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Grain Trading in the 1970s

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As I address my topic this morning, I think of Lloyd Besant’s letter to Bill Pearce of my company describing this conference as the first such gathering of ag economists, economic historians, and agricultural historians sponsored by the Chicago Board of Trade, and continue to wonder into which category I might fall. In any case, I am pleased to be able to participate in this conference and will simply set myself down as student rather than professor. I will endeavor to share with you some of my observations of the agricultural futures markets of the 1970s in general, and of a commercial firm’s confrontation with those markets in particular.

I am going to begin by begging a slight chronological license. For the purpose of my talk, I am going to regard the decade of the 1970s as beginning in June 1972 and ending in May 1981. I think the rationale behind that shuffling of the 10-year time clock is quite obvious. The first two years of the 1970s really exhibited little change from the years that preceded them—in commercial grain movement, trading activity, or price volatility—while in the summer of 1972, a fundamental occurrence signaled what was to be a new era in all of agriculture.

That occurrence was, of course, the unprecedented Russian grain purchases.

There has been much written and argued about the Russian entry into world markets that year. It’s not my task nor purpose to add to that voluminous debate, except to say that if any of you had been in attendance at our annual wheat merchandising meeting that year—held in late May, just weeks before Ivan appeared in New York—and heard our gloomy prognostications for 1972-1973 exports, you would have had considerable sympathy for the great pleasure and relief—almost unquestioning in content—with which the USDA greeted the Russian purchases.

The carry-over of wheat that year was 984 million bushels, 67 percent of 1971-1972 total disappearance; of corn, 1,127 million bushels, 22 percent of annual usage. We needed buyers—and we got ‘em. Russia was only the biggest—and most unexpected.

In 1972-1973, exports soared by 67 percent to a new record 3 billion bushels. Corn prices went from the mid-$1.30s to over $3.00 a bushel; wheat doubled in price to over $5.00; and soybeans went right out of sight, briefly hitting $13.00 a bushel before an ill-advised export embargo and the advent of another crop brought them back to earth.

Daily trade in futures, which had averaged something around 114 million bushels in 1971 and early 1972, swelled to 165 million by mid-1973.

This remarkable surge in demand for grain put the marketing machinery to a severe test. Ever-mounting export clearances and buying interest that outpaced cash origination volume created market uncertainties that brought about cash premiums of 100 over and higher in soybeans, and 50 over in corn, f.o.b. Gulf. Premium for cash right in the Chicago delivery market reached 20 to 50 over for shipment during the 15 days after the respective option expired.

Why would any firm pay such high premiums to the futures when they could simply buy the futures themselves and stand for delivery? Why would anyone pay 100 over f.o.b. Gulf?
The uncertainty following in the wake of the record jump in demand simply sowed the seeds of doubt in people's minds that the market would work—or perhaps would be permitted to work. Uppermost in buyers' minds was the need to receive delivery of what they purchased; for that assurance in their minds, they would (and did) pay unheard-of premiums.

And what of the sellers—confronted almost daily with the opportunity to sell grain for shipment months ahead at ever-higher premiums? No little uncertainty there, too. Were the futures a good hedge or not? Could demand turn out to be so large as to make it impossible to put enough grain in position to fulfill contracted sales?

The market in the latter part of the 1972-1973 crop year was, of course, on its way to pricing a protein shortage in the world (the anchovies had decided on a semipermanent vacation from the cool waters off the coast of Peru), but there was no perceived supply shortage threat in corn. The latter market reflected more of a time and place availability question, which severe spring flooding along the inland waterways brought even more sharply into focus.

The sharp price rise caused another kind of problem, especially where smaller country shippers were concerned: that of margin calls. Carrying inventories finally accumulated after a rain-plagued harvest, and hedged in March futures in Chicago, these operations found themselves forced to ante up margin monies in great chunks as futures markets took off. Making matters worse was a shortage of transportation, making it difficult to liquidate those inventories. Many firms were forced out of their futures positions through inability to come up with the margin requirements, and thus were left with unhedged (flat) long positions in cash—which, luckily, probably made them some money, as prices continued to rise.

And so we tumbled into the summer of 1973 and near disaster. On June 27, the U.S. government placed an embargo on all old-crop export shipments of soybeans and soybean meal, later amending it to a licensing system permitting only 50 percent of open sales commitments to be shipped. It was a bad decision, coming—as such government decisions so often come—at a time when the marketplace had already sorted out the low supply by the simple (albeit rather spectacular) medium of price.

The July-August inverse was $1.00 per bushel even after the embargo shock, and one rather substantial firm actually took delivery on the July only to deliver the warehouse receipts on the August. It was just one more questionable judgment in a marketplace trying to cope with a brand-new set of circumstances.

The July-August inverse in beans was one of two examples of "congestion" in the Chicago delivery market which caught the attention of certain publics and caused a cry for fundamental changes in Chicago Board of Trade futures contracts. The other, and more serious, example was the final day of trading blowoff in July corn.

There were three main reasons why short interest in July corn was still, as I recall, over 20 million bushels going into that almost fateful day. The contract cut-across in beans was a lingering presence in the air—giving some comfort to those
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who were short July corn, i.e., a misguided temptation to expect a similar bail-
out from government quarters in corn; there were plentiful supplies of corn
scattered about the United States, i.e., no actual or potential shortage such as
that which occurred in beans; and, importantly, there were listed in the Chicago
visible seemingly sufficient deliverable supplies of corn to satisfy the open
interest without undue price disruption.

Of course, there was no comfort for the short to be found in the government's
embargo decision. The fact that the U.S. would indeed carry over almost 600
million bushels of corn at the end of September had very little to do with the
specific Chicago supply situation. And, finally, very little of the 8 million-plus
Chicago stocks were available to the futures market because of excess damage,
the result of the delayed wet harvest.

Result: the directors of the Chicago Board of Trade removed trading limits on
Chicago July corn, and short covering pushed it to over a dollar premium to the
September. At our elevator in Chicago, we unloaded corn trucked from as far
away as North Dakota and North Carolina for delivery against the July.

The hue and cry that resulted was understandably loud and harsh, and it would
be many years before the clamor would die down. During these years, a lot of us
devoted a lot of our time to parrying the emotional thrusts of the critics who
wanted to force fundamental and damaging changes upon this institution and
the contracts traded here, and to the real questions of how the futures contracts
could be improved to mitigate the possibility of such an unreasonable price
disruption as did occur here that historic day in July 1973.

