

The Economic Club of New York

314th Meeting
79th Year

The Honorable George P. Schultz
Secretary of State

June 10, 1986

New York, New York

Questioners:

James E. Burke
Chief Executive Officer of Johnson & Johnson

Martin S. Davis
Chairman and CEO
Gulf and Western

Introduction

Chairman Dwayne Andreas

I want to welcome you to this 314th dinner in the 79th year of the Economic Club of New York.

This dinner was an unscheduled special event on the Economic Club calendar and I am so glad that so many of you could get the benefit of this occasion on such short notice. Because of the special nature of this evening, we are reversing our usual procedure. Instead of having dinner and then following it with our program, we are going to have the program first and then serve dinner at the conclusion of the question period. This will give you an opportunity to work up a little appetite. (Laughter) Maybe we will let you have cheering sections for the questioners.

Our guest of honor tonight is not only a man of great distinction; he is a man of many distinctions. I know that you are all aware of what I am going to say, but you don't always remember all of these things and I want to bring them back to your memory. We know him today as Secretary of State. But that is only his latest of many incarnations. As an economist and an educator, he spent six years in the 1960s as Dean of University of Chicago's Graduate School of Business. And while there, he won a reputation as one of the nation's most skilled labor mediators. So much so in fact that after the 1968 election, if you will recall, President-elect Nixon chose him as Secretary of Labor in his first Cabinet. When Mr. Nixon later created the Office of Management and Budget, he drafted George Schultz as the first Director. That was just after President Nixon, or just when President Nixon was managing to give the Office of Management and Budget a new level of power in the White House. Then in 1972 Mr. Schultz

moved on to become Secretary of the Treasury, where he doubled also as Chairman of the Economic Policy Council. In 1974 he left government for private business. And he spent eight years as President of the Bechtel Corporation, a giant international construction and engineering firm. Then in 1982, President Reagan brought him back into government and this time as Secretary of State. It is good to have a Secretary of State who can teach economics instead of having to learn it. (Applause) But, the judgment on George Schultz that I would like to leave with you doesn't come from an economist, it doesn't come from me, it comes from another Secretary of State who most of you know, Henry Kissinger. In Kissinger's memoirs, I found the following that he had to say about George Schultz. So I will quote directly, he said, "I met no one in public life for whom I have developed greater respect and affection, highly analytical, calm and unselfish, he became the dominant member of every committee he served on. If I could choose one American to whom I would entrust the nations fate in a crisis, it would be George Schultz." That is the end of Henry Kissinger's quote. Ladies and gentlemen I am honored to present to you the distinguished economist, educator, businessman, mediator, statesman, diplomat, the Secretary of State, The Honorable George P. Schultz.

The Honorable George P. Schultz

Secretary of State

Thank you Dwayne. Thank you ladies and gentlemen. Thank you very much. Thank you

Dwayne, I appreciate your introduction. I appreciate the warmth of your greeting. I kind of like

this idea of starting out before a lot of food and drink because maybe people will be a little more alert than after they have been weighed down. So I welcome the chance to speak to you right now.

Whenever I am introduced and I hear this review of my past, certain images come to mind. When I left the job of Secretary of the Treasury and went into private business with Bechtel, I was frequently asked by people, they said, well you administered in universities and you have administered in the government and you are administering in business, and what is the difference? And I had a long thoughtful deep reply and I had a flip reply. The flip reply was, and it had some meaning to it, that I quickly learned when I was in business that you had to be very careful when you told somebody who was working for you to do something. Because the chances were very high that he or she would do it. (Laughter) Whereas, in government, you didn't have to worry very much about that, you just gave out the orders. Then I think of my academic career and I remind you that the one thing that the Senate allowed me to hold on to from my civilian life was my professorship at Stanford. I was a part-time professor at Stanford and on the regular faculty and they decided to grant me a leave, so I was allowed to do that. Last December, to my surprise, Stanford University said they wanted to award me a named chair, and in academic circles, that is pretty good. I was very honored and I told them I was flattered and honored, but I said that when I got ready to leave the job I am in now, I wouldn't be able to use a chair. Did they have a couch available? (Laughter) They didn't have one.

