

The Economic Club of New York

The Honorable Richard Nixon
37th President of the United States

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Questioners: Bruce Smart, Chairman and
Chief Executive Officer, Continental Group

Martin S. Davis, Chairman and
Chief Executive Officer, Gulf and Western

Introduction

F. Ross Johnson, Chairman

...and we are having it of course for very understandable reasons. And thanks to each one of you for making this such a splendid occasion. In discharging the role assigned to me this evening, as your Chairman, I am entitled to your envy and to your sympathy. Your envy because of the honor that it is for me, as it would be for any of us, to be introducing the uniquely distinguished person who is our speaker here tonight. (Applause) I need your sympathy because he clearly needs no introduction. To this gathering a reviewing of the events of his spectacular public career would be superfluous. They are a part of the landscape of our lives, and a mighty peak in that landscape I think we would agree is the act of supreme statesmanship we saw symbolized when the leader of the free world strolled in the sunshine of the ramparts of the Great Wall of China. Following President Nixon's kind acceptance of the Economic Club's invitation, there was a good deal of staff speculation about what the speaker of such unparalleled knowledge and experience would choose as his topic; the deficit, the balance of trade, the economy in general, or perhaps something broader; the election, or commitments in the Middle East and Central America, and even relations with the Soviet Union. And then the oracle spoke. President Nixon's topic will be, 1984, and we look forward to his incisive outlook. Please join me in giving a warm welcome to the 37th President of the United States, Richard Nixon. (Applause)

Richard Nixon

37th President of the United States

Thank you very much. Mr. Chairman, distinguished guests on the dais, distinguished guests in the audience, it is a great privilege for me to appear again before the New York Economic Club, and as I do, a number of thoughts run through my mind as I remember the first time that I appeared before this distinguished organization, the year, 1952. I was thinking of the fact that, that also was an election year. I was thinking of how things remained the same in that respect, and how they have changed in other respects. I remember on that occasion that the one who introduced me was Juan Trippe. Those of you who are old enough to remember him will remember he had that little smooth smile and those steely blue eyes. And nothing has changed, because your Chairman has that little smile and those steely blue eyes. (Laughter)

But that is only one of the things that is similar. So many other things have changed. In 1952 I was a young Junior Senator from California. I didn't dream that in ten months I would be elected Vice President of the United States. Of course, I will admit, I had a pretty good vote getter on the ticket with me. But in any event, on that occasion I was the youngest person on this dais. And tonight, except for Al Gordon who at 80 still runs a marathon, I am the oldest person on this dais. (Laughter)

On that occasion there were no women on the dais, and there were none in the audience. And

tonight, you have made a very forward looking decision, you have them on both places and we congratulate the Economic Club for seeing the light in that respect. (Applause)

In that year, 1952, Harry Truman was President and we were at war in Korea. And in 1980, Ronald Reagan was President and we are at peace. Now I have given us the subject of 1984. The reason I chose that is it gives me leeway to speak about anything I want to. I could talk as I did back in 1952 on the political prospects for November. And I will be glad to answer questions on that subject today in the question period assuming one of you would like to ask it. (Laughter)

On the other hand, I have chosen to talk not about the political prospects in the United States, but on world politics and the prospects for peace in the world. I said at the outset that we now are at peace. But the United States is at peace in a world of wars. Since the end of World War II, it is hard to realize that over 120 wars have taken place and over 10 million people have been killed in those wars. And today, just to name a few, in which we are particularly interested, we have war in Afghanistan, between Iran and Iraq; one in Lebanon and one in El Salvador. As far as the Soviet Union is concerned, it could not fairly be said that they were the cause of all of these conflicts. But they profit from most of them.

And so I begin tonight with a proposition and that is, without a new relationship between the United States and the Soviet Union, there is no chance to build a structure of lasting peace in the world. That is the subject I would like to address on this very special occasion.

What are the chances that such a new relationship can be built? Well on the one hand, we read and hear that relations between the Soviet Union and the United States are at their lowest ebb since the end of World War II. And on the other hand, some of the Kremlin watchers say that they see glimmers of flexibility from the new leadership in the Kremlin. I would suggest that we lay aside all of the semantics and guessing and that sort of thing, and get down to the facts. What are the facts which might move the Soviet Union and the United States for that matter to a new relationship? There is no question about the United States. The United States wants to reduce tensions with the Soviet Union. As far as the Soviet Union is concerned, I submit, it *needs* to reduce tensions with the United States.

Put yourself in the position of the men in the Kremlin at this time, the new leadership. As they consider their position they have to be encouraged in one respect. As far as military power is concerned, in the past 10 years they have moved from a position of parity with the United States, to superiority in the strongest and most accurate nuclear missiles, land based missiles, both aimed at Europe and aimed at the United States. And also, the Soviet Union has to be encouraged by the fact that over the past ten years, 100 million people have either come under communist domination or have been lost to the West. That is the plus side on the ledger. But there is a minus side as well. They find that their conquests are costing them a great deal of money. Cuba alone, for example, costs the Soviet Union \$15 million every day. None of their conquests are a profit to them. The Soviet economy, a second consideration. The Soviet

economy is just dead in the water. It is plagued by corruption, by inefficiency, by lack of production.

The simple message is coming through. Soviet socialism just doesn't work. And in a third area they find that they have lost the ideological battle in the world. Not just in Poland, which we read about and know about, but I could assure you, all over Eastern Europe, and even in some of the new areas, there are conquests in Africa. The forces of descent against communist or Soviet rule have been growing and are beneath the surface.

Then they have to be concerned about a threat, not in the present but in the future. And as Russians and as Communists, they think in historical terms. They look at their Eastern border, they see China. China has a billion people. It has immense natural resources. It is no threat to the Soviet Union today, but it is destined to be, without question, in the 21st century a major super power, both militarily and economically.

So the Soviet Union has to be concerned that China now and maybe in the future is going to take a hostile position towards them. So I submit that as they look at the pluses and the minus, any pragmatic Soviet leaders, and I have found that they always are pragmatic, regardless of what their public appearance may be. Any pragmatic Soviet leader has to be concerned about his position. And now we come to the critical question, in view of their troubles, what do we do about it?

