved at the highest levels.

And while obviously some of our problems have been far beyond our control, the simple truth is that much of the dreary trade picture is of our own doing. The complex, the very complex relationships between domestic, between domestic and international goals have either been misunderstood, ignored, or both. The White House primarily, and to a lesser extent, Democrats and Republicans alike in the Congress, have failed to appreciate that domestic economic policy has a direct effect on the United States' external position.

And so let me now begin my remarks by listing a few givens insofar as trade is concerned. One, an open trading system is absolutely essential, and the president is right. Two, there is no real open trading system today. What we call an open trading system just isn't working. It's broke, and we better do something about fixing it. And three, the GATT is weak. Effective in many ways, but it's essential and it must be strengthened and Clayton Yeutter knows it and understands it and will do his best to do so. But if we rely on the GATT alone, we won't make it. And fourth, it's very hard, my friends, to find a sector or an industry where free trade really exists. It doesn't exist in copper, and it doesn't exist in wheat, and it doesn't exist in autos, and it doesn't exist in corn, and it doesn't exist in steel, in cement, or textiles, and it doesn't exist in telecommunications, just again to list a few. And five, the fifth given, more and more, trade is government-managed. Our industries and our farmers compete with governments. They don't compete with people, and they don't compete with companies such as those you run. And sixth, if we don't come to grips with the present deteriorating situation, the forces of protectionism will substantially close the doors, close the doors on world trade as we've known it for the past 40 years.

And to these givens I would add one more casual remark, in my judgment there are no simple, easy, or quick answers. As a matter of fact, we haven't even identified any hard answers. But there are strategies that can be put in place to begin a long and arduous, if you will, road to a better trade climate for the entire world.

Today's problems are entirely new and entirely different from those cast against the background of World War II as people of my generation remember it. This just isn't 1944 in Bretton Woods, New Hampshire. It's New York in 1985. Simply stated, the world has changed and the United States, through Democratic and Republican administrations and leaderships alike, have not adapted to that change. The country's trade problems can't really be solved; it seems to me, until we understand the global impact, the global impact of our domestic policies and until we put our economy on solid ground. Moderate progress, moderate progress in highly visible areas, and very meaningful areas and deserved progress in areas such as inflation, however, has masked a basic erosion that's taking place with respect to our economic strength.

The administration recently – let me give you an example – the administration recently announced that unemployment had been reduced to around 7%, and exceedingly encouraging development statistic. But it really isn't surprising given the change in economic policy we've been pursuing. People thought we were going to reach that stage or better. But every day, even with that going on, you and I, each of us read in the papers stories of Fortune 500 companies, many in which those of you in this audience own stock or have control and influence, Fortune 500 companies that are deciding to close reasonably modern plants in this country and transfer their production abroad.

And I say to you, how long can it continue? Where will it end? How many manufacturers must shift from domestic manufacturing to importing their products before we, in this nation, wake up and get our hands on the problem and start doing something about it. There is absolutely no question that the merchandise trade deficit, if not corrected and corrected soon, will have long-term consequences for this country.

In recent days the administration has announced that it will work with the Congress to develop new trade legislative packages and this is very good, but, my friends, even if those legislative packages are substantial, it's no substitute for a set of economic policies aimed at solving our basic economic problems. And this is not Democratic or Republican economics. I'm talking about; I'm talking about sensible economics.

There are certain things that this administration, since it's in power can be doing. In the first place, they can end the neglect, as I said, of foreign economic policy and an understanding of it. Domestic policy just can't be made in a vacuum in either the United States, Europe, or Japan. What each does at home has a dramatic impact abroad. And while closed markets, while closed markets and predatory practices have certainly taken their toll and do so every day, there are additional and fundamental causes of the trade deficit.

To name a few, first is the differential growth rates, which have distinguished this country from its slower growing trading partners, particularly Japan and Europe. Second, the huge debt of developing countries which has significantly impaired their ability to purchase our exports. And finally, the massive overvaluation of the dollar.

In this climate, in this climate my friends, the most single important thing we can do to restore equilibrium to exchange markets would be to reduce our budget deficits in my judgment. And the most effective way of doing this, and it doesn't take a genius to know it, is by further budget cuts, by increased taxes – one or the other or both. And I would suggest that both seem unlikely at this time in light of presidential policy and congressional attitudes, both Democrat and Republican.

Nevertheless, there are certain other things that the administration could be doing and I hope they will be doing to begin to talk the dollar in off the ledge just a bit, including, I would submit, but not limited, to continuous and credible statements with respect to intervention and exchange markets where appropriate. Also they could pick up in my judgment on Secretary Baker's very sound initiative regarding reform of the monetary system. And they could more vigorously encourage the Japanese to adopt policies aimed at gradually reducing the massive, massive capital outflows which should appreciate the yen and lower the dollar.

Additionally, the administration should pursue its plans with respect to trade legislation because it's important, and I hope they will, and I suspect they will. And further, they should continue strongly, even more strongly than they have, to push and shove, if you will, for multilateral trade negotiations.

This program, it isn't going to solve any problems overnight and it isn't going to solve all of our problems over the long run, but it gets closer. It moves in the direction, if you will, of solving, of attacking and solving the fundamental causes of our trade problems and it will help quell the protectionist flames, if you will, that now rage in the Congress and with which the administration, and particularly, their point man, Clayton Yeutter, has to deal with.

Clayton Yeutter, in my judgment, working with Secretary Baker, working with Secretary Baldrige, two splendid Cabinet officers, additional Cabinet officers, could get a program like this and more moving in short order. And it would be positively received at home, it would positively received in the business community as well as the political community, and it would be positively received abroad.

And now let me change the thrust of my remarks just a bit and look at Japan because that's all we read about is Japan. Frank Gibney of the Pacific Basin Institute in his first-rate new book makes the point well that since World War II the Japanese have continued to think of themselves as a vulnerable semi-developed and resource-poor country pushing intensely to keep up. Japan, in my judgment, has nurtured a semi-dependent attitude towards the United States that has sacrificed a great deal in the relationship in return for what I term American tolerance, or American political tolerance, if you will, of Japanese marketing successes – a tolerance that is finally running out.

Japan obviously has been willing to pay a high political price for continued U.S. economic indulgence. And America's images, our own self-images are no less illusory. We have anointed and appointed ourselves the world's arbiter in all fields and have been so impressed with our position and importance that we've neglected the hard work necessary to stay in that position. We live in memory of a world that no longer exists and shall never return. And we have totally overlooked the unraveling of our economic position in many areas. And now I say to you that we find ourselves, by virtue of neglect and self-indulgence, individually and collectively debtors instead of creditors. And this combined with Japan's policies has brought on Japan bashing over trade imbalances far in excess of what's good for a relationship between two nations that each need the other.