I appreciate this special dinner. And it came about really because I asked for the privilege of

coming to this very distinguished audience to speak about something that is very much on my mind. And what I want to do tonight is visit with you about it, tell you why I am both exhilarated and troubled, and ask for your help.

Very briefly, my thesis here tonight is, that in most important respects, we are winning, our ideas are winning, freedom is the wave of the future, and it is very clear, politically, economically, strategically, the United States and our friends and our ideas are on the march. And it is exhilarating and I want to tell a little bit about that. I know you are familiar with it, but we need to remind ourselves of it. But at the same time, just as we seem to be going great, it seems as though there are forces gathering that are about to take this away from us, and right here in our own country. So I want to explain why I am so troubled. And having done so, if I can get you to agree with me, get you to help keep us on the right track.

Now, first of all, how can I say we are winning? Well I think it is pretty obvious. We see in our own hemisphere, in Latin America, we see a great surge toward freedom and democracy. We see it in Central America, we see now these three new, one longer lived, democracy. We see Costa Rica, Honduras, Guatemala, El Salvador, as four democracies who are identifying themselves with each other. And saying, we are the front line states, we are the ones who are worried about Nicaragua and the communist aggression coming from there, and we want to have more control over our faith. We are not so interested in sitting around and having other countries tell us what a good treaty should be, we will tell you what a good treaty should be. We see the Philippines in a

kind of explosion of freedom and trying to manage that transition. And I think doing a good job of it. We see it all around the world. I can remember being in Portugal two or three years ago and I was all set for lots of economic discussions and goodness knows Portugal needed them, and Prime Minister Suarez returned from Argentina just in time for my visit with him. And he was so excited about what he saw in Argentina he could hardly talk about economics. He said, you now, we in Portugal had a long period of no freedom and now we've got it, and boy we value it. It really means something, particularly when you haven't had it. So we see freedom spreading and democracy spreading. Basically because people like it and it works. And we also see its counterpart, a clear observation and thereby belief that a free economic system, a system that uses markets, that provides incentives for entrepreneurs as well as for individual workers, farmers and so on, small businessmen, that this idea is catching on. And of course the United States is something to point to and I want to develop that point a little bit. But, all of the examples of really spectacular developing country growth are examples of countries that freed up markets that encouraged by incentives, entrepreneurship and work, and gave people a chance to earn and progress. That is the formula that has worked. It is quite apparent as I have had the chance to participate in the economic summit meetings that the agenda has changed completely. And when President Reagan first went and talked about the ideas that we basically have in this country, he was looked upon as a little off key. Now, it is right down the main line.

It was thrilling here in New York, the week before last, to be part of the UN special session on Africa. That the Africans wanted and the OAU basically called and they provided the document

that was kind of the call to the meeting. And the document basically said, we have a lot of problems in Africa, and they aren't all due to the drought. They are due to a very considerable extent to the fact that we have had too much state control, the wrong idea about how to run our economies and we are determined to change. If we change we think we will succeed and yes we want some help, but for a change, you will be helping the right ideas so they have some chance of success. It was a deeply reflective and important document and meeting. I could go on and on to document the fact that these ideas of free political systems, free economic systems are gradually gaining ground more and more. So we seem to be playing a winning hand.

But, what concerns me so much right now is the danger that just as this is happening, we may be turned away from this winning hand, by whom? By America. Right here. We all know very well that the progress we have been making is due in very considerable part to the strength of the United States, the fact that our self confidence has returned, the fact that we have rebuilt our military posture, the fact that we have a foreign policy with some real forward thrust to it. So that people are reacting to our ideas not the other way around. Just as we are getting there, we are engaged in a budget battle over priorities that has the very genuine threat now of making cuts that are so deep in the defense budget and so deep in the budget for foreign affairs that even members who are voting for it, I go and I have private meetings and they will say to me, well, Mr. Secretary we know it is irresponsible, we know that we shouldn't do this, but we are just going to show you we are going to do it. And I say, what sense does that make? Here we have a budget of a trillion dollars, and we have an economy that is moving up towards \$4.5 trillion. And

somehow or other within the framework of that gigantic budget and economy, there is no reason why we can't find the money we need to maintain our security and our strength and to maintain the forward thrust of our foreign policy.

But that is not what I want to really dwell on, but those matters are of extreme importance. What I want to dwell on here tonight is the problem of the potential closure of our markets to international competition. There is a rising tide of protection in this country, or at least perhaps not in the country, certainly in Washington anyway, that at first I said I just don't believe it, but I believe it. When you see a bill as bad as HR4800 voted through the House of Representatives with only four negative democratic votes and while the Republicans voted against it, in the majority, it got 59 Republican votes, you know that protection is on the march and they can hardly wait to get it over in the Senate. We have a veto strategy. The President will veto it. And I hope we can find the votes to sustain the veto.

But let me just step back and review the bidding here. We all know what is wrong with protection. It is right in the textbooks and just because the arguments are well known, doesn't make them any less valid. They are valid. And we verified their validity through experience. In the 1930s with what happened to us as a result of the Smoot-Hawley Tariff. I looked through a book the other day that among other things had a lot of quotations of what people said in the debates and so forth on the Smoot-Hawley Tariff and I will tell you, if I didn't see the date on those quotes I would have thought they were coming right out of today. It can happen again.

We all know that what protection means is higher prices for consumers, less product variety. I think the American cars that our companies are putting out right now are terrific. Much better than ten years ago, much better. Much more attention to everything having to do with quality, size, gas mileage and so forth. Does anybody here think that, that would have happened if they hadn't been subjected to severe competition from Europe and Japan? We would have never gotten there from here. That international competition was very good for us. So did the consumer, we all know that. We all know there are a lot of people employed and work that depends on imports. We know there are even more people employed in all sorts of industries and services, in jobs that are involved in exports, and as a matter of fact if you add up the exports and imports and express it as a percentage of our GNP you get up into the above 20% category now. It is a different world.

So, these are big problems that would be caused by protection and don't have any mistake, if we take action, aggressive action to close our markets, others will retaliate. We saw a little piece of this recently when perfectly properly under our law, a 35% tariff was imposed on what are called shakes and shingles, it is a wonderful name. (Laughter) It is a very small industry. The Canadians retaliated immediately, placing tariffs on a variety of important products to us, and that is the slippery slope that you can go down very fast if you are not careful.

Now there is more to it however, than just the economic arguments. There are political and

strategic arguments involved here as well. Hark back to the notion of freedom and the winning hand. What is the message if we close down freedom of access to our markets, about our belief in freedom? The United States is the leading example; it is what everybody looks to. And our success is what people point to. And of course our market is so gigantic it is the essential market. So there is a political dimension to this. There is also a strategic dimension. I don't want to try to develop all of the ins and outs of how World War II got started and why. But I think it must be so that part of it, was that with the compartmentalized economic world that was produced by the protection and counter-protection that went on, any country that was large and needed to trade because of its resource base or for other reasons, felt constrained. The economic system didn't give it a real ability to reach out and know that it could invest and trade and get resources and sell things and so on. So if you can't do it, economically, and you are powerful, what is your alternative?

Well maybe you better reach out and do it militarily if you can. So there is a real strategic dimension to this too that people have to have in their minds. An open trading system is a way of reducing and mitigating these tensions that might wind up with people trying to find their way to control of markets through some other means. So I think that this wave of protection is bad, it has to be opposed, it has to be opposed strongly for all of the reasons I have enumerated.

Now, among the ways that we need to oppose this is to ask ourselves, are there problems and if so, are we doing anything about it that is genuinely helpful to the American position. And I think

we can say certainly there are problems. And the problems to a certain extent are illustrated by our large trade deficit. So let's talk about the problems a little bit and what we are doing about them.