Here, we have two extremes as far as American opinion is concerned. On the one hand we have the Super Hawks. The Super Hawks approach the subject somewhat like this. They say, don't bail them out. They point out that the Russians lie, they cheat, they are out to do us in. All of that is true. But then they go on to say that because that is the case, the only policy for the United States to follow is to gain military superiority, squeeze them economically, isolate them diplomatically. And then eventually the whole rotten system will collapse. I wish that were the case, but it is not going to happen because there is one thing they are good at. They are not good at economic policy, they are not good ideologically, but they are very good at getting power and keeping power.

Then there is another extreme and that is the extreme I would classify them, just for lack of a better term, as the Super Duds. With the very best of intentions, they say that the only reason that the Soviet is arming as it does is because we are and that if only we can convince them we are for peace, they will be for peace. And so we therefore, should make the move, reduce our armaments, and they will go forth and do likewise. Let me say that that was tried; again with the very best of intentions by President Carter, until Afghanistan. And as we cut back on our armaments, they increased theirs and that is why they gained the superiority that they presently enjoy. I think I know the Russians and I would say this, we don't have to convince them we are for peace, they know that. We have to convince them of two things, one, that they stand to lose more than they would gain if they engage in war. But two, on the positive side, that the rewards

that they might get from peace are infinitely greater than those that they might hope to get from a war that nobody is going to win. (Applause)

So we come then to what the policy of the United States should be? In between these two extremes. And that policy is one I submit to you that avoids the extremes but recognizes some fundamental facts about the relationship between two people, the Soviet people and the American people, and two governments, the Soviet government and the government of the United States.

Over the past 25 years I have had the opportunity to visit the Soviet Union five times. I have been in Moscow and Leningrad and Novosibirsk and Spargelhof and Armata and Samaricaninu in the Crimea, in the Ukraine, in Minx, and particularly on those occasions in the 60s when I was out of office I had the opportunity to have contact with some ordinary Russians. And this is my conclusion. The Russian people are a great people. They are strong, they are courageous, they can be very hospitable and warm, they may not like their government, but they love their country. And as far as the Russian people are concerned, there is no doubt in my mind that the American people and the Russian people can and should be friends. On the other hand we have to recognize that the government of the United States and the government of the Soviet Union can never be friends because our goals are diametrically opposed. But we cannot afford to be enemies. So under the circumstances then, the only option for each of us is to find a way to settle those differences and set up a process to do so. To settle those differences where we can settle

them, and learn to live with those differences which will be many more, where we are unable to settle them, rather than dying over them.

Now you can call this detente, you can call it peaceful competition, you can call it an era of negotiation. But I would submit to you that it is far preferable to the option of continued confrontation and possible nuclear annihilation. (Applause)

In order to carry out such a policy several things need to be done. First, we must restore the military balance of power. Now I realize that there are many who believe that in an age when enough is enough, as far as nuclear weapons are concerned, what difference does superiority make? It can make a great deal of differences. When we, a defensive power had it, it was a great instrument to keep the peace.

The Soviet Union is an offensive power. And when an offensive power has superiority or even the appearance of superiority, it threatens the peace, but more than that, it threatens nuclear blackmail which could lead to defeat without war. That is why it is essential for us to take the steps that are being taken to restore that balance. So that the Soviet leaders will be convinced that they will lose more than they would gain in the event that war came.

However, simply having the building up of military power is not enough of a policy. You must combine that with a policy for arms control initiatives. Now I am not naive as to the possibilities

of what arms control could bring about and certainly none of us should have any doubts about the possibility of cheating and the like. But let's understand again one political fact of international life. There is no way that you can get support in America or in Europe for the necessary spending to restore the military balance, unless you accompany it with arms control initiatives. We saw that for example in the MX vote. We would never have been able to get approval of the MX unless there had been a commitment on the part of the administration to go forward on an arms control initiative.

And in Europe we have an even more difficult situation. Your speaker, next month, I understand will be President Mitterrand. And in his typical succinct French way, he said "The problem is, that the East is producing missiles and the West is producing passivists." (Laughter) I remember very well a conversation that I had with Harold MacMillan, the former Prime Minister, he was then Prime Minister of Britain in 1958, and he said, "Alliances are held together by fear, and not by love." He was right. But fear alone is not enough to hold an alliance together when we have more fear of the missiles that we put in, than of the Russians on the other side, against whom those missiles are put in place.

In order to maintain the necessary support for defense expenditures in Europe, as well as the United States, to keep the alliance together, it is essential that the fear of the Soviet Union be combined with a policy which produces hope that we can lift this burden of arms or at least reduce the possibility of our arms buildup resulting in a nuclear war.

Having said these positive things about arms control, let me however raise a caveat or two. We should have no illusions that simply having an arms control agreement, even a perfect arms control is going to produce peace. What we have to recognize is that it is not the existence of arms that brings war. It is the failure to resolve political differences that lead to their use. For example, if we were to cut the nuclear arms arsenals of the Soviet Union and the United States in half, and we had war because of political differences, it would be a war that would destroy both of us and civilization as we know it.

That is why, arms control negotiations and initiatives must be linked, not formally but in fact, with progress on political issues. Now for the purest who say we should seek arms control as an end in itself and independent of what happens on the political side, I would remind them, that had it not been for the Soviet invasion of Afghanistan, SALT-II despite its alleged defects would have been approved by the Senate of the United States. And today, I can assure you, as I look at the political landscape, there is no way the Senate of the United States will approve any arms control agreement negotiated by this administration if at that time the Soviet Union is engaging in activities which threaten our interests in places like the Mid-East and El Salvador. That is why it is essential that we have progress on the political front at the time that we are also moving on the arms control front.

That brings me now to an area that will be of particular interest to this audience. And I think I

speak of the need for the mobilization of our economic power and using it effectively as an instrument for peace. First, this is the area in which the West has its greatest advantage. We out-produce the Soviet Bloc by a margin of about 3.5 to 1. This is the area where we are not using the advantage. We are frittering it away in a shameful way, and it has to be changed.

Let me give you an indication of what I believe in this particular area. I have no illusions that trade is going to produce peace. We are all aware of the facts that nations have traded with each other, fought each other, in World War I and World War II. But on the other hand, I think we all have to recognize that trade between nations, if effectively used, and particularly with the Soviet Union, can be used as an incentive for good behavior and a disincentive for bad behavior. And in that particular respect I would say, however, it is not going to be effective unless it is substantial.

