

Introduction

Chairman Richard A. Voell

Good afternoon ladies and gentlemen and welcome to the 333rd meeting of the Economic Club of New York. Before introducing our distinguished guest speaker, I would just like to mention that we're departing from the traditional format in that we'll have the program and the question and answer session preceding lunch. We're very pleased that you're all here today because this will be an outstanding program. And we'd like to let you know that we're working on a program for this fall that we think will be a headline event also. And in that regard, I would like to give credit where credit is due to our hardworking Club President, Ray Price, who really is responsible for these remarkable programs. Ray, stand up Ray. (Applause) Whether he'll stand up or not, he should get the credit.

Today is a very special occasion for the Economic Club of New York. We meet today by coincidence on the anniversary of a pivotal moment in history for it was on this date 176 years ago that a battle was joined in the small town of Waterloo in Belgium. And we all know that the outcome of that battle largely determined the course of European and world affairs for the entire next century. Perhaps in our own time it would be difficult to single out any one military engagement of comparable magnitude. But there is certainly one battle that we can describe of at least equal importance and that is the battle for the hearts and minds and spirit of the Western world.

In the past decade, as that battle built toward its triumphant outcome, as witnessed by the renewal of faith in human liberty, the growth of democracy, the withering of Socialism, and the collapse of the Berlin Wall, no one, no one played a more decisive and influential leadership role than our honored guest today.

In her 11 ½ years as Prime Minister, Mrs. Thatcher virtually led the revitalization of free enterprise and free institutions in Great Britain. In place of what she once described as the most demoralizing poverty, the poverty of conviction, she gave her country a renewed sense of individual initiative, competitiveness, and patriotism. Her judgment, her eloquence, and her indomitable will continue to transcend national boundaries, and to bring the free world a renewed sense of both purpose and confidence. Mrs. Thatcher, for your leadership in the great cause of freedom, and for your stalwart support of the historic partnership between the United States and Great Britain, all of us here today are enormously grateful. Ladies and gentlemen, it is a great honor to present to you, the very distinguished former Prime Minister of Great Britain, The Right Honorable Margaret Thatcher. Mrs. Thatcher. (Applause)

The Right Honorable Margaret Thatcher
Former Prime Minister of Great Britain

Mr. Chairman, ladies and gentlemen, first, may I thank you, Mr. Chairman for that warm and generous introduction. It's a great honor to be asked to address this distinguished audience – and

a great pleasure also to be back in New York which never ceases to astonish, delight, intimidate, inspire, elevate, and widen one's horizons. This city remains the world's gateway to the opportunities of America. As the Broadway playwright, Moss Hart, wrote, "The only credential New York asked was the boldness to dream. For those who did, it unlocked its gates and its treasures, not caring who they were or where they came from." Certainly the city has regularly unlocked its gates for among others, speakers like myself. There's by now a well-known way of dealing with this.

When G. K. Chesterton came here in the 1920s, he reported, one of the first questions I was asked was how I should be disposed to explain the wave of crime in New York. He replied, it is probably due to the number of English lecturers who had recently landed in the city. (Laughter) But you needn't worry that I have come to rob you. That was an earlier Prime Minister. (Laughter)

Mr. Chairman, New York remains the economic and financial capital of the world's greatest military power, the world's greatest defender of liberty, and despite your real but short-term difficulties, the world's greatest economic power. So this the right place to discuss the future direction of economic policy, and following the great victory of Desert Storm, the right place to discuss the economic aspects of President Bush's New World Order.

It is also the right time to do so, for after a decade of rising prosperity, both our countries are

suffering from a recession that has been more prolonged than some expected. I'm delighted to hear that some economists are forecasting a speedy recovery, and even some central bankers have been detected smiling in private. But many of the businessmen I meet are more cautious. Recovery will, of course, come. And with it, revived investment and higher living standards. Let us hope it will match the long period of growth of the 1980s. But there is bound to be another recession in the course of time for the trade cycle is a permanent fact of economic life which politicians can ameliorate by sensible policies or aggravate by foolish ones which they can't abolish altogether.

It should be the aim of prudent government to improve the nation's general economic performance at all stages of the cycle by removing obstacles to enterprise and mobility. In that way, growth will be more sustainable, the inevitable setbacks less painful, and inflation less of a temptation to shortsighted administrations. What government should not do is attempt to compensate for the trade cycle by fiscal and monetary manipulation. This policy has been likened to bringing out sunshades in October – either stimulating the economy when recovery is well underway or pushing an insipid recession even deeper.

The facts of financial life make this a hopelessly hit or miss affair. A central bank inevitably has difficulties in controlling money supply growth principally in predicting the demand for money. This is extremely difficult to achieve in the very short term. But over a period of three or six months, and certainly on an annual basis, it is much easier and indeed can be done. So there's a

strong case, as Milton Friedman has long argued, for a regular and predictable increase in the money supply calculated on a long-term basis. And there's no case at all or any attempt at fine-tuning.

What, then is the proper role of government in a free enterprise economy? Government has the fundamental duty to provide a sound financial framework by controlling monetary growth in pursuit of a currency which holds its value. It must control its budget deficit so as not to build up debt for future generations. I may say that during my last three years in government, we had a budget surplus in each of those three years and reduced the debt burden for future generations. And government must do that mainly by controlling its expenditure.

These are not tools of merely temporary application. They go to the root of government's fundamental tasks at all times and in all places. As soon as politicians, economists, or bankers devise ways to try to circumvent them, the trouble begins. It's no good departing from financial orthodoxy when political pressures mount. That is precisely the time you must stick to it. If you tolerate a little inflation, it quickly leads to a lot of inflation. As with any addictive drug, increasing the dosage is required to achieve the same results. If you ease up in the battle to curb public spending and allow government deficits to rise, you put an unnecessary interest burden on business borrowers and starve the wealth-creating industries. Or if your response to increased public spending is to put up taxes, you lose out even sooner as talent departs, investment is postponed, and hard work discouraged.

Britain was a perfect demonstration of that lesson. For most of the post-War period, the British economy had been in relative decline. Some argued that this was inevitable, that it reflected fundamental weaknesses in British society or even in the British character. Government intervention was therefore regarded as the answer to these alleged weaknesses. It only slowly dawned on people that the exact opposite diagnosis was the correct one. Government was doing too much and the wrong things. It was stoking up the money supply and therefore inflation in order to prop up companies that otherwise would have priced themselves out of the market. And when inflation took hold, it then intervened ad hoc to fix specific costs and prices and to bail out particular companies. Whitehall – not the British people – was to blame for the resulting stagflation.

We had to reverse all that. We provided a sound financial framework to beat inflation. We cut back government borrowing. But in the words of my friend and colleague, Keith Joseph, contained in a lecture at that time, we realized that monetarism is not enough. So we also set out to create a framework favorable to enterprise. We cut penal rates of income tax and the tax on companies and we abolished some taxes altogether. We slashed burdensome regulations to encourage small businesses, the seed corn of economic growth. We restored the balance in law both between trade unions and employers and between unions and their members. We embarked on a vigorous program of privatization, 44 major businesses so far, spreading ownership of capital and property ever more widely.

These policies, as you said Mr. Chairman, were dramatically successful. The performance of the British economy was transformed. And in spite of the difficulties of our present recession, the great gains made in the 1980s are not being lost. Britain now has a soundly based, free enterprise economy.

But how, you will ask, if we learned those lessons in the 1980s did we allow the renewed inflation which prompted this recession to occur. Why was money supply allowed to grow too rapidly? Part of the explanation lies in the general response of all Western countries to the collapse of the stock market in late 1987. Some people were talking of a Great Depression, on the scale of the 1930s. It seemed imperative that all Western countries should respond by making sure that the financial market and the banking system were not short of liquidity. And we did. But, though, this may have contributed something to inflationary pressures, I do not believe it accounts for them fully. For the real explanation, we must go back to first principles. We must rethink the basis of coordination of policies within the G-7 and especially the coordination of exchange rate intervention. With the Louvre and Plaza agreements in the mid-1980s, we sought to put the objective of greater stability of international exchange rates above that of the control of inflation. In Britain, we compounded this error when in 1987-88 we tried to shadow the Deutschmark. Again the objective of a stable exchange rate was pursued at the expense of monetary discipline.

These policies led to falls in interest rates to artificial and unsustainable levels, which in turn

prompted excessive monetary and credit growth. That produced the inflation with which we are all too familiar, and which is the underlying cause of the present recession. “Experience,” said Oscar Wilde, “is the name we give to our mistakes.” And the conclusion to be drawn from our experience in both the 1970s and the 1980s is that government should commit themselves to price stability which can only be achieved by reduced monetary growth and leave it to companies and individuals in the marketplace to calculate the various other risks in the business of wealth creation.

Targeting exchange rate injects excessive monetary pressure when central bankers guesstimate the wrong rate and, like fine-tuning, can produce wild swings towards inflation or deflation when the rate is either undervalued or overvalued as East Germany is currently discovering. When that happens, the stability that makes fixed exchange rates superficially attractive to businessmen is either abandoned in dramatic devaluation or maintained at the cost of far more damaging instabilities like rapid inflation and higher interest rates. In the Exchange Rate Mechanism, Britain is fortunate to have a marginal 6% to accommodate variations in the exchange rate. In general, however, I recall the words of Karl Otto Pöhl, as I quite often do, former governor of the Bundesbank, “Interest rates should be set according to domestic monetary conditions and the exchange rate should be left to go where it will.” To which I will add: if you fix the exchange rate, then interest rates and domestic monetary conditions go where they will. And finance ministers are left like innocent bystanders at the scene of an accident.

Let me now attempt to draw from the economic experience of the past 15 years four broad lessons. They are, first, an economy will work best when it is built on a framework of clear and predictable rules on which individuals and companies can depend when making their own plans. Second, government's primary economic task is to frame and enforce such rules. Its own discretionary interventions should be kept to a minimum. Third, within such rules, individuals, families, companies, and other social organizations should be free to pursue success at the risk of failure. And, fourth, although governments will sometimes break the first three rules, public opinion should as far as possible make them ashamed of doing so and eager to return to observing them.

But do not the same rules – or something very like them – apply also to the New World Order envisaged by President Bush in the aftermath of America's two great victories in the Cold War and the Gulf War? For make no mistake, America now has a unique, even awesome, responsibility. She alone occupies the position of the three wartime allies in 1944 and 1945 when the blueprints for the great international institutions like the GATT, the IMF, the World Bank, and the United Nations were laid down. It will be an American president and Congress who will have the dominant voice in drawing up any new blueprints.

Some of those institutions are flourishing – notably the United Nations, now that the automatic Soviet veto has been removed. Some, like the International Atomic Energy Agency, will need strengthening to take on a greater role in combating nuclear proliferation to rogue states. And

some face the challenges of new organizations – like the GATT facing the erosion of free trade as regional economic blocks attempt to assert their identities. And what is true for organizations is also true for the rules of world order laid down in 1945.

One of those rules – that states should not commit unprovoked aggression against other states – has just been triumphantly vindicated by President Bush's successful liberation of Kuwait. So triumphantly, indeed, that it is unlikely to be challenged in any clear-cut way for some considerable time to come.

But should there perhaps be new – and more ambitious, rules in the future? Must, for example, we continue to turn a blind eye to utterly appalling violations of human rights provided that they are confined within a country? Even if those violations send thousands of people like the Kurds fleeing into neighboring states as refugees, destabilizing those neighbors in the process? And if we are to have such wider rules – which would surely be a step towards a more civilized world – who is to enforce them? And under what authority? Then there is the erosion of existing rules – principally in the field of trade and economics. Can GATT be given a new lease of life? Does it need strengthening? Or the support of new organizations committed firmly to free trade?

And perhaps the biggest question of all: will the American people be prepared to undertake the role of Atlas holding up this new world order? Or, as in the 1920s, will the ingratitude of the rest of the world persuade them to retreat into a hemispheric economic isolationism? Let me answer

that last question at once.

I believe that the American people will be prepared to accept this burden of world leadership and to act as the international community's enforcer of the last resort – but only if the United States can rely on the support of its allies, not only in an ad hoc military coalition but in a wider alliance encompassing trade and economic relations as well as the occasional rare military action.

Mr. Chairman, I think you know I am not a Marxist. (Laughter) So I don't think that economics determines everything. But I do believe that you can't have political and diplomatic unity in a West that is bitterly divided over trade and economic relations.

Let us remember that the world order established in 1945 was sustained on the basis of Western economic cooperation. The West's military alliance and post-war prosperity could never have been achieved, first, without the Marshall Plan, and later, the growth of trade within the orderly framework of rules provided by the GATT, the IMF, and the World Bank. However, that picture has to be qualified. Since the mid-1970s, the volume of trade has continued to grow, but at a slower rate in relation to total world output than before. This is in part, because there has been a growth in covert forms of protection.