Our theory in this country seems to be, when in trouble, spend, consume, and import. On the contrary, the Japanese say, when in trouble, they must save, must conserve, and must export. And I say to you that to make the relationship work, our Japanese friends must stimulate domestic demand through public and private spending.

We're all familiar with tariff and non-tariff barriers and you read about it daily in the press. We're familiar with unfair trade practices and they're clear and understandable. And there are other actions that stand in the way of free trade and something must certainly be done about them. We must toughen up our dealing with our trading partners. But few in this country, far too few, seem to understand, even the business or political community, that while attacking the problem of closed markets and predatory trade practices is absolutely essential, this attack will only marginal reduce our trade deficit if we don't simultaneously deal with what I've termed the basic underlying causes.

And I'm not trying to make excuses for protectionism embedded in the Japanese system. It's there, it's wrong, and they deserve a great deal of the public criticism they get. But they aren't alone and we surely can't expect them, and they're not going to disrupt their entire economic structure that's working so well just because we say so either in the Congress, the business community, or in the public. A long-term solution requires that their economy in Japan be operated with sensitivity to its impact on the economic and political relationship with this country – and it hasn't been, it's ignored the sensitivity of its relationship and its impact on this country. But our policies also must be made in recognition of their impact not only at home but around the rest of the world.

Let me conclude by saying my purpose tonight is not to pass judgment on where we've been. There's plenty of blame to go around. We can all have a share including me. It is my purpose to suggest that the president, this popular president, who leads this country, must take the lead now in forging a real debate and a resulting policy, understandable, clear, understandable policy, for this country that will lead us far with an effective and hard-hitting and progressive trade posture. It's absolutely essential that the free world leadership led, driven, and pushed by Ronald Reagan with his popularity base, with his talents in this area, that he makes the leaders of the free world address themselves to global solutions.

Together, in my judgment, the U.S., the EEC, Japan, and Canada with sensitivity for the problems of the Third World as well as their excesses, must strike a major global bargain and enter into a compact. A compact in which these parties agree to take the kinds of steps that are politically impossible for any one of them to take alone. Out of such a Trade Summit must come a simultaneous, firm, long-term commitment for intelligent action with each of the four putting enough on the table to make it politically viable for the others to go along. It isn't going to be easy. It's only the beginning of a long process.

The U.S., for example, among other things, must be prepared to commit itself to take some of the steps I've discussed tonight. And the EEC must agree, among other things, to deal with the agricultural mess their subsidies are creating around the world, including I might add, for an example, what justification can there be for a policy such as the European community buying sugar at 26 or 27 cents a pound and dumping it on the world market at 5 cents – it doesn't make sense – even 4 cents. And the Japanese must take the kind of actions we've talked about including dealing aggressively with their industrial procurement problems. And President Reagan has the popularity and this is the place he should spend it.

And so let me now close by trying to make it clear that my remarks tonight are not made to be partisan nor are they an argument in any way for protectionism. They are intended to be a frank recognition of the problems we all face, and the problems we all have created. And for it to be a call, if you will, for the beginning of an effort to avoid an almost certain course of protectionism that will have a devastating, a simply devastating negative impact at home and abroad. There is much more than just dollars involved. A free world, my friends, mired in protectionism and mired in trade wars is not a healthy world in which to keep the peace. As long ago as 1844, 111 years ago, Ralph Waldo Emerson wrote a few lines about trade in America that are more pertinent today than they were 111 years ago. He said and I quote, "The philosopher and lover of man have much harm to say of trade, but historians will see and record that trade was a principle of liberty, that trade planted America and destroyed Feudalism, that trade makes peace, keeps peace, and it will abolish slavery." Thank you very much. (Applause)

Chairman Dwayne O. Andreas: Thank you, Ambassador Strauss, for those enlightening and challenging remarks. Our second speaker occupies what's turned out to be one of the hottest seats in Washington, and it's gotten a lot hotter since he's been on it, but he hasn't lost his cool. Clayton Yeutter was confirmed on July 1 as the new U.S. Trade Representative succeeding Bill Brock.

As U.S. Trade Representative, he's a member of the President's Cabinet. He's responsible for all of our trade negotiations. But more important, with the clamor rising for changes in America's trade policy, he's the administration official responsible for either holding to our present course or putting together a set of new ideas.

If anyone ever came to the Trade Representatives' task with a set of credentials tailor-made for the job, it's Clayton Yeutter. When he was first nominated Business Week said his credentials sounded as if he'd been, and I quote, "specially trained for this new job." He's a lawyer who is also a PhD in agriculture economics. He's a rancher and a farmer with a 2,500 acre spread in Nebraska.

He spent the last seven years as President of the Chicago Mercantile Exchange which among other things is the nation's leading center for futures trading and agricultural commodities. Before that, he was Assistant Secretary of Agriculture for International Affairs, and he was Deputy U.S. Trade Representative during the crucial negotiating period of the Tokyo Round, 1975 - 1978. He had direct responsibility for bargaining with the European Economic Community over textiles, steel, and agriculture. He's won a reputation as a tough and a skilled negotiator which the U.S. Trade Representative will have to be in today's trade climate. He is also held in high respect on Capitol Hill and he knows his way around Congress and the men and women of the Congress know him. And now we're delighted and we're honored to have him with us here this evening. Clayton, we're eager to hear what you have to say about the issue that is on all of our minds.

The Honorable Clayton K. Yeutter

U.S. Trade Representative

Thank you very much Dwayne. It's nice to be here with all of you in New York. Bob, as you...it's also very nice to be on the podium with Bob Strauss who is really one of my favorite people in this whole country. I'd certainly like him to be a Texas Republican rather than a Texas Democrat, but I think he's too old and too stubborn to make that change. But we'll tolerate that. He's really one of the funniest people that we've ever had in government in the United States and I'm sure you all appreciated listening to him tonight. (Applause)

Bob, you forced me to reminisce a little bit when you were talking about Stamford, Texas because, as Dwayne indicated, my birthplace was Eustis, Nebraska, and whereas Stamford had 2,000 or 3,000 people, Eustis had 419 the last time I checked. And about the only difference between the two is that whereas it rained about once a year in Eustis, I think it rains about once a decade down in Stamford, Texas. In either case, those are rugged places in which to grow up. So it's a long way to come to the New York Economic Club and it's a delight to be here.

I started while I was on the airplane reviewing the list of your membership here and found a lot of old friends on the list and I enjoyed that, including some who are colleagues of mine now in the government. And I just wanted to draw attention to a couple of those who are recent additions, I'm sure there are others. I just didn't have time to go through your whole list. But Bruce Smart, who has been on one of your committees here, is now the new Under-Secretary for International Trade and Commerce and a very, very classy individual, and I'm working with him a lot on trade issues these days. And, of course, John Whitehead came down from Goldman Sachs, is Deputy Secretary of State. And I see John a lot too in the inter-agency meetings and I can report to you all that he's doing a really fine job as well. So you're mighty well represented in Washington, and I must say that we're lucky to have both of those individuals down in Washington with us.