Now, let's look at the trade that we have with the Soviet Union. US trade last year was \$2.5 billion. Western Europe's trade was \$40 billion. That is why we had the pipeline fiasco. The US just simply can't go it alone in using trade, either positively or negatively. That is why it is essential that Japan, Europe, the United States, develop a common policy in the trade area so that it can be effective as an instrument for peace.

I would summarize it very simply this way. We maintain our military power for the purpose of removing any incentive that the Soviet Union might have to wage war. We should use our economic power for the purpose of increasing the rewards that the Soviet Union might get, in

peace, another words give them an economic stake in peace. The two going together can be very effective.

We come now to the area of how this is all done. And I refer to the area of diplomacy. Here I think we have to recognize again that we are living in a real world, and we are living with a relationship which is very complex and very different from any other that we have and which the ordinary bureaucratic approaches simply won't work. These are some of the rules, or some of the guidelines I think we should have in mind in dealing diplomatically with the Soviet Union if we want to break through and develop a reduction of tensions on some kind of a basis.

First, we have to keep the public rhetoric cool. On the other hand the private negotiations must be unsentimental, they must be very precise, they must be very hard headed. That is all they understand.

Second, it is essential that there be secrecy. Now I know we have many friends in the media here tonight and they aren't going to like that particular term, but I can assure you that without secret negotiations, there would have been no opening to the People's Republic of China in 1972.

Without secret negotiations we would not have successfully concluded the Peace Agreement ending the Vietnam War and getting the return of our prisoners of war in 1973. And without secrecy we would never have negotiated SALT-I, limiting nuclear weapons of the defensive variety.

What I am suggesting here is that it is essential to have such negotiations secret in order to have them effective. Another suggestion that has been made that I think we should consider is that the President of the United States, the leader of the Soviet Union would be well advised, each to appoint one ambassador, plenipotentiary, reporting directly to them, dealing only with Soviet/American relations in all of its aspects.

And finally, I would say that in this area of negotiation, it is essential to recognize that there has to be a role at a proper time, under when properly prepared for Summit meetings at the highest level, between the President of the United States and whoever is the leader or President of the Soviet Union.

As far as summitry is concerned, I think we have to realize that it too has its limitations. But they are clearly apart from substance. What we have to recognize that a meeting at the Summit serves one invaluable purpose. It doesn't mean the two leaders are going to like each other any better; they are probably going to like each other less. What it really means, however, is that they will not underestimate or miscalculate each other and miscalculation is in my view the greatest danger as far as nuclear war is concerned.

But looking at summitry we have to recognize also that it has its limitations. I remember very well my last meeting with Brezhnev. We were in the Crimea. We were sitting in a cabana, just

the two of us with the translator, looking out over the Black Sea. We had reached an impasse on negotiations for a new arms control agreement. We both knew that we weren't going to agree at that Summit, but we both recognized that we might well have to put it off and consider it at a meeting at a later time.

Incidentally many of you wonder what really takes place when the leader of the Soviet Union and the leader of the United States meet. (Laughter) Well I will tell you what takes place, half the time you listen to the translators. And I noted that when Brezhnev was listening to his Russian being translated into English, that he doodled. And I particularly noted one doodle. He drew a heart and then he had an arrow through the heart. And I wondered what he was trying to get across to me. (Laughter) I am very sure that it wasn't Cupid that shot that arrow. And then when the translation of something that I had said was going into Russian, I made a note, which I fortunately tore off the pad and brought with me when I came home, I said, peace is like a delicate plant, it must be tended and nurtured every day if it is to survive. If it is neglected, it will wither and die. And that brings home the problem we have, the opportunity, but the limitations. What we have to recognize is that when the leaders meet that you are not going to have one great climatic understanding where after assorted bear hugs and the tipping of glasses and handshakes and so forth, all differences are melted away and you live happily ever afterwards. Now that doesn't even happen when you have a Summit with your friends. And let me tell you, it never happens when you are having a Summit with your potential enemies. All we can hope to accomplish in a Summit meeting and it must be one of a series over the years, is I submit to

establish rules of engagement for continued conflict and competition. Rules of engagement which rule out the resort to armed force. This is not an idealistic way that we would like to have it solved, but it is the way that the real world works.

Let me turn now to the domestic economy. And we will probably have more questions on this in the question period. We talked about military power and the use of economic power and summitry and the rest. We need a strong foreign policy. It is not possible to have a strong foreign policy unless we have a strong economy. But without a strong economy we are not going to be able to afford the military expenditures that we need. Without a strong economy we can't afford the trade and aid programs we need for an effective economic policy. And if we have a weak American economy, you are going to have weak world economies with all of the problems that that means insofar as foreign policy is concerned.

What is the state of the American economy? Well I probably shouldn't tell this audience what it is, but I can assure you that as you look at the numbers, they seem to be overwhelmingly positive. Inflation is down, unemployment is coming down, profits are up, production is up, GNP is going to be way up in the first quarter as I understand it, and so under the circumstances, it seems to be that it is a very positive outlook. But as we all know, all of this good news is drowned out, night after night on the TV and the next day in your morning newspapers, by the babble of voices about the deficit. Now I would not be so presumptuous as trying to speak before this illustrious audience about what deficits do, what they don't do, the whole philosophical

business. But let me give you a political comment with regard to the debate about deficits. All of this question, the debate about whether and how much deficits matter, is as sterile as the debates that used to take place in the middle-ages as to how many angels could stand on the head of a pin. And the reason for that is very simply this; I can assure you that if those who make decisions in the business community and the Federal Reserve, think deficits matter, than they do; regardless of what the experts say in the economic community. So the question is, what do we do about it? Well some say cut taxes, other say that we should...some say raise taxes I should say, a supply-sider would say cut them some more, but be that as it may, some say raise taxes and others say cut defense spending and still others say, cut nondefense spending. And some say a combination of all.

Now I would prefer not to have a tax increase. And I would prefer not to cut defense spending. But I know the political situation and here it is, there is no way that the Congress is going to tackle the highly politically sensitive real culprit of it, nondefense spending unless you have a concomitant cut on the defense side and an increase on the tax side, because the true culprit here, the great culprit is, the nondefense spending. The Peterson Commission has pointed that out and a number of others as well. Here you have to get at a very sensitive area, and that is the area of indexing and cost of living increases and so forth. Which I regrettably was responsible for putting into the law in 1972 and it was a great mistake. But now in order to tackle that, there is no way that Congress is going to do that, particularly in an election year unless you combine it with the other.

That is why I think President Reagan, despite the fact that he, like me, is for a strong foreign policy, is now moving in the direction of working with the Congress in attacking on all three fronts. I would respectfully suggest insofar as the defense front is concerned, far better for President Reagan to indicate how much should be cut and how, because if you leave it to the Congress, they will cut the wrong things.

So under the circumstances then, leaving this economic area, let me turn to one other area that I think is particularly important and is often overlooked. It isn't our military strength or our economic strength in which we can have the greatest advantage. Our greatest advantage is in the power of our ideas. What we have to realize is that as we consider the world today that there are two billion people in the world, with a per capita income of an average of less than \$500. The people living in the third world, these two billion people have enormous problems. The Communists at least talk about the problems. Too often we just talk about the Communists. That isn't good enough for America. America is a great country. And America did not become great by simply being against what was wrong. America became great by being for what was right (Applause) and it is essential, I submit, for the United States and the other nations among the industrial nations of the world to recognize that we must get across these fundamental truths that we are not simply always going to defend the status quo where millions of people will be mired down in poverty and in misery and in an injustice and that it isn't enough for us simply to be against the communist way, which would make their situation worse, but what we must stand for

is a better way, a way in which they will have the opportunity to participate with us in the progress toward a better life. It is difficult, it is complex, it is the most exciting and inspirational challenge in my view that we face in these last years of this century.

Sir Robert Thompson, the great British political and diplomatic strategist once wrote, “National strength equals manpower plus applied resources, times will”. We have the manpower, we have the resources, the question is do we have the will. I think we have to recognize that Iran, Vietnam, Lebanon, have all tended to erode America’s will to play a role in the world. But let us also recognize that it is essential for us to continue to play that role for a fundamental reason. If not us, who; if we don’t play it, there is no other nation in the world that can play that positive role that we must play. And the rest of the world, if we were to withdraw from that responsibility, will be faced with a prospect of aggressive Soviet activities which they would not be able to resist. But I submit to you, we should continue to play this role, not just for others, but for ourselves. The United States cannot have peace in a world at war. The United States cannot have a strong economy when the world’s economy is sick. And when freedom is destroyed any place in the world, it is destroyed or weakened, also in the United States.

But there is another nonmaterial way in which it is essential that the United States continue to play this role. General DeGaulle often said, France was never her true self unless she was engaged in a great enterprise. That is true of nations. It is true of individuals. It is true of every man and woman in this room. To preserve peace, to defend and extend freedom for ourselves

and others, is a great enterprise. I am confident that America will meet that challenge, which history has thrust upon us. It is not our choice, it is our destiny. (Applause)

QUESTION AND ANSWER SESSION

F. ROSS JOHNSON: Thank you Mr. President. Now in the classic tradition of The Economic Club we have two appointed interlocutors, both very prominent multinational industrialists. Mr. Bruce Smart, Chairman and Chief Executive Officer of the Continental Group on my left, under the microphone and on my right, Mr. Martin S. Davis, Chairman and Chief Executive Office of Gulf and Western. They will alternate their questions. Perhaps we will start alphabetically with Mr. Smart. (Laughter)

BRUCE SMART: Mr. President, I think I speak for all of us in saying that was a superb speech. (Applause) I wrote down about 20 questions and you wiped out almost all of them. However, I do have a couple left. You spoke in terms of the Soviets and the United States as being the two super powers in the world, and of course, they are, but there has been some concern that the United States in its preoccupation with the Soviets has failed to counsel adequately with its NATO allies and to take into account their fears and their aspirations in the process of charting a course for the West. Would you comment on whether you think that is so, and if it is so, what we might do to rectify it?

THE HONORABLE RICHARD NIXON: There is usually a complaint that we do not consult enough with our NATO allies and I think there is something to it. I think we have to recognize that while there is a great deal of talk about how much NATO needs us, we also want to recognize that we need NATO. We aren't in Europe simply to save the Europeans; we are in Europe to save ourselves. Because it would be a very difficult world for us in the event that Europe became under, of course, unfriendly domination. The other point that I make is that it is very important for us to consult our NATO allies because they are very wise. They have a lot more historical experience, the British know more about areas that they have been in than we do, the French about areas that they have been in, and so on down the line. So for consultation certainly we need to have more. I would go a little bit further if I might on the NATO question in expanding it. Henry Kissinger as you may know wrote a very controversial piece for *Time Magazine* in which he raised the issues about US/NATO relations and said that NATO had to take more responsibility etc. Well the piece raised a little need in Europe but on the other hand, whether you agree with his solution or not, certainly he was attacking a problem that really does exist. At the present time many Americans don't think the Europeans are doing enough. And they think if the Europeans don't do more we might get out. But we aren't going to do that. On the other hand I would suggest three approaches to the NATO problem. One, consultation of course. And in this respect they come here and so forth, and they are putting a great deal of pressure on us to reopen a dialogue with the Soviet Union, because they are closer to them. The Germans, for example are right under the gun, they trade with them, they have all this...they have a great interest in Aus Politik because even the conservatives like Cole who ran against them and

beat them on the nuclear issue. But apart from consultation, NATO must examine its strategy. It must examine its tactics. I think Kissinger makes a good point and I think that a British group, if you may have read a couple of days ago in one of the news accounts, a British group of experts in this area, pointed out that NATO's flexible strategy probably was obsolete because a flexible strategy depended upon a time when the United States had nuclear superiority with strategic weapons and in intermediate weapons as well. That no longer exists. Therefore, it is essential, in my view, for NATO and the United States, of course, we are part of NATO, to strengthen our conventional capabilities, so that you could raise the nuclear threshold. And in strengthening those conventional capabilities, a recent editorial in the *World Street Journal* makes the point and the British group did as well. That we could do so through making more use of what you call the smart weapons which would increase the capability without a great increase in men. Now it is going to cost more money. But it is worth spending the money if it is going to raise the nuclear threshold. And that is what that is all about. The second point, NATO has got to think more than it has beyond Europe. The possibility of a Russian thrust across the Central Plain is not very great. Their whole tactic is to surround us. In Africa, in Asia, in Latin America and so forth and so on. They are probing here and there. And when something happens, my God when something happened in Chad the other day, people said, what is the United States going to do in Chad. We should do nothing. The French should do it, and they did. And so it is in area after area. Let us look at the Persian Gulf for a moment. Now of course, the suggestion that one of the candidates for the Presidency made a couple of days ago, to the effect that as far as the Persian Gulf is concerned that, that was something for the Japanese and our European allies should take the