Our current challenge is to prevent the world slipping back into protectionism and instead to give

a new momentum to freer trade. How is this to be done? We must honor the rules of the GATT and, where possible, widen their application. We must ensure that the problems over agriculture, services and intellectual property rights – but above all agriculture – are resolved. And that the Uruguay Round is thereby salvaged. For there is a harsh rule of politics to which international bodies are not immune. If things are not going forward, then they are going backwards. And at present in trade, they are going backwards.

Other moves toward free trade – provided these conform to GATT rules – should therefore be encouraged. I welcome the creation of a United States-Canada free trade area and the prospect of its extension to Mexico. These reforms should strengthen the economies of your two neighbors and hold down the cost of living for Americans. It is vital, however, that these should not be steps towards a world of three protectionist blocks built around the United States, the European Community, and Japan. There are those in Europe who regard the prospect of two such blocs, engaged in managing trade with a new European Superstate, with apparent equanimity and even enthusiasm. I am not among them. Nor, I believe, should anyone be who has at heart the interests of America or the West as a whole. For it would undermine the sense of Western solidarity under American leadership which is the only sure foundation of any new world order built to last.

So these new blocks must be steps not towards protectionism but towards a world of freer trade. When the Uruguay Round has been successfully completed therefore – and that will require full cooperation of the European Community – we must take the next step towards wider economic

integration. We must begin to lay the foundations of an Atlantic Economic Community – embracing Europe, namely the European Economic Community, the EFTA countries and the new democratic states of Eastern Europe, on the one hand and North America on the other.

This proposal has all the merits which are attached to any extension of free trade – greater economic efficiency leading to greater wealth, benefitting all those taking part. But it has two other important advantages, as well. Given the liberal economic tradition of the United States, Britain, and several European Community countries, and given the fierce commitment to free market economics of the former Communist states – such a block would be imbued with the philosophy of free trade. And because it would account for no less than 58% of the world gross national product, other trading blocks and potential trading blocks would have to follow its lead in such matters. It would give the GATT real clout – halting and reversing the drift towards a world of protectionist blocks.

The second advantage is that, by moving in this direction, it would strengthen the vital ties of defense and culture which link America and Europe, and which the drift to protectionism and trade wars threatens to undermine. It would, in effect, be the economic underpinning of NATO and make a great deal more sense than the various half-baked schemes for giving a defense identity to the European Community.

This proposal is only the beginning of what would be a very long road and it certainly needs

close and detailed study. We'd need to lay out very carefully the steps to merging a European Single Market and a North American Free Trade Area and what mechanisms would be required to settle disputes over obstacles to trade. We would need also to work out transitional arrangements for some industries, particularly steel, agriculture, and some services. I hope that in the months ahead a group could be formed to look at all these matters with a view to a practical timetable for such a scheme.

But I'm encouraged, Mr. Chairman, by remembering the role that America and Britain played at the end of the Second World War at Bretton Woods in laying earlier foundations for the Free World's economy. Our countries were both closely involved in setting up the IMF, the IBRD, the OECD and, of course, the GATT. Like NATO, these international institutions have stood the tests of time and stress. Like NATO, they have always depended on trust and on common goals. And no matter how many institutions you create – or how elaborate their acronyms – if they don't have such a basis they will not long endure.

One such basis is provided by the special relationship between the United States and Britain. Our shared commitment to free enterprise capitalism, to free trade and liberal democracy, will be tested in many ways in the years ahead. So let us now resolve that the triumph of these Western values should not be some transient phenomenon. Let us hold fast to the truths by which we set our compass. And let us extend a helping hand to those who follow us on the glorious trail to a freer and more peaceful world. Thank you. (Applause)

QUESTION AND ANSWER PERIOD

CHAIRMAN RICHARD A. VOELL: Mrs. Thatcher, that sustained and warm applause speaks volumes more than anything that I could say. Our distinguished questioners this afternoon are Mr. Rand Araskog, immediate past-chairman of the Economic Club of New York, and Chairman of ITT, seated to my far right. And Mr. William Schreyer, Chairman of Merrill Lynch, seated to my far left. And Mr. Araskog will address the first question.

RAND ARASKOG: Mrs. Thatcher, you have emphasized the role of rules. Do you believe that Great Britain can bring greater influence on the future of Europe by committing to the rules for European unity or for the rules for individual country sovereignty?

THE RIGHT HONORABLE MARGARET THATCHER: I believe that the best and most fruitful way forward is never by suppressing national pride or loyalty, but by harnessing both of those things freely to cooperate with the other sovereign states in Europe – the other 11, each with a different history, each with a different culture, each with a different kind of parliament. Try to suppress sovereignty, try to suppress national pride, and it will not work. Surely the lesson of this century is that if you try to put nation states together artificially, they will tend to fly apart and they will once again fortunately decentralize as is happening now in the Soviet Union. It would be a tragedy if while East Europe has learned that lesson, West Europe attempted to make

that mistake. I am prepared to continue to work voluntarily, but we do not take our sovereignty from the Economic Community. It takes its powers from those which we give it. And I would like to make quite clear that had we had to decide by majority rule in the Community whether we were going to support President Bush, I wonder how long it would have taken to have made the decision. (Laughter and Applause) And I wonder what the decision would have been. I didn't have to consult anyone. I didn't hesitate and neither of us went wobbly. (Applause)

WILLIAM SCHREYER: I'm almost afraid to ask the next question. (Laughter)

CHAIRMAN RICHARD A. VOELL: Bill, she said it didn't have to be in economics.

WILLIAM SCHREYER: Mrs. Thatcher, politics in every major country is of great interest to everybody so we'll start off with that. Prime Minister Major has called an election sometime before next June and the latest polls show Labour ahead by several percentage points. So it's really sort of a quick three-part question. When is the election likely to be called in your opinion? And what will be the most important issues? And what should be the strategy for a Conservative Party victory?

THE RIGHT HONORABLE MARGARET THATCHER: Well, I can't tell you when the election is likely to be called except that it will be before next July, and when it is called I must earnestly hope the result will be to continue the policies which I have outlined which have not

only revived Britain's economy but revived her strength and her reputation in the world. And however difficult things may be at the moment, I believe that when it comes to actually deciding which party to return at an election, the British people will choose to continue in the path we have trodden in the last 12 years and will reject the Socialism which brought us so low, both economically and by reputation. I think that answers all three. (Applause)

WILLIAM SCHREYER: It sure does.

RAND ARASKOG: Mrs. Thatcher, I'm going to try an economic question this time. It is generally accepted that the independence of the Bundesbank has resulted in the Deutschmark becoming the strongest currency in Europe, if not the world. Do you see any hope that the Bank of England would be given similar independence, or will it remain an arm of the UK Treasury?

THE RIGHT HONORABLE MARGARET THATCHER: Now two things, the Bundesbank, I must say I didn't see the Bundesbank being very independent when it was One Deutsch Mark, one East Mark. I thought that really rather undermined the fundamental proposition. I did not think that it was wholly immune from political influence, much as I, in fact, admired Karl Otto Pöhl and his successor. But really the Bundesbank has been very successful in holding down inflation because of the culture and experience of the German people which is fearful, above all, of inflation because they experienced what I would call suitcase money between the wars, after the First World War and they know what inflation is like. Therefore, you automatically get the

full cooperation of the people in policies to keep down inflation. And therefore, many of us joined the exchange rate mechanism when monetary conditions were signaling that we could do so because we were using the Bundesbank and the Deutschmark as a kind of gold standard by which to steer our own inflationary star. We, in fact, joined it at a very, very tricky time for the Bundesbank, but nevertheless they will strain – perhaps more than any currency in Europe – to hold down inflation. Now I'm often asked the question about the Bank of England. And I think my answer is this. I don't see independence for the Bank of England at present. I think it would have probably been structured very differently had it been independent, had it been going to be independent. And I think we would have to structure it very differently if we were going to do that. But right now, that is not the issue. The real battle at the moment is whether it is our parliament that's going to have control over our currency, the economic policies that support our currency and, therefore, the whole budgetary policy and the whole taxation policy and the whole interest rate policy. The danger at the moment is that it might – as the other people wish to go to a single currency which is not necessary for a single market at all – the danger is that it might go to a group of people who are not democratically accountable in any way. And that is why we say very firmly we will not have a single currency imposed upon us for 700 years. (Laughter) Our parliament has had control over our currency, our economic policy, our public expenditure, our taxation, and our executive has had to account directly to our people – you've seen the prime minister's questions – for what they tax them and for what they spend it on. It is the best system and most of us think it should be kept for the next 700 years. (Laughter and Applause)

WILLIAM SCHREYER: Mrs. Thatcher, fortunately or unfortunately, we all read the newspapers. And lately the British papers which have been carried over in our papers have been having a field day with reports that you've been expressing private criticisms of your successor and longtime protégé, John Major. Do you have any comments that you want to make on those reports?

THE RIGHT HONORABLE MARGARET THATCHER: I must say that the press sometimes excel themselves. I've been very quite at home which has been a very great effort. (Laughter) So they've taken to interpreting my silence. (Laughter) They don't always get it right. Very rarely do they get it right. I think what it means is we'd better go back to full and open and free discussion, especially as there are enormous issues and problems to be decided particularly with the future of Europe. There was a clash yesterday and I had a thing or two to say about Mr. Delor who was not elected and he clashed with our Foreign Secretary. So I think that these decisions that have to be made in Europe are of enormous moment to the British people, to the whole future of our parliament, and the more openly that we discuss them and the more thoroughly we discuss them, the better. So I think perhaps a little less silence might be called for on my part. (Laughter)

RAND ARASKOG: Mrs. Thatcher, now that you are no longer Prime Minister, do the Falkland Islands still have a protector at 10 Downing Street?

THE RIGHT HONORABLE MARGARET THATCHER: I most earnestly hope so and I believe so. That was another out and out attempt to flout international law. There's not a single Argentinian person on the Falkland Islands, except to run an air service. British people have been there for 150 years. Then there was a break before that. And in 1770, we had to send a task force to recover those islands from people who had gone in and invaded them against our people. And when it came again, every single one of those people there are British. They wish to remain British. And so, of course, we went to recover the territory and give them the right to remain British – a right which they must continue to have and I believe a right that will be upheld in Britain. I'll never forget after the unveiling of the memorial in St. Paul's and the parents who had lost their sons were of course all there. And one said to me, you'll never give those islands away, will you? And I replied, no. I replied as one mother to another, but I replied also as a prime minister hoping that that promise will bind my successors. (Audio Stops...then Continues, no overlap)

WILLIAM SCHREYER: ...whether the Soviet Union is really serious about making political and economic reforms? Have recent events, for example, the agreement between Gorbachev and Yeltsin which indicates they're trying to work together and Yeltsin's strong showing in the recent election, has any of this changed your....and is it correct for the West at this time to extend financial and economic aid to the Gorbachev government?

THE RIGHT HONORABLE MARGARET THATCHER: Well, I was delighted with the results

of the elections on June, the 12th in the state of Russia – delighted that Mr. Yeltsin got a good majority. I had met him some months ago and had been very impressed by the clear, strategic views about the economy which he held. First, that there must be devolution of power from the center to the republics which there was not at that time, and still is not, although it's coming. And secondly, that there must be limitation of the power of government so that they go to a free market economy. He was quite clear about the two things. He was quite clear that they should be implemented more quickly. He has, in fact, electioneered on that basis and has, I think, received a resounding vote of confidence in that policy. I believe that the Russian people know that they now have freedom of speech and freedom of worship. They want also the other things. They want the greater economic prosperity and they know they would never get them by going back to Communism. So although there will be difficulties, although there will be very considerable reforms to be made because they have, for example, no rule of law, no credit or banking system, no independent courts, no way of enforcing contracts, it was a vote to go forward. And I was very pleased that President Gorbachev sent immediate congratulations, and I believe they will work together. Already you could see the first fruits of what Mr. Yeltsin had been asking for in the One Plus Nine Agreement between the center, the central government, and nine republics as to precisely what powers shall be dispersed. Because it's taken so long, the separate republics will actually require more than they would have done earlier. And it will be a very good thing. They'll take responsibility. You'll find new talent, new ability, and it will be the first real stage in economic reform that we have seen. There are also two other elections that day – Mr. Popov, who is the very able mayor of Moscow. When I first met Mr. Popov about 18 months ago when I

went to Moscow and I went to see him, I had a long discussion with him and he led straight away to say that how marvelous he thought Milton Friedman's policies were. I thought for a mayor of Moscow, that was terrific, but that shows you too that Mr. Yeltsin is not alone. I met recently in Leningrad, Mr. Sobchak, the new mayor of Leningrad. Again, both of these mayors determined with Mr. Yeltsin on the free market economy and private property and the rule of law and proper institutions to sustain it. And those three will go ahead faster than any hope we've had previously, and I think will bring it about. They will need a lot of help from us, not to shore up the old system, but in fact to bring about the reforms. And to bring about the reforms, I think we should all let them have something and lend a helping hand. It will be small compared with what they have to do. If they get the laws right and the dispersion of power and the private property, then a great – and some confidence in that future – a great many businesses will start to go in there realizing that the risk is worth it and that there is a good long-term market. I'm really optimistic. It was a very good day on June, the 12th. (Applause)

RAND ARASKOG: Mrs. Thatcher, would you comment on the continuation of economic sanctions invoked upon South Africa?

THE RIGHT HONORABLE MARGARET THATCHER: Yes, they should be taken off. I think they should never have been put on. (Applause) I have had a battle over sanctions in South Africa with the whole of the commonwealth. And Chancellor Kohl, who is against sanctions, and I battled to stop the Community putting on economic sanctions. If you want to help the people of

a country, you cannot do it by ruining their economy. And economic sanctions may be a phrase – what they translate into is poverty and starvation by throwing people out of jobs because of sanctions and by making their children hungry. At the time when it was proposed that sanctions be put on, Operation Hunger, which we were already supporting in Britain, was feeding a half a million children. Had sanctions been put on by the commonwealth or in fact any other, beyond gesture sanctions, or by the Economic Community, far more children would have been hit and many families. A friend of mine was running a factory out there and eventually – 1,700 employed – and eventually could no longer keep it going because the market, just one in the United States, would no longer take the tin fruit from there. Seventeen hundred people, therefore, had to be put out of work – each of them supported 10 people. You got nowhere in helping Black South Africans by that. It was a very mistaken policy and I fought it and now when I go to South Africa, they know that it was the policy which we had of not having on sanctions which kept their strong economy and now we'll give them a chance to get through. Because never forget, the South African economy is the strongest in the whole of Africa, and it also provides jobs for 800,000 people from other countries in Black Africa. Now today, yesterday I think, President de Klerk, who is a remarkable person – because most great advances come when you have remarkable people at the helm and he is such a person – has got rid of the last legal vestige of apartheid. Now is the time to take off any existing sanctions. It was, in fact, some of your companies who stayed there along with other industrial companies, that actually broke down apartheid. They were in the forefront of breaking down apartheid. And it would have been far better had they stayed. They also were in the forefront of having shared distributions to their

employees – Black and White. Sanctions should now come off. I hope that negotiations will start. President de Klerk is ready for them. So is Chief Buthelezi. It is the ANC which haven't quite made up their minds and I hope they will do soon. I think there are two wings to the ANC – the ones that want moderate negotiations and the others which were the former South African Communist Party. But they are ready to go ahead. They should have our firm support in getting rid of apartheid and in coming into a non-racial government, and they need the increasing trade because they have a real big job to raise the standard of living of all their peoples. There comes a time in politics when what is morally right becomes practically possible because of the people. This is such a time for South Africa and they need encouragement to go ahead by removing the sanctions which clearly no longer have any purpose as they have now removed apartheid.

(Applause)

WILLIAM SHREYER: We'll go to another part of the world, Japan. The fact that Japan has been greatly increasing its presence in Europe seems to have alarmed France's new Prime Minister, Edith Cresson. She was recently quoted as accusing the Japanese of having, and I quote, "a strategy of world conquest" and warning that Europeans "cannot close our eyes to the Japanese as the Americans did. How do you feel about those comments and Japan's role particularly in the new Europe?"

THE RIGHT HONORABLE MARGARET THATCHER: France, I'm afraid, has very protectionist tendencies. (Laughter) We've had several battles with her in the Community about

this. An example, we've had Nissan which is set up and producing cars in Britain. France was attempting to make those cars exported from Britain to France count against a Japanese quota. Had I done that, the other way around, it would have been non-communautaire. It was non-communautaire when France does it because we are working, after all, for a free trade area and a single market. France tends to be protectionist. We've had to fight that one and we're still fighting it. The next problem we got from France is one of our companies which was taken over to 80% by Japanese, it is one of our big computer companies, and we have a rule in the Community that there are certain research grants given to any company within the Community, particularly for advances in research in that particular sphere. It does not matter the ownership of the company, but they attempted to stop research grants going to that company. Now it is quite wrong, and it's this that makes me make the speech that I made, there are forces wanting to go to protectionism. Japan is very, very efficient. Her companies are very, very efficient. Her management is very efficient. She has a genius for product innovation and for knowing the products beyond the present one that we shall want in about ten year's time. And she's already got it on the stocks. You do not try to protect against people like that. You try to bring yourselves up to their level of efficiency so that you may serve the consumer as well as they do. And I'll tell you, when I went to open Nissan and some other Japanese companies in Britain, I said to them, we are going to have an objective here that the Japanese company in Britain is going to be more productive than the same Japanese company with Japanese in Japan, and we shall do it. But that's the way to tackle the competition, not to be afraid of it. Now you do have to watch that we have the same opportunity to export there as they have to us. There are great structural

