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3-4-1975

THE PSYCHOLOGY OF RECOVERY

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Yeutter, Clayton K., "THE PSYCHOLOGY OF RECOVERY" (1975). *Clayton K. Yeutter, U.S. Secretary of Agriculture Papers*. 52.
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THE PSYCHOLOGY OF RECOVERY

Franklin Roosevelt said during the Great Depression, "The only thing we have to fear is fear itself." That may have seemed ironic to the man standing in line outside a soup kitchen at the time. But the statement was true; in the 1930's, we let fear drive us into some policies that worsened the Great Depression and made it longer and more far-reaching than might otherwise have been the case.

By the same token, our attitude toward the present recession can play an important role in getting us out of it. And nothing will do more for American agriculture than a strengthening of the general economy in which farmers must operate.

I don't mean to imply here that economic slumps are caused by negative thinking, or that we can cure the recession by smiling. But the way we look at ourselves and our future has a great impact on how we try to deal with recession.

A positive approach to the future will help. If we are really determined to regain our economic growth rate, and we follow policies that stimulate productivity and take advantage of opportunity, we can recover from the recession a whole lot faster than with defensive policies aimed simply at hanging onto what we've had.

Speech by Assistant Secretary Clayton K. Yeutter before the Minneapolis Farm Forum, Minneapolis, Minnesota, March 4, 1975

Defensive economic policies played a significant role in the Great Depression of the 1930's. World trade had begun to expand in the decade or so before the Depression. Economies were becoming more inter-related. Industries began to develop export markets. Jobs were established based on export demand.

But then came trouble. Complaints were heard about "exporting jobs." Some people got fearful and defensive. Trade barriers were raised to "protect" jobs. And before we really knew what we were doing, we were in the midst of a tariff war. Countries tried to outdo each other with protective tariffs. Our Smoot-Hawley Tariff Bill of 1929 was one of the worst.

Jobs that had been based on international trade were lost in country after country. World productivity dropped. The law of comparative advantage was forgotten. Demand contracted. We "protected" ourselves right into the Great Depression. That depression thoroughly wrung out the economies of the industrialized world, and only later did we realize how important a role fear had played.

The world economy today is basically strong. It is far more productive than the economy of the 1930's, because it has more technology to draw on, more productive machinery to use, and a better-educated work force.

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The United States still has the largest and strongest overall economy in the world. We have about four times the real productive capacity we had in the 1930's. We have the largest energy potential, when we include our coal deposits and thermo-nuclear power capability, along with our own considerable oil and gas reserves. We have the world's strongest agriculture, in a period of growing demand for farm products.

Whatever our economic problems today, they do not include being a poor country. They do not include being a weak country. And they do not include being a country with no economic opportunity.

It is not enough to have potential, however. We must also have the will to use our potential effectively.

In fact, our mental approach to problems is almost certainly more important now than it used to be.

One reason for the increased importance of market psychology is our higher level of affluence. We have much more discretion in our buying today than did consumers in the 1930's. We can wait to buy a new car, because the old one is not really all that old. It may even be a second car that we are waiting to replace. We can wait for the new sofa, or the second TV set. Many of us can cut back our food spending, using fewer prepared items and going back to basics. The housewife of the 1930's was already cooking from scratch, and using lots of bread, macaroni and potatoes.

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Modern communications may also play a role in the increased importance of economic psychology. In former times, one industry or one region might have felt a pinch without the rest of the nation even being aware of it. The cells of our economy were much more loosely connected. Ideas and events percolated more slowly through the various economic layers. Today, everything seems to happen all at once to everyone. We are much more part of an integrated whole.

And people who thought we were inter-related with the rest of the world's economy in the 1920's should see us now. We buy oil from Venezuela, use it to produce feed grain for Japan, and spend the money on electronic gear from Taiwan. All over the world, countries are trading billions of dollars worth of goods and services -- and each deal makes sense for both sides.

We are now so closely inter-woven economically that we may have entered the era of worldwide economic cycles. Certainly an unusually high percentage of the world's nations experienced a boom together in 1972-73. And most of these nations are suffering together in the current recession. It may be coincidence that these economies all boomed simultaneously. And one can argue that the common recession was triggered by the oil crisis. Certainly the countries of the world are tied more closely together than ever before, and petroleum is one of the primary commodities that all industrialized economies rely on. When the price of crude oil was suddenly raised from about \$3 a barrel to over \$11 a barrel, something had to give.

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Our own economy, less reliant on imported oil than many others, has felt the effects. Our balance of trade slipped into the red again last year, primarily because of the higher price of imported petroleum.

That's why President Ford has come out with such a tough energy proposal. We simply must cut our reliance on foreign oil. And for the short run the only way we are going to do that is to cut consumption.