I dwell at some length on these two events because they reflect, in a certain sense,
one result of a marketplace suddenly bursting at the seams in its straining to
service unprecedented demand, and because they were the stimulus in bringing a
relatively new concept into the futures market arena—that of alternate delivery
points.

The first alternate delivery point was really Chicago itself. As oat production
dwindled in the Corn Belt and concentrated in the Dakotas and Minnesota, it
was realized in 1971 that Minneapolis would be a more effective delivery point
and, even though it was established at a $0.075 discount to Chicago, it was
immediately upon inception the prime delivery location. Chicago became the
alternate.

Likewise in wheat, the trend toward abandonment of wheat as a viable grain to
compete with corn and beans in the area tributary to Chicago brought into
existence Toledo, closer to the remaining heart of production and to most of the
millling industry, as a delivery point on Chicago Board of Trade futures in 1975.
The fact that Toledo was added at a $0.02 discount to Chicago was a reflection of
the special CBT committee's determination of comparative domestic value
rather than an expression of alternate delivery discounting. Chicago—as the
more difficult of the two to which to attract what was becoming a smaller and
thus domestically oriented crop—was regarded as the alternate delivery market.
That situation has, of course, changed as soft red wheat production has once
again been on the upswing and the export market the dominant outlet.
So, in response to the many proposals for expanding the delivery capacity on Chicago futures to prevent another occurrence such as happened in July 1973, delivery points were added outside of Chicago with the specific objective of maintaining prime delivery status for Chicago, while providing through the alternate delivery concept a harbor in a storm, so to speak, a safeguard against potential congestion in the future. It was regarded as important that these alternate delivery points be established at wide-enough discounts to discourage deliveries in the normal course of business, while still being available to put out fires in the form of spot supply shortages in Chicago. In 1973, besides the corn which came to town from such great distances, soybeans were transported backward, so to speak, from Toledo to Chicago for delivery. The alternate delivery mechanism would allow such a delivery more economically by simple tender of warehouse receipts in Toledo.

Thus, the multiple-delivery concept—widely championed by those who misunderstood the theory and function of futures, and who really were looking only for a vehicle that would allow them to dump grain on a convenient market when they couldn’t sell it or ship it to better advantage—was beaten back, and futures market integrity was maintained and strengthened. It was a tough fight. It may not be an overstatement to say that its winning saved the Chicago futures market.

Never had so much attention been centered upon the agricultural community in general, and the futures industry in particular. Those outside the industry and, to an important degree, within the industry were scrutinizing this business closely. A great deal of ignorance as to what a futures market was meant to be and what it was not meant to be was revealed in the process. Central to the necessary learning process were two critical concepts:

1. The futures market is not a cash market.
2. The contract must be proportioned equally for buyer (long) and seller (short).

It is not inconsistent with the first concept and absolutely necessary to the efficacy of the second that the delivery mechanism be designed and allowed to function as the market’s anchor to commercial reality—a sale and tender of warehouse receipts (or shipping certificates, as the case may be) when that sale is economically dictated, and a source of cash grain when it is the cheapest available source for the long. When the par delivery market is properly circumscribed and limited through mandated access to identifiable cash flows—access to supply inputs and outlets to demand—the only concern about whether there is too much deliverable elevator space available to the market should be that of those operating those elevators, for there really can never be too much delivery space as long as the futures contract is drawn and maintained with economic balance between longs and shorts.

There can be too little delivery space, however. That was only part of the problem in 1972-1973. It became a more subtle, yet more economically harmful, problem in 1980. But more on that later.

How, then, in the course of its daily business did the grain firm cope with the emerging reality in futures: increasing volatility; much wider participation from all corners of the world; an export reporting system which in itself could cause
market disruption; and, growing in importance as the years wore on, the effects of commodity funds and the technical community on the market?

In order to utilize the futures markets as a hedging medium, the hedger has to have confidence in those markets—that they will be a faithful and consistent reflection of what is going on and what is perceived in the cash or physical market. That confidence was obviously shaken in 1973, but once that turbulent year was over, those who understood the performance of the futures market under the strain to which they were subjected had their faith renewed in the resiliency of those markets. The many price movements up to (and, on occasion, even down to) the daily permissible limits were not potential flaws in the futures—not at all—but attempts on the part of the futures to catch up with a rampage of cash market.

Obviously, the lot of a hedger assumed a larger quotient of risk. When asked to offer any significant quantity of cash grain overnight, one found it necessary to add something extra to his price as protection against a higher opening the following morning. On occasion, that protection reached as high as $0.45 per bushel over the closing quotation—and, surprisingly, buyers sometimes paid it, for no one knew at what price level trade in the plils would resume in the days to come.

It became much more risky to have one's hedges in the off month, or to keep them long in the nearby, because spreads between various futures months gyrated more than the actual flat price had done in the 10 years preceding this period. Pity the cash long, hedged in the nearby month, who could not move his grain, and had to buy back his hedge and transfer it to the next distant month at a lower price—sometimes substantially lower.

After the shock of 1973, the market's participants gradually began to get used to the new pace and the heightened awareness of developments—which awareness itself surely caused some measure of volatility. One such element of awareness was the export reporting system, whose publicized reports of every trade of 100,000 tons and above and weekly summaries of open export sales held observers of various stripes buzzing loudly about their meaning, not realizing that in most cases they had little meaning.

Congressman Neal Smith of Iowa wanted every negotiation to be conducted in Macy's windows—while all that was really needed was a serious, credible, and constantly updated supply and demand analysis by the USDA.

It was hard; the risks were high; but it was fun. Daily trade was over 240 million bushels by 1976.

Another phenomenon was making itself felt during this time. Commodity funds were proliferating by the mid-1970s, and the computer lent its instant calculating ability to the chart-making upon which most of these funds fed. The influence of the commercial hedger in the market, despite his much greater use of the futures born out of need, became less and less, and finally could be said to have taken a back seat to the technically oriented commodity fund. We learned simply to stand back when the computer screens flashed buy or sell, and let the wave wash over us. It was unsettling, not perceptibly economic, and a source of huge
volume. By 1980, daily trade exceeded 500 million bushels, and, on occasion, actually reached 1 billion bushels! Liquidity—we were awash in it.

Yet, for the most part, the futures markets performed admirably. Cash and futures did come together during the current month, and the correlation between the two was understandable even if not quite the same through the crop year.

This correlation began to change in the late 1970s. Deep discounts to the futures began to prevail in cash at harvesttime, and often during other periods of the year, in one grain or another.