brunt of stopping any attempt to close the Persian Gulf because, of course, 60 percent of Japan's oil comes from the Gulf, 45 percent of Europe's, only 5 percent of ours. Let me say, that is an illusion. Illusion because the Japanese can't even have enough defense forces for their own under their 1 percent limitation for their national defense budget. The Germans can't send any of their forces outside the country because of treaties and so forth and so on. And the point is, we cannot allow that to happen and President Reagan is right, just as Jimmy Carter was before him in saying that the United States will do what is necessary in the event that the Iranians move in the Persian Gulf. So NATO must think broadly. What happens in the third world, in oil, resources and so forth, affects them just as much and in some cases more than it does us. So I would say that raise the nuclear threshold, more for conventional weapons, more for consultation and finally, going back to my remarks earlier, I think it is very important for our European friends and allies, the Japanese and the United States to develop a common economic policy. The West economic power is a sleeping giant. It is time to use it. I don't mean to use it always as a schtick, but to use it also as a carrot. But use it together, rather than arguing with each other and competing with each other at the expense of ourselves and others. (Applause)

MARTIN S. DAVIS: Mr. President, I somehow feel like the piano player about to play a tune on request. This year, virtually all of the political pundits have been wrong at every stage of the game. Gary Hart continues to call for new ideas, and to project a youthful demeanor despite his aging one year overnight. (Laughter) You were known for your astute forecast on political results, and occasionally on football and baseball. Could you tell us why Senator Hart has done

so much better than expected and would you be ready to make a flat prediction on the outcome of the Democratic Presidential Nomination and how that nominee will fair against President Reagan.

THE HONORABLE RICHARD NIXON: Well I will try to answer all of the questions in one. As far as the predictions are concerned, let me say, I didn't think that Senator Hart was going to win New Hampshire. I thought that he was going to run very close, but I was surprised that he did win New Hampshire over Mondale. And I said that to Barbara Walters when I appeared on her Good Morning America Show. So I want to remind you that I can be wrong too, but not very often. (Laughter) In any event, now at the present time, we have here the preliminary results from the vote that was taken today. And you will be interested to note, because we will bring it up to date, in Massachusetts, Florida and Rhode Island, as predicted, Hart is the winner. Now let me point out, that is the winner of the popular vote, however, that does not mean he gets all of those delegates, because under the democratic rules, the vote is apportioned according to how many votes you get. So that doesn't mean that Hart gets for example 120 delegates in Massachusetts and Mondale gets none. Mondale will get his share. But he has won and gets the momentum which the media is very gleefully giving him already, even more so. In Georgia, it is a dead heat, Hart 30 percent and Mondale 30 percent and Jackson 20 percent. So that is interesting and that is out of 30 percent reporting. In Alabama, better news for Mondale. Mondale 37 percent and Hart, Glenn and Jackson, all at 20 percent. That is of course Glenn's best state because naturally it is the astronaut state and he played that and played it very well.

And he had every right to. (Laughter) Now, let me come back now to your questions about Hart, Mondale, etc. First, you will read tomorrow in the papers and hear on the television that it is all over because Hart wins three out of four, or three out of five, or maybe two out of five, whatever. It will not be all over because after tomorrow, because of the way these delegations, in a primary are split, Mondale is still going to have more delegates and that is what nominates. Because you see, Mondale went into today's thing, with 116 I think it was delegates, that he had won from the Congress and from Iowa and the rest, against 29 for Hart. So therefore, Mondale will still be ahead in delegates. That doesn't mean that Mondale, therefore is going to win, but he is still alive and breathing. Now as far as the rest of the way is concerned, I think that Mondale has come on and has become a better candidate by reason of the opposition that he had. Let me tell you one thing, there is only one thing worse for a candidate than being wrong and that is being dull.

(Laughter and applause) And until Jackson and Hart got in the race, it was dullsville out there. But in any event, Mondale is now getting some more excitement. Hart continues to be quite an exciting new face, or what have you. (Laughter) I don't like beef, that doesn't make any difference. We will come on to your critical question, who is going to win? I would say at this point that Mondale will be ahead in delegates and it will be decided by how well he does in the big industrial states like Michigan where labor is strong and Illinois where it is strong. It is not very strong in the south except in Alabama, you will note, a state that he won. So you don't write him off. On the other hand, Hart with his media momentum could sweep those and then it may come down to the real big one, California. And in California, it will be very difficult at this point to say, which would be the winner and which would be the loser. I am not trying to duck it. I am

simply trying to put a little more reasoned approach to the tendency to say that simply because Hart has won some, that he is a cinch. I think he has to be a favorite at the moment. Because it helps to have momentum. It helps to have the media with you. I should know, I never had them with me. (Laughter and applause) Now, you really want the big answer though, who is going to win in November. Even before the Hart phenomenon, I didn't go along with those that said Reagan was going to have a cake walk. It was going to be tough even then, because there are a lot more Democrats than Republicans in the country. I think that at the present time, either Hart or Mondale will give him a tough race. I think Reagan will win, I think he will win because in a campaign it finally comes down to two men, and which is the better candidate. Reagan is a very good candidate. Now what about the debates. Well I should talk about debates. I can assure you of that. (Laughter) Anyway, my prediction is and watch this happen, either Mondale or Hart might win the debate against Reagan, as many think Jimmy Carter did, but Reagan will win the audience and that is what really matters. So having tried to get all of this into perspective, I would finally conclude it by maybe a partisan comment. Mr. Hart and Mr. Mondale are talking about their differences. I remember George Wallace back in 1968, he says, "There is not a dime's worth of difference between Nixon and Humphrey". Well I am inclined to disagree with that. (Laughter) I am just saying, that if there wasn't a dime's difference between Nixon and Humphrey, there isn't a nickel's worth of difference between Mondale and Hart, as far as issues are concerned. They are very close together. They are just two different kinds of personalities. I would say further that when Mr. Hart talks about the new idea, I would respectfully suggest first as Mr. Mondale has, what is it? (Laughter) But second, I would also suggest that while that idea

of a new idea just appeals to people, and particularly among the young voters between 30 and 44, where Hart beat Mondale two to three to one, time and time again. That is the critical area. But let's never forget this. It isn't just Hart's new idea, the American people, let us not forget voted for a new idea in 1980 and for most people it is working. That is why Reagan is going to win.

(Applause)

BRUCE SMART: Mr. President, this is a follow up question and I am afraid I am not going to be a very good straight man for you because it is serious. What do you feel the merits and demerits are of our present process for picking nominees for the presidency and how do you think that process exposes to the electorate the qualities of the man and whether he would make a good president or not?

THE HONORABLE RICHARD NIXON: I would say first that the process has been damned by those that don't win, and that is understandable. On the other hand I have always felt, like Winston Churchill when he observed, there is nothing, and I will paraphrase, that there is nothing more important to a good leader than the fighting of elections. Competing for the nomination. Having to get out there, working, getting to know people, getting to know issues, sharpens them up. I have watched these democratic debates. Since Bob Strauss is here, I want to say something positive about his candidates. Incidentally if he were running he would make a good president, but that is another...(Applause) On the other hand, I have noted that as time goes on, they have gotten sharper and sharper. They are much better now than they were earlier. Mondale is better,

Hart is better, that is why while in one way it is good to have them cutting each other up, although Democrats always get together after they cut each other up, like Johnson and Kennedy did, but nevertheless while that is good, on the other hand we have to recognize that getting out there and learning to hit in the minor leagues makes you a better hitter in the major leagues. So much for that. A hard campaign tells you something about a candidate's stamina. It teaches him something about the issues, about his country. It is far better than doing it on television, solely, although that is a necessary evil as we know. So under the circumstances then, I would say, finally, that I do not think the process is going to change significantly because too many politicians have a vested interest in chaos. But on the other hand, I think that one thing that could happen might be the idea of a national primary or regional primaries. Rather than have so much depend upon what happens in New Hampshire. Now I love New Hampshire. I have always won New Hampshire. I haven't won in California all the time, but I have always won New Hampshire. But on the other hand, what happens in New Hampshire shouldn't be enough to make a presidential candidate. And so under the circumstances I think a regional primary, but having suggested that, they are not going to do it, because they like it the way it is.

MARTIN S. DAVIS: Mr. President in any discussion of the future of our economy one subject has drawn enormous attention, the nations trade deficit which this year could exceed \$100 billion. The fact is that we are now a debtor nation. And if this situation continues, there are those who believe that huge trade deficits will erode our industrial base, generate unemployment and ultimately frighten foreign investors setting off a plunge in the dollar. What are the

consequences for us and for the world's economy if this were to happen?

THE HONORABLE RICHARD NIXON: Well, as far as the trade deficit is concerned, it is to use, the bureaucratese term, worrisome. It has reached astronomical; because I think Herb Stein will remember that we were concerned when it got up to \$7 billion back in 1972 or 1973 or what have you. But on the other hand, as we look at it today, we have to be concerned about it. We have to remember for example that we are looking at the United States, that one out of six jobs depends on foreign trade. That is why we have a vital interest in a more stable situation, in reducing that deficit and making more about it. Now the point is, why do we have it? Now here I am going to get a little out of my field, but as I understand it, one of the reasons that we have the trade deficit is the great strength of the dollar. One of the reasons we have it is the very high, at least, real interest rates in the United States, and one of the reasons that those hang up there and here many people depart from me, but one of the reasons at least financial managers think they hang up there is because of their fear of what the deficit will do in the future. Not what they are going to do this year, but what they are going to do in the future. So I would say that if we can tackle the deficit problem, and really tackle it. And I would hope that the administration's current move will go far enough. If we tackle that, that could have a dramatic affect, certainly on reversing this situation. I never thought I would be talking about having the dollar not be as strong as it was, but on the other hand it is unhealthy for it to be as strong as it is. Let me say in another connection. Dwayne Andreas was pointing out to me recently that third world debt to the United States is \$800 billion. Not to the United States, but third world to the United States and

other countries in the world. The debt of Latin America alone is \$300 billion. Brazil's is \$93 billion. Argentina is about \$40 billion. Mexico is \$89 billion. Venezuela is \$38 billion. Looking at that \$800 billion, as I understand it, the average interest rate on that is 14 percent. That is \$112 billion a year in interest alone. If you could reduce that interest rate, by two percent, that would be \$16 billion and that is twice as much as America's total foreign aid in the world and it would do a lot more good. I am simply suggesting here that tackling the deficit, assuming you could have some affect on that, would be very worthwhile.

BRUCE SMART: To change the subject to foreign affairs again, Sir. When Premier Zhao was here some weeks ago he gave the impression that closer relations between the US and the People's Republic of China, depended on our discontinuing the support that we have historically had for Taiwan regardless of what that might cost us in world opinion. If that is an accurate reading of the PRC's position, then it seems to be a hardening from where they were several years ago. I wonder if you could comment on the state of the US/PRC relationship and where you think it might be headed.

THE HONORABLE RICHARD NIXON: The general question is with regard to the PRC relationship. I will comment on that and then on the Taiwan phase of it. President Reagan as you know is going there. I strongly believe that in going to the People's Republic of China on this visit, we should all have in mind that our primary objective is not to emphasize our military cooperation, you do that, we are cooperating. We are helping them defensively in a modest way.

But talking openly about military cooperation, visa vie the Soviet Union is very dangerous. It is dangerous because you may provoke the bear and then not be able to do anything about it. The other reason that it doesn't make any sense is that there is another way to be more effective with the People's Republic of China. It seems to me our primary emphasis at this stage should not be the military cooperation, which should be done up to a point, but economic cooperation. People are concerned, some people, about the fact that the Soviet Union is negotiating with China to reduce tensions. We shouldn't be concerned. We should welcome that. If the Soviet Union and China because of tensions have conflict, and war comes, what do we do? Are we going to go to war with Russia to save China? If they should have conflict and war comes, it is likely to become a nuclear war, therefore, at a time that we are seeking good relations with the Chinese, we should be seeking them also with the Soviet Union, and welcoming attempts to reduce tensions.

However, then we have a situation, how close will they come. And the answer is this. China will turn to the Soviet Union if it gives up on the West. The best way that we can have China keep its ties to the West is for them to have an economic stake in their relations with us. Our trade with the Russians after about 50 years of relations, was only 2.5 billion last year. With China it was 5.5 billion. Twice as much. Japan's was 10 billion. Europe's was 5 billion. What we, and the Japanese, the Europeans and the Americans, should be working together and individually try to increase that trade with China. Trade, economic cooperation in every way. The more that China then has a stake in good economic relations with us, the less of a tendency would we have to turn to the Soviet Union. They will turn back to the Soviet believe me, only if they have no other choice. So our future and theirs is in our hands. The other point that I would make with regard to

Taiwan. It is a neurologic issue for the Chinese. We knew that back in 1972. So we agree to disagree. In Shanghai-II which was negotiated as you know by the Reagan administration, we continue to agree to disagree. We in effect recognize there is one China, second, that as far as Taiwan is concerned, that China and Taiwan would resolve the problem peacefully. Third, and this is the key thing, that the United States would reduce its sale of weapons to Taiwan, defensive weapons, in effect, and I will paraphrase here, as tensions diminish. Now as the tensions are diminishing, we should scrupulously hold to that. Otherwise the Chinese will be very irritated. And as far as Taiwan is concerned, let's recognize this. Taiwan is doing very, very well at the present time. We must also recognize that Taiwan's greatest guarantee of security is for the United States, rather than some other power, to have good relations with Peking. That is the way it goes. (Applause)

MARTINS S. DAVIS: Considering the fact that we have established relations with China through your efforts and we have relations with most of the Soviet Bloc countries, we don't have relations with Cuba. In your opinion, is there a chance that by getting some contact with the Cubans would we be strengthening our own situation against the Soviet domination of the island and considering the fact that we have reached out elsewhere, what would it take to improve relations with Cuba?

THE HONORABLE RICHARD NIXON: Many times I have been asked; well if you went to China, why shouldn't we have relations with Cuba. And there is a difference. Now when I went

to China, let me say, some of my best supporters, most hawkish supporters just climbed the wall and they never forgave me for it because to them, China is communist. As a matter of fact it was and is communist. It is more Stalinist than the Soviet Union. So why go to China? The answer is very simply, if we had not gone to China, what would be our international situation today. That is point one. The second point is, that as far as China is concerned, China and the Soviet Union are both communist, but the Soviet Union was a threat to us, China was not. And sometimes it is necessary to make that choice. Now let's look at Cuba. At the time we went to China and today, China is not engaged in aggressive activities against its neighbors, as it was immediately after they took over on the mainland. You remember then, the Chinese were probing down in Indonesia, in the Philippines, in Thailand and also Malaysia. They are not doing that today. They are turning inward. As long as they turn inward, and don't threaten our friends and so forth, that is one thing. Now let's look at Cuba. Cuba is not in that category. The problem with Cuba is not what they are doing to their own people, which is shameful, it is terrible in my view, despite some of the slobbering stuff that is written by some of those who go there and get wined and dined by Castro. But on the other hand, the problem with Cuba is that Castro is attempting to export the misery of his rule all over the Central American area, to the Caribbean and the rest. And as long as Castro is in that particular frame of mind and as long as he is doing that, then we, in my view, cannot under any circumstances seek relations with him. Once he discontinues threatening us by moving outward, then of course we can have relations and attempt through those relations to give the long suffering Cuban people a window to the West. If I might just take that one step further. Let's take Iran and Iraq, it is a similar problem. We don't hear much about

that war. I think a lot of you who have been reading it, realize it is the most bloody war since World War II. The battles are in the magnitude of World War I battles. And the question is, which side does the United States take? And this presents us the classic dilemma. The great British historian, Paul Johnson, I think he is your cousin, in his book, which is a classic incidentally, *Modern Times* he made this comment. He says, "The essence of geopolitics is to be able to distinguish between different degrees of evil". Now, Iraq is no bargain. Iraq is supported by the Soviet Union, they are violent, impeccable enemies of Israel, and it may be that they are using chemical warfare. Iran, on the other hand, is engaging not only in sending 10 and 12 year old boys into the cannon fire and to clear mining fields on their way to heaven, and to the battle, but beyond that their fanatical Muslim fundamentalism which is really the greatest danger in the Mid-East and all over North Africa today as I see it, to the stability in that area, they are attempting to export that to the whole area. Terrorism and all the rest. And we have to realize that Iran, while Iraq is no threat to us or our friends at the moment, Iran is a mortal threat because of its size to Saudi Arabia and to the Persian Gulf states. And that is why, Secretary Schultz, following the Paul Johnson dictum in distinguishing degrees of evil, says, if we do tilt, we will tilt toward Iraq. Of course it would be better if neither won.

F. ROSS JOHNSON: One last question from each interlocutor. Mr. Smart....

THE HONORABLE RICHARD NIXON: It is always hard for me turn left, I am sorry.

(Laughter and applause)

BRUCE SMART: In that connection Mr. President, when you addressed the Economic Club in 1952 I believe that you and I know that most of us subscribe to the theory of a worldwide communist conspiracy directed from Moscow. And in recent years there has been some shifting of beliefs in large parts of American society that perhaps communism was different things in different places and that it really was not centrally directed, but in many cases was just an expression of oppressed people trying to find their place in the sun coming out from autocratic regimes that had been there for years. What is your current opinion about the degree to which the communist threat is centrally directed?