Well, let's turn to trade. I think really what I ought to do is just say Amen to almost everything that Bob Strauss said. We really have very, very few disagreements on the trade front. I'm going to make some of his points in a little different way and with a little different twist than Bob did maybe, but the bottom line is essentially the same. And I have to say to you, Bob, that there's not much doubt about the interest in trade in the administration now. There may have been some question about that a few months back. But I don't know, I think we've had more Cabinet discussions on trade since I came on July 1than I expected to have in about a year or so, including one in the Oval Office this afternoon, and I made my plane to come to New York with about one minute to spare because I went directly from the Oval Office to the airport. So there's a lot of attention to that subject, and watch your newspapers next week because you will hear a bit more on it from a rather distinguished American citizen. And so we hope that will draw some special attention to these issues. It's a hot topic without any question, as Bob and Dwayne both indicated.

Now I wanted to, before I really get into the broader issues, I wanted to add a little footnote to Bob's final comment about sugar, because this kind of reflects the frustrations that some of us experience with how trade is conducted in the world today. And I will share this with you because it's the kind of thing that as citizens you ought to appreciate and understand about what's wrong with the system in a lot of areas and why we need to change it. And the classic example is sugar. We got rid of that crazy sugar program, Bob, when I was in government the last time, but it came back. And it didn't come back during your administration, it came back since then, and it's haunting all of us.

But let me just give you the illustration. We made a decision the other day to keep America's sugar quotas – and Dwayne has a little bit of interest in this from his ADM viewpoint too – we made a decision the other day to keep sugar quotas for the next year at about the same levels that they have been this past year. Do you know why that was important? The reason it was important was because if we had made the decision that would have been made ordinarily on sugar, we would have dropped those quotas about in half.

And do you know what that would have done to the Caribbean Basin Initiative? That would have taken so much money out of the pockets of sugar producers in the Caribbean that it would far more than offset all of the benefits of the Caribbean Basin Initiative combined. So as a consequence, in order to not destroy the Caribbean Basin Initiative, we put the quotas where they have been over the last year. You know why they had to be there? For the reason that Bob Strauss just gave you. In essence we pulled the European communities' chestnuts out of the fire because the Caribbean sugar-producing countries and everybody else in the world should have been chastising the community, not coming to us for help. We helped them and you and I as taxpayers are going to pick up that tab. It's a pretty substantial chunk of money.

But the whole problem is because sugar prices on the world market for those Caribbean countries, and everybody else for that matter, are now at 3 cents a pound. There is nobody, nobody, that can produce sugar in this world at 3 cents a pound. Why are they at 3 cents a pound? Because the European community is keeping sky-high price support subsidies, as Bob indicated, producing far more sugar than they need in Western Europe, dumping all the rest of it on the world market, destroying the market. That's just a good indication of what goes wrong in the system and why we've got to change it.

Well, that's a digression. Let's go back to the broader subjects of trade. Are things as bad as they seem? Well, they never are. Are they as good as we'd like them to have? Well, they're probably never as good as we'd like them to be either. So they're always somewhere in the middle. Are they challenging? You're darn right, they're challenging – about 18 hours a day challenging for me right now. No question about that.

Are we out of perspective in trade? Yes, I really think we are. The pendulum in the United States always swings a little bit too far. We have difficulty in a Democratic society being in moderate positions on things. And we're kind of a one-issue society. We don't do things unless they reach crisis proportions and we only have about one crisis at a time that we can handle in this nation, and trade has rampantly moved up that priority list. So it's up there now and a lot of people think it's a crisis. And perceptions become reality sometimes and that becomes a very dangerous situation.

Actually when we look at the economic performance of this nation, it's pretty darn good. I'd say we've done it pretty well in this country in recent years, even on the job front. And maybe one should say, especially on the job front. And you read all these headlines now that say we've got to do something on trade because factories are closing and people are going out of jobs and the country's going to pot, you've got to be able to sit back and say, geez, we've got more people working in this country than we ever have in the history of this nation. And we've created more jobs in the United States under both Democratic and Republican administrations over the last 15 years than anybody else in the world by far. Nobody's even close. Japan has created a fraction of the jobs in the last 15 years that have been created in the United States.

We are still by far the most entrepreneurial society in the world and there's nobody in our same league. And do you know we've created almost all those jobs in small business. They haven't been big business creations, they've been small business. And I think that's very important. That's one of the great strengths of America. So let's not apologize for that. We've been running the country pretty darn well overall.

And have we run it that well in international trade? No, not really. We've got that incongruity or paradox of having enormous successes in the domestic related segments of our economy and some shortcomings, very frankly, and Bob has just articulated all those in the international sphere. That is, with our export-dependent industries and firms and our import-sensitive industries and firms, and essentially all of the political clamor in Washington, D.C. comes out of those areas – 99.9% of it. So it is a problem, and it certainly is a strong perception.

And the conclusion then you see that people simplistically draw is that a free and open trading system doesn't work anymore. I don't share that view. I share Bob's view that there's a lot of stress and strain and that we sure as heck don't have a free and open trading system in a lot of areas and we're probably not going to convince the Soviet Union to abandon state trading for a long time to come. So we've got to adjust to all that.

But I do think it's important that we keep our sense of direction. Nobody has demonstrated to me that a free and open trading system and the principles of comparative advantage do not still work. It's sure as heck not a Utopian world. We're living in an imperfect world and an imperfect country with an imperfect international trading system. But I still think we ought to keep that sense of direction. And I really believe the president is right as he articulates the advantages of a free and open system, and that ought to be the goal. We may be a long way from it at any particular point in time, but we ought to try to get there. And we shouldn't abandon that when we get under pressures like we are today.

We're seeing some of that abandonment by, as Bob indicated, Jack Danforth and Lloyd Bentsen and John Heinz on particular issues. I don't really think they sold their souls overall. I think they'd like to go back to an open trading system, but they recognize the strains and they're under pressures and they're not quite sure what to do about it.

Now there's some quick solutions, as Bob said, in Washington. He doesn't believe there are any quick fixes in this area and neither do I. Not only are there no quick fixes, neither are there any free lunches. And let me tell you one of the things that worries me about all that protectionist legislation in Washington is that we have substantial numbers of people who think there can be a free lunch with protectionism. And I don't think there can be.

The first test is probably going to be the so-called Textile and Apparel Bill, and you've got apparel industries here in New York so you've got people here who are interested in that bill. But I think it's a terrible bill. If it comes to the president in anywhere near its present form and I suspect it will, it will assuredly be vetoed and then we'll have a battle over overriding the veto, and I hope we can sustain it. Because I think if we do not sustain it, everybody in this room is in trouble and it's going to take us a long time to recover and it may take the world a long time to recover.