Where grain had hardly ever sold as cheaply as 10 under the futures f.o.b. Chicago, it became common for discounts as wide as 25 under to trade—$0.30 or so less than the value or cost of delivery on the futures.

There were several reasons for these cheap prices:

1. Crops were getting bigger, thus, immediate supply at harvesttime was very large indeed and weighed upon the cash market.
2. Futures tended to price the longer term supply and demand picture.
3. Transportation was tight and, thus, high priced, at least in relationship to the amount of grain which wanted to move at once. This included lake freight which escalated in value even faster than rail and, of course, represented the price outlet for Chicago cash grain.
4. Bigger crops were produced in the South and mid-South, far distant from the futures delivery market.
5. Space in the prime delivery market actually was declining in the latter half of the 1970s at the same time that crop production and demand were growing, and open interest and trade in futures were galloping ahead. Especially as the soft red wheat crop experienced a resurgence in the Corn Belt did the space situation begin to become a problem as now Chicago and the alternate delivery market at Toledo had to house three primary crops. It became more difficult to have sufficient stocks of all three to protect adequately the short hedges of those who were accumulating larger inventories of cash grain here and there around the country than ever before.

The problem really came to the surface in 1980-1981 when corn futures and cash never came together all year, and even with the cash basis at 20 to 25 under f.o.b. Chicago, carrying charges never exceeded the cost of interest, let alone storage, from December through May.

But more on that later.

There were other happenings which impacted upon the futures markets during the 1970s.

There was the temporary embargo on shipments to Poland in the late summer of 1976, along with a hold-down on Russia, arising out of early concern about the corn crop. These were days when we were operating with minimum carry-overs of 350 to 400 million bushels, so the size of the upcoming crop was crucial.

That same year we saw a new player of no little substance in the shadowy form of one Bunker Hunt establish a substantial long position in soybeans. July 1977
soybean futures soared to a $3.00 premium in November in another sharp reaction to the threat of crop end scarcity—and, in the process, not only priced the perceived shortage out of existence, but also, allegedly, the existence of one major grain exporter.

In January 1980, President Carter’s frustrated reaction to the Russian invasion of Afghanistan in the form of an embargo on grain and grain products shipments was an action the United States has yet to live down. The grain trade overnight became long some 13 million tons of corn, wheat, soybeans, and soybean meal—most of which had been sold to Russia in the summer and early fall at the highest prices of the year, prices which were as much as $2.00 a bushel over the market value at the time of the embargo declaration.

While the Chicago Board of Trade resisted the action, the CFTC closed down trading for the following two days as deliberations were being made concerning the magnitude of the problem that had been created and what could be done to soften its effect. It was a correct decision, for there was simply no way for the futures markets themselves to sort out the chaos which had resulted, until finally the government had announced its decision to assume the purchase price of these cash contracts. Once open again, on the Wednesday following the fateful Friday afternoon decision, the market acquitted itself well, and the shock was well dissipated by week’s end.

We didn’t realize it at the time, but we were witnessing the beginning of the end of the demand-pull scenario that had begun in the summer of 1972 and had carried through the rest of the 1970s. All through that time period, the public concern had been with scarcity. Price, as represented by a freely operating futures market, had been an effective arbiter whose allocation of resources was only marred by recurrent threats of economic embargoes or other governmental interference. There were many who argued for more government controls to protect the U.S. consumer from these foreign raids on our food basket; others argued for such controls for political reasons—food as a weapon in international foreign policy, for instance. Yet, the performance record of the U.S. agricultural marketing system could in the final analysis not be denied. It, at times, bordered on the spectacular—and the futures markets stood at its core. They worked. When even some of their strong supporters doubted, they worked.

And so we staggered by the Carter embargo, and entered the 1980s. The crop year which bridged the two decades was to be, for a period of still uncertain duration, the last hurrah of export growth from the United States.

There were not many who recognized that fact at the time. Futures trade was setting new records and included what, to some, were two rather disquieting elements.

The first was the proliferation of items brought into the futures trading arena—I don’t need to tell you that the list is almost endless. The economic justification for these new contracts need not be debated in order to elicit serious concerns about whether their existence may dilute and diffuse needed attention to what I would call the basic, bedrock contracts of the Chicago Board of Trade—those which were started in the latter part of the 1860s as a natural evolution of forward cash trading activity. Financial instrument futures, for instance, are an important response to market need. Grain firms which carry any significant inventory
must, in fact, consider their use as a further protection against unforeseen changes in value. But they *are* different, and they *do* require exchange management time and attention which was heretofore available to the grain and grain products markets.

The second, and more cloudy, element was the significant growth in foreign involvement in U.S. futures markets. Now, I must hasten to say that our markets have always been, and must especially be so these days, international in scope. Therefore, the concern I report here today does not contemplate prohibition of access to U.S. futures in any sense—except one, and that is the area of control.

The U.S.-domiciled participant in futures markets operates in a well-defined area of legality insofar as his trading activity and market positions are concerned. He is readily accessible to governmental or exchange entities governing these activities and, when necessary, to the courts, as well. As a hedger, he has a considerable leeway, wisely written into the basic hedging definition, which nonetheless he is held strictly accountable for via annual or periodic review.

There must be considerable doubt whether such accountability carries through to the activities of a foreign governmental entity trading large volumes through a U.S. commission house, and calling them “hedges.” The only real concern such inadequately supervised trading carries for the U.S. grain trader is that it may somehow come to distort market values.

In any case, today there is not much foreign involvement. As we have entered a period of surplus, seemingly in everything except the wherewithal to pay, there is not much involvement on the part of buyers, period. We sailed into this new atmosphere of plenty under full canvas after the big export year of 1979-1980, and didn’t really find the shoals of dwindling demand until January 1981. Futures prices were bid up sharply during the fall of 1980, and precipitated a record flow of grain from the farms of this country, so much so as to cause the myth of transportation shortage to persist longer than by rights it should have. The huge transfer of cash ownership also created a tremendous need for an adequate hedging vehicle to pay for the costs and risks of carrying this large crop in storage.

The corn futures market in 1980-1981 did not provide that adequate hedging vehicle. As I mentioned earlier, carrying charges never were wide enough to pay more than interest costs, despite a record low cash basis throughout the Corn Belt, because of a combination of insufficient delivery space and stubbornness on the part of those who stopped the few available deliveries. Today’s poor demand should not be allowed to delude those in decision-making positions into believing the needs of 1980-1981 in this regard have either been solved or were illusionary.

