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The Honorable Caspar Weinberger  
United States Secretary of Defense

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Questioners: James H. Evans  
Chairman and Chief Executive Officer  
Union Pacific Corporation

Bruce Smart  
Chairman and Chief Executive Officer  
Continental Group

## Introduction

Chairman Peter G. Peterson

Ladies and gentlemen. I would like first, Mr. Secretary, to belabor the obvious which is that the world is looking a bit rosier for Mr. Locke and myself at this moment than it was as late as 4:00 this afternoon. He and I were faced with the following prospect of facts as we understood them. First, that it was impossible for you to get to New York. Secondly, that it was impossible for us to arrange TV coverage of this evening so we could do it long-distance. And in combination of that event, that the New York Yankees game was still on. Now the combination that terrified Mr. Locke and me was the possibility that a record crowd of people would come here in a state of total furor, not to listen to the speaker they wanted to listen to, and unable to watch the New York Yankee game. So I say to you with special feeling, welcome, welcome, Mr. Secretary.

(Applause)

Now I presume you all know that Secretary Weinberger is a long-term, long range thinker in public policy. You may not know that this prescience and clairvoyance also extends to the planning of his personal career. For example, you may not have known that immediately following his graduation, Phi Beta Kappa from Harvard and Harvard Law School, he already at that tender age had obviously anticipated his current job. And because he believes in starting from the ground up, and I do mean the ground up, he enlisted as a private in the infantry. He left with the rank of Captain on General Douglas McArthur's intelligence staff.

Subsequently, he launched a career in California politics, being elected, re-elected twice, without opposition. Characteristically he was selected by a poll of California newspaper reporters as the single most effective member of the California legislature. Later he was named chairman of the Hoover Commission and was appointed by a certain well-known governor of California as Director of Finance. And I am told that he has continued a very active relationship with that governor ever since.

Now in terms of his Washington career, what you all know is that he was widely known as Cap, the Knife. Now as someone who dealt with him when he was head of OMB, I would want the record to show that I don't believe that is an accurate characterization. A much heavier blunter instrument than a knife comes to my mind. (Laughter) Now, of course, in fairness, Cap, given the density and the opaqueness and the hardness of the skulls that you had to deal with in that Cabinet, it could be argued that an ax was probably more appropriate anyway.

Now it is hard for me to find much to tease the Secretary about, let alone criticize him because of my enormous affection and respect for him, but let me make a feeble try. If I were to criticize Cap, it would be that he has in his public life seemed to avoid the Cabinet positions where the real power and the real action is. For example, instead of the Commerce Department, which everyone knows is the power vortex of all Washington, he has settled for far less consequential and less controversial positions like the head of OMB, HEW, and now of course Defense. Cap,

have heart, given your enormous upward mobility of your distinguished career, you still might make it to the Commerce Department some day. (Laughter)

Now speaking of controversy, there has been some public comment recently about the neutron bomb. Let me tell you why I think Cap Weinberger can handle that easily. In the first place, Cap, you know and I know that for many years a lot of us Republicans have been exposed to that so-called joke in Washington, namely that the neutron bomb is the perfect Republican weapon since it destroys the people but leaves the property intact. (Laughter and Applause) Cap, of course, has handled that one wonderfully. And I'm sure he handled the recent situation in Europe wonderfully too. I'm such a fan of yours, Cap, that I interpret the public response to your recent European trip as additional evidence that you are so persuasive and charismatic that millions of Europeans came out to participate in the discussion.

Now finally, the Economic Club wants to be helpful, and you're such a special person and friend to many of us, that I want you to know that we, in the Economic Club, have typically not been involved in getting policy advice particularly in non-economic areas. But frankly, Mr. Secretary, the importance of the AWACS issue and the MX issue are so central and our support for you is so total that the Board of Directors and I decided that we should appoint a task force to give you some advice on those related issues.

The task was to come up with something that would simultaneously satisfy the Israelis, the

Saudis, and not least of all, Cap Weinberger. And we have this following proposal to make to you for what I'm sure will receive the consideration that it deserves. (Laughter) As I understand it, the Saudis want the planes for their prestige and the Israelis don't want them in the air because of the danger to Israel. Our suggestion is ingeniously simple. It's that you put an MX missile on top of each AWACS plane. That way the Saudis will have the planes, the Israelis will be happy because they can't fly, and you, Cap, will finally be the big winner because you'll have MX missiles that will finally be airborne. (Laughter and Applause)

A final and serious word about this great American. The awesome implications of this Soviet threat obviously add still one more crisis to the compound crises that our country is facing in energy and the economy and how to balance off the bewildering set of issues involved. On the one hand, what can we afford? And on the other hand, what can we not afford not to do? It recalls to my mind something that I heard Peter Drucker say over 20 years ago. Mr. Drucker said that as the decisions in our society get more sophisticated, more complex, more interdependent, more technological, which are perhaps but euphemisms for unpredictability and ambiguity, the more essential it is that the people at the very top have certain traits of fundamental character – fairness, equanimity, and at bottom, integrity and trust. It is that fundamental character which reassures me the most and commends him so highly for the extraordinary responsibility that he bears. It is my enormous pleasure to introduce Secretary Cap Weinberger. (Applause)

The Honorable Caspar Weinberger

United States Secretary of Defense

Thank you very much indeed, Pete, that's really a very generous introduction and I am honored indeed to be here. I'm delighted to be here in view of the 100-foot ceiling that was prevailing at Newark, so it was very nice indeed to be able to join you tonight. And I have to say that I think that was perhaps, if not the most generous introduction I've ever had, certainly the second. The other one was one that came when I was in Washington on the previous tour. And as part of my responsibilities as HEW Secretary, I had been asked by the president to be chairman of the Combined Federal Campaign in Washington which is the equivalent of the federal government's United Crusade, and in the course of doing that I had thought I should tour some of the agencies which benefitted from the drive and in the course of doing that, I visited a number of them. And one of them was the Washington Home for Unwed Mothers. And at that home, I was introduced extremely generously and in the most flattering terms by a young lady who had been primed for the job and who was carefully remembering her lines. And she looked out among her audience and said, girls, I want you to know that if it weren't for the Secretary, none of us would be here today. (Laughter and Applause) That had to be the most flattering introduction I've ever had.

