

The Economic Club of New York

336<sup>th</sup> Meeting  
85<sup>th</sup> Year

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Mikhail S. Gorbachev  
Former President of the Soviet Union

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May 13, 1992

New York City

Questioners: Martin Davis  
Chairman and CEO of Paramount Communications

Felix Rohatyn  
Partner in Lazard Freres

Introduction

Chairman, Richard A. Voell

Good afternoon ladies and gentlemen, and welcome to the 336<sup>th</sup> Meeting of the Economic Club of New York. This is really a very special meeting. It is special because not only do we have President Gorbachev with us here today, but also with him today is his first lady, Raisa.

(Applause)

It is also special because to the best of our knowledge in the 85 year history of the Economic Club of New York, this is the largest attendance for any single meeting. (Applause)

Since its beginnings, this organization has been privileged to host a spectrum of international leaders who have profoundly shaped the events of the 20<sup>th</sup> century. Our guest today is a man whose thoughts and actions have fundamentally altered the political landscape of our contemporary world. Indeed, Mikhail Gorbachev stands out, not only as a towering figure in this century, but through his vision, courage, and the sweeping changes he set in motion, stands out as one who has already done much to set the direction of the 21<sup>st</sup> century.

He brought a new openness, not only to his own country, but to the entire international community. He made possible the first decisive moves to scale back nuclear weaponry.

(Applause) He set the stage for an international reaffirmation of freedom and human rights, