

The Economic Club of New York

327th Meeting
82nd Year

The Honorable John Major
Foreign Secretary of Great Britain

The Honorable Brent Scowcroft
United States National Security Advisor

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Questioners: Michael Sovern, President
Columbia University

Mark Kaplan, Partner
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Introduction

Chairman Rand V. Araskog

Welcome to the 327th meeting of the Economic Club of New York in its 82nd year. Tonight I think we have a very interesting program for you. I was in London at the time our first speaker was appointed, and it was interesting to see what the London press had to say about him. First of all, they pointed out that he was a working-class Tory member. He did not go to Eton or Oxford. He worked early in his life, even went on the dole at one point before becoming a banker. (Laughter) He progressed up the banking ladder very effectively and prior to his most recent appointment was the Chief Secretary of Treasury and responsible for the tremendously successful budget of Great Britain. But the press said, why then has he been made Foreign Secretary? And then they gave the answer – Margaret Thatcher's enormous faith in his abilities. She says he has a supremely safe pair of hands. I will now put you in the hands of the Honorable John Major, the Foreign Secretary of Great Britain. (Applause)

The Honorable John Major

Foreign Secretary of Great Britain

Mr. Chairman, members of the Economic Club, distinguished guests; it's kind of you, Chairman, to remind me that I was on the dole before I became a banker. If I may say so, it's better than the other way around. (Laughter) Over the years, Rand, events have conspired to keep me away from

New York. It's almost seemed to me as though some malicious sprite has been at work. Every time I had a plan to come either to the United States or specifically to New York, it tended to be postponed. And there is indeed a piece of family history connected with that. For as far back as the last century, my grandmother then living in the United States was sent home to England from America for my father's birth. And I suppose but for that accident of history I might, firstly, have been here a little earlier and just possibly in a different capacity.

But in any event, I am delighted and honored to be here this evening and to have the pleasure of sharing the platform with such a distinguished public servant as Brent Scowcroft. Brent and I had dinner together last night. We had dinner together tonight. I'm seeing a good deal more of him than I am of my wife. And if we are both not careful, people are going to begin to talk.

(Laughter)

My father spent a great deal of his youth in America, and he passed on to me as a small boy, the very warm affection that he has for this country. I think he would have agreed without qualification with Tom Wolfe's memorable remark that one belongs to New York instantly. One belongs to it as much in five minutes as in five years. And I think in a curious way that instant rapport is one of the great gifts of your city. And perhaps it's also one of the reasons why its people are drawn from so many continents and from one continent above all in particular, the continent of Europe. And it's about Europe and its future that I wish to speak to you this evening.

Before my present appointment, I had spent some time working abroad, and I guess over the years I've traveled fairly widely. But my political experience had been almost wholly domestic. I must say to you I don't regret that for a second because it has enabled me to come to foreign affairs with a wholly fresh eye. And what impresses me most on a first glance at the world scene, what impresses me most can be summed up in three words – excitement, movement, and opportunity.

Wherever you look throughout the world you can see changes undreamed of a decade or so ago, a growing taste for democracy, movement towards a negotiated settlement of many longstanding conflicts, and truly remarkable changes in Eastern Europe. Of course, it's in the nature of life that it isn't all progress. And sometimes even the progress we see is fragile and infuriatingly slow, but it's far more than we might have expected just a few years ago. And nowhere, wherever you look in the world, nowhere have the changes been more dramatic and more profound than in my own continent of Europe. There are two separate but related dramas now unfolding in Europe. There is the rapid evolution of the European Community and its relations with its European neighbors. And there is the truly momentous pace of reform in Eastern Europe.

It may perhaps seem odd to some people to come to New York to talk about Europe, but frankly it's not odd at all. Not just because of the historical roots of so many New Yorkers, but because the implications of what is happening today in Europe extend far beyond its borders. Closer European unity, freer European markets, freer politics will benefit everyone who values

democracy and who seek to trade peacefully. And that undoubtedly includes the United States as the most powerful trading nation on earth.

And we are very conscious that without the United States, Western Europe would not today be as free and prosperous as it is – or possibly even free at all – and that is something in Europe that we don't forget. Today, the United States can see the prospect of a stronger, more united Western Europe, a larger, richer market for trade, but in fact not only a market, a partner, and a partner that in the vast majority of ways shares your ideals and your instincts. And the prospect is at hand too, of a freer, more independent Eastern Europe, more ready to cooperate in overcoming Europe's divisions. And it's for these reasons that it seems to me there can be no better time to become involved in foreign policy. The prospects are clear and they are exciting, and for all of us, the prizes of success are simply enormous.

Let me seek to offer to you this evening a British perspective, set out where we stand, the objectives we seek, and the contributions we make. Beyond a doubt, the development of the European Community is one of the great historical events of this century. Like the majority of Europeans alive today, my generation is too young to remember World War II from personal experience. We know of its horrors, but we did not personally live through them. Instead, we've grown up on a continent where the only wars are of words, exchanged between sovereign nations working to create a new vehicle for friendship and cooperation. And nothing like that has ever happened on such a gigantic scale before.

Britain is a full and an active participant in that historic change. It's not just a matter of economics for us, nor even just a matter of politics. For us, it is far more fundamental. Our active membership of the European Community is a fixed point in our future, and our European partners know it is now impossible to imagine the Community without Britain as a leading member. So there should be no doubt in anyone's mind at all about our commitment to the European Community.

But that said, what sort of Europe do we seek? It's true but perhaps simplistic to say that we want a Europe more free, more united, more prosperous, and more secure. Who doesn't? No friend of Europe would want a continent less free, united, prosperous, or secure. But what actually do we mean when we articulate those fine words. We mean in essence those shared ideals which the Prime Minister set out at Rouge last year. We seek to liberate Europe's citizens and businesses to live, travel, work, and invest anywhere in Europe, free from unnecessary constraints. That, to us, is freedom in practice.

We want to remove the obstacles to closer European cooperation, establish achievable, common priorities, remove barriers to the free movement of products and professional skills, reduce frontier controls, and speak more and more with a united voice in international affairs. And when we do, Europe's political weight matches its economic weight and, in my judgment, the whole of the Western world is stronger for it.

And since prosperity is our aim, we must pursue the policies that deliver it. That means applying throughout the whole of Europe the lessons of free markets and competition to consolidate our economic success – lessons whose values have long been appreciated here in the United States and that we have applied with outstanding results in Britain over the last ten years. They have ensured that during the last decade Britain has undergone an economic transformation unprecedented since the war. We have grown faster than all the other major European Community countries.

In the previous two decades, we were bottom of the league of achievement in Europe. Not now. Gross domestic product, manufacturing output, business investment, real disposable income, business startups, all of them currently running at record levels. Unemployment in Britain has now fallen continuously for almost three years. Not only for almost three years, but in each and every region of the United Kingdom throughout that period of three years. And we have cut taxes whilst transforming a truly massive public sector fiscal deficit into a surplus equal to 3% of GDP.

We still face short-term problems such as inflation. But I hope no one is misled for a second, there has been an absolute sea change in the prosperity and the prospects of the British economy over the last decade.

The fourth element in our concept of Europe is security. That has many components. Prosperity, of course, is one of them. So is the readiness to do more in Europe in our own military defense. And so is the capacity and ability and determination to overcome unemployment and protectionism. But our view is essential practical. It is not one in any way of narrow nationalism. We are aiming to realize ideals that will improve the quality of life for the man in the street. And that is the case whether the street is in London, or Paris, or Bonn, or Brussels. For our ambitions for the European Community are broad and not blinkered and we intend to make them a reality.

And we are also clear how that should be done. Firstly, by urging the Community to solve the problems that have in the past threatened its credibility – like the endless wrangling for example over the European Community budget, and particularly over agricultural expenditure. Many people during those periods thought nothing could be done. Shoulders were shrugged. It was the way the Community worked, they said. That wasn't our view. We didn't think that. And with like-minded partners we pressed for reform. Last year, we got the reform. For the first time, the Community agreed legally binding ceilings on expenditure and measures to curb surplus agricultural production. Of course in that area we've only made a start and there's a long way to go. But so far, the reforms are working well.

The second way we are pursuing our concept of the Community is through the 1992 Single Market Program. When the Treaty of Rome was first signed in 1957, it offered a radical, liberalizing economic vision for Europe. But for almost 30 years, that is what it remained – a

vision and not a reality. The Single Market Program is now turning principles into practice. It is the center of European Community activity. And no country has pressed harder for that than Britain.

The act established priorities, fixed a timetable for them, and set up procedures to ensure progress. Over one-half of the 1992 measures have already been agreed and they are, by any measure, substantial: abolition of exchange controls throughout the whole European Community, following the lead in that that Britain gave a decade ago now, freedom for banks to operate anywhere in the Community provided they are authorized in just one member state of the Community, a similar freedom for qualified professionals and rules to open all public works contracts to competition from anyone throughout the Community.

Now they are revolutionary changes towards a free European market, in capital, in skills, and in enterprise. And what they mean is this. They mean that the Community is moving more swiftly towards agreed goals than at any time in its history. They will create, and not only create; they will give a competitive stimulus to a market without barriers – a market of 320 million consumers with an annual gross domestic product of \$2.5 trillion.

Now one of the ironies, one of the ironies of politics is that Britain, which has done so much to bring about that revolution, is sometimes accused of insufficient enthusiasm for the European cause. Let me be frank. That charge is ludicrous. We have worked as hard as any of our partners

at practical measures to get the Community moving forward. And when decisions are taken, our record in Britain of implementing and complying with those decisions is second to none in the European Community.

There are, of course, inevitably areas of controversy. And that must always be so as sovereign nations compete to build a community, and monetary areas, of course, are one of them. But too many observers, in my judgment, misread our attitude in this important area. It is self-evident that the operation of the single market is going to increase pressures for exchange rate stability to benefit trade. At the last European Council in Madrid, we reaffirmed our intention to join the Exchange Rate Mechanism of the European monetary system. The precise time of Sterling's entry will depend on progress with our main domestic economic priority of reducing inflation. It will depend also on progress in the community as a whole including the measures we took years ago to liberalize capital flows and abolish exchange controls.

The suggestion that we have been an obstacle to monetary cooperation is frankly bizarre. Quite apart from having abolished exchange controls well ahead of our partners, it was we who opened the financial markets. It was we who introduced the ECU-denominated Treasury Bill. It is we who have pressed continually for the practical obstacles to be removed. As so often in this area, it is Britain that has been leading Europe and not following Europe.

And in recent months, debate has centered on economic and monetary union, but there is, as yet,

no clear and agreed definition of the term. It can mean many things which are still to be fully discussed. At present, the Community has before it, only one set of ideas of how one form of European monetary union could be reached, but there are others still to be explored. That process of examination is just beginning. It still has a long way to go, and I have no doubt it will be difficult. Fundamental issues of economic management and political accountability are involved. So the debate will be intense and detailed and lengthy, that the right conclusions matter far more than early conclusions, that this is an area far too important to rush.

So, yes, we see the advantages of closer economic and monetary cooperation in the Community and we will help search for the best and the most acceptable form of it. But the pace has to reflect the reality and the complexity of the issue and the form has to acknowledge the political sensitivity of the issues involved. But the main point is this. The main point is that the single market program is advancing successfully in all its aspects and things in Europe will never be the same again because of that.

The third way in which Britain is helping the Community to develop is by working to ensure that the European market remains fully integrated into the world economy. Months by months, step by step, area by area, the barriers in Europe are coming down. It is a process that will continue and it is a process that is irreversible. I believe it is wholly right for Europe to set an example in the fight against protectionism. Protectionism destroys what is healthy and it spreads. Any surrender to protectionist sentiment would be disastrous for the whole open world trading

system.

But there is a fourth way in which Britain is realizing our ambitions for Europe. It lies in the emphasis we place on political cooperation – the increasing tendency of European Community member countries to speak with one voice on foreign policy issues. Sometime ago in Boston, President Bush spoke perceptively of a resurgent Western Europe as an economic magnet. I believe that analogy was precisely right.

The Community is a magnet operating on two levels. It is drawing Western Europe closer together, but it is also reaching out across the division of Europe to our eastern neighbors. The example of Western Europe has been an important impulse for political and economic reform in the Soviet Union and Eastern Europe. The pace of that reform has been remarkable, and if anything it is quickening. Mr. Gorbachev's revolution is changing the Soviet Union fast. Without reserve, we wish him well in it.

Poland too is changing its speed. Fifty years after their tragic loss of independence, the Polish people have taken an historic stride with the appointment of a Solidarity Prime Minister after the freest elections for over 40 years. Hungary too is undergoing a rapid democratic evolution. Pressures for change amounting in Czechoslovakia and in the German Democratic Republic where thousands are voting with their feet to escape a stagnant society.

The West now faces an historic opportunity to help bring about durable change in Eastern Europe, to help people there break free of dictatorship. It's an opportunity we must not, and I believe will not, let go through lack of effort. That is the message of the Prime Minister's recent letters to President Bush, President Mitterrand, and Chancellor Kohl about Poland. In Poland, as elsewhere, reform must come from within. But the West must find practical ways to support countries seeking to move to more market-based economies and more representative political systems. In Poland's case, that means assistance over debt once Poland reaches agreement with the IMF. It means further help with food supplies and promotion of trade, investment, and training.

Of course, a start has been made. You, we, and other European countries have prepared packages of assistance to Poland and Hungary. But what we are saying now is that a continuing strategy is required from all of us to assist lasting change and economic recovery in countries which like Poland are rebuilding their freedom. Sustained and coordinated Western support for peaceful change – a process still in its infancy – is in everyone's interest because lasting political and economic change in Eastern Europe offers the most reliable, long-term assurance of security and stability throughout the whole of Europe. It is that same overriding necessity for security and stability that means that we must continue to reinforce our commitment to strong Western defenses.

The reality of Soviet military power means that this must in the foreseeable future remain an

essential element in our common strategy. And in this, of course, NATO remains of supreme importance. It is the best peacekeeper that Europe has ever known. And the welcome presence of American forces in Europe is a vital element in both the strategy and the cohesion of the alliance. The size and the significance of your contribution to the common defense is immense. America's presence helps guarantee peace in Europe. And without that peace, there may well have been no peace beyond Europe. Successful arms control, of course, can reduce the absolute burden of defense expenditure. The President's latest conventional arms proposals endorsed by the alliance envisage fewer American and far fewer Soviet troops in Europe – greater security at lower cost if it is achievable. Something I think all of us can welcome.

And looking ahead, beyond the current talks, there may be the possibility of further such reductions if East-West tensions continue to subside. We should certainly not hesitate to negotiate these if the chance is there. But they must come about through negotiations that take full account of NATO's security needs. They must reflect a carefully judged political will to reduce forces rather than simply a response to political pressure to reduce forces. The former is wise, but the latter is not.

NATO is strong because its members have the strength of democratic institutions and the strength of economic success. Both of those are necessary. Europe's economies have grown stronger during the lifetime of the alliance. And as they have done so, rightly in my view, Europe's contribution to the common defense has grown. I believe and hope that that will

continue. I welcome the fact that over the past 20 years European defense expenditure has risen, albeit from a wholly different base, but risen in real terms over twice as fast as that of the United States. And that growth in expenditure reflects Europe's capacity to contribute more and its willingness to do so as well. It is a contribution that takes many forms – from the nuclear deterrents of Britain and France to the hidden costs of host nation support and conscription sustained by the Federal Republic of Germany and others with a whole range of individual commitments and collaborative activity in between.

But the overriding purpose is clear. The purpose is to strengthen the European contribution to an alliance that remains fundamentally trans-Atlantic. And trans-Atlantic defense cooperation is the absolute and essential artery of European security. But the European Community itself is now a new force for security and for stability in Europe. As President Bush has warmly acknowledged, it is a force that serves American interests as well as European ones. With Britain as an active and committed member, the Community will be a powerful influence in bringing down barriers across Europe. That influence will grow as the process continues.

The European Community will be a catalyst for consolidating European security – an energizing, liberalizing force in world trade, a confident and consistent partner for the United States. It will play its part in tackling the opportunities and the challenges that all our countries face on a global scale. That, in a nutshell, is the ambition that we in Britain see for Europe. It's a practical ambition, a realizable ambition. Europe these days is building, changing, growing in stature, and

the policy of the British government now and for the future is to play a full, a committed, and a leading part in the evolution of Europe. (Applause)

Chairman Rand V. Araskog: Thank you. Can you imagine Foreign Secretary Major at one time was a medium-fast bowler pursuing a career as a cricketer. And if he had been a very fast bowler, he would have made it. And we're very grateful that you went in another direction.

Our second speaker tonight occupies one of the most influential and important positions in the United States government since the post was inaugurated under President Eisenhower. This gentleman is unique in that he has served as National Security Advisor to two presidents – President Ford and current President Bush – and as Deputy National Security Advisor to President Nixon when Henry Kissinger had that post as National Security Advisor. He also served as Vice Chairman of Kissinger Associates in between his tours as National Security Advisor.

He went to West Point and after receiving his flying lesson completion, he became a pilot. Not many months later he was involved in an air accident with a disabled airplane and had to consider giving up a flying career. At that time, he entered Slavic studies at Columbia University and continued in a variety of political military positions until he assumed the positions of great significance under those three presidents. And it's a great honor for us tonight to have the Honorable Brent Scowcroft with us to talk to us about national security affairs. (Applause)

The Honorable Brent Scowcroft

United States National Security Advisor

Thank you Mr. Chairman. Mr. Foreign Secretary, distinguished guests and friends, it's a great pleasure for me to be with you tonight and see so many old friends. I don't get to New York as often as I used to. But it's a special pleasure to be here tonight to congratulate the Foreign Secretary on his maiden speech here. It's a great beginning, John, and all of us wish you every success. There can now be no doubt that the Foreign Secretary will not suffer from the situation which befell an esteemed senior member of the House of Lords who dreamed that he was addressing that August body and woke up to find out he was.

I don't have to elaborate to this group on the vital importance of the Anglo-American partnership. There really has been a special relationship and it will continue even as we enter a period, as described by John, of extraordinary change in Europe and in both our countries' relationships to Europe. What the Foreign Secretary has just said is both wise and on the mark. I thought I would say a few words on the same general issues but from an American perspective.

For more than 40 years now we Americans have followed a fairly consistent policy in foreign affairs. Following World War II, without asking for it, we were given the mantle of leadership for a world shattered by that war. It was a difficult world, but we did rise to the challenge. An

aggressive expansion of Soviet Union was held in check by a system of alliances among the free nations which we helped to build and which we led. We took, at that time, unprecedented steps to aid the economic recovery of exhausted allies and defeated foes. We took on special responsibility for the world economic system and for economic progress globally.

For four decades now this kind of world and these relatively clearcut responses to it have been the bedrock of American foreign policy, and these policies have succeeded brilliantly. Today, not only our policies but our most deeply held values are vindicated. We see the West secure. We see democracy spreading. We see free market principles embraced on every continent. Our policies of strength and democratic unity have borne fruit. Now in response to that strength and unity, new opportunities for peace with our adversaries are opening up.

But it's a new world now – one shaped importantly by those post-war policies. Our allies and friends have not only recovered from World War II, but have grown strong, becoming once again major powers. The Soviet Union, met by a strong coalition of nations determined to resist its encroachments, has had to turn inward and face up to the failures of its system, as our policy of containment had always envisioned.

Today, in part because of these successes, the world is vastly different. We may indeed be now on the threshold of one of those great transition periods of history from one era to another. We Americans must now adjust our thinking and our policies to that different world. It requires of us

new qualities of insight and vision and new forms of leadership.

President Bush came into office a few months ago believing that this was in fact an historic moment. That is why we spent the first few months of his administration rethinking old policies and fashioning new ones. Following that review which many thought took too long, in a series of major statements beginning this spring, the President has laid out his vision of U.S.- European relations, of East-West relations, and of Europe's future. He saw a rapidly changing world and declared our commitment to help shape it to Western values.

One dramatic new development, as John has so ably described, is the resurgent, resurgence of Western Europe, as the European Community heads toward a single market in 1992 and strengthens its political cooperation. Some Americans in the past have been ambivalent about European integration as somehow a threat to American leadership. Not this administration. We have no doubt of the extraordinary boon to the Western world that a stronger and more united Europe will be. It will boost Western prosperity. It will strengthen West European democracy at a time of accelerating disintegration in Eastern Europe. As John has noted, EC-92 is already exerting a powerful pull on impoverished economies of Eastern Europe enhancing the prospects for overcoming four decades of the division of Europe. Necessarily, of course, a stronger European Community will alter the balance of trans-Atlantic relations.

It is vital, of course, that this integration of Europe look outward, not inward, that it eschew

protectionism and expand, not weaken the Atlantic community. But the United States welcomes European strength, European self-confidence, and a European identity in the broad framework of the West. We support as well a European pillar in the defense field as a way of strengthening the Atlantic alliance.

While these great changes are taking place among our close friends, future historians may well conclude that the most important strategic development of this transitional period is the crisis besetting our adversaries. The Soviet system is facing its moment of truth. Its economic theory and methods are discredited – at home and around the world. Restless people in and around the U.S.S.R. are now stirring to assert themselves and their individuality. The Soviets are cutting back on some overseas adventures and even in a modest way their military forces in large part because Western vigilance and resistance have helped make their previous policies unremunerative. Nearly a century and a half after Marx and Engels predicted that capitalism would end up on the ash heap of history, it is their system that is increasingly discredited, despised, and discarded.

The president has used a catch-phrase to describe this development. That is, that we should move beyond containment now. Since 1917, the Soviet system has existed as a challenge to the West, as an alternative political structure dedicated by its history and its philosophy to the overthrow of the world community and its replacement by another Socialist system. Our previous policies – containment, detente, peaceful coexistence – still envisioned this struggle between these two

irreconcilable systems. Now perhaps for the first time we can contemplate a Soviet Union taking its place as a useful member of the world community nations rather than a system dedicated to overthrow it.

Not everything has changed, however. We can only be concerned by areas in which the Soviets still challenge Western interests – whether in the rapid and continuing modernization of their strategic forces or the weaponry they continue to pour into places such as Central America, Afghanistan, and Cambodia. So the West must stay alert, mindful that it is our strength and cohesion that contributed so much to the new face that the Soviets are beginning to present to us. Yet, if we are wise, we can perhaps help along the extraordinary process of change that has begun in the Soviet Union. We hope for its success. We are eager to engage diplomatically to resolve conflicts, to control arms, reduce the dangers of war, and to cooperate on many other world problems. Thus, it is time to set our sights beyond the post-war policy of containment while not abandoning it, to seek the integration of the Soviet Union into the community of nations.

On Eastern Europe, I can only echo what John Major has so thoughtfully set forth. The Cold War began over Eastern Europe, and it can be ended only if the unnatural condition of Eastern Europe is also ended. That condition is illegitimate, undemocratic regimes, sustained artificially by a Soviet military presence which simultaneously threatens the West and divides the European continent. Today, there is dramatic change here too, especially in Poland and Hungary where

political pluralism and market economics are gaining ground. Soviet tolerance of this change is to be commended. The West must consider it a crucial test of how far the transformation of East-West relations can ultimately go.

Last April, President Bush set forth his vision of change in Eastern Europe and a program to support it in a speech in Hamtramck, Michigan. He said, “We dream of the day when Eastern European peoples will be free to choose their system of government, to vote for the party of their choice in regular, free, contested elections. And we dream of the day when Eastern European countries will be free to choose their own peaceful course in the world including closer ties with Western Europe. The Soviet Union should understand, in turn, that a free, democratic Eastern Europe, as we envision it, would threaten no one and no country.”

Even at that time, so recently, some thought this was a fanciful vision. It is fanciful no longer. The president’s July visit to Poland and Hungary, his talks with all the key political figures there and the support that we, and our major allies, are providing are helping to nurture that vision into a new reality. Whatever the future may bring, the democratic allies have rightly adopted this as a goal and as a test. The aspiration for a Europe whole and free is now a force of extraordinary power. Western statesmanship will be essential to manage the many dimensions of change now occurring in the world. That is the president’s commitment in partnership with the British and our other democratic allies.

The democracies are still challenged on many fronts. They must share responsibilities in new ways. They must maintain their strength and cohesion at a time when it seems less necessary if they are to take best advantage of the new openings in East-West diplomacy which that strength and cohesion has helped to bring about. Nuclear deterrents, which have for 40 years been the bulwark of peace, must be maintained even as we rigorously pursue arms control policies.

The open world trading system that has enhanced prosperity for us all is now threatened by protectionism. As the balance of economic power among us is shifting, the democracies must not let economic quarrels endanger the political partnership that remains still so vital. For Americans, the challenge of foreign policy begins here at home. In a world now of many centers of power, there is a greater premium than ever on steadiness, consistency, coherence, and discipline in applying the considerable power we still possess.

The difficulties that America went through in the 1970s, weakened as it was by domestic divisions, were a seriously destabilizing factor in world politics. The American people have long since recovered their bearings and their basic consensus in support of our strong leadership in the world since those days. The president and the Congress have the duty to reflect in their own cooperation this consensus of the American people and the international necessities of this challenging but exciting period in world history.

We have made a good start in all these dimensions, but it is only a start. If the democracies stand united and strong, there is a historic opportunity before us – an opportunity such as few

generations enjoyed – to make our vision of freedom and peace into a reality. Thank you.

(Applause)

QUESTION AND ANSWER PERIOD

CHAIRMAN RAND V. ARASKOG: Thank you very much. We'll now go to the question and answer portion of the program. And as we always do, we have two distinguished questioners this evening. First of all, the President of Columbia University on my right, Michael Sovern. And secondly, Mark Kaplan, who is partner in Skadden Arps, on my left. They will alternate questions between the two of them and seek whatever balance they can in asking questions of our two speakers. And we'll begin with Mr. Kaplan.

MARK KAPLAN: Let me take a somewhat less optimistic view of what may happen in Eastern Europe and ask what response would be appropriate from the United States or NATO in the event of Soviet military intervention in an Eastern European country? General...

THE HONORABLE BRENT SCOWCROFT: That is a less optimistic view, but it is one which is not, still not unrealistic. What President Bush tried to do last summer in his visit to Eastern Europe was walk very carefully the line between encouraging political and economic pluralism and avoiding that kind of incitement which could bring about a reaction, either domestically or from the Soviet Union. I think we have to be realistic in the face of such a crackdown as you

envision. There is little that the Western democracies are likely to do in a military sense. This would not be the first time it's happened. Hopefully, it will have been the last. We have to prepare for such a contingency and it would certainly dramatically interrupt not only the vision that I have set forth, but perhaps fundamentally the transition within the Soviet Union itself.

MICHAEL SOVERN: Forty years ago, NATO's first Secretary General, Lord Ismay explained that NATO was founded to keep the Russians out, the Americans in, and the Germans down. What redefinition of NATO's role do you both foresee in light of the changes on both sides of Europe that you have described?

THE HONORABLE JOHN MAJOR: Well, it's an intriguing definition. I must confess it's not one I've heard, but I can certainly see why people found it attractive. (Laughter) I see the essence, the essence I think, of NATO for the present and the future is that the very presence and the power on the authority of NATO is there to make sure that in a military sense, we don't have to keep anybody out and anybody down because NATO is a sufficient deterrent to ensure that nobody creates the sort of military fracas that would make it necessary to keep them down. It is an essence an insurance policy. I'm not quite sure how an insurance company would define its role, but it seems to me that the premium we pay for NATO is a premium that the British would regard as money well spent both in the past and for the future. So I think the role we would see as NATO is the role that I tried to set out a few moments ago. It is a peacekeeper supreme. It has been an immensely successful peacekeeper in the past. That is the role that we would see for it at

present and in the future.

THE HONORABLE BRENT SCOWCROFT: I would only add, very briefly, that I think that NATO can perhaps transition very gradually less into an alliance of purely military dimensions focused on the threat of an invasion from the East and more toward a broader community of the Atlantic nations. In 1969, there was a Commission Report, a Harmel Report, which spoke to this other aspect of NATO which has long been neglected because of our struggle, frankly, simply to present a credible threat to the rather overwhelming forces it faced from the East. As, and if, we are successful, for example, in our present efforts to sharply reduce conventional forces of the Warsaw Pact to the level of NATO forces and then reduce some below, the military aspects of the alliance, the purely military, will perhaps become somewhat less important, but the strategic aspects, the kinds of thinking, cohesion act, the use of power in our own, in the Western interests, is unlikely to disappear.

MARK KAPLAN: General, would you mind if I asked a follow-on question to that. I can't resist quoting Senator Nunn who also said recently in England that NATO was in danger of becoming irrelevant. Does that speak to the possibility of national specialization in defense in NATO?

THE HONORABLE BRENT SCOWCROFT: NATO is in danger of becoming irrelevant in people's minds, much before the fact. There is a growing sense that the threat from the East has disappeared. It has not. It will not for a long, long period of time, almost regardless of the

evolution in Eastern Europe. The Soviet Union is a massive military power with interests that will change only gradually, and we must be on our guard. One of the attractive features of a modification in the contributions that each makes to the alliance is the notion of specialization. That is, rather than each country as it presently makes a balanced contribution of all kinds of military forces, instead the various countries would specialize on those kinds of forces in which they are the most skilled. This would help knit the alliance together because each one would be more dependent on the contribution of the others than is presently the case.

MICHAEL SOVERN: Foreign Secretary Major, you referred elliptically to the proposals for a single European currency and a single central bank which a number of nations are advancing and which your government is opposing and others are questioning in detail. How do you expect that debate to proceed? What will emerge from it and when?

THE HONORABLE JOHN MAJOR: Well, I expect it to proceed with warmth. (Laughter) It'll certainly be a debate that will be addressed with some care over a period of time. But thus far, all we have seen is a particular vision produced by the technicians and not by the politicians of what a European monetary union might mean and how it might be achieved. There are a whole range of different ways in which greater monetary and economic cooperation is obtainable within the European Community. And what we have agreed to look at, what was agreed at the Madrid Summit a few weeks ago was that we would examine a whole series of alternative options and to determine whether they're practical, which are practical, which are the best. And if and when

we've determined that, how we proceed forward to produce them. I think the particular version of economic and monetary union that you had in mind is one that doesn't seem to ask to be immediately on the agenda and we have made that perfectly clear. It is a very far cry indeed from where we are at present. The first and most immediate priority for us in the European Community is to complete the work I was speaking of earlier this evening, and that is the full completion of the single market until 1992. So I think the debate will be very important. I think it will also be a very lengthy debate because the importance of the decisions taken in that field could scarcely be overrated by anyone. And I think there an increasing awareness as the debate proceeds in Europe what absolutely momentous decisions are under discussion there.

MARK KAPLAN: Mr. Foreign Secretary, if I may shift you around the world a bit, I'd like to move to the Far East and ask if the People's Republic of China adopts more oppressive practices with respect to Hong Kong, either now or after 1997, what options are either now available to the United Kingdom to forestall the implementation of such practices, or to mitigate their effect on Hong Kong or its people?

THE HONORABLE JOHN MAJOR: Well, I think during a time when we'll be discussing with China some of the provisions that will be incorporated in the basic law under which Hong Kong will operate after 1997, you will understand why I won't wish to deal with that in too great a depth. I think the first instance is to deal with that across the table with the Chinese – attractive though it may be to deal with it down the table with you – but there are, I think, some central

points that one can make. I think we are in the business of making it clear to the Chinese and to everybody else that the economies of China and Hong Kong are indissolubly linked after 1997. There is a joint and mutual interest in maintaining the free and open capitalist trading system that operates in Hong Kong. Two-thirds of China's foreign trade and one-third of China's foreign exchange come through Hong Kong. So I think there is a considerable degree of practical leverage that the Chinese, I hope as practical politicians, will accept. China needs a vibrant Hong Kong and we want and are determined to ensure that there remains a free and vibrant Hong Kong. And it's in that spirit that we'll enter into the further discussions that we'll have both in London and in Beijing during the rest of this year to determine the provisions of the basic law and some of the other matters that affect Hong Kong. It is, for us, a matter of immense importance. In the six weeks or so that I have had this particular job I have spent a wholly disproportionate amount of that six weeks on matters related to Hong Kong and China. So we give it a very high priority and I hope we'll be able to produce a satisfactory outcome in the discussions that lie ahead.

MICHAEL SOVERN: Dr. Scowcroft, yesterday at Columbia, Boris Yeltsin answered a question saying if the Baltic States want to go, let them go. Can we be more than bystanders as the people of these captured states struggle to regain their freedom?

THE HONORABLE BRENT SCOWCROFT: This is a particularly delicate issue for the United States. Our policy has not changed with respect to the Baltic States. I remind you all that we have

never recognized the acquisition by force, the incorporation by force of the Baltic States into the Soviet Union. And we still maintain, or those countries still maintain legations in the United States. It is in our interest, and we feel it is in the Soviet interest for those peoples to express themselves fully and individually as separate cultures. But we would hope that all the parties involved would reach an accommodation peacefully. In fact, as I said in answer to a previous question, we have to recognize that we are dealing with very powerful and very emotional forces throughout the Soviet Union and Eastern Europe at the present time. And it is in our interest, Europe's interest, and the interest of the East, that those forces be dealt with calmly, quietly, and as nearly dispassionately as we can bring ourselves to do.

MARK KAPLAN: Mr. Foreign Secretary, to pursue that question, or that point a bit, we have seen over the last period of time that the Soviet Union has had several periods that are glasnost-like and then the chill returns. In order to make it less likely that that happens again, is it in the interest of the United States or the European Economic Community to consider granting softer credits or greater technological support to enhance Mr. Gorbachev's chances for success and survival?

THE HONORABLE JOHN MAJOR: Well, I'm not entirely sure that that would necessarily be either the best thing we could do to help Mr. Gorbachev or necessarily a measure that would perhaps give him quite the measure of support you have in mind. I think so far as one can see, it's very much in our interest that the Gorbachev experiment continues and succeeds. The

minimum disruption generally, as a general principle, the minimum disruption when you have someone reforming in the direction we wish to see, the better it is likely to be. Now Gorbachev faces a particular difficulty – the difficulty that his political reforms have been moving a good deal faster than his economic reforms. And I suspect his domestic audience will be wishing to see some of the fruits of the economic reforms before too long. Now there are a great many of the changes that we believe it is necessary for him to put in place to bring those economic reforms about, that thus far neither he nor The Supreme Soviet have addressed their minds to and produced as policy that can be carried out. There's been legislation passed, but it hasn't always been legislation passed that has subsequently been carried into operation. So I think before we contemplate the possibility of soft credits or anything of that sort, I think we would wish to see a little more of what Mr. Gorbachev and The Supreme Soviet are going to do in terms of bringing about the fruits of the internal economic changes that they have talked about. We need to see a little more action internally from them, I think, before we wish to sit back and decide whether we'd be in the position of finding a further soft credit position for the Soviets at present. So my immediate answer is that we certainly wish him well. I'm not sure that we'd be in the position of providing that sort of credit at the moment. We would prefer to see him proceed in carrying out the policy he has talked about and putting in train the measures that will actually enable that policy to take place and to work in the Soviet Union. (Applause)

MICHAEL SOVERN: On a related point, Dr. Scowcroft, with the improvement in East-West relations and the intensification of competition to export, how effective is CoCOM likely to be in

keeping advanced dual-use technology out of the hands of the Soviet Union?

THE HONORABLE BRENT SCOWCROFT: CoCOM, that is, the agreement among the allies to restrict exports of strategic significance to the Soviet Union, has always been one of the more controversial mechanisms within the Western alliance. And each of its member countries naturally thinks its particular export, especially for a country that may be, a company that may be in economic difficulty, is of less strategic significance than most of its partners. I believe that Co-COM will come under increasing pressure as the whole sense of the immediacy of a military threat from the Soviet Union recedes and as it becomes more and more apparent what an economic debacle the Soviet Union is and people will forget that they, in fact, have produced a formidable military force. I would suggest that the reasonable solution to the problems you suggest are to examine once again the Co-COM rules, look carefully and dispassionately at those kinds of things that clearly are translatable into threatening military force, tighten up even more on those, and be more relaxed about some of the more marginal issues.

MARK KAPLAN: Could I ask you a question off the best-seller list? President Bush has recommended the Tom Clancy novel, *Clear and Present Danger*, in which a fictional National Security Advisor takes the war on drugs to an illegal length. What are your views of this National Security Advisory role in this war? Can it be won? Is the issue spending or national resolve?

THE HONORABLE BRENT SCOWCROFT: I reject that I was a role model for Clancy's book. The drug war is one of the most difficult we have ever taken on. The role of the National Security Council, the National Security Advisor, in it is importantly involved in the international aspects of it, that is the interdiction, the destruction of supplies, and of the networks, and additionally, in the coordination of the extraordinarily complex efforts of a variety of government institutions who do not normally and naturally cooperate with each other. Mr. Bennett is an outstanding drug czar, but he was created, he was a czar, and about all he has is a crown. He doesn't have any infrastructure. He's building one, but he doesn't have the kind of wherewithal to operate to fullest effect within the system to get everybody to work together. And the National Security Council lends its abilities to get agencies to work together in pursuit of the fight on drugs. I believe we have had a very fortuitous event in the determination of President Barco of Columbia to turn against the cartels and to take them on. It was a very courageous act. It gives us an assist in our own efforts that would be impossible to duplicate by those efforts. And I think we ought to go all out to help President Barco and the courageous people of Colombia to win what is, after all, our fight as much as theirs. (Applause)

MICHAEL SOVERN: Foreign Secretary, do you believe the Brady Plan will lead to major amelioration of the Third World debt problem in the near future? If not, what additional steps do you favor? And would you feel the same way if you were still a banker? (Laughter)