We have today a huge production base. As economies improve, demand will once again come knocking at our doors, and trade and open interest will again expand. Our futures markets have proven their crucial importance to the world agricultural scene, and they must be strengthened for the promising long-term need, and not allowed to weaken out of short-term misapprehension.

I have perhaps dwelled more upon the events of this dizzying decade of change than I have upon specific problems which the grain firm experienced in adapting
its merchandising and hedging techniques to the changed market landscape. However, those events, and the general atmosphere of change in which they took place—change in the value of the dollar, for instance, and in interest rates, and on the political scene—were the stimuli for awakened awareness of the futures markets on the part of all participants—of what they were, what function they served, and of how necessary they were to agricultural commerce throughout the world.

The mental adjustment required by the many changes of the 1970s was not easy, but it was made. We got used to 5 billion bushel exports, limit price moves, government manipulation, large-scale Russian purchases, and other elements of enhanced uncertainty. We adapted.

What’s difficult to face today is the adaptation to another kind of a market made necessary by world recession and monetary crisis. Have we simply come full circle to another era of surplus?

I trust not.

We will once again be called upon to respond to growing need for U.S. grain. Let us hope that what we have learned, or had plenty of chances to learn in the decade of the 1970s, will stand us in good stead when our marketing machinery is again put to the test.
Commentary

G. Willard Thiessen
Hennessy & Associates

In dealing with this topic I am reminded of a cartoon in The New York Times several weeks ago. I would like to share that with you because I think it brings that period of the 1970s into sharper focus for every commodity trader. The setting is a very plush Manhattan penthouse. An obviously successful couple is sitting having cocktails late at night. The man, dressed in a tuxedo smoking jacket, is walking across the living room carrying his drink. His wife says: “Honey, you look deep in thought.” And above him is this big balloon which shows he is picturing his senior prom and saying: “Gosh, I should have been more aggressive with Elizabeth Smith, and just grabbed her and kissed her the night of the senior prom.” Looking back at commodity markets during the 1970s, we all have that same feeling. We should have all been more aggressive and realized that this was not an unending phenomenon and that there was a moment in history to capture.

Today I would just like to make some comments on Mr. Howard’s paper. I also want to add some ideas that result from my experience as a speculator here in Chicago.

The central question is why any firm would pay such high premiums for the cash when they could simply buy the futures and stand for delivery? Why would anyone pay a dollar over f.o.b. at the Gulf? Well, there are many aspects about owning a commodity in a certain location. If the grain trade learned one thing during the 1970s, that was the concept of convenience yield as Kaldor called it. The ownership of stocks at a certain time and at a certain location really was brought into very sharp focus in the 1970s. Fobbing premiums here on the Great Lakes and at the Gulf and barge premiums on the river brought into very sharp focus that the ability to control a commodity, to have it in hand, really far superseded the value of ownership of paper on the street in Chicago.

The grain trading firms’ old style of merchandising grain was simply to bring grain into deliverable locations as much as possible to bring about full carrying charges, and then let the market pay you not only the cost of interest and storage but all the costs. In addition, owning the grain allowed one to capture the convenience yield. Suddenly, in the 1970s, with the advent of the foreign buyer and of tremendous scarcity and, in many cases, an oversold cash situation, ownership became the prime motivating force for any trade. You wanted the commodity in hand. Grain trading firms as a whole were very slow to recognize this. But it was ingrained in the merchandising programs to bring the grain into deliverable locations, to sell it, and to get the carrying charges.

I would point out an analogy in Winnipeg in trading rapeseed. Very often, even in the 1960s, there were tremendous wide inverses. In 1966 or 1967, the January option in rapeseed settled $1 over the cash price, and the f.o.b. price was $1 over the expiring price of the January option. The cash grain trade in rapeseed was accustomed to inverses. The convenience yield or the ability to own stocks was the prime motivating factor in any merchandising program. The grain trade here in the United States was a little slow in the uptake in the 1970s because there had never been any need to address that problem.

The big demand pull in the cash grain trade really underscored the ability to trade effectively when the cash market is short. That was something the grain trading firms had never experienced before, and the 1970s taught them how to trade out of that position.

The net worth of many grain trading firms expanded dramatically during the 1970s. The fact that many of the firms were not able to finance their margin requirements and, therefore, bailed out of their futures and went net flat long was
probably the best thing that happened to their books. Net values during the decade increased dramatically, and it was very easy to be a smart grain trader. Many people made their careers on simply seeing the obvious—getting long and staying long for the move. This move occurred not only during one crop year but through a number of years. Merchandising during the latter part of the 1970s was very different from the late 1960s. The concept of trying to obtain storage charges from commodities that were hedged was forgotten. The grain trade was now interested in the move, the flat price appreciation.

I found it very interesting that the concept of multiple delivery points was brought up. It is very refreshing to hear the grain trade so solidly endorse the proper viewpoint of a futures contract. During the 1970s, there was a lot of pressure from farm and consumer groups to make a futures market address itself to every conceivable ripple in the cash market. The futures market should never be and never has been a total replacement for the cash market. It is an alternate source of merchandising, and we are gradually coming to realize that. But during the 1970s, it was very difficult sometimes to face the consumer groups and all the advocates of expansion of the futures market. I point out that today the trading volume in soybean oil leaves a lot to be desired. The amount of cash soybean oil delivered against the contract is far in excess of what it should be. The speculative element is not involved in the futures market in soybean oil to nearly the extent it should be simply because the soybean oil market has been legislated to become a far broader market than it should be.

The comment was made that there could be too little delivery space, and that that was part of the problem, and that it made risk management more important for the commercial in analyzing his position. There was another factor that appeared during the 1970s. We saw a number of traders on an individual basis sometimes take larger absolute flat price market risks than some of the major grain trading firms. Large professional traders could on a given day take a bigger flat price risk than major cash trade firms. That had a lot to do with the concept of too little delivery space. There were well-financed individuals who could outbid and control the delivery space from a commercial. In the late 1960s, commercials made their money basically by using the futures market to extract storage charges for stocks that they, in fact, controlled. Now, in the 1970s, it was a very frightening concept for them that individuals could, in fact, “steal” their stocks and utilize their space. Another example was the time of the great protein shortage. There were processors with a lot of warehouse receipts who had their production time dictated by the whim of a speculator who owned those receipts. This was very disconcerting to the crushing industry—so much so that the contract was revised several times to favor the processor.

The decade of the 1970s for grain trading firms was extremely profitable. I think, for at least a certain part of the time, they had to turn around their merchandising programs to utilize the marketplace to gain a price appreciation of their inventory rather than look for gaining storage charges on inventories.