First of all let me say that one of our problems is not that we are becoming a service economy and manufacturing is going out of style. That just isn't borne out by the facts. We have had a little better than 20% of our GNP coming from manufacturing, goods producing industries, going back to the mid-50s and it is the same today. We are producing these goods in different ways, more efficient ways. So we have somewhat lower employment as a result in those industries. And in terms of their proportionate importance in the workforce, it is much less. But the output is there. This idea that we are turning into an economy where all we do is take in each others laundry is nonsense. I might say it is nonsense to say that services are that. Services range across a broad area of very important work that is becoming more and more important as we shift gears and move into the information age that is right with us in this country.

So the disappearance of manufacturing is not our problem. But I think we do have problems and we have problems that are there in part as a result of our huge trade deficit and we must do something about that. But first let's understand why we have that deficit. It is not because of some adverse change in the trading rules. We should keep working on those rules and I want to say how we are doing it. And we should keep trying to open things up more and more. But there hasn't been any big adverse change in the rules that has brought about this deficit. It has been

brought about primarily and I think everybody here knows this and agrees with it, primarily by different rates of growth in important economies and we had a great spirit of growth relative to others. And so we sucked in a lot of goods and other markets weren't as open. The problems of the developing world, particularly those with heavy debts where a lot of our exports went, hurt us. So there are some natural economic factors of that kind that are involved and are important. To some extent those things are beginning to right themselves. And then of course we have the problem of the dollar, not over-valued in the sense that the market wasn't registering the right thing, but valued very heavily in terms of the financial flows associated with big net increases in the flow of savings to the United States from abroad.

So the dollar became out of kilter with what it would have been in a sense had the exchange rates been dominated by trade relationships. And the result has been that a lot of basically competitive US goods got priced out of markets by the dollar, not by their performance. And so we need to do something about that. And some things are happening on that score.

We have seen a big shift in the cross rates with the dollar on important currencies, not all. And no doubt we will start seeing some impact of this. I think the shifts started about 18 months ago, the movement was certainly sharply punctuated by the Plaza Agreement. And I think the effort of the major countries to get a hold of this problem is enhanced very much by the agreement reached in Tokyo about management of economies. So we are getting somewhere on that front. Now of course there are problems with the trading rules and we think that there are markets that

ought to be more open to our products. And we have been working away at that. We have had a considerable amount of success in what are called the MOSS Talks with Japan and we have been working at countries that have closed important markets to us for one reason or another. And making a considerable amount of headway and we need to continue that and we will continue that.

So somehow or other we are going to get this deficit into a better picture. I might just say, that at least as I see it, the deficit is very much related to our fiscal deficit. Because what has happened is, that we have created conditions that have led us to have a boom. And at least until very recently, a boom led by investment. As we all know, you can't invest unless you save. The two are equivalent. And the government deficit is dis-saving. So when we subtract this huge government dis-saving from the private gross savings, you come up with not enough savings to support the investment. And fortunately, for our sakes, the world scene was such that people were...that money came to the United States. But I don't think it is desirable, nor can we expect it to be sustained. That we will be drawing on the world savings to the very large extent that we have. Actually in terms of a kind of equity argument that belongs in this discussion, the United States has a sensational and big and strong economy, we really should be providing for our investment by our own savings. We shouldn't be drawing on this very essential pool of savings that ought to be going if the countries would adopt the kind of policies we are talking about, ought to be going to the poorer countries to help them develop themselves. That is where the savings ought to be going. So there are problems and we are addressing them, and we are trying

to do something about it and we are having success at it.

Now, let me just finally step back again and reflect with you about the US economy; where it has been and where it is going. We have had in a sense two broad surges of economic growth in this country. One long surge that brought us to the economic heights that we attained in this century, basically was associated with the creation and the holding of the largest open market in the world, that is the US economy where there are no trade barriers between states and goods and services and labor flows. That has been the magic of our economic development. And people see that. They try to emulate that. That is what the European common market is essentially about. They haven't been able quite to duplicate it, but that is what they are trying to do and they are right. So that is one great expansion.