Because I don't think we can go the route of the textile bill. The proponents of that bill say, oh, you know, let's chop off all these textiles and the apparel coming into the United States, you know, nobody will do anything about it. And I say to them, have you thought about the risk of retaliation? And they come back and say; those countries are not going to retaliate against us. I don't think that's right. I think they will retaliate. I'd retaliate if I were in their shoes. Even if you take a little guy, if you hit him between the eyes hard enough, he's going to fight back.

And it seems to me that those who are proponents of that legislation are assuming that the little guy isn't going to fight back. And I think he will. And if he does, then we gain nothing. We've got the worst of all worlds then. We've gone down the protectionist route and we've sold our souls. We cut off imports coming into the United States and then somebody simply turns around and cuts off exports leaving the United States. It balances out. You've made no progress on the trade surplus or trade deficit situation at all. You've simply got a disruption of world trade and everybody mad at everybody else and maybe a trade war. I don't think that's terribly smart. We ought to be more intelligent than that as we approach trade questions. So I don't think that's the answer either.

Yesterday I spent two hours before the Ways and Means Committee testifying on a bill that's been introduced by Senator Bentsen and Congressman Gephardt and Congressman Rostenkowski which would provide an import surcharge that's aimed at some of our competitors. What the bill does, in essence it says to Japan and Brazil and a couple of other countries that your surplus....we don't want to compete with you. We just want you to reduce your surpluses. So what we're going to say to you is that we don't like the fact that you're all that competitive so you get your surpluses down somehow. Either ship less product into here or open up your markets to us more, but whatever you do, get that surplus down. If you don't, we're going to slap an import surcharge on you.

You know, that just, I said this at the testimony yesterday, but somehow that just doesn't go down right with me as an American because it's absolutely defeatist. It's the most pessimistic kind of legislation. What it says is that we don't believe that we can function in this capitalistic environment worldwide anymore and therefore we ought to keep the other guys out. And it's a, what I call, beggar our best competitors policy. What we're going to do is we're going to say to the guys who are efficient out there; we're going to slap you in the face. We'll give some of our market to the guys who are less efficient and to some of the people in this country who are less efficient. Gee, I don't know, for a country that's extolled the virtues of capitalism for 200 years, somehow that just doesn't ring true. And I hope that people around the country recognize that as well.

I just don't think these kinds of answers are good sound answers. I think we ought to be better than that. We ought to set a better example than that around the world and we ought to be better thinkers than that. And we ought to come up with better solutions than that.

Well, what are we going to do? Basically, we've got to do what Bob Strauss suggested. It's about that simple. Now there's a lot to that. But you know what that is, that's just plain old, hard slogging. It's not something that you're going to fix overnight. It's not something that comes easy. It's all going to come hard and it isn't going to change things overnight. But you've got to start. We can't just sit on our hands and say, geez, this place is going up in flames right now, let's not doing anything at the moment. You know, maybe something will happen a year or so from now and we'll get to this problem. We've got to start now. We should have started sooner, but better late than never, and we'd better get at it.

Part of it, as Bob suggests, is the fact that we've got to get a handle on the Federal budget deficit.

I don't think that's the whole cause of our dollar problems, if we call it a dollar problem. Alan Greenspan and I were discussing that earlier and both of us think that the so-called safe haven factor where people just want to bring their money into the United States is a big element of the strength of the dollar and altering the budget deficit isn't going to affect that. There's not a whole lot we can do about that – if people in the United States are so high on America, they want to put their money here. In some ways, that's awfully good. In terms of trade flows, that's a problem for us. We can't do much about that.

What we can do, though, is deal with the rest of the problem. And a big segment of the rest of the problem is the fact that we've got to have some macroeconomic policies here, meaning fiscal policy, bringing the budget deficit down which will help Paul Volcker and his colleagues hold interest rates a little bit lower, be a little more accommodative in monetary supply. And the result of a more effective fiscal monetary policy ought to be a lower dollar over time and that ought to begin to alter these trade flows and get that ship back straightened out again.

One point that Bob alluded to, and I'd like to expand on a little bit, is we need some help from our other trading partners on their macroeconomic policies too. And Bob discussed the Japanese one and he's very right about that. And I was just in Japan about five weeks ago and I talked to everybody under the sun over there, Bob, about getting some increase in domestic demand in Japan because that would really help. We need our major trading partners to buy something. One of the reasons we're under such pressure here is because all the imports, particularly from the

LDC's – not all of them but a vast amount of them – are coming to the United States because they don't have anywhere else to go. You know those countries are trying to survive. They've got to sell somewhere. And if they can't move much product into Japan or Western Europe, they're going to try to move it in here, and that's where some of the strains come from. Japan could help relieve that. So can Western Europe. And I think that's now beginning to happen. I'm a little more optimistic about all that than I was.

I've wondered, Bob, from a political standpoint why it took the Western European countries so long. They're sitting over there with 10, 11, 12% unemployment, and geez, if I were running those countries, I'd say to myself I'd better get some economic growth generated or I'm not going to be in office very long. Why it's taken them a long time to recognize that, I'm not sure. It's probably, there's probably complex answers to that, but I think they're finally beginning to move. We don't want them to just generate a lot of inflation over there by having government programs, but they need to figure out how best to generate more economic growth.

In Japan, there are clearly some steps that they can take that would be helpful. Let me just give you one example which reflects what Bob was saying to you. I think one of the things they ought to do in Japan is build more housing. Housing in Japan is not at all comparable to what we have in the United States. And with a country that could have the kind of quality of living that we have, they don't have, certainly not in the housing area. And I can tell you one reason why. Do you know what the amortization period on lodging is in Japan today, 65 years, 65 years? And how many people are going to build that kind of facility, those kinds of facilities with a 65-year amortization period? I have a hunch if they lower that to 15 or 20, you'd move a lot of American forest products into the Japan market, and that would help. So that's one example.

Bob alluded to the LDC debt problem too. And since New York is such a big financial center, I'll just throw out one comment here for your consideration. And I'm sure there are a lot of New York banks who are represented here and who have debts that are in some jeopardy in some of these countries. And I must say that I am sympathetic to the IMF in attempting to deal with the short-run problem of helping these countries get their debt burdens at least a little bit under control.

But one of the things that disturbs me about the basic IMF program for most of these countries is that it's simply, it's not a good long-term solution. What we've said to the Brazils and the Argentinas and the Mexicos of the world is expand your exports, reduce your imports. So what are they doing? They're slapping restrictions on imports coming in and putting on export subsidies to try to move product out and handle their balance of payments difficulties. Short-run solution may be all right. Long-run solution, how in the world do you generate economic growth with that kind of a system? They need to be importing technology and equipment and a lot of other things to expand their economies.