In any event, I am delighted to be at the Economic Club. The title, of course, always recalls to mind the term of the dismal science, and you have clearly disproved that tonight by your obvious

preference for the World Series coming in here. I'm sure that most of you, however, had headed to the stadium and only came in after you heard that the game was cancelled. But in any event, it is very nice to have an opportunity to be with you.

Really, the namely dismal science that is applied to economics is mostly, I think, because of its unpredictability, and free market economies do have that problem. In Communist societies, it's a different story. In the Soviet Union there's only one thing that is really certain and that's the future. It's the past that is constantly changing. (Laughter)

But we do have a, on a more serious note now, a series of freedoms which represent the difference between our systems, our nation, and the form of government that is practiced by the Soviet Union, and economic freedom is of course one of the greatest of these. Economic freedom can produce very great wealth, thereby can raise everyone's standard of living, and it is the most effective method ever devised, of course, of supplying a tremendous number and variety of needs at one time. It encourages the inventive spirit which in turn produces extraordinary innovations and efficiencies in the process of doing all of this. And economic freedom provides all of these benefits but most important, it leaves the individuals and businesses and others free to make their own choices based on their own needs and their own readings of the future.

So it's not only good economics, but it is very right morally because it means that each man and woman is free to use, to the fullest, all of their great inherent talents and abilities, and in so

doing, each benefits all of us. And we've seen in recent months, further proof of all of these differences from Poland, if any further proof is needed. The Soviet Union is unable to offer or tolerate economic freedom and its enormous benefits as it is openly contemptuous of the political rights which are so inherently a part of our system of free enterprise.

The Soviet system really is the form of government that they are trying, in the Soviet system, they are trying to extend that form of government to the world. Not by persuasion, not on the basis of what it has to offer, for that has failed, and I don't think any free society or any free economy has anything ever to worry about on the competitive basis like that. But the Soviet system is being extended in the only way it can be, by force of arms and by threats and by intimidation.

The Soviets have built up an enormous arsenal of weapons in the past 20 or so years. These massive increases cover all types of conventional and strategic weapons and they are deployed on land and sea and in the air.

I noticed this particularly because when Pete and I were in the government we used to get the daily briefings of our strengths and the Soviet strengths. And then when I was out of government, of course, I did not, leaving in 1975, returning in January of this year. The differences in the Soviet strength in that six-year period was absolutely astounding, and very little publicized, in all areas but particularly in naval strength. We recently published a booklet



called, *Soviet Military Power*, which was done really at the request of my colleagues, the NATO defense ministers of the NATO countries, who heard highly classified briefings that we presented to try to bring home the nature of this threat. And they all said that they needed and wanted something very much that was declassified, that they could use on their wider constituencies in their own countries, and that it would be vital to do this because there was no other way in which the nature of this threat could be brought home. So we published this book after a very lengthy period of what used to be called reasoning together with our intelligence agencies and finally getting them to agree to the declassification of a lot of this material.

That Soviet growth is continuing at an extraordinarily rapid rate. Just for one thing, in the European theater, the SS20 which is the highly mobile, highly accurate, very survivable missile system of the Soviets, the so-called intermediate-range system which can reach any target in Europe from even east of the Urals. If turned the other way, it can reach any target in Asia. There are 250 of those deployed now and each of them have three warheads that have this high degree of accuracy and they are deploying one more a week so that by the end of the year there will be 52 more. And that is a system which is not countered by anything possessed by NATO so that the score, as the arms limiters used to try to keep it, on that particular weapon is 750 to nothing and counting. And so that is a very small indication of the kind of growth that is continuing in all areas and in all kinds of weapons.

The navy growth used to be dismissed as did a number of the other activities by people who like

to sort of rationalize away these things. And the way in which the naval strength was dismissed was they don't have any aircraft carriers so they can't really be anything more than a coastal defense force. But now they have aircraft carriers and they're acquiring more of them at a very rapid rate. The important thing about this is that none of this really rapid growth is defensive in character.

Pete mentioned the neutron warhead which we prefer to call the enhanced radiation weapon or the low-blast weapon, and the Soviets don't have this. And the reason they don't have it is that it is a defensive weapon. It is a weapon which is enormously effective in a situation such as we face on the central front where the imbalance of tanks is 44,000 Soviet tanks to 11,000 NATO tanks. And the neutron warhead is one of the few things that can deal with the mass strength of such an assault such as the Soviet Military Doctrine counsels and it is effective for that purpose. The Soviets had experimented with it. They don't build it. They don't need it. They don't have that kind of a situation because they are not building a defensive military.

And that is, I think, again a very serious and a very important thing to bear in mind. It's always sort of amused me that the Soviets have described this weapon – Pete called it the Republican weapon – they call it the capitalist weapon. I don't think it's the same thing, Pete, but they call it that because of this myth that is brought up around it that it destroys people but not property. And you always get the impression that this is a bomb that can go into a building and work its way up to the fourth floor and kill the people and come on out and leave the building standing.

And it is indeed a myth. It is a little more focused. It doesn't have the interdiction of the entire battlefield that an atomic warhead does, but it is a defensive weapon of considerable effectiveness. As with all of the other weapons we acquire, we very much hope we'll never have to use it. But it is important to bear in mind that again, as I said, this is not a weapon which the Soviets feel they need because they don't have this defensive requirement.

Well, the result of all of this buildup which is still continuing combined with our own neglect of our own armed forces for too many years means that we have lost what was once an unquestioned strategic superiority in the 50s which we maintained to a considerable extent through the 60s and began losing in the 70s. And what we now have is a situation in which we have neglected the armed forces. We have had all of the problems growing out of Vietnam and the other things that caused so much of a loss of willingness, a loss of the national consensus, national resolve to keep our strength up. And the result is that not having modernized, not having strengthened any of our armed forces for far too long, we now have a situation in which we have to run very rapidly and very steadfastly to catch up.

Now a lot of people say right away, well, does this mean that we're now inferior to the Soviets? And one of the ways the Congressional Committee put it is would you trade the Soviet armies the U.S. armies and so on? And the answer obviously is no, because you have a little thing called morale and manpower and that kind of thing, so you don't. What the worry is, is two things. It is the length of time that it takes to get anything on-line, deployed, and operational. And I don't

know why this should be; it's part of our loss of productivity. But in the 50s we brought the entire Minutemen system on in three years, three and a half years. It now takes nine years to bring one of these strategic systems on. Indeed, one of the frustrations that I've faced in devising and working on the strategic program which the president presented a little while ago was the fact that every single system that you've thought of and talked about cost \$39 billion and took nine years to come on. I don't know why this coincidence but it was always there. And the nine years is the worry. There are other things that take a little less – six and seven years.

The problem is that there is that coupled with the fact that we did not start any of these things in the 70s as we should have and the Soviets are now taking delivery of things they ordered. We are not. So the momentum is the other way and we don't have to count right now and say we are inferior or superior. We know we've lost the degree of nuclear superiority that enabled us to maintain the peace of the world with absolute guarantee and absolute certainty all through the 50s and well into the 60s. We don't have that now and we have a momentum running against us.

So that we have then really an alternative to building our strength up again as quickly as we can and as effectively as we can or we face the situation in which we would be either demoralized into inaction by the perception of the widening gap in our respective capabilities or we would be simply unable to deter aggression. And neither situation can be tolerated if we value our liberties and want to preserve them. And that's one of the, one of the worries about the fact that even though these demonstrations in Europe are comparatively small and have not infected any of the

governments yet, they do represent a kind of a resignation to what appears to be either a hopeless situation or a strong desire not to take part in any kind of conflict and thereby signal, signal to the potential adversaries the kind of signals that were sent in the 30s when the students at Oxford University took the Oxford Union Oath not to serve King and Country. And that gave an enormous amount of encouragement to the Nazis and to others who then felt that they might be dealing with a very weak, irresolute, undecided enemy. So these are some of the worries about this.

Well, the immediate and the long-range programs that we've embarked on in Washington since January are basically designed to restore the nation's defenses, to rearm America if you like. And I'm confident that they will if we persist with them, if we have the resolution and the will to continue with them. We have to make significant improvements in our readiness and the forces that we have and our sustainability. And we have to add to those forces and we have to modernize. And one of the reasons is that we have not done so for so long and one of the real problems that we have is, of course, in the strategic system, that all three parts of the triad need modernization, need strengthening at once.

The bombers, the B-52s are very aging and the cliché is they're older than the men that fly them and they are no longer able to penetrate the Soviet defenses or will not be within a couple of years. The Minutemen system is now very vulnerable and not very accurate, not survivable. And the submarine missiles are not accurate nor do they have the necessary hard target kill capability

with the Soviet hardened sites. And so everything needs fixing at once, specifically including the command, control, and communication which is really unfortunately very weak and does not give us the kind of ability to run the whole system that we have to have.

So these are some of the things that have led us to propose this very large – \$180 billion – program spread over six years. But bear in mind again that it is only a portion of what we have to. It will be less than 14% each year of the total defense expenditure that has to be made to rebuild the conventional forces so that we will not have to resort to strategic weapons immediately. The old scenario was that you'd have a short conventional war. It would escalate almost immediately to strategic weapons, intercontinental missiles, and that that would then, that would be the way that it ended one way or another. When you had unquestioned nuclear superiority which we had in the 50s, that was a thinkable possibility. It is not now. And so we have to have a major strengthening and modernization of the conventional forces.

Well, I think most of these things have been outlined pretty well before in a number of different forums and I think you're very familiar with them. What I'd like to focus on in the short time tonight, as short as I can so there will be time for questions which I much prefer, I'd like to focus primarily on some of the doubts, some of the concerns that have been expressed about the effects of this proposed buildup on our economy. And I think that some of these worries are exaggerated and largely baseless, but they are prevalent, and therefore, they should be dealt with and discussed.

President Reagan's proposed defense buildup, 1981, '82 through '86, in constant dollars is not actually going to have a very dramatic effect on the economy. It is certainly far less burdensome when we compare the planned increases in defense spending to the output of that economy as a whole in periods at the present and in periods, in past military expansion. During World War II, the defense share of the gross national product was expanding at a rate of more than 10% a year over the pre-war share at that time. In 1940, we were spending 2.2% of our gross national product on defense. By 1943, three years later, it had gone to 41.5% and that was World War II. In the Korean War, the defense share grew from 5.1% in 1949 to 13.3% in '53. Vietnam, for all of its woes and errors, tragic errors, added about 1% a year to the average pre-war share of defense spending.

Now the comparison is, and this is an opinion that we've received from a number of sources, economists who served the previous administration and others, that the president's program will add barely three-tenths of 1% annually to the share of the national product that is allocated to defense. In the Defense Department, we estimate that by 1985 our program will require about 6.2 to somewhere around 6.8% of the nation's output. And that, of course, is considerably less than the 10% share that was typical of the 50s and the 60s.

For many years, the Soviets have been spending roughly 11-12% of their national output on defense and they've been doing it every single year and that's the difference. We have surged

and starved and then talked about it and cut back and not been in any way consistent. All through the years of the SALT-I negotiations – the SALT-II Treaty – the SALT-I Treaty and the SALT-II negotiations, all through the years of detente, we would stop, we would find justification for sharply reduced defense expenditures. The Soviets never did. They just kept going right straight up at anywhere from 11-12% of their national output on defense every year.

A lot of people say, well, it's had serious damage to their economy – and it certainly has. They have no constraints, however. They don't have to go before congressional committees and they don't have to watch editorials and they don't have to read polls in the newspaper. Their goals in defense are very clear and they come before everything else. And the fact that they seriously injure their economy and make it a pretty miserable place in which to live has no bearing whatever on the defense expenditures.

Now what we're trying to do is to close a gap that has been opened by a Soviet investment bulge in military spending on ourselves that exceeds \$335 billion over the decade. That is the amount more that they have invested in defense than we have. And our planned program is really quite modest compared to theirs. People say we are trying to seek military superiority and you can never do that. Actually we're not at all. We're trying to regain enough of a balance so that we will be able to deter any attack upon us or any thought of an attack. And that doesn't necessarily mean superiority at all. It means the acquisition and then the maintenance of a retaliatory capability that will make the cost of a first-strike against us unacceptably high to the Soviets and



so will deter war and maintain the peace. And we think that's the only way that that can be done.

Well, it's important, I think, to remember that these increases in defense spending are being accompanied under the president's plan by decreases in domestic social programs and domestic social spending. In constant 1972 dollars, we plan to add about \$45 billion to defense in the period between '81 to '84. At the same time, we'll be cutting about \$71 billion if Congress goes along with all of the cuts from non-defense expenditures. So we are trying to work out a net decrease in total federal expenditures. That is not all that easy to do because the expenditures on the domestic side have a very irritating habit of being extremely elastic and the estimates are almost impossible to keep up with the facts. Part of the problem is that so much is indexed. Part of the problem is that the interest rates are much higher than we would like. And the interest requirement now of the federal government is over \$100 billion a year. And just a few years ago when I was running the budget, it was about \$20 billion which we considered absolutely outrageous at that time.

If we can produce this reduction in domestic spending so that we do not have any increases from the defense increases that we feel we have to have, we can have a situation in which we will not add to inflation and in which we will not add to the deficits. But we've had a situation in which defense spending prior to 1968, in the Vietnam period, rose by about \$62 billion, but non-defense spending increased about \$50 billion. And thereafter, from 1969 on, non-defense spending increased far more rapidly and defense spending rather leveled off. What all that means

is that the buildup that came during the Johnson administration for the Vietnam War consumed about 35% of that increase in gross national product during the three-year period. And that buildup was, compared to the one we're proposing which when combined with significant cuts in domestic spending, will actually reduce the incremental portion of the gross national product taken by government as a whole.

The net result of Vietnam-era binges, I think it's proper to call it, was the start of a very costly spiral of inflation which we're still paying for and paying very dearly. And that was because I think it's fair to say that President Johnson tried to conceal the fact that we were engaged in a major war because when you're engaged in a major war, people are prepared to and understand and expect to make sacrifices in domestic spending and not to be able to have a number of civilian goods. That would have led to a very great and rapid increase in the unpopularity of that war at the very beginning. And to avoid that, we did not reduce domestic spending at that time. We increased defense expenditures enormously for that war and we increased domestic spending and that is when the seeds of the inflation that we now still suffer from were actually sown.

We think our program is an affordable one and it has been designed to fit within our means. And more than that, it is a vitally needed program because it is necessary to restore this margin of security that the American people need and we think really have to have if we're to maintain our freedom. One of the criticisms that's made about the president's program is that it will lead to runaway inflation. Because we were going to be buying so much and we will be committing

resources to national defense, it's said that we will then rob the private sector of consumer goods and that will precipitate more inflation in that area.

Well, about a year ago, the Department of Defense invited representatives of some five of the leading econometric forecasting firms to participate in a symposium. If some of you are going to say right here, the results won't mean anything, I may be hard put to argue with you. But when you get that many together, and when you see what the results are, I think it did mean something. There were several of the leading private economists, a couple of Nobel Prize winners – Dr. Lawrence Klein, Dr. Otto Eckstein, and others.

And in starting this whole exercise, we stipulated that there should be two alternative defense spending scenarios – one with an average annual real growth of 4% and another with an average annual real growth of 10%, over the whole period, 1981 - '85. And they sat down and ran through all of the econometric model that they constructed for this purpose, and we were told that the inflationary impact of the 10% level real growth each year of defense spending on the private economy ranged from one-tenth of 1% per year in the case of one model to as much as 1.3% in another. On the average, the inflation rate that they recorded under this kind of exercise was that it would be about five-tenths of 1% higher each year as a result of a real increase of 10% a year in defense spending which is a bit more than we planned. I think it's important to remember that these economists were not people that we hired as consultants or anything. They were people who were given a task to do and they represented a cross-section of the private

economic opinion. And they were free to assume anything they wanted about the capability of the economy to perform.

And I know some of you will say incorrectly that they didn't then have all of the factors we now have and there are other things that had to go into the models and so forth and so on. But basically I think the answer of all this is that even taking that into account, an increase of 10% a year in defense spending is essentially rather modest impact on the entire economy.

You can look at it the other way around. You can ask if there were significant cuts in defense spending, would that lead to sharply lower inflation? And I think that if you can assume, which I don't believe we can, that if the capital and the labor that was committed to making such things, for example, as fighter airplanes, could be quickly shifted to other goods – such things as computers, machine tools, and heat-treated aluminum plate which are all now in short supply – if you had that kind of a simple production change that you could make that quickly, then you might get a sharply reduced inflation or at least a reduced inflation if you've cut defense spending.

But that kind of a change for modern firms is not a very realistic description of the patterns of production or the methods of doing business. Firms are specialized today and they can react only rather slowly to new opportunities if you're shutting down one thing and trying to turn the invested capital and labor to something quite different. And I don't think we have to cite too

much recent business history to see many examples of firms that suffered rather serious losses when hasty diversification plans took them away from their proven lines of competence and into new, less well-known markets and technologies.

Defense cuts would not lead to sharply lower inflation either because they would, we believe, not produce any significant results in reducing the federal deficit. This is a little complex but I don't think that there's any doubt really about the actual outcome because many of the dollars that are spent on defense actually go to the production of a number of different things. Jobs are created and investment is stimulated and tax revenues are generated – both individual and corporate. So you aren't really adding substantially to your deficit when you add defense spending because the spending is frequently, if not matched, at least approached by the increased revenue that is generated by the defense expenditure.

Transfer payments, or more accurately the attempts by the government to redistribute the wealth through taxation, generally go to non-durable, consumer goods. These have a lower investment component and a lower multiplier effect. And the projections that we have asked outside sources to make show that for each dollar of reduction in transfer payments, the federal deficit is indeed reduced dollar for dollar, and as much, in the out years, about \$.71 for each dollar. But for each dollar not spent on defense, the decrease in the federal deficit is only about \$.53. And that, by 1985, we believe would fall to only \$.30. And the result is, of course, this cumulative effect of investment. Your reduction in defense spending reduces your revenues. And your reduction in

transfer payments does not because the transfer payments do not generate that much tax revenue.

This, of course, is not to say that defense spending should be used as any kind of way to stimulate the economy. It certainly should not. We think that there shouldn't be any expenditure made, defense or anything else, that isn't for a very necessary addition to our strength or to solve some major problem that needs a solution. The administration is firmly opposed to spending for the non-necessary purposes in what we think would be a vain attempt to fine-tune the economy. This is another way of saying that we are not Keynesians, among other things. And we believe very firmly, as I think you know, that the ability of private enterprise is there to create new wealth, but we think that it is essential and important to note that defense spending does produce considerable tax revenues and it does happen to be extraordinarily necessary now. And the combination of the two, we think, are reasons why it will not add significantly, or indeed really in any significant way, to inflation. And it is a vital necessity to do it.

I go into this at some length because one of the things we hear about most is the inflationary effect of all this enormous defense spending. It is very large spending. And Pete has correctly identified the psychological dilemma I face all the time. For one who doesn't really want to spend any government money at all, this is the second time I've found myself as the big spender in Washington. And it's a difficult and frustrating experience.

But another thing that is somewhat difficult to understand is that there are so many business

people now who have urged reductions in defense spending as apparently the only means of reducing the deficit. And I don't think that they have really run through the analysis to see how little real effect on the deficit, on deficit reduction, reduction in defense spending would have. Defense spending is very different than the transfers that are heavily involved in some of the domestic programs.

The other thing that we have to bear in mind are the adverse signals that are sent abroad when this happens. We recently did have a reduction in the administration's plans for defense spending. It still leaves us with a very large total net increase of the kind that we think we have to have. We made comparatively small reductions in defense spending. I suppose Washington is the only place where \$13 billion is regarded as comparatively small reduction. But that is the amount over three years that we did agree could be taken out of the original plans.

At the NATO meetings which I've just attended, at other international gatherings, this was cited again and looked at with considerable askance and worry because they say, again, is the United States starting on this path again? Are we really starting to go up and not meaning it? Are we really going to continue to be the kind of nation that confirms the Soviet perception and many of our allies that we really are weak and irresolute and unreliable as an ally, and that we can't stay embarked on a path created by the current national consensus that we do need a much stronger defense.

There have been considerable concerns expressed also that the president's program will crowd out private sector investment and very large federal deficits and high inflation rates combined with policy of constraining money supply undoubtedly tend to restrict private investment. All of these forces do tend to drive up the interest rates and private investment projects that could be profitable in a stable economy seem to be no longer as desirable as taking advantage of short-term, high interest returns.

President Reagan's program really is designed to reduce the federal government deficit and federal government spending overall. It's designed to hold down inflation through stringent controls on the money supply and its growth. And I believe that program will have these effects when it's allowed to take effect and remain in effect for a reasonable period of time. We've used a number of other, well-known private models of the economy to examine whether the president's new defense spending will crowd out private business investment. We traced the effect of defense outlays held to the level proposed by President Carter in his January '81 budget and compared them with our proposals. And we find really that the increases in the defense expenditures we are talking about really have negligible adverse effects on interest rates. In fact, private investment has shown by some models to be higher with the higher Reagan defense expenditures.

Finally, I'd like to add just this. That even if all of these models hadn't come out this way, even if the proposed defense buildup would be inflationary, even if it would be more inflationary than



other forms of government spending, and even if it were to have an undesired crowding out effect on private investment, what other choice would we have but to proceed? No one, I think could possibly propose anything that put at risk the nation's ability to defend itself. And that is nothing more nor less than what we are talking about now. The economy exists to serve people's needs and what could be a greater more, foremost more vital need than security, which we define as peace with freedom.

Without security, nothing else survives, nothing else flourishes, and nothing else is worthwhile. Nothing else really can grow. And the resultant weakness serves as a constant invitation to aggression that exposes a nation to the worst ambitions of its adversaries. In such a situation, I think one may expect possibly peace, but it would be the peace imposed by the victor on the vanquished. And that is a tortured peace, the kind of peace that exists in Poland today. That's peace, but a very tortured peace, unaccompanied by freedom.

Our goal is peace with freedom. And fortunately, it does not require an upheaval in the economy. All it requires is that we resolutely continue on the generally modest and sustained programs designed to restore the margins of security and the deterrents that can preserve and keep the peace that we've enjoyed in the past. This administration is absolutely pledged to that goal. I can assure you we will not waiver from it. And it is a path which I think requires sacrifice of course, but I can't think of any higher cause for which to make a sacrifice. Thank you very much.