And the other has been in the period following World War II, when we and the world had an unprecedented expansion that has brought us tremendous benefit. Again, that has been associated with the strong support of every president since Franklin D. Roosevelt for progressively opening international markets. It has been the open markets that have brought us prosperity after the closed markets of the 1930s knocked it down. So there should be an important lesson there for us to learn. And particularly so now as it seems to me we are moving very powerfully into a new kind of economy. Much of the world is still countries dominated by agriculture. But we have long since left the agricultural age in this country. That doesn't mean we don't produce a lot of food. We produce more food than ever. But we do it very efficiently and with a very small

proportion of our labor force. Similarly, I think in the United States and some other countries now, that the industrial age is over. Not in the sense that we don't produce things, that traditional industry produces, I already referred to the manufacturing statistics. But rather that we are doing it in a different way and nobody thinks now if you are going to draw a painting or a picture of the symbol of our economy, nobody would think to put down a smoke stack and an assembly line anymore. You would think of some other things that have to do with information technology and advanced science. It is moving very fast. So at least as I see it, we are moving into an information age that is very exciting for us, where we are a leader, where we can prosper, where if we can negotiate in the GATT a further opening to trade, we will be very much benefitted. So that our stakes in maintaining the open trading system are even more emphasized in the future than in the past.

So I say to you that we have the observation, the experience, that our ideas, the ideas of freedom politically, and the ideas of freedom economically, that are intermeshed are winning ideas and they are threatened and we need your help, and I say, we have the winning hand, so for goodness sakes, let's play it.

Thank you. (Applause)

QUESTION AND ANSWER SESSION

CHAIRMAN DWAYNE ANDREAS: Secretary Schultz, thank you very much. I want to thank you for your very thoughtful and thought provoking remarks. Now, as is a custom of The Economic Club, in our tradition, we will call on two distinguished members of the Club to put questions to our speaker. I am going to retire from the podium because I don't think they will need a referee. If they do, I'll be back. First we have James E. Burke and we have Martin Davis. Mr. Davis, will you ask the first question.

MARTIN DAVIS: Actually I was going to ask, since Mr. Dwayne Andreas eloquent recital of your background Mr. Secretary, and your resume, I was going to ask you how are you enjoying your job. But I think you have already answered that. Mr. Secretary the administration has proposed a series of measures and you have talked about them tonight, aimed at strengthening our ability to compete in world markets. Some however, view this fair trade approach as just window dressing, as long as foreign governments from the Atlantic to the Pacific heavily subsidize their industries and restrict our access to these markets. Should we believe, given the economic self interest of our major trading partners, like the Japanese and the French, that a level playing field in world trade will ever become a reality?

THE HONORABLE GEORGE P. SCHULTZ: We certainly need to work for a level playing field and to have access to markets, just as we provide access to markets. But let us also remember that in the relatively open trading system that we have had, we have prospered. We

have done well. Now we need to have greater access to many markets around the world than we do. And I could name off a list and we will work at that. The GATT round that we hope will be coming up, we have worked very hard for, is a continuation of the efforts that go back decades, from the various rounds of trade negotiations to open markets up, and to do it on a basis that is as equitable as you can get. And have a level playing field that is gradually coming down out of the mountains into the valleys where it is low enough so that the barriers aren't there, and we can get the benefits from trade.

JAMES E. BURKE: Mr. Secretary, I guess you gathered from the warm response to your remarks that all of us are enthusiastically supportive of what you are trying to do, particularly in this area of free trade. Maybe it would be instructive to us to get a better understanding of how we shot ourselves in the foot over the shake shingles situation in Canada, and what you may see as the outcome.

THE HONORABLE GEORGE P. SHULTZ: Well I hope that the outcome is that we will work out our problems with the Canadians and go on from there. I think they have made it clear and we have made it clear that the magnificent effort that is getting underway and really this is extraordinarily important, I think, the negotiation to have a basically free trade zone between the United States and Canada. That would be spectacular for both countries. And Prime Minister Mulroney has gone out of his way to restate his adherence to that and so has President Reagan. But this is the sort of thing that happens. You have an industry, it is an industry in trouble, and

the recommendation comes through this machinery that we ought to impose a tariff. It gets imposed, and then there is a retaliation. And the Canadians look around for unbound goods that is not bound by GATT agreements that they can hit us back with. And of course that gets our attention. But that wasn't my point. My point was the attention it should get is, that here is a little very small action and very small counteraction, all of the counteraction covers trade worth a little over a billion dollars, so it is not too small. But just think of what would happen if the kind of thing being proposed should take place. For example, in the bill I was referring to, it says that any country that has a persistent trade surplus with the United States should have mandatory quotas imposed on the flow of goods into the United States from that country. So what would we do right now, if that were law. We would impose quotas on imports from Japan, from Germany, from Taiwan, from Canada, and what would those countries do? I don't have to answer that question, do I?

MARTIN DAVIS: Mr. Secretary, from the latest reports, Haiti is in a state of virtual anarchy. Given its strategic location this could easily present another opportunity for Cuban trouble making. What could the United States do to help restore stability to this nation?

THE HONORABLE GEORGE P. SCHULTZ: You bring up a very important and difficult problem. And I think there was sort of an easy assumption made by some, not by us, that when you remove the dictator Duvalier, somehow everything would be alright and anyone who knew the Haitian economy, knew that, that wasn't so. I think very clearly what needs to be done is that

we need to help the Haitians build, first of all, the infrastructure of democracy and the infrastructure of sort of the management of an economy, and a political system. And then we need to help them have some confidence in themselves and start doing things and create a climate that is inviting to investment, and engages in trade and takes advantage of things like our Caribbean Basin open trading arrangement and so on. I say that recognizing that Haiti doesn't have as much to work with as many other countries. So I don't want to, in any way, gainsay the problems. They are very severe and very difficult. But that is what I think we should be trying to do. That is what we are trying to do. We have been providing substantial aid dollars to help them float along while they are trying to get things organized and we try to help them do that. And we try to get others to help as well. And there is a response. I might say that this is an example of a handicap imposed by the way the foreign affairs budget is being treated. Because everybody is inclined in the Congress to say, well you should help Haiti. You should help the Philippines. But where is the money? We have to have money. You can't do it with words, resources. I am the guy who had to go to the Philippines and tell Mrs. Aquino that well, we had a considerable amount of help, but we didn't really realistically have any more that we could talk about. I have been going around beating the drum for the Philippines in the private sector and I beat the drum in the Congress for the Philippines. I think we ought to be helping them in this transition and we ought to be helping Haiti in this transition. Advancing the interest of the United States, this is not just sort of doling money around. It is advancing the interest of the United States and freedom. And in security in our neighborhood and with our friends and with those strategic bases in the Philippines and we need to have the money to do it.

JAMES E. BURKE: Mr. Secretary a tangential question to the one that Martin asked and you referred to the Caribbean Basin initiatives which I believe started in 1983 and many of us were very hopeful. Could you assess what we have accomplished there and also perhaps suggest to us in the private sector what we might do to help?

THE HONORABLE GEORGE P. SCHULTZ: If you look at the overall statistics on trade and investment since the Caribbean Basin Initiative came into play, you don't see an impressive surge. On the other hand, if you take the overall statistics apart, what you see is that there are exports of some traditional things such as sugar, and bauxite have declined drastically while they have tended to be gradually picking up in the sorts of things that we hoped and expected the Caribbean Basin Initiative would help them on. So I think in a way, it has just saved the day. But yet, there is a lot to do and they need to diversify those economies and get away from over dependence on certain commodities and of course we need to think, here we are. We have a very restrictive set of provisions about the import of sugar into this country. So many traditional exporters of sugar to us are just cut way down or even out. We should be frank enough to say that some of the areas in the Philippines where you have the greatest insurgency problems are just the areas that traditionally produce sugar and soda to the United States and can't sell it here anymore. So there is a direct connection here between the economic and the political factors. And the same is true of the sugar problems in the Caribbean Basin and elsewhere. I might just take this occasion to say, that many in the private sector have been pitching in and I hope you

keep doing it because it is essential. This is our neighborhood and it also can be good business. But there is one person in particular I would like to mention and that is David Rockefeller. David has pitched in on this as he does on everything, and I have never picked up the phone and asked David to do something for the country that he doesn't say, yes I will be down tomorrow and he does it. He is a wonderful human being, a great patriot and a great American and let me just...(Applause)

MARTIN DAVIS: Mr. Secretary, some believe that there is a rampant confusion when the Defense Department, the Department of State and the White House try to coordinate policy. They point to the history of arms control negotiations. Recently some members of Congress have stated that they received conflicting signals from our government on issues such as the Saudi arms sale and the Contra issue. Would you comment on that assessment?