So we may be putting those countries in a position where they will find it increasingly difficult to handle that debt burden in the future. And it also hurts us from a trade side because those LDCs have been our biggest growth markets for American exports over the last few years. So we have to wonder about those policies. And I was just sharing with Dwayne a comment that I made in the testimony yesterday, and I said that if I were the Brazilians, I would feel a little confused right now because although the United States clearly does not control the IMF, we certainly have some influence on IMF policies. And what we're saying to Brazil through the IMF is expand those exports, reduce those imports, increase your trade surplus. What we're saying to them in the Rostenkowski - Gephardt -Bentsen bill that I was testifying on yesterday is if your surplus gets too wide, we're going to slap an import surcharge on you. And if I were the Brazilians, I'd say which way do you fellas want it? Do you want us to have a big trade surplus or a small trade surplus? You can't have it both ways. That's some of the confusion that we get in this arena.

Unfair trade practices, as Bob points out, we can't solve the $150 billion trade deficit through actions on unfair trade practices, but we ought to be aggressive there anyway. The president announced some of those, some of our actions in that area about two weeks ago in his radio speech, and we'll see some more of that. I think we're in a position where politically and economically we cannot afford to be tolerant of the unfair trade practices of other nations. We've got to be tough, we've got to be aggressive, and we're going to be. Whether or not it has a big dent in the trade deficit, it needs to be done and we need to send those kinds of messages to the rest of the world and we're doing it.

Opening up markets around the world is very important too. With all this talk now you see about closing down America's markets and cutting out, holding back imports, everybody in Washington right now has a tendency to forget about the fact that we'd like to open some markets overseas. And if we're not careful we're going to get ourselves in a position where we're concentrating so much on the immediate problem that, because our dollar is terribly strong and we're not doing very well on the export side, a couple of years from now if the dollar comes down appreciably, we can become tremendously competitive again in export markets. We're ready to go into business and really expand our exports once again. And then we say, oh, my God, we forgot that there are trade barriers out there. Geez, we'd better get on that now. Well, the time to get on those trade barriers is now – not two years from now when we want to open the markets up. The only way to do that is through a new round of GATT negotiations and it's imperative we get that under way relatively soon.

Then finally I want to say just one word on the private sector side of this and we'll go to questions. With everybody talking about what government should or should not do on international trade, it seems to me that – and most people in this room are in the private sector – it seems to me that we've also got to keep public and private sector relationships in perspective here. You can't expect the government to do everything on trade or anything else. The private sector, private sector businessmen have some responsibility to adjust to the political and economic circumstances in which they live and function. And that may not be fun sometimes and they may want to curse the government, and properly so, for adjusting the macroeconomic environment in which they function.

If I were in agriculture or agribusiness like Dwayne Andreas, I sure would be cursing, and I've still got those farm operations in Nebraska so I do curse from that standpoint. But the fact of the matter is corporate CEOs are paid to learn how to adjust and somehow that's got to be done. And sometimes that requires hard decisions but those are hard decisions that have to be made. And though I can empathize with people who run companies in industries that are not terribly competitive any longer, and that includes some of our labor intensive industries like textiles and footwear and others, maybe they ought to be adjusting. Now we ought to be handling with compassion the human problems that are involved in that, but I'm not so sure that we need to keep uncompetitive industries or firms in business forever. That's really not the way we used to do things in this capitalistic society of ours. And maybe those corporate CEOs ought to be adjusting. Some of them are, of course, I'm not castigating all corporate CEOs. Some of them have adjusted very well. But I am saying that it seems to me that we ought to be able to hold them accountable for how they handle themselves.

And I use Caterpillar, Dwayne, as an example of this, just down the road apiece from where you are. Caterpillar probably went through as tough a time over the last few years as anybody in this country. They're on the export-dependent side of course. And they were crunched by the very, very strong dollar; they lost a lot of money. But Caterpillar is now in the black – they adjusted. Now maybe they didn't adjust the way you and I would like, because they had to move some of their production overseas. They shifted some jobs overseas and they've done some things that, from a standpoint of overall trade policy and from a standpoint of the overall interests of this country, might not necessarily be the best. But the leadership of that company made the necessary adjustments and now they're climbing back up again.

So what I am saying is that overall we've got to look at what we should do in government and what we should do in the private sector. And on the government side, all I would say is that we need to be systematic, methodical, careful, deliberate, and we need to do the right thing, not because of some political pressures that are out there today, but because this is what America needs over the next 10 or 20 years in international trade. Thanks very much. (Applause)

QUESTION AND ANSWER PERIOD

CHAIRMAN DWAYNE O. ANDREAS: Ambassador Yeutter, thank you very much for that very trenchant and thoughtful set of comments. Now at this point in the program it is our tradition to call on two distinguished members of the club to put questions to our speakers. Our two questioners tonight are Edmund T. Pratt, Jr., Chairman and Chief Executive Officer of Pfizer and also a former Chairman of the Economic Club, and Donald H. Trautlein, Chairman and Chief Executive Officer of the Bethlehem Steel Corporation. Our first question will be put by Mr. Pratt and then we will alternate.

EDMUND T. PRATT, JR.: Thank you Dwayne. Our two speakers have covered the subject in great breadth and depth, so I suspect many of our questions will not necessarily cover new ground but will hopefully dig into perhaps some more detail in some of the broad area that they've covered. In kind of exasperation, I think the comments...and this first question will be to Ambassador Yeutter, in exasperation I think people in the business community and in Congress and others who have struggled with this growing trade and balance of payments problem inevitably come to a final comment in expressing their exasperation. And it usually is the trouble with our government is that we never have had a trade policy. The administration really has no trade policy. How do you respond to that? And if you say it does have a trade policy, how would you describe it, Mr. Ambassador?

THE HONORABLE CLAYTON K. YEUTTER: Well, somewhat facetiously I must say that we have a trade policy now. I wouldn't want to speak for three months ago. But that's facetious; please don't quote me on that. We worked, Ed, as you know, very, very hard in the last couple of months reassessing that situation. I think we've had, I think the administration has had a trade policy all along, but certainly there may have been some shortcomings in its articulation. I don't think anybody questions the sense of direction of this President of the United States. He knows where he wants to go on trade policy and a whole lot of other things, and he'll be articulating that for all of you in a few days. We had to put some meat on the bones, though, Ed. The last time that the administration articulated a trade policy was with a paper in 1981 that was pretty short and pretty general. I can tell you that what we've done over the last couple of months is spend endless hours evaluating, reevaluating that entire policy. And the work product which has a heck of a lot more meat on the bones will be out within the next few days. I don't want to preempt what those announcements are going to be, but I can tell you that there will be a lot more in the way of raw material, if you can call it that, surfaced next week than has been surfaced by the administration on this subject in a long, long time.