difficulties. I had to work through four Japanese Prime Ministers before I got them to take off a totally unfair tax on whiskey. (Laughter and Applause) I had to work through three Japanese Prime Ministers before I got them to open up their stock market to two of our very, very distinguished stockbrokers. The way to go is to make them break down their barriers to trade. And they have it easier in our country because we have – you have and we have – a marvelous distribution system, whether it be for cars, whether it be for goods, whether it be for supermarkets, a marvelous wholesale distribution system. They come over, see half a dozen people, and can sell a terrific output in that very short time. They have no effective distribution system and they have a lot of people in their bureaucracy. So when you go for Japan, don't try to stop them from coming in because they're efficient, but try to break down their efficiencies and make it quite clear, if they're going to have opportunities in our market, we must have opportunities in theirs. That's the way to tackle it and that's the way for France. But France, I repeat again, she's Socialist (Laughter) and Socialists are protectionists. They think they can fix everything. They can't. (Laughter and Applause)

RAND ARASKOG: I would like to know how you feel about increasing the membership of the European Economic Community which happens continuously. There's an application to be made now by Sweden. There's talk of Norway, Finland, Poland, Hungary, Czechoslovakia later. What is your view of this?

THE RIGHT HONORABLE MARGARET THATCHER: Well, I think it's pretty vital to

increase our membership. If the countries we are already in some kind of customs union with us, there will be no difficulty about those – once we've got over the indigestibility of the single market which is going to be, we have not yet got all the directives ready for that. But I think the most important thing is to take in the newly independent East European countries. They feel in the position between the Soviet Union which they know and the Western World, they obviously are a bit uncertain. They're obviously a bit concerned. And they want a new anchor. They're dead keen on a market economy. Their new national identity is helping to mobilize their support for quick economic reform. The view which we had taken in the European Community previously, for example, when Spain and Portugal were admitted, was – and I was foremost in putting this view – they had come to democracy, both having had a pretty awful dictatorship before. And we really should take them in, in order to keep them democratic. It was the political imperative that triumphed over the economic difficulties. The most important thing we all have to do is to extend true democracy and it has to have a free market economy underneath it. But once a country becomes democratic, we have, in my view, a bound and duty to keep it that way and help it to get the economic structures. We had to take in East Germany. We had no option. And therefore, I think that we should be very welcome and willing and ready to take in Poland, Hungary, Czechoslovakia, no matter what the difficulties, because the politics will override the economics and I think we ought to be generous realizing the tremendous changes that have taken place. That is the view which I put, that is the view the present Prime Minister and Foreign Secretary puts. We mustn't be an exclusive club and the less tight your organization, the more you have an arrangement of nation states wanting to trade freely with one another, and the less

directives, the better it will be. Thank you. (Applause)

CHAIRMAN RICHARD A. VOELL: Bill, one more, short question.

WILLIAM SCHREYER: Well, I was just going to say we'll just all remain bullish on the United Kingdom and Margaret Thatcher. But I'll give you one question perhaps. Britain and the US have long enjoyed a special relationship and at no time has this been more evident than during the recent Gulf War and the events leading up to it. How in your view will this relationship develop or perhaps change as Britain becomes ever closer to its European partners in the EEC?

THE RIGHT HONORABLE MARGARET THATCHER: The relationship with the United States, I believe, will always be closer than the relationship with other European countries. First, a common language, but that's not the only thing. It is a whole common heritage. You and I have a similar common law. We have a similar statute law. We have similar rules of construction. The kind of law which they operate in the Community – apart from Holland – is totally different. They have different rules of construction and we often find difficulty with it. We have a similar, albeit, a similar democratic system although the Congress and Parliament are different. But you take one thing after another, Magna Carta, habeas corpus, trial by jury, all of these things are part of a common heritage, part of a common approach, part of things which get in the bloodstream, which run much deeper than any cooperation we may have with some other European partners of a different culture. Of course, we cooperate with them and of course we're anxious for closer

cooperation, but nothing will ever substitute for the American - British alliance which I hope will tread the same path in the coming century as it has trod in this one. (Applause)

CHAIRMAN RICHARD A. VOELL: Mrs. Thatcher, thank you very much. It is easy to understand why Great Britain under your leadership prospered and we appreciate you for spending the time with us. Please enjoy your lunch. (Applause)