(Applause)

QUESTION AND ANSWER PERIOD

CHAIRMAN PETER G. PETERSON: Thank you very much, Mr. Secretary. I told you, Cap, that we have a tradition in the Club where we have two members of the Club question our speakers. I don't know what they're going to ask you about, but I am virtually certain that they will be a good deal more civilized than what you are used to where you've come from. We have two very distinguished questioners this evening and I would like to introduce them. First, Mr. Jim Evans, if you would stand, Jim, Chairman and Chief Executive of the Union Pacific Corporation. (Applause) And next on my right, Bruce Smart, Chairman and Chief Executive Officer of the Continental Group. (Applause) Now, Jim, if you'll ask the first civilized question.

JAMES EVANS: Well, thank you, Mr. Chairman. I know we were all delighted to hear the Secretary's report. And in thinking of that, it reminds us a bit of the Commander-in-Chief who the other day said with respect to a question put to him, somewhat in jest, that he had no idea that the B-1 was a bomber. He thought it was a vitamin. (Laughter) And I don't know, Mr. Secretary, how to handle that one, except that some of us are concerned if there are any major military defense areas in which the United States still has a clear advantage. For instance, it is said by certain writers and certain observers that we are behind with regard to tactical aircraft, surface warships, submarines, and tanks, and that the Soviets are considerably ahead of us in those areas. Are there any in which we still have a major advantage, if you are able to answer that question?

THE HONORABLE CASPAR WEINBERGER: I think there are some, and there are some right now. I think one of the worries is the loss of momentum, the fact that in the next three to four years, given the same rate of activity that we've had in the past five or six years, we will be significantly behind. At the moment, for example, on the Central Front, we are, in Europe, the NATO nations are substantially behind the Soviets in tanks. They are about even on tactical aircraft. They are behind significantly in submarines. They are about even and ahead in aircraft carriers, of course, and in many surface combatants. The missile strength at the moment is relatively equal in throw-weight but the accuracy of our missiles, on the intercontinental missiles, is not as great as the Soviets, nor do they have the ability to take out hard targets as they should. We have, I think, superiority at the moment in heavy bombers, but it's a superiority that can't last more than two to three years as the Soviets steadily improve their air defenses and the B-52s can no longer penetrate. They'll then have to stand off and shoot in cruise missiles and this does not have the capability or the need really, or fulfill the need that you get with a manned bomber. So, yes, there are areas where we have some superiority, some areas where we have inferiority. But what we are most worried about is the steady increase of Soviet growth for 21 years without a pause since the first Cuban Missile Crisis and our own starts and stops which have lost us the momentum.

BRUCE SMART: I find myself in the unaccustomed role of closet Liberal here. Mr. Secretary, the administration's defense proposals call for major increases in spending compared with those

proposed by the Carter administration, but they follow generally the same strategy which is many years old. Before we commit such huge resources, shouldn't we perhaps rethink the strategy in the light of today's realities, both political, military, and economic and then proceed?

THE HONORABLE CASPAR WEINBERGER: Well, I think we have changed the strategy quite a bit. I mentioned briefly the previous strategies which concentrated on the idea of a very short conventional war, planned for that, as a result had very, just for one thing, the low stocks of ammunition, basically a capability that didn't contemplate more than a few days, neglected some of the re-supply and reinforcement, because the contemplation was that a short conventional war would so soon escalate into a nuclear conflict. We do not follow that strategy now and a great deal of our requests to the Congress are for some very mundane, non-glamorous items such as a longer, larger ammunition supply for Europe, additional training, additional fuel for steaming time to exercise the various forces, the development of a rapid deployment force which had indeed been started by the previous administration but which we have expanded and are trying to equip for the exigency of a possible Soviet thrust through the invasion routes of Iran and Iraq into the oil fields and to prevent that, to have a forward defense against that, to build an additional system of alliances through foreign, our military sales. So that there have been quite a number of changes that we have made. Some of these things are viewed as only changes in degree and that is because we have, yes, we're adding more tanks, we're adding more planes, we're expanding in a number of ways. But the strategy has changed and the acquisition program and the requests have changed along with it. The totally new strategy that a lot of people are

talking about, the totally new approach to defense is one that on the surface sounds very attractive. It is basically that we have too big, too expensive, too sophisticated, too hard to maintain equipment and that what we need is simple, stripped-down, cheap, easy to maintain airplanes that don't have any gadgets on them and tanks that move rapidly and don't cost much and you can get a lot of them. And it's a very attractive sounding strategy. The only problem is it's a strategy developed in a vacuum. It contemplates that you're going to be up against something like that. And it isn't going to do anybody the slightest good to order inexpensive weapons, and it certainly is not a responsibility I would care to take to ask our men to go out and serve in weapons or with weapons that we knew from the very start were totally inferior and in which they would have absolutely no chance of succeeding. I perhaps have a little bit prejudice on this because when I went in the army, I was trained on wooden rifles. We didn't have anything else. And they didn't fire, but they gave you an idea of the weight and shape, and that was about all they did. I don't want to get into the kind of situation where in order to make perhaps a better fiscal showing, though I don't think you would in the final analysis, you equip the American Army, Navy, Air Force, and Marine Corps with weapons that simply are inferior and with which they cannot prevail. The Soviets are not equipped with inexpensive, easy to maintain, stripped-down non-sophisticated, un-complex weapons. They have some extraordinarily good things. And one of the more frightening things about this whole problem is that our enormous lead in technology is another of the things we are losing, and we're losing it to some extent because we have transferred so many things in so many situations without a real thought to what we are actually giving up. So, the brief answer to your question is I think we

have changed to a very considerable extent the strategies, the requirements, and the programs of previous administrations.

BRUCE SMART: Thank you. You answered questions one, two, and four on my list. (Laughter)

THE HONORABLE CASPAR WEINBERGER: What was three?

BRUCE SMART: That's coming.

JAMES EVANS: Mr. Secretary, how important is Greece strategically to the U.S. and to the NATO defense program? And what implications has the recent election had with respect to that question?