DONALD H. TRAUTLEIN: Ambassador Yeutter, why don't you stay on your feet and I'll ask sort of a follow up question. First of all, just a comment on a couple of your remarks. I think you said, are things as bad as they seem? And I think you answered that by saying no. I think most of us in manufacturing would say, no, they're worse, and they're getting worse every day. And I think, I hope, that when we hear, or read the newspapers next week, we're going to see something that will level this playing field. I think it's fine to believe in free and open trading and I think we all do, but I think the United States of America is the only country that does and it's the only one that tries to practice it. So I don't see how we can set a better example. And maybe what we have to do, and maybe the only thing that our trading partners understand is some tough kind of legislation like the one you testified on yesterday that says, look, you want to continue to have free access in this market, you open up your markets. And I think that legislation is entitled Trade Export and Promotion Act. So I just wonder how you think we are going to be able to deal with this problem as long as we insist on playing by one set of rules and the rest of the world is playing by another set of rules.

THE HONORABLE CLAYTON K. YEUTTER: Well, Don, we can't have it that way. We've got to insist that the rest of the world play by the rules too. And most of the time we've done a better job of playing by the rules than they have as you well know, and we can't do that. There are times when we don't play by the rules either, but our hat is whiter than most hats around the world, and I share your view on that point. With respect to the legislation, Don, unfortunately that bill is unlikely to open any markets. Even though that's the title that's put on it, that's not going to be the effect. And the reason for that is that – as I was explaining earlier and I think this is important for everybody to understand because this may be a bill that will get a lot of attention down in Washington because it's being pushed by some, you know, big name people – the problem with that bill which says shrink your trade surplus, it says to these nations shrink your trade surplus, is that, you know, there are two ways to do that. One is to reduce their exports to the United States, and the second one is to open up their markets to us. Guess which they'll follow? You know it's a lot easier politically for most of those countries, maybe all of them, to put voluntary export controls on than it is to open up their markets. And I think that it'll be counter-productive in that sense. And using Japan as the classic example, you know, I spent three days, hours and hours, saying to the Japanese, it's imperative that you open up those markets more. And if we pass this kind of legislation, the Japanese will simply smile and say, gee, we really didn't want to close down our exports, but you Americans forced us to do it. And that's why that legislation is likely to backfire on us. But in terms, Don, of dealing with the manufacturing question, you know I certainly empathize with you and everybody else who has been trained to function in that arena, particularly where you've had to face governmental treasuries of other nations and that's certainly the case in steel. For those of you who are not familiar with the steel industry, there's just a lot of government involved in steel production around the world with incredible amounts of subsidies and dumping practices and whatnot. Don's company and others have filed anti-dumping and countervailing duty cases and rather than carry all those through, a steel arrangement was worked out a few years ago to try to handle that issue. It's a very severe problem in steel and certainly that industry has had legitimate complaints about the practices of other nations. Putting those aside and assuming that at some point in time steel and/or other manufacturing industries can get to a position where you've got a level playing field, then I think, Don, we've got to be prepared to say that we're ready to compete, that we're willing to compete. In the long run our manufacturing industries have got to be competitive, and I hope the steel industry will be. And if we're going to continue, any other manufacturing industry, I don't think it's unreasonable to ask those industries to take the steps that are necessary to become competitive. We can justify sometimes short-term protection to give them a chance to get on their feet and bring in new technology or whatever, but in the long run I am just not in the mood to protect firms or industries that are losing their competitiveness.

ROBERT S. STRAUSS: Let me take a shot at that for a minute, because I think there's something to add to it. You asked the question, does this government, does our government have a trade policy? Yes, our government has had trade policy. You take, in 1974, well; back up before '74, in the 1960s, there's a void that exists right now. Now in the 1960s, there was a void that existed and Lyndon Johnson made one of the – and I was a Johnson man – he made one of the few legislative mistakes he made. He was afraid to send a big bill up. He was timid. He understood the Congress and he sent a small one up. And hell, they hung everything in the world on it in the Congress because he didn't ask for enough. He let the void exist. And the Congress filled that bill. Richard Nixon in 1974 had serious trade problems, I would remind you. But what did he do? He sent a major legislative package up. And a Democratic-controlled House and Senate passed it and sent it back to him and it's the Magna Carta of our trade policy. It sets forth a major; it puts a major responsibility for trade in the hands of the President of the United States. And they gave it to Nixon because he asked for it and he used it when he got it, and the void no longer existed. And there damn few of you in here that voted for Jimmy Carter the second time around, but Jimmy Carter inherited that climate. And he ran a good – he had his failures – God knows I know it about as well as anybody in the world – maybe better. I've still got scars on my back to prove it. But he understood trade. That he did do. And he understood, he couldn't let that void exist and he put responsibility in his trade ambassador. And if this president puts it in Clayton Yeutter, and the people he puts together, they'll develop a trade policy. Now my personal judgment is that they're in deep trouble to do that because the void has existed too long and I don't believe, Don, they can get really a large legislative package, no matter how hard Clayton tries through the government. When the Secretary of State gets through ripping a piece of it off, and the Secretary of the Treasury trims a little off, and the Secretary of Labor cuts it down some, and the lobby cuts it down some, and the steel people cut it down some, and the drug people have a whack at it, and guys like me take a pop at it. They're going to come up; it's going to be a mini-package. And that's what happens when you let it get away from you. That is the real world of what happens when you're trying to get something out in this country. And that's why you can't let voids exist because there are plenty of son-of-a-bitches that will fill them in this country and don't ever forget it. (Laughter and Applause)

EDMUND T. PRATT, JR.: I think he answered my question, Don, why don't you take mine.

DONALD H. TRAUTLEIN: Well, I'll address a question to Ambassador Strauss. As a former Chairman of the Democratic Party, I guess if there were elections this year, don't you believe that trade would be the, I don't think tax reform would be the big burning issue – I think trade might be the issue that most Americans would be thinking about as they vote for their congressmen and senators.

ROBERT S. STRAUSS: Well, I want to drop a few names if I can. I'm not above it as most of you know, and most of you aren't, but in February of this year, Helen Strauss who is in the audience had a dinner party. And we had Jim Baker and we had Senator and Mrs. Long, Secretary and Mrs. Baker. We had Danny Rostenkowski and Lloyd Bentsen, Senator and Mrs. Bentsen. And that night we were talking about tax reform and it gave Secretary Baker a chance to come together with these Democrats and begin telling them his notions of it. And I said that night, you fellas be talking tax reform 'til about early summer. But by the time the fall gets here, the country is going to be talking about trade and it's going to be the hottest damn political issue this country's ever had. And before we left that night, we agreed on that. And those chickens have come home to roost, unhappily. And I think that it is a political issue. It shouldn’t be a political issue. Trade has not been a partisan issue in this country. And it really isn’t a partisan issue today, I don’t think. Ambassador Yeutter will tell you that he gets as much grief from Republicans and as much support from Democrats. It’s a mixed bag up there. And he just got one hell of a tough job. And I don’t think it’s a partisan issue. I’m not sure it will play in the ‘86 elections because the average congressman and senator votes his own constituents’ interest. But in 1988, if the Democrats could nominate somebody with some sense, it could be the issue that elects a Democratic president, don’t you ever forget it.