THE HONORABLE RICHARD NIXON: I would suggest first that the concept that many of us believed was correct then, would appropriately be modified now to this extent. Not that the threat is not still a great one, but modified in the sense that we do not have in Moscow a government which pulls the strings all over the world. That coordinates what happens in Central America, in the Mid-East, etc., etc. Take Moscow and Iran and Iraq, they don't know which one to support. Iraq has Soviet arms, and the Iranians have just kicked out a couple of their people, so all they want there though is to continue to have instability, to continue to have instability and then they'll go and pick up the pieces. What I would say is more than really a central conspiracy which organizes all of these problems in the world, responsible for them, as I said in my open remarks, what they do is to exploit them where they can. Even if there were no communist threat, you would still have enormous problems in Central America. You would still have enormous

problems in Africa and we have to get it across that we are interested in those problems, even if there were no communist threat. And the other point that we have to have in mind, as far as the Russians are concerned, they will exploit these matters, but only on what I would say a very restrained and in fact cautious way. You wonder for example, why they aren't pushing the Syrians a little more. Well they are not so sure in my view of Assad. He is sort of a loose cannon. He doesn't enjoy having them being just their puppet. And Assad, as a matter of fact, and I am in a minority in this, I believe we have to continue, we, the US, to work on him, hold out economic assistance or what have you, not that he is ever going to be our friend, not that he is ever going to quit being what he is, which is, I can't say it in a mixed audience, but on the other hand, appealing to his pragmatic self-interest. Looking, for example at the Mid-East, I would simply suggest this, that you look at the Soviet Union and you look at the United States, we both have interests there, but they are diametrically opposed. It could be summed up in a couple of sentences. We want peace in the Mid-East. And the Soviet Union wants the Mid-East. Now, under the circumstances, therefore, for the United States, let me say, because of, as the London economist called it, got a bloody nose in Lebanon, we should just withdraw from the area. That would be totally irresponsible. Because if we leave, there is somebody else there ready to come in. We have to continue to play a role there. Difficult as it is. A great power simply because it loses, one does not quit. You are defeated only when you quit. And the United States is not going to quit in that area because we are the ones that have to play the role. So I would say, finally, with regard to the Soviet Union, just to put it in perspective, yes, they still want to rule the world, yes, they are still building their military strength so that they can exert influence on the world

and probably expand it. But, they are concerned about nuclear war. They need, in my view, a relaxation of tensions. And on that particular respect, let me say that, they should be as concerned as we are not to get dragged into war by one of these smaller countries. They should be concerned as we are about the proliferation of nuclear weapons. Suppose one of these nuts like Gaddafi lobs one of these things out there. That could set up a whole thing. And they have to be concerned about that. So we have a common interest in that. I go over these common interests so that I just don't leave the impression that we approach it in the unsophisticated way that I admit I approached it back in 1952 when that was considered to be the wisdom of the times. I say finally that as far as the Soviet Union is concerned, I didn't mention this in my major remarks, I remember vividly Eisenhower very early on, he usually didn't go for these profound comments, making history, he just said what he felt. He was what he was. In any event he said, "No man hates war more than one who has seen a lot of it." And I would paraphrase that by saying, no one fears nuclear war more than one who has those weapons and knows what they can do. And the Soviets have to be worried about that. That is why I say despite the fact that they are aggressive, despite the fact that they oppose our interests, despite the fact that they try to pick up the pieces here and there and everywhere, I think that the basis for a new relationship is there provided first we take the profit out of war, and second put more profit into peace. (Applause)

MARTIN S. DAVIS: I will drop three others and just go to the last question which I think is of minor interest to a few of the members of the Club and the guests here.

THE HONORABLE RICHARD NIXON: Take all three; I can do em fast. (Laughter) I'll get you out before midnight, go right ahead.

MARTIN S. DAVIS: We have seen...in recent weeks we have seen a rash of major mergers. The proponents of these mergers argue that the consolidation will increase efficiency and help fight foreign competition.

THE HONORABLE RICHARD NIXON: Which mergers, steel?

MARTIN S. DAVIS: Steel, oil, and many others. The opponents argue that these mergers violate anti-trust laws and will not contribute to economic growth. What position would you take or do you take on these mergers and in light of the intense foreign competition, is this the time for us to rewrite our anti-trust laws?

THE HONORABLE RICHARD NIXON: Well I would say first, in this particular area that while generally I tend to agree with the editorials in the *Wall Street Journal* rather than those in the *New York Times*, I think the editorial in the *New York Times* on steel mergers made a very good point. I happen to be, always happen to have been a supporter, not only of small business, that is of course a political statement, but on the other hand, a supporter of competition generally. The difficulty is that the steel industry simply can't have it both ways. As the *Times* editorial pointed out, I would agree. You can't on the one hand say we are going to have quotas on

Japanese steel and European steel, and on the other hand allow mergers which would destroy competition here. If you are going to let in, in my view, if they say fine, we will not have quotas, and I am against quotas, and I am against domestic content, that is one thing Hart is right about incidentally and Mondale is wrong, but be that as it may, if you are going to have quotas and so forth like that, then it seems to me that it is, you cannot then limit competition even more by allowing the steel industries to get together. If you are going to have a free-market, then under the circumstances our steel industries then have to compete with the cartels abroad. And then I'd let them get together. That is the way I would do it. On the oil thing, I don't know enough about that but I think it was Dwayne Andreas or Mr. Johnson here filled me in and so I will tell you what their wisdom is. They say, the difference between oil and steel is oil is so big, you know Exxon is \$100 billion, that is bigger than the GNP of two-thirds of the world, but be that as it may, oil is so big that oil companies getting together isn't going to make that much difference. That is what they say. (Laughter) You have another one?

MARTIN S. DAVIS: I think you have done such a superb job tonight Sir, that I think we ought to let you go home. (Applause)

F. ROSS JOHNSON: Mr. President, one thing, I think the investment bankers are breathing a little easier after your last reply. As our get together tonight comes to a conclusion, on behalf of the President and particularly his Secret Service people, it would be appreciated if you would remain seated until he has left the room. We have one other tradition here, Mr. President, on

behalf of the Club where we present an award that is symbolic of New York. It is the Big Apple. I think Lew Rudin provides them. I looked under the table and I noticed there was one in and one outside. Now this tradition was put together by Mr. Pratt and then followed on by my ex-predecessor Mr. Pete Peterson. As we know Pete is a very upscale man and as you could appreciate when he was in your Cabinet, and he is the only man that I see that has one to show and one to take away. I thought the second one was you were coming back from 1952 when you didn't get one. Mr. President, on behalf of the Economic Club I would like to present you with the Steuben Apple. (Applause)

THE HONORABLE RICHARD NIXON: I accept this only if I don't have to report it on my income tax. (Laughter and applause)

F. ROSS JOHNSON: Ladies and gentlemen if you would remain seated, this meeting tonight is now adjourned. Thank you all very much.