Concerning the widening discounts at harvest time, I think it is probably a logical conclusion to expect that the discounts would continue to widen over time as the costs of moving grain continue to increase. Another reason these discounts were so large was the increasing fuel and handling costs. A buyer out in the country who was buying off the Board of Trade would have to adjust his bid to take account of those increasing costs.

I particularly liked the reference to the embargoes. Looking back at the embargoes of all the administrations since the early 1970s, we have to say that they have been—in the glaring light of history—failures. As a result of meetings such as this, I hope there could be communication with the administrations to convince them that embargoes are counterproductive except in the very short run.

I think the growth in foreign participation in futures markets probably will become a trend that we can rely on. Look at the world balance sheet for the oilseed complex in the early 1970s. By simply charting the United States supply/demand analysis and the Japanese supply/demand analysis, you are in touch with the bulk of the dominant variables that affected the prices in those years. Contrast that to the late 1970s when there was the emergence of at least three more producing countries and a whole host of destinations. The matrix really expanded from three countries to something like 38 with different commodity flows.
and also different political implications. It was very natural that these foreign elements came to the futures market to mitigate some of the risk they perceived in cash trading.

Foreign participation in our market is beneficial from an economic viewpoint. The monitoring of the accounts is carried on generally in an efficient manner by the clearing member. Therefore, I don't perceive a necessity for a foreign firm to file additional reports on trading volume or position limits. It would seem, though, that direct foreign government participation in our market should be subject to more scrutiny.

As a result of the 1970s, I think the cash grain trade has learned how to adapt to different methods of marketing grain and different philosophies in merchandising. I also see that we are returning to some of the standards we had in the early 1970s and late 1960s. I think the markets are gradually seeking out levels and patterns of price movement that remind one of some of the surplus years we had before. Some of the old seasonal moves might well reappear again. It seems to me that ultimately—tempering this with increased costs of physically moving grain—some of the storage charges and the method of merchandising for capturing storage and carrying costs will return again.

The 1970s were an enviable period in the history of grain trading. The free marketplace persevered. It was not without tremendous tuition costs in many cases but, for those firms and individuals that made it, it was a delightful experience.
**Discussion**

**David Horner:** Mr. Howard, I enjoyed your talk. I think you have reasonably backed up a lot of your arguments. I agree with most of them, but even when I did not agree, I felt that you added good perspective. I was a little troubled by your conclusion because it was a kind of prediction without backing. Your conclusion was that the demand-pull situation will return again.

Ignoring any policy bias that I might have as a member of the current administration, I see two possible scenarios. One is that with the tight money and with the possibility of banking instability, we could be starting into a long downturn. But let's suppose there is a rosier scenario in which interest rates continue to go down, inflation is under control, and we begin to have capital spending again. Even with this scenario, it might be rather long before the world banking system has the kind of liquidity, capital investment, and productivity increases that will once again allow the consumption society of the world to dictate the pricing of grains. I do not know if a demand-pull situation is an optimistic situation since it implies shortages in some sense. I would like to hear why you think we will enter a demand-pull situation and what the timing of that will be.

**James Howard:** Very simply, I say that we will see another demand-pull situation because I am an optimist. About the time period, I have no idea. I agree that it is not going to happen overnight.

Basically as we look forward, we look forward from a different standpoint than we did two or three years ago. Two or three years ago, we thought that growth would continue because roughly 80 million mouths to feed were added to the earth each year, and the supposition was widely accepted that we had to feed those people. We thought there would probably be some continuation of improved diets in the form of meat; our growth in the 1970s in exports was predominantly in feed grains and protein to service that need. There is a big change now. In the last two years, our growth in world trade has been in wheat which serves a less sophisticated diet. I just cannot believe that because everything is so gloomy today, it is going to be that way forever. Those people are going to eat, and if we are on the proper economic course in this country, it will start showing itself in a couple of years.

**Roger Gray:** This is a personal anecdote as a footnote so that historians can carry a footnote home from the conference. Apart from the embargo, there was a proposal made by one John Dunlop to President Nixon during this period that he close the futures markets because speculators had driven up the price. Peter Flanigan called me into the White House and said that Nixon had asked that there be a meeting between Flanigan who opposed this and Dunlop who proposed it. I met with Gary Seevers then of the Council of Economic Advisors and Alex Caldwell, administrator of the Commodity Exchange Authority. The three of us had been invited by Flanigan to confront Dunlop’s proposal. I had prepared a three-page analysis very much along the lines that Jim Howard was talking about, showing that the cash market had been leading the futures, and showing more directly to Dunlop’s point that the futures speculators had been losing money because they had to go short to save this market. You could show for corn, wheat, and soybeans that the net speculative position had gone short and stayed short during this market rise. I spent maybe 15 minutes explaining this to Mr. Dunlop, at which point he blew his top. He said he did not believe the figures, and that he wanted us to go back and get the right figures because he knew the speculators in Chicago were not losing money. At which point I said: “Mr. Dunlop, I do not work for the government, so I am not going to go back and do any further work on this project.” Mr. Dunlop left the room. Peter Flanigan assured both Alex Caldwell and Gary Seevers that they would not have to do any more work on this either because nothing more would be heard from Mr. Dunlop.

I give you this footnote for two reasons. When you historians write it up, you can write this as the day that Roger Gray saved the futures markets. I say it...
also for Hank Arthur's benefit because there is another lesson in this. When a Harvard man goes off the deep end, it always takes a Stanford man to straighten things out.

Richard Sylla: Mr. Howard, you made what I consider a cryptic comment in your remarks. It had to do with the suggestion that commodity funds and technicians have created problems for the traditional participants in some of these markets. Would you elaborate on that?

James Howard: I am not suggesting that they should be outlawed because they have obviously added a tremendous amount of volume and interest in the futures markets. But there is no question that the funds and technicians are a new factor that all of us have had to deal with. Those funds are mostly technically or chart oriented rather than fundamentally oriented as we grain traders have to be. They respond to certain signals in their charts.

Often there will be a large volume of buying and selling coming into the market on technical signals with questionable or, at least, not recognizable economics. I do not think that economics have anything to do with those particular gyrations, and we have learned to step aside at those times. We are in a business in which we look at long-term situations and do not try to speculate on the flat price despite what Willard said about how we learned to make money in our business in the 1970s by being long the flat price. There is no way we were going to be in business very long if we did that. We were hedgers all the time. We benefited sometimes from being long the flat price on the way up. Sure we did. There is no question about it. When you carry the kind of inventories that we do, there is no question that we have to be hedged at all times or we will not find the bankers very happy with us. At any rate, I mention the funds and technicians only as an example of the changes that have taken place. I know that they are going to be there and that we are going to have to live with them. And we are living with them.