EDMUND T. PRATT, JR.: Part of the problem in our society, I’m afraid, has always tended to be that those of us in one sector usually point to the other sector and scream about their responsibility for the problems. And so we do, in the private sector, say we need to have a clear and a higher priority trade policy. And I’m in a way a little disappointed. I think Clayton Yeutter, to whom I will address this question, to hear you make a big issue about, which I think is about, probably as similar a cop-out on the other side, to say the real problem is you businessmen aren’t staying competitive. I suspect that as a bum rap. Undoubtedly there are some companies who haven’t stayed as competitive, but to suggest that is the heart of the problem I think overlooks the fact that I think almost all of American industry has, in the last few years, done an outstanding job of trying to adjust to the new realities as you put them. But they’ve been completely overwhelmed by the changing of the dollar and by the items that you both talked about in your talks, the unusual subsidies and restraints that other nations have. So that it isn’t really within the framework of the present situation for just improving productivity to be the answer. I think that in that framework when you say we have to do a lot of basic things and it isn't going to be solved overnight, the thing that really scares me is the numbers are so large now; I wonder how long we have. I suspect we really do need more dramatic action than you've been suggesting. We can't go on indefinitely at a couple of hundred billion a year in balance of payments deficit which a moderate program would seem to suggest. I'm concerned about the urgency of the problem.

THE HONORABLE CLAYTON K. YEUTTER: Well, Ed, I didn't intend to suggest that the competitiveness of the businessmen was the heart of the problem. It was the last item on my list, if you will recall, as I was going through there. I just think it's one that deserves some attention and it's certainly not aimed at the Ed Pratts of the world who are major success stories as you well know. I would just give you one example, Ed, of the kind of thing I had in mind. One of the cases that we just had before us here 30 days ago was the case of the footwear industry asking for import protection over the next five years. And the footwear industry had increased labor wage rates industry-wide about 25% over the last four years. I think if I had been in that industry and I was considering myself to me on the verge of going down the tubes, I'm not so sure I would have increased wage rates 25% over the last four years. (Applause) Thank you. Now as to trade policy and what we can do, Ed, I don't really have anything profound to add beyond what I mentioned earlier. Bob Strauss is right that there has been a very major void here that we've got to try to fill, and it's not going to be easy. He's also right about the likelihood of putting together any kind of a huge trade package, not only because it's difficult to agree on one, but because the authorities that came through in 1974 were pretty darn good. You know, I negotiated under those authorities. So did Bob when he was there. And frankly, we don't need a heck of a lot more in the way of legislative authority. What we really need to do is go out and execute. And what we've got to be able to say to you, Ed, and to others around the world who wonder what the administration is going to do, or what people like me and USTR is going to do, what we've got to be able to demonstrate to you, that we can handle these issues skillfully and adroitly. One of the reasons, just to give you an example of that, one of the reasons we're having all this fuss over textiles, Bob, as you know, is because imports surged dramatically over 1983 and 1984 in the face of this so-called multi-fiber arrangement. So the natural reaction of the people out in the textile and apparel industry, and I'd react the same way, is to say, you know, what are you guys back there in the government doing? We thought this arrangement was supposed to be a constraining influence on the imports that come in, and all of a sudden in 1983 and '84 they surged. Somebody's not doing their job right. Now I can go to them and say, we're going to do that job better from here on out. We recognize where the leakage is and where the loopholes were. We're going to close them – we've already closed them – and you don't have anything to worry about from now on. But whether they're going to believe that since I've been there the full sum of 60 days is another matter. I suppose if I were a textile or an apparel CEO, I would say, you know, why am I supposed to believe this guy who just came in out of Chicago? How do I know he's going to run the MFA any better than his predecessors did? So you get credibility questions arising, Ed, because of incidents like that and only time can correct those. And, you know, we can't make any promises that we're going to be saviors of the trade situation. But I think, you know, these are jobs that have to be done as well as we can. What makes this system, the government of the United States work, is having, trying to get talented people to come in, make some personal sacrifices to do it, and try to make the system work. I sure as heck didn't come from Chicago to Washington, D.C. because of the salary in Washington. I came because I came out of those surroundings in Eustis, Nebraska. This country's been good to me and it seemed to me that this was a good time to give something back.

EDMUND T. PRATT, JR.: Clayton, before you sit down, if I might, I guess what I'm really asking is to put it clearly, the estimates that we all seem to be seeing is that for the next three or four years there's a very good chance that the balance of payments will be unfavorable, in the $150 - $200 billion level per year. Do you believe those figures are indeed what's going to happen? And if so, do you really think we can tolerate that? Will the economy stand that?

THE HONORABLE CLAYTON K. YEUTTER: Well, I can't see that far into the future. Maybe Alan Greenspan can. But, boy, it seems to me when you make projections three or four years out, Ed, it gets to be very dangerous. I feel, and Alan and I were talking about this some this evening, I really feel that we've got to be somewhere near the peak, Ed, of that trade deficit. We've had a nice, little rundown in exchange rate relationships over the last few months. It went down, and then came back up a little bit. But it's, you know, coming down 15% or thereabouts is a heck of a lot better than having it go up another 15%. So we've made a little progress this year on the exchange rate relationship and at some point in time and with lags, that's going to show up in the figures. My guess is that we're right around the peak-out period on the deficit numbers and things will begin to get a little better before very much longer. But the numbers are still going to be pretty big, Ed. Can we tolerate them? Well, I think we can tolerate them, but none of us are going to be very happy about them. It says to me that companies like yours are going to have to operate in an environment internationally of a pretty strong dollar. Maybe not as strong a dollar, but a pretty darn strong dollar for quite a while in the future. I think one of the messages that has to say to all those corporate CEOs who are in the export business is it sure isn't going to pay to be in the commodity business. That is, selling things that are price-sensitive and where the determining factor is price alone. I think if we're going to be major factors in the export business in the future, we've got to be a little bit like the Pfizers of the world and be selling brands, product differentiation, quality, service, marketing skills, and a number of other things.

DONALD H. TRAUTLEIN: Both of you in your prepared remarks mentioned, I believe, that you thought it would be desirable to have a new round of multilateral trade negotiations. Since Ambassador Strauss has the luxury of not having to go to those negotiations and carry them out, I would like to ask him what he thinks should be on the agenda for such a round of trade talks and what ought to be accomplished? I'd be glad to have Ambassador Yeutter to follow up.

THE HONORABLE ROBERT S. STRAUSS: Let me get that, let me make one comment about the previous question, if I may. I think the trade figures are going to stay; they're going to get worse or stay the same, or get very little, if any better, with the possibility of getting a lot worse.