Even in the longer run, as we work to develop alternate sources of energy, we are still going to have to watch our consumption of petroleum products more closely than in the past.

A tax on imported oil that would raise the price of gasoline at the neighborhood filling stations is admittedly not very pleasant. I don't enjoy filling my car with high-priced gasoline any more than anybody else does. That means I watch my driving habits a little more closely. I don't take off from stoplights quite as fast or don't run to the corner grocery store quite as often.

In other words, as the price goes up, I'm becoming a little more careful with my use of gasoline. That's exactly the point of the President's energy program. Price will ration petroleum better than any other system of rationing we can possibly devise. In the long run it will probably also be the cheapest form of rationing. A formalized system of gas rationing -- even if it could somehow be made workable -- would cost billions of tax dollars to administer.

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It's not pleasant to pay more for anything, but as long as our demand for energy is high and the supply is short -- because of cartels or any other reason -- energy is going to cost more. That's a fact we have to face.

In the last year and a half, the higher price of energy has increased the real cost of just about everything. The auto industry has naturally been hard hit. The oil crisis struck at its very heart, not only because consumers began changing their driving habits, but also because the auto-makers' cost of building cars went up because of the higher energy costs. When this was translated into higher retail prices, auto sales slipped and inventories piled up everywhere.

But maybe the worst is over. The auto sales rebates have helped clear the excess inventory. Dealers have moved much of the backlog that was clogging the industry's production lines.

Another hard-hit industry in the last year has been the housing business. It is always a boom-and-bust industry because it is on the tail end of the investment chain. But, again, the situation may soon improve as money supplies for housing improve and interest rates soften a bit.

Neither the auto industry or the housing industry is likely to trigger a nation-wide Depression.

Another industry, agriculture, has also taken its lumps.

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Farming has not only suffered from the recession -- but also from the bad weather in 1974. The build-up in cattle numbers has hurt too, and the softness of world consumer demand has made it more difficult to work off this heavy cattle inventory.

Right now the whole nation would benefit from a positive attitude toward recovery. Quick Congressional action on a tax cut and imported energy would help. It would also help if management and labor would both strive mightily for improved productivity. And the whole nation needs to refocus its attention on the basic strengths of our economy and ways to make the most of those strengths.

It is time to get the doomsday forecasts in perspective. Let's shed our air of pessimism and get off the defensive.

I recently toured our major trading partners in the Far East. I found them looking forward, not backward. They are refusing to accept no-growth predictions, and they are planning to overcome their energy problems through self-discipline, productivity, and energy conservation.

Why should these smaller, weaker economies be more optimistic than the United States? Why should a country that must import 85 percent of its energy feel more confident of overcoming the energy crisis than a country that produces 85 percent of its own? Why should Far Eastern businessmen be laying plans for growth, when some of our businessmen say there is no profit potential for immediate investment?

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The answer has a lot to do with our attitude.

I would like to see this nation prove again how resilient, resourceful and resurgent it can be.

Certainly, American agriculture is looking at opportunities as bright as any we've ever seen. This is true notwithstanding the severe price declines of recent weeks. The world still wants to eat better. Populations are still growing. And it would take another Great Depression to stem the long term growth in farm product demand.

The old chronic surpluses are gone. We may have temporary oversupplies from time to time, but the days of the continuing overhanging surpluses will never return -- so long as we retain a market oriented farm policy.

We intend to see that they stay gone. We think those surpluses, the by-product of old-fashioned price support policies, were bad for American agriculture, for the nation, and even for the world's food security. They were expensive for us -- and they led the rest of the world to undervalue agriculture as an industry. Farmers from Topeka to Timbuktu were deprived of the monetary incentive to produce -- and the world's agricultural development was significantly slowed.

Last year, the world spoke fervently about the need for additional food supplies and food reserves. But this year, with the crisis cooled and large crops seemingly on the way, there is considerable reluctance on the part of other countries to share the burden of food reserves. Some of the other developed nations are hopeful that the United States will lapse back

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into the old habit of holding food reserves for them with the American taxpayer picking up the tab. That we do not intend to do! We will be pleased to join with other nations in making food reserve commitments, but we have no intention of providing that reserve, as we did in the 1960's.

To help maintain the full production opportunity for our farmers, we may need to step up our market development efforts. These have been highly successful in the past, and we can now move into new opportunity areas: oil-rich countries like Iran and Indonesia, developing trade centers like Singapore, and emerging economies like those in Eastern Europe, as well as continuing to expand agricultural trade with the Soviet Union.

The key to a successful farm policy is to preserve economic opportunity for U.S. farmers. It would be a fatal mistake to put American farms back into a defensive position, trying to lock in high prices and guarantee profits through government edict. We have traveled that route before, and it led our farmers to a dead end.

Our policy for agriculture -- and indeed for other industries -- must be positive and geared to opportunity, not negative and defensive,

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