Henry Arthur: Responding to Roger Gray, I suppose that if Stanford had to correct every Harvard statement that went off the deep end, they would have to stand on all sides of all questions. Mr. Howard, can you give us a quick critique of the Japanese use of commodities futures or the use they failed to make of commodities futures during this period of the 1970s? What is their strategy and what patterns do you perceive in their activities?

James Howard: I do not know that there is a pattern. There are several Japanese trading firms involved as you know. They have become more involved not necessarily from the standpoint of importing into Japan, but trading U.S. grain around the world and putting capital in this country in elevators and so on. My perception—and it is only a perception—during this time and maybe even today—but I think less today because of some sobering experiences in the last couple of years—is that the Japanese were much more speculative in their use of futures markets than a U.S. grain firm was and is. They also speculated on the value of the yen. There is very little storage space in Japan, so they have to arrange their pipeline a long time in advance. I know some of them took what I would regard as significant and maybe ill-advised speculative positions in the futures market. But I don't know if all of them did or if there was a pattern that way. Other than that, I think they used the markets generally as we do.

Thomas Hieronymus: The open interest in corn futures in the fall of 1975 was extraordinarily large, and the reporting long hedges were much bigger through that harvest period than the reporting short hedges. That was the year of extraordinarily big exports, especially of corn, to Russia. The conclusion you have to draw from that, of course, is that Continental or Cargill sold corn to Russia, and thus the Russians were indirectly long huge amounts of futures. That was a reversal of the standard pattern, and the market accommodated it with no stress and no difficulty at all.

Early on in your paper, Jim, you talked about alternate delivery points. Then you talked about the problem of the extraordinarily wide basis in the fall of 1980, accompanied by narrow spreads which were a good deal less than the carry. You indicated that this may be a continuing problem over time. My question is, how do you solve it?

James Howard: I think that part of the answer is more delivery space. I understand the concern about delivery space on the part of those who are mostly the speculative community because they
perceive delivery space as the cause for surplus. It seems that way but it isn’t. Willard made a comment about soybean oil—that there was too much delivery space and too much soybean oil delivered. I would submit that there is too much soybean oil. I think we need more delivery space. Trade has expanded by four or five times during this period of time. The open interest, of course, is a lot lower than it was in 1980, which was a record. Corn was 1.5 billion open at that time. Soybeans were way up there. December corn of that year had 400 million open with only about a month to go until the first day of delivery. That kind of situation causes a tremendous problem for a short hedger to move his hedges over if there is not much physical stock to back him up available to the marketplace to make it plain to the person who is long that there is a cost of carrying this. We have 12 to 14 billion bushels of grain to carry in this country, and somebody is going to have to carry it. And they do not want to carry it unless they get paid something for it. I am not concerned about there being too much delivery space unless that delivery space be put out of the flow of grain. I don’t think there is a problem as long as the supply can come into the elevators and as long as the demand can get at the grain. If there is too much elevator space, it is the guy with the empty elevator that has to worry about it.

Thomas Hieronymus: I don’t think it is economically feasible for Cargill to add to its delivery space in the city of Chicago. Gateway and Rice-Powell were the last elevators added here. Would you add delivery space at Paxton, Gibson City, Champaign, and Tuscola?

James Howard: No. For one very simple reason. As soon as we get out of the sphere of delivery that we are in now in grain contracts and move into central Illinois or Iowa or wherever, then you change the rules. Then somebody could say: “I would like to be deliverable too. I am right down the road on the same railroad, and I can load as many cars as anybody else. I want to be deliverable.” I do not know how you keep that person out. You can’t. If you get that type of situation to too great a degree, and if then the time comes when somebody stops that grain from delivery, obviously he is going to get it in the place from which it is hardest to get out. If you have 25 or 50 delivery points all over, he is not going to be able to get that grain. This will affect the market in a dire way. That is the kind of proposal made in the mid-1970s.

Cargill has a very identifiable delivery location on the Great Lakes with the Chicago area being the prime delivery area. There is more space available to the Chicago market at Burns Harbor. There can be more delivery space built at the alternate delivery points of Toledo, which has been the only effective one, and St. Louis. Those delivery points are not quite as effective. At the present time, their discounts relative to Chicago are wide enough so they still provide a little bit of protection, but they will not provide as much protection for the short hedger as Chicago will.

There are some other thoughts we had during this time. They are only thoughts; they are not proposals. One could be that in a period of time when it was perceived that the marketplace was not reflecting the actual cash market—whether that was in the cost of carry or whether it was out of the actual nearby cash—that there might be some emergency rule allowing other locations to be deliverable. As I say, I am not advocating that because I think that it has plenty of its own potentially adverse consequences to be debated over a long period of time by a lot of people. But that is one thing that occurred to us at that time. People did not want a lot of permanent delivery space, but they felt there should be something available to the market to make sure that a few longs could not just take the grain off the market, sit with it, and have the spread narrow uneconomically.

If it is economic, it ought to narrow in. One of the things that some of the critics of this kind of proposal forget about is the fact that we now have more space in the delivery market than we had a year ago. We have all-time record supplies. Today, September corn is going to go off the board at something like 10 over. It was 7 over yesterday and there weren’t any deliverable stocks. And there weren’t any deliverable stocks of soybeans. Both those grains traded at delivery values, or better, four, five, or six times during this crop year, even though we started out the crop year with a lot of stocks. So, the marketplace will work if it is properly drawn.

Thomas Hieronymus: The single biggest spigot for corn at the end of the pipe is New Orleans. Would
you entertain the possibility of a New Orleans delivery?

James Howard: I don’t think it works and I don’t think that we need it, Tom. That might be possible in an emergency situation of some kind at a later date, but we really do not need another futures market nor another delivery location. I do not think that deliveries would be made at an export point because that is like a cash trade.

Reynold Dahl: Some ag economists have argued that to understand commodity markets these days, you must understand what is happening in the financial markets, particularly the world financial markets, through the linking of the U.S. economy with the international economy by floating of the dollar. They also argue that a substantial share of our increase in exports in the 1970s was linked to the market instability in the 1970s, which was really instability in the financial markets rather than in the commodity markets per se. Would you care to comment on that?