A more serious aspect of that in my view, and there are men at this table here and out in the audience that know about it than I do, but let me tell you something, these securities are coming out and the government borrowing is being financed, as you know better than I do, by an inflow of capital coming into this country from all around the world. And it seems to me that, logic tells me that one day our foreign friends are going to wake up and say, you know, those fellas are getting so far in debt over there. They're not fools, in that country, they're going to find out they're going to have to inflate their way out or devalue their way out, or do something in the way out and we better get our money out of here. And if they start pulling that money out of here, if they pull it out slowly and gradually and let the dollar go down in a low...it would be an exceedingly healthy thing. But you let a start of a panic start and people pull it out soon, and you've got hell on your hands and that is a very, very serious problem we face that no one seems to be commenting on in this country. Now with respect to what a trade round should have, to begin with I don't think a trade round; I am strongly in favor of a trade round. The first thing it does, if it does nothing else, if it's gone about properly, it would lessen the protectionist fires where we don't go too far, we don't overreact as we always do in this country. We do it in our personal lives, we do it in our public lives – government people do just like individuals do. I think to have the right kind of trade round, as I said, first, you need the heads of state. This is not a problem that a bunch of ambassadors like me or Yeutter nibbling around the edges are going to solve. You need presidential leadership. They need to strike what I call a global compact of where we're going. And when the heads of government do that and instruct their ministers that the next five years we're going to report every six months on this and this and this, then you can have some progress in a trade round and only that way would you have progress in a trade round. What should it address? It ought to address these non-tariff barriers. It ought to address closed markets. And more strongly than anything else, we need to address what they don't want to address, and that's services. Service is a big item and of course they don't want services on the agenda. Why? Because we're better at it than anyone else in the world. And if they don't address services with Hank Greenberg down there and the people with whom he does business, can do business all over the world, and where Bob Strauss who has law firms in half a dozen offices can get one in Tokyo if he wants one or somewhere else, we're not going to address the subject. Those are the kinds of things we ought to address in a trade round. But there's no point in fooling around with it until this president goes to a summit with these people and instead of having his picture taken – and damn he does look good – does something and hammers out a deal. And when he makes that deal, he's good enough and strong enough and tough enough and he's got people competent enough to get something done. That's my view of it. Thank you. (Applause)

CHAIRMAN DWAYNE O. ANDREAS: All right, now to live up to our 10:00 adjournment, we just have time for one more quick question from each questioner. Ed...

EDMUND T. PRATT, JR.: Well, in view of the background of our new ambassador and both of them coming from those agricultural areas where it never rains, I do have a question or two in the agriculture field. And it's interesting in view of the discussion we've had and the fact that one answer to the problem is to get high research-based products and so forth, it is a fact that over most of the last ten or fifteen years the one area where we've had a sizable trade surplus and for many years was a critical contributor to our balance of payments was agriculture. But that is the ultimate commodity. And in view of what you said, Ambassador Yeutter, how do you see the future for agriculture? It is a critical part of the American scene and it seems to be in an almost unprecedented financial crisis. What are we going to do about that?

THE HONORABLE CLAYTON K. YEUTTER: Okay, before I get to that, let me make just a couple of comments on the last question about a new trade round. I think there are some high priority issues for the United States in a new trade round. I'll just add a bit to what Bob had to say because I think it's important that we understand what we'd like to do as America in that round. One of them is the investment area which is very important. It's one that Ed Pratt raises all the time. We have some good leverage right now with the rest of the world that is very much in debt, in suggesting to some of those people they might be better off if they had a little more equity capital flowing into those countries and a little less debt. And so it seems to me it's a good time to use some leverage to improve the investment climate around the world for our investment flowing into those other areas. That's one area. Service is, of course, very important as Bob indicated. Another area that's a big winner for us, is a potential winner if we can correct things, is what we call the intellectual property area. That's the international piracy that's going on, on trademarks and copyrights and patents. We've got billions of dollars of potential American trade around the world that we're losing now because everybody is stealing our stuff. So that's one to get done. And the other one that's getting done, Trautlein's area, is subsidies.

Subsidies are pervasive in this world and we've really got to get a much better handle on those. There's some others too. But let me get back to agriculture. New York is not exactly an agriculture country – segment of the country – but agriculture is still our biggest industry. And let me make a couple of comments because Ed is right when he suggests that we're in deep trouble in the agriculture - agribusiness area. My personal judgment is that that segment of our economy, which as I said is still our largest in all, is in the most difficult financial straits that it has been in since the 30s and maybe more difficult than the 30s because the capital investment is so much greater today. We are on the verge of a real disaster in agriculture in this country, and it's almost comparable thereto in much of the rest of the world. We've just got this strange paradox of gigantic agriculture surpluses around the world notwithstanding the fact that there's still millions of hungry, millions and millions of hungry people. Ed, we're going to have to deal with agriculture in the next round of trade negotiations, the sooner the better. I'm not sure we can even wait that long. The agricultural policies of the world including this country are ludicrous. You know we've done a terrible job in this world with our agricultural policies – absolutely terrible. And we're not doing any better in this country than anybody else. It's led to this enormous problem. We're going to have to try to negotiate our way out of it. It's going to take some accommodations between some of the systems and it's a very complex issue that we can't get into tonight. But as New Yorkers you ought to recognize that even though you'll feel it only peripherally, you should know that the people who are saying that things are tough out on the farm are not kidding. They are very, very tough.

THE HONORABLE ROBERT S. STRAUSS: ...say this that, first I want to clear up. I talk about coming from Stamford but I don't represent myself as a farm boy. I am not that. I was delighted to get out of there at the age of 15. I haven't been back too often. I like concrete, and I'm just delighted to be here at the New York Hilton. (Laughter) I don't own any ranch like he does and I never will. And I live within two blocks of my office in Washington and that's farm enough for me. Now let me also say more seriously that one thing we can do in agriculture is stop this damn foolishness that Republicans and Democrats alike are guilty of. And that's just the notion that we can keep cutting back and cutting back and control production and our foreign competitors, just every time we cut back more, they increase more, and dump more on the world market. And we support more and buy more. And it won't work. I'm a free market force man. And let them turn; it doesn't take a genius to know how to unleash the forces of American agriculture and compete on a worldwide basis and have some target prices where our farmers are protected. Now again there are lot better agriculture experts here than me, especially Ambassador Yeutter and our chairman, but I know that the free market force, the target prices, this government will spend less money, will be more competitive, and our farmers will be a hell of a lot better off. And nobody in the world will convince me to the contrary. Thank you very much. It's been wonderful being here. You've been a splendid audience and I appreciate it. (Applause)

CHAIRMAN DWAYNE O. ANDREAS: Thank you very much Ambassador Strauss and Ambassador Yeutter. And thank you, Ed Pratt and thank you Don Trautlein. You've given us some good questions, some mighty good answers, and certainly a lot of food for thought. Now another one of our club traditions is to present our speakers of the evening with The Big Apple. Here's the sample of it for all of you to see. I want to give one to you, Ambassador Yeutter. Thank you very much for being here.

End of Meeting