THE HONORABLE GEORGE P. SCHULTZ: Well we have plenty of problems, but we haven't had any problems of coordination on the Saudi arms sales, it was a very strongly and broadly held administration position, which the President took and led. And we all worked hard to sustain the President's veto. I think it was extremely important that we do so and we did. And it was a very collaborative enterprise. Similarly, insofar as the problems of Central America are concerned, and the importance of supporting those in Nicaragua who are ready to fight for freedom and independence in their country, against the clear effort by the Nicaraguan communist to consolidate their control, to impose a totalitarian form of government, it is a country that does

subvert its neighbors, still doing it. Brags about it. Gives safe haven to terrorists. Engages in drug trafficking. It is a menace. And that is what I think. That is what Cap Weinberger thinks, and more important, that is what the President thinks. And we are doing everything we can to get support and get funds to support the freedom fighters or Contras as they are called in Nicaragua. And there isn't any difference of opinion in the government about that. There are plenty of differences, those don't happen to be, you didn't pick the right ones. (Laughter)

JAMES E. BURKE: I will pick another troubled area of the world, but I am not going to comment on whether there are any differences. But looking to the Middle East, to Mr. Secretary where certainly, if not the most troubled, one of the most troubled areas of the world, do you feel that there will be the opportunity for the administration to take a leadership role in beginning the peace effort again in the Middle East and do you feel that Hussein's visit is significant in that regard?

THE HONORABLE GEORGE P. SCHULTZ: The quest for peace in the Middle East is an unending one. We all...successive administrations have worked on it. We have worked on it in the Reagan administration. I worry about it and work on it and try to do things about it practically all the time. And you always have to be looking at possibilities. It is one of those cases where you try to find avenues of approach that have a reasonable probability of success. But the importance of having some positive things going on is such that you have to work on possibilities as well as probabilities. Now King Hussein has done a tremendous job of trying to

work for peace in the Middle East. And he worked at it in terms of getting a Palestinian partner to enter negotiations, direct negotiations with Israel last year and in the end, as I think the King put it very candidly, Arafat failed the test. He just wouldn't measure up. So the King is searching around and we are trying to help to find another avenue. He is a very nice man and works at this with real dedication and sense of importance. I had the privilege at our little house in Washington of having him for dinner last night. He came over with his wife and three or four of his party and a few of us in the government and we sat around and I explored to know what he would like to have to eat and I found out that what his preference was, was for a real 4th of July type of American meal. So we had hamburgers and hot dogs cooked out. My wife made some baked beans and brownies and we had some ice cream and he loved it. And we had a good discussion. I think the efforts to move forward in the Middle East just have to continue and the President and I and others are working on it, and will continue to do so. We have to remember that the basic building block involved is the Israeli/Egyptian relationship. And there is a peace treaty there and there are problems and we are working hard at those problems and trying to make that relationship as meaningful and warm as possible. That is the basic building block. And it has had its difficult times. Right now, the focus of attention is on the so called Taba Dispute. But there are a whole set of related things that we are working on and among them, matters having to do with what I call quality of life issues on the West Bank. And at least I feel that while we are struggling to find the answer to the big picture on the peace process we ought to be paying attention to the quality of life of the human beings who live on the West Bank in Gaza and see if there aren't some things we can do to make their lives a little better. And so we have

been discussing that with King Hussein and with the Israelis and with the Egyptians. So that is one of the lines that we are working on. But it ain't easy. If it were easy it would have been accomplished a long time ago. But it is important and we just have to keep after it.