James Howard: I don’t think that is true. I don’t think we had the instability in the financial markets in 1972, 1973, 1974, when we had the first big explosion of new demand that was to come later. There is probably a greater connection today between the instability of financial markets and commodity markets than there was back then. That is why financial futures are a very good reflection of a need in that particular area. Gold has become very sensitive to interest rates. But for the grains and hard commodities, like copper, the situation seems to have changed. It is not like the really good bull markets we had in the 1970s, when people bought anything that had any value outside of the dollar. But when gold went from $300 to $500, very few other commodities followed. Gold had a repository value that was identifiable, while the dollar may have lost value and banks may have failed. So, there is a connection in all these markets, but I do not know how that connection can be precisely identified.

Bruce Reynolds: Could you talk about your hedging and merchandising operations in Brazil? Does that create problems in spreads between futures months from your activities here in the U.S. because of the different crop years, or is it no problem at all?

James Howard: No. Whenever anyone is marketing or crushing soybeans, he has to recognize that those soybeans exist all around the world and are produced at different times. The hedging has nothing to do with it except as it reflects cash. If the farmer is selling his soybeans in Brazil in the month of June, and products cannot be sold in enough volume against them, then they may be hedged in Chicago. So, the Chicago futures market will reflect a short-term increase in the supply of soybeans.

Bruce Reynolds: You mentioned that the soybean oil market has become very flat in terms of speculator interest. There seems to be a trend for more refining of soybean oil by the crushers. The days of just the crude oil processor are somewhat coming to an end. Before long the crushers will also be refining. Will there then be a need to change the contract from a crude to a refined oil contract?

James Howard: Yes, I expect so.

Bruce Reynolds: Do you think speculators will resist that?

James Howard: I have no idea. If the marketplace changes so there is no crude oil around, I don’t know how they can continue to have a market, but I doubt that would occur. There will be only so much refining capacity. We have been expanding in the refining area as have many of our competitors. At the same time, many of our customers are in the refining business, and we are still selling a lot of crude to them.

Jonathan Lurie: As an aside, Roger’s comment reminded me of the professor who transferred from Harvard to Stanford and improved the quality of both institutions. As for my question, I want to ask you if you have some doubt about the efficacy of some of these new future contracts which have been emerging. Would you expand on that a little, and were you implying that you would like to go back to the good old days when only the staples were traded?

James Howard: I may have personal doubts about the viability of a futures market in several kinds of items, at least if you want to call it a futures market. If you want to call it something else, that is probably all right. Some of the stock index
contracts might fall into that category because I don’t think they are a futures market. But that is beside the point. Because I am in the grain business, my only concern is that an institution get so involved in the growing number of commodities being traded that they fail to attend to the commodities that I am interested in and that do function as real futures markets. There could be a problem if the critics of futures markets should be successful in forcing delivery locations that are all over the place on the Chicago Board of Trade futures. This could be a problem in such a critical area as food. People react very emotionally to food and potential manipulation of supplies. So, I am concerned only to the degree that new contracts might interfere with the time and necessary thought and effort in the basic futures that have been around for so long.

William Culbertson: I am not familiar with the export reporting system that you mentioned as one of the difficulties with which you had to increasingly cope in the 1970s. Perhaps you and Willard could elaborate a little bit on the disruptions, potential or otherwise, which that system caused in the markets.

Willard Thiessen: As an observer of those reports, I think they sometimes provided misinformation. Those who understood the cash grain trade worldwide recognized that foreign subsidiaries could, in fact, make sales and that they traded a lot outside this umbrella. The point was made very well that a cash grain trade very often is not consummated as it is begun or at least not with the original party. So, by the time an identifiable shipment reaches its ultimate destination, it may have traded through 13 or 14 hands. So, sometimes the information that these export sales reports provided on every Thursday was more misinformation because it reflected trading activity that may or may not correlate to the actual cash shipments.

James Howard: Perhaps I could give a specific example of something that happened several times. The first time this happened was in a year of rather short supply. According to U.S. law, exporters had to register their sales originally with the Department of Commerce and then, later, with the U.S. Department of Agriculture. Any sales of any size according to grain and crop year were published each Thursday by the government agency. As we got three or four months into the crop year, those sales were sometimes larger than the perceived remaining crop. So, people became very disturbed. The representative of a baking association said bread would cost $1.00 a loaf and that we were going to run out of wheat. Food, as you know, is a very emotional item.

The main reason for the disturbance was misinterpretation. It was not entirely speculative buying that year on the part of overseas firms or even U.S. affiliates. A lot of countries in the fall of the year suspected they may not be able to get product later on. So, they decided to buy at least as much as they thought they would need for the following spring, summer, and to the end of the year. If their own crop turned out better, they knew they could cancel the order. But they first secured those supplies. There was a lot of this that went on all around the world. As a result, we had the perception of this export demand that was for more production than we had. During the year, as prices rose and the various firms in those countries perceived that they had a larger supply in their own country, they would call up their friendly exporter and ask what would it cost to cancel their order. An order was usually canceled through negotiation. That was the same as the buyer selling it back to the exporter at the market price of that particular day. So, the canceled quantities then disappeared from the supposed demand.

For these reasons, we argued at that time and we still argue that we need stricter export controls and systems of reporting so we know what is going on. The best guard against misinformation to the farmer or the consumer of this country is the USDA and others helping them in whatever way they can. They are independent bodies who continually look at the supply and demand situation—what is grown here and there, our own crops, the history involved, and whatever else affects the picture. They revise their information month by month or more often, if necessary. So, it is the 12-month supply and demand situation that will govern price over time, rather than an isolated buyer who comes into the market to buy 2 million tons of grain and causes the price to go up. The latter case is the kind of misinformation that could occur and lead people to misinterpret the market.

Neilson Conklin: I would like to elaborate a little bit on the export sales reporting system and raise
another question for Jim. The research that I have done shows a very low correlation between the changes in futures prices and the changes in the amount of commitments reported in the export sales reports. Insofar as you say that this information is easily misinterpreted and perhaps not very useful, my research would seem to back that up. At the same time, there have been many people concerned that, while we have very good information on the supply side about expected crops and planting, we have a serious problem with information on the export demand side. Part of this results simply from the nature of many of the countries with which we are trading. So, since this is a problem, do you have any suggestions? The export sales reporting system does not seem to be solving the problem as well as one might hope. Do you have any suggestions for an effective alternative?