THE HONORABLE CASPAR WEINBERGER: I don't think we know yet. Certainly if the rhetoric is followed, it would be very, very unfortunate for the NATO Alliance and for the West because the rhetoric indicates that there would be no longer any American facilities or bases in Greece, that Greece would drop out of NATO and expose a critically important southern flank of NATO. That is the rhetoric. If Mr. Papandreou follows that, it would be a great disaster for the West, not irreparable but something that would call for very immediate remedial action. I'm not at all sure he's going to follow that rhetoric. I have seen certain situations in which the campaign rhetoric was not adopted after the election and the fact of election provided a sufficient sobering

thought so that policies that changed didn't conform to it. We've had somewhat the same worries about France, but so far the post-election rhetoric match the pre-election rhetoric. And the pre-election rhetoric in France of Mitterrand was much stronger on defense in many ways and on adherence to the Western alliance than his predecessor. I don't know what will happen in Greece. I very much hope that Mr. Papandreou will realize that there is a very critical importance to Greece, and to the maintenance of its freedoms if it is to survive, to stay in the alliance and to join with the other nations, particularly ourselves, in the joint attempt to protect the freedom of Greece as well as the rest of Europe.

BRUCE SMART: Mr. Secretary, many of the experts including some present officers believe that the quality of the all-volunteer army is suspect and that pay increases are a costly and perhaps uncertain solution. Despite the obvious political problems, isn't a return to the draft or some form of universal military service necessary if we're going to have the forces including reserves that are representative of the country and capable and defending us in emergencies?

THE HONORABLE CASPAR WEINBERGER: Not now it isn't, no sir. It may be. I hope it won't. The president is firmly and completely committed against the draft just as long as we can avoid it. And, of course, what we watch very closely every month are the recruiting figures. He's against it because of his philosophic reasons and because also he thinks that we are going to be able to get enough volunteers given the changed atmosphere in the country. During the post-Vietnam War days, there was a great, and I think totally unthinking revulsion against the war and

everything. That was understandable but it took itself out in an actual feeling of contempt and really a lack of appreciation for the men and women who had taken part in that war. That has changed. I think there is now a national feeling that people in the armed services are performing very valuable and needed and difficult services for us all and everybody likes to feel that their work is important and valued and appreciated and necessary. And I think there's much more of a feeling of that kind on both sides. In any event, the figures show that there is. We are recruiting now at the rate of slightly over 100% each month and it straightens itself out at the end of the year, for those of you who are worried about statistics, but slightly over 100% of the slots that are specifically authorized by the Congress. The quality has improved. The quality is measured in military terms by the numbers of high school diploma graduates. I, myself, have to have a few qualms about whether this is the total, final, and perfect method of measuring quality, but it is the one that we use. And that has jumped from something like 58% to 73% just since January. The retentions, the people who have been trained who've had one or two terms, who are then therefore extremely valuable because of their ability to train others, they're staying in now, by almost the same increase in percentage, up to about 79% from something in the mid-50s since January. These are very good signs and I think they can be traced directly to the change in spirit – the national consensus for stronger defense and the national appreciation of the people who participate in it. I hope it will continue that way. Of course, if there's worse situation, if there's mobilization, then obviously everything would have to change. But we had a little ceremony at the Pentagon that expresses to me the president's feeling. We were dedicating a corridor – there are several corridors in the Pentagon and there are a few that are left – and one of them was



dedicated to General MacArthur and we had quite a ceremony for that. There hadn't been one before. The president came over and marched through the lines of troops going back into the building to look at the exhibit and he turned to me on the way in and said, you know, I would much rather look into the eyes of each one of these men and know that he wants to be there. And that expresses the president's feeling. He thinks you get far better service and that it's a far better country if your people who are in the Army, or Navy, or Marine Corps, or Air Force, are there because they want to be there. And that's why I'm very hopeful that these very favorable statistical trends will continue.

JAMES EVANS: Mr. Secretary, following up the previous question about Greece, given the current shifting and upheaval in the Islamic Middle East, what is the outlook for Turkey as a NATO ally?

THE HONORABLE CASPAR WEINBERGER: I think the outlook for Turkey is very strong as a NATO ally. I've talked to many of their leaders, their military, and their civilian leaders, many of whom are military, and I think that they seem to be a very stable government. They've had a remarkable record in stamping out, perhaps the worst waves of terrorism of any of the countries with which we have general knowledge. They have a strong military. They need assistance and we are trying to help as much as we can. And I would see a great deal more prospect for a continued strong, stable government with a real prospect of moving to a completely civilian government very shortly. And obviously we believe that the sooner that can happen under

conditions that will maintain the basic stability that is there now, the better. And the Turkish people feel, I think, and the Turkish government people do, and we've talked to military, feel very much that same way. I think the prospects for a strong Turkey and for a Turkey that is working now quite skillfully to create a net of sub-alliances to strengthen itself in the region is one of the better stronger prospects in the NATO alliance right now.

BRUCE SMART: You mentioned the problem of the theater nuclear weapons against the SS20 in Europe and that initiative originated with West Germany, I believe with Chancellor Schmidt, but now it is being seen and protested as an American initiative. Why not just back away from it and leave the decision up to our European allies?

THE HONORABLE CASPAR WEINBERGER: Well, there's a temptation in the Congress to do this and frequently I'm asked why it is we should continue to support NATO and why it is we should continue to make expenditures when, as it is popularly said, sometimes they don't or they won't and so on. We have to be much more understanding, I think, about the whole thing. Many of the NATO countries are making defense increased expenditures at the rate of 3% a year in the face of difficult economic conditions. Britain is doing it, Germany was doing it until recently, Italy is doing it, Belgium is doing it, and a number are. There are strong peace movements, strong anti-nuclear movements, strong movements for unilateral disarmament that put on these marches of non-admirers that Pete mentioned in his very nice introduction. And they can create a very substantial impression of total European opposition to the deployment of any missiles.