MARTIN DAVIS: Mr. Secretary, Chinese Vice Premier Yao recently stated that the low-cost labor base in the People's Republic of China provides an attractive opportunity for American investment and cited the need for US assistance in technology. However, given the practical difficulties now experienced by many American companies operating in China, and the cautious attitude of the Chinese government, do you see the likelihood of expanded US/China trade in the future and will the US/China trade pact soon be concluded.

THE HONORABLE GEORGE P. SCHULTZ: I think that there is every likelihood of increased trade and investment with China. There are always problems as these things get going, particularly when you have two economies that are built basically on different kinds of assumptions. It is clear that the Chinese have taken a good look around and they decided to try out a different form of organization in agriculture and give people a chance to keep a little bit of what they produced and it worked. So that is spreading. So the Chinese are objective enough to see that fact and they are working on that. They are developing the idea of joint ventures which is a little different concept and the fact that they have a gigantic bureaucracy which is as difficult as any in the world to get through, they are aware of. And in the many contexts that we have, and particularly Secretary Baldrige and others that are directly involved in how trade arrangements

are set up. We will work it and I think gradually we will see those arrangements improve. So I think the likelihood is good. And China as it modernizes will be formidable. It will be a big market, it will be a big producer and it is an important country obviously, and it will be a lot more important so we want to be there and be part of that process in my opinion.

JAMES E. BURKE: Mr. Secretary many of us who are deeply involved in South Africa were most hardened by your recent speech about that troubled country and our attitude towards apartheid. Do you have any advice for those of us in the private sector, of things that we can do that we are not now doing or things that we should do more of in order to help the government in that particular part of the world.

THE HONORABLE GEORGE P. SCHULTZ: I tell you, I am so proud of the way American businesses and financial institutions have performed. I think it is just great. The American business community and financial community have been very strong in applying employment arrangements that are ones that we can be proud of in this country. They have provided training and education benefits. They have been a very constructive and positive force in South Africa, and yours included. So I think we can be very proud, all of us, of the contributions of American business there. Now I hope that you will find it possible to stay. And I know obviously a businessman has to look at his Profit and Loss Statement and see where things are going, and clearly, a deteriorating political situation is not a place where you want to put a lot of money. That is A, B, C. Nevertheless I think the presence of our firms has been very constructive and we

continue to feel very strongly in the administration, the President does, that legislated sanctions that in effect tell our businesses to get out are not the way to go. We have no time for apartheid. It is wrong. We don't mind saying so. We think it has to change. The sooner it changes, the better. We want it to change through a peaceful negotiated process and not have it blow up in everybody's face. And we think that the presence of American business there is basically helpful. And if we have some legislative, everybody leave, where is that going to get you. You sort of strike a pose, and disengage. And then you don't have any more influence. And you don't have an opportunity to do anything that is constructive and should or when, let me say, hopefully, the situation does stabilize and turn around, then we want to be there and be part of that process because among other things South Africa is a great country, with gifted people and great resources and it can go to town under the right circumstances. So that is the kind of place you want to be. That would be my....

JAMES E. BURKE: Hang in there is what you are saying.

THE HONORABLE GEORGE P. SCHULTZ: Yes, hang in there.

CHAIRMAN DWAYNE ANDREAS: Time for one more question.

MARTIN DAVIS: Mr. Secretary, many businesses as well as tourists have curtailed their trips to Europe because of fears of terrorism. This has created concern among our European allies who

are seeing travel drop-off quite sharply. Some of the confusion, it has been noted, stems from the lack of firm guidance by the US government to travelers. Although the situation seems to be easing of late, can you comment on the steps that we could or should take to restore confidence so that both business and family travel can resume in normal proportions.

THE HONORABLE GEORGE P. SCHULTZ: I think the steps being taken these days in Europe against terrorism are most impressive and unequivocal. It is also true that European cities are basically very safe cities and countryside. So if you wanted my advice, I would tell you, that since I read that tourist travel is going to be down in Europe, this is the time to go, you will get a hell of a deal. (Laughter and applause)

CHAIRMAN DWAYNE ANDREAS: Secretary Schultz, Jim and Marty, thank you very much for a lively and interesting question period and particularly for giving us so much to chew on along with our dinner which is about to follow. Thank you.

END OF MEETING