THE HONORABLE JOHN MAJOR: I think it might have depended upon whether it was my

money that was owed. There is a very serious problem with world debt. And there's no doubt at all that the Brady Plan and some of the other plans that we've seen in the past have played a very material part in seeking to ease that debt. I think, to be brutally frank, that the jury is still out as to whether that is enough. I think a very considerable amount has been done. I hope if it turns out to be necessary, that the creditor nations will look again to see if they can do some more. For a good deal of the problems of the debts, I think you can place the blame in two areas. Some of it, quite frankly, are with the debtor nations. It is the way they use their money and fail to use it wisely. Some of the other problems that the debtor nations face are problems that came about as a result of the economic cycle and the change perhaps in the pricing of commodities over which they wouldn't have had a direct say and they found themselves at the unfortunate end of price changes. So I think there is a communal interest in doing what we can to help the debtor nations of the Third World. And there's a considerable problem, of course, in Latin America, but by no means only in Latin America. So I think the Brady Plan is a very considerable move forward. Whether it is sufficient, I am not yet, I am not yet in a position to be sure. But if it isn't, I think it's something that the creditor nations will need to come back at and look at again.

MARK KAPLAN: Mr. Foreign Secretary, my last question comes as an admirer of the privatization process in the U.K. in the last few years. Will this, in your view, accelerate both in your country and in Western Europe as 1992 approaches? And is the English model likely to be applicable on the continent?

THE HONORABLE JOHN MAJOR: Well, I'm not sure that it's going to accelerate because it's moving at a pretty rapid pace now. The privatization program in the United Kingdom, I myself recognize the name privatization, I prefer to call it denationalization, for that effectively is what it is. The denationalization program has grown very dramatically in the last few years. The British model of denationalization has been copied in a large number of countries throughout the world. We have a substantial program still proceeding in the United Kingdom between now and 1992. And at the risk of giving away any election manifesto secrets for the next parliament, I wouldn't expect this to have stopped at the end of this parliament. There are some more privatizations that we would go ahead with. Elsewhere in Europe, we can see a number of our European partners beginning to follow that particular trend. And I think that is happening in many other parts of the world as well. I think the question has changed. The question is not why should this thing necessarily be in the public sector, the question now is, is there any good reason why it shouldn't be in the private sector, where in our judgment it will be better run, more efficiently run, and provide a better service for the consumer. That is the question that I think governments need to ask if they are both to look after their own fiscal affairs properly and also to look after the affairs of their consumers and their electors. That is certainly the way in which we perceive the matter in the United Kingdom, which is why I can assure you that the pace of privatization in the United Kingdom will continue. I scarce think it is possible, however much we may wish for it to accelerate, but it will continue both during the period of this parliament and the electors' willing, in the next as well. (Applause)

MICHAEL SOVERN: I'd be interested in the responses of both our guests to this question. In his Strasburg address in July, Gorbachev renounced the Brezhnev Doctrine declaring, in his words, any interference in the internal affairs and any attempts to restrict the sovereignty of states inadmissible. What do you believe the limits of this new respect to be? For example, do you think the Soviet Union would have tolerated a Polish government with no Communists among it? Could any Eastern European nation leave the Warsaw Pact?

THE HONORABLE BRENT SCOWCROFT: One can only give a speculative answer to that. I would suggest that perhaps Gorbachev doesn't know exactly what the limits of that statement are. One practical limit might be Gorbachev's own survival and what would test or threaten that. He has thus far shown with the Soviet Union and in Eastern Europe fairly remarkable – by previous Soviet standards – tolerance, both to Nationalist demonstrations, to strikes, which probably were technically illegal by Soviet law, the formation of a non-Communist government in Poland under a Communist president, but still a very mixed thing, and the kinds of developments in which we've seen Hungary, in a sense, acquiescing in a mass exodus of East German citizens to the West. So I think there's no doubt that Gorbachev does, either from sincere reasons, or for very practical reasons, for the success of his own policies, wants to tolerate a wide degree of diversity. But I think as Winston Churchill once said, I was not elected to preside over the dissolution of the British Empire – I think there are limits. It's just difficult to say what they are.

THE HONORABLE JOHN MAJOR: Michael, it has been my experience in 25 years of politics – it's an iron rule that has never let me down – there is always one question too many at the end of an evening like this. (Laughter) And I'm pleased to see this is something else in which the United States and Britain have a common interest, for there's clearly one question too many here tonight. The strict and literal answer to your question is we don't know. It is a very fluid situation there. We don't know quite how the Soviet Union would wish to react and quite how the internal pressures in the Soviet Union might compel people to act even against their own inclinations. I think the instinct one has is that modern states have to accommodate the legitimate political and social aspirations of their peoples, and Gorbachev has been moving in that direction in a spectacular way. I think we must hope that circumstances enable him to sustain that virtuous path. If that were not to be the case, and if he were to be forced either willingly or unwillingly by events into the sort of precipitous activity that you had in mind, that would really be a major problem for the West. It would certainly change the whole concept of perestroika. It would change, I think, the whole climate of international relations and cooperation, not only in the general perception of the Soviet Union but probably across the whole range of our relationships with them. So we must hope that neither events, nor pressures, force him into anything of the sort of action that you had in mind.

CHAIRMAN RAND V. ARASKOG: Well, first of all, I'd like to thank our distinguished questioners, Mark Kaplan and Michael Sovern, for their participation tonight. And certainly to thank our guests of honor and to wish them very well in their major responsibilities for Great

Britain and the United States of America – duties which are so important to all of us. I have to tell you that we're not giving away Steuben Apples tonight because lately we've been giving them to government officials and they keep having to send them back due to these rules of ours. So I'm accumulating Steuben Apples in a greater amount than I can handle and so we'll pass that tonight and simply say to everyone goodnight and thank you for coming. (Applause)