During the NATO defense ministers' conference in Scotland last week; we did have, I think, a very good result that took a lot of careful, patient work with the formulation. We couldn't get a resolution through which said that we reaffirm the need for the deployment of missiles. We did get a resolution, unanimously agreed to, that said that the conditions that gave rise to the original resolution, which you correctly referred as a West German initiative, in 1979, those conditions had not improved. Indeed, they have grown worse, and they emphasize again the need for carrying out that resolution. I didn't feel it was important to worry about the word reaffirmation when you could get language like that, so we took that, and that was enthusiastically accepted. The governments themselves I don't think have changed. There are different economic problems that make it difficult for governments to make the full spending that we would like to see made. But then we have to remember that just a very short time ago, America was viewed in the same way. We weren't willing to make defense expenditures. As far as why we should not just walk away and leave the whole thing and not any longer try to fulfill obligations to NATO, there's a doctrine of military called Forward Defense and it means simply you put your defense as far forward of things you're trying to defend as you possibly can. And during World War II, to the people who asked me what in the world we were doing in New Guinea, I always said it seems to me infinitely easier to defend California in New Guinea than it does in Oregon. And that is very much the way I feel about this. I think that our fate, our destiny is inextricably tied up with Europe. I think that we could not exist in the kind of freedom and life that we've known or would want with a captive Europe. And I think that ties of culture and blood and heritage and common shared values clearly dictate that we, as well as our own national self-interest, that we

continue to support the NATO Alliance. I have to admit that there are times when one's patience can be tried by long meetings and criticisms that seem completely unjust, but one tries to remember that America hasn't been all that reliable an ally in the past and it is essential, therefore, as I said, that we stay on a good steady upward path ourselves so that we don't run afoul or make ourselves subject to that charge again.

JAMES EVANS: Mr. Secretary, we know you've just returned from that tragic trip to Egypt in that big airplane with ex-presidents to the funeral of President Sadat. Would you care to comment to us here on how you view the current regime under President Mubarak and where they stand in relation to us as a result of that tragic event?

THE HONORABLE CASPAR WEINBERGER: Well, I think that to the greatest extent you can say with the loss of a world leader of enormous strength and charm and a friend of mine, and a person of enormous ability such as President Sadat, it's hard to say that there hasn't been any significant change or won't be. But I do think that you have in President Mubarak and in his continued government which consists of all of the people who worked with President Sadat, a man of great strengths and military competence and administrative skills, who is fully and completely dedicated to President Sadat's policies with respect to the withdrawals and peace with Israel, withdrawal from the Sinai, with respect to the importance of maintaining a friendship with the United States and authorizing the use of facilities there and seeking our assistance and mutual strategic talks with us and so on. I don't think there's been any change in that policy or in

the policies of President Sadat nor do I think there will be. There will be a testing time, no doubt. Enemies of Egypt will probably probe to see if they are indeed strong and united. And that's why I think it's very important that we help them. That's why I got, just as quickly as we could, at their request, the AWACS airplane into Egypt to help them provide surveillance of their western and their southern borders. And I think it is important that we demonstrate to them that our policy hasn't changed just as they're demonstrating in their stable and basically sound transition, in an extremely difficult period, that there is a continuity there – both of personnel and of policy. And I feel very confident that they will be able to maintain the degree of strength that has made them a very welcome and a very able ally under extraordinarily brilliant leadership of President Sadat. I think that leadership will continue. There are going to be different styles and differences noted, but then we have to remember that it took President Sadat some time to emerge from the shadow of his predecessor and he certainly turned into one of the ablest leaders and the most courageous leaders that the world has seen in a long time.

BRUCE SMART: Mr. Secretary, you mentioned that during the height of World War II, something like 40% of the GNP went to defense. During Korea it was around 13% and Vietnam close to 10%. And now we're proposing to go from 5 and something to 7% of our GNP where the Soviets are spending 10-12% every year. Why is it so difficult to persuade the American people and the Congress that that's an appropriate level of military expenditures?

THE HONORABLE CASPAR WEINBERGER: Well, it's, I think, endemic to liberal

democracies that they don't really want to spend a great deal of their money on defense. They are, I think, painfully well aware of the paradox that if we in the Defense Department do our job perfectly and have all the results that we dream of, we'll never have to use a single thing that we're buying. And some people say, well, that's \$180 billion down the drain, what an absurd thing to do. Let's not buy it. And we can only be successful, we think, if we do buy it, and if we have it there so that we don't have to use it because we can convey such an impression correctly of strength and retaliatory capability that no one will have the first strike against us. But it is pretty much the history of liberal democracies and it's the history of many of their failures and their lack of ability to survive that it is difficult to maintain the kind of defensive strength. Nobody wants to keep 4.5 - 5 million men under arms all the time. Nobody wants to make the kind of sacrifices that are necessary to have a ready defensive strength of that size. And there are an infinite number of competing interests, competing constituencies that are far more popular politically. And that's one of the reasons we've had such a neglect in the past few years. You don't have any constituencies for building up your ammunition supply or your conventional forces whereas there's enormous constituencies for a free lunch program, even though it isn't based on need and is largely a surplus products disposal program. Nevertheless, there's a strong domestic constituency for it. And it's a matter of these competing priorities and defense traditionally historically has come out quite low. At the moment, there's a national consensus the other way. If we can do our job properly in Washington, we can preserve that consensus and assure our freedoms. Thank you. (Applause)

CHAIRMAN PETER G. PETERSON: Mr. Secretary, it is our custom to give our distinguished speakers a symbol of New York, the Big Apple, as a small token of appreciation. Now I don't want to suggest to you that this is a conditional gift or anything of the kind, but I would respectfully ask that you restrain your natural enthusiasm for your California origins, in particular Los Angeles, at least through tomorrow evening. (Laughter and Applause) But having said that, speaking for myself and I'm sure hundreds of others in the audience, I would have preferred you to the New York Yankees even if they had played. So thank you all, and thank you for a great dinner. (Applause)