James Howard: The only suggestion I have is the one that I made. I understand that the demand side is the more difficult and that is why it has to be constantly reviewed. I can remember when the Carter administration came into office. The USDA had some estimates of demand that were much lower than those of many in the private trade had. Unfortunately, at that time, many of the people in the various departments of government were almost given a mandate not to talk to anyone in the trade about anything. So, we had no means to communicate our own estimates of demand. Prices then were lower than they should have been. But that has changed tremendously in the past year and right now is a difficult period because we all know that Russia will buy or needs to buy 40 to 45 million tons of grain today. But what is the political situation and the ability to pay? None of us knows that, but we continue to look at it and I do not think it will ever change the demand situation. Nor will that become clear if Russia were to come in tomorrow to buy four million tons. They have to buy six million tons because of the treaty they signed. Probably they will buy at least eight million tons. But before they get to the point of buying more than eight, I am sure the whole world will know that the USDA and Russia have sat down and that the administration has promised to guarantee the contracts if they buy more than eight.

So, it is never going to be perfect, Neil, but I don't see that we can do any better. The main concern I have is misinformation rather than information. What we have now is all right as long as people understand what it is and what it is not.

Michael Gorham: Willard, you mentioned that the amount of public speculation in the soybean oil contract was inadequate. What does that mean? When is a speculation inadequate? Also, what exactly is causing the speculators to leave that market?

Willard Thiessen: Soybean oil has always been regarded as a great vehicle for speculative spreading. In the late 1960s and early 1970s, the July/August spread was a common one. The October/December oil intercrop spread was a good spreading vehicle. This situation changed somewhat when additional delivery locations were created at places where it was very difficult to get the product out. You were subjected to deep discounts if you took delivery out in western Iowa or up north. So, some of that participation was slowed down. Then the individual speculator who knows there are 13,000 oil contracts registered on the street has a reluctance to become involved in spreading because it becomes a cash market in his mind, whether it is true or not, and he would prefer not to trade it. It also takes the two-lots and three-lots out of the marketplace, so you see bunch demand and bunch supply. It also makes for a very volatile market, which for a floor trader is not all that bad. But, in the long run, it is certainly better to accommodate both the hedger and the speculator by an orderly flow of business throughout the day. In the earlier times those involved in cash and carry, when it made sense, would stop oil in various locations and carry it as a businessman's risk, hedging it in the forward months and expecting to make a good return on the investment. That is very difficult to do when you have no confidence that you can get the oil. It may be very difficult to move that oil and realize a profit from that cash transaction. So that trade is cut down very sharply.

Michael Gorham: I see where the risk of getting delivery at an undesired location would dissuade commercials from coming in to use a contract. But I do not understand how public speculators who plan to get out of the contract in advance of the delivery process would really be affected.
Willard Thiessen: I am just saying that in the cash-and-carry operation that formerly was very commonplace, even the small trader would take delivery of one or two lots of oil because it was very easy to take and make delivery. That is no longer the case. Depending on your location, it becomes a very difficult task to negotiate.

Morton Rothstein: Mr. Thiessen mentioned a virtually exponential growth in handling and carrying charges in the 1970s that seemed to add to the complaint of farmers and of consumer interests about the rise in prices. I wonder if it is linked also to the problem of storage in a period of shortage. There were proposals in the 1970s for grain reserves, government owned or other. That has largely disappeared now that we have the supply back, and the demand has become a key factor. But, in the last five years or so, we are also getting a considerable amount of off-farm storage. I wonder how that is affecting the operation of both the merchandiser and the futures markets.

Willard Thiessen: We have a fair number of farmers on our books, and the storage cost to them is really an out-of-pocket or opportunity cost. Very often, the decision to market or not to market is based on a cash cost without including the opportunity cost. So, I think the addition of farm storage as a whole has a tendency toward increasing farmer holdings, but not necessarily for economic reasons.

Hugh Winn: Are you including income tax?

Willard Thiessen: Sure, that is another issue.

James Howard: Of course, that is going on now in great amounts, and understandably so. They have huge crops at a time when demand is so poor.

Alfred Gruetzmacher: Speaking as a speculator, I would say one of the most important things in the 1970s took place when President Nixon pulled the rug out from under gold, and the Eurodollars were no longer convertible. I would say that contributed probably more to the explosive nature of the markets than anything else because all the currencies in Europe were tied to the dollar. When the dollar started to go up, no nation or no individual had any idea what the dollar was worth. So, panic, which would not have prevailed in the normal situation, drove them to buy more grain than they needed, and drove them to buy a lot of things they did not need. This wave of demand could be in worse trouble than expected. Would you agree with that proposition?

James Howard: Yes, I would. There is no question about that being a factor. I think that one of the reasons for increased actual consumption in many countries was the cheaper dollar. I do not suppose anybody could identify or quantify exactly how much of the increased demand we saw in Western Europe in the last half of the 1970s was attributable to a weaker dollar in world markets; but certainly there was some, and maybe it was significant.

Wayne Rasmussen: I was very much interested in both your comments regarding embargoes. Every Secretary of Agriculture that I have talked to in the past 20 years has been opposed to embargoes. Those embargoes come from the State Department or the military or somewhere else. We in the USDA are against them. There was a newspaper report a few weeks ago in which I outlined some of the historical reasons why we should not have embargoes. I got a letter from somebody that started out: “Why are you opposed to embargoes? I can tell you why. You and all the farmers in America are godless communists chasing the almighty dollar.” As Mr. Gray has illustrated, so many of these decisions come from people talking in the White House, and we in the USDA have no control over them. How are we going to reach these people? I have been fussing around with this for many years. How can we do better on this?

James Howard: In other words, how do we teach people how markets work? That is certainly part of it. Look what happened here after the Afghanistan embargo. It is so obvious what happened. Grain is a fungible commodity that trades like water. It goes wherever the demand is. It came from Argentina and Canada and wherever. Besides all the other bad economic results of every economic embargo, of course, it did not work. That should be plain to everyone. The President says that it is plain to him, yet Mr. Kissinger was a great believer in using food as a weapon. There are a lot of people who think that food is a good weapon, and that it is the only one that we have. Unfortunately, that is another aspect of it. We don’t have many good weapons anymore, and agriculture has become a scapegoat.
Wayne Rasmussen: I would argue that, in a sense, an embargo is counterproductive as a weapon. It might drive some of these people into actions that we do not want to see them take. Just to comment on the foreigners—I had a group of Brazilians in from a cooperative in southern Brazil. They were producing soybeans like anything. I asked how they happened to be doing so well. They said: “Your embargoes have been doing us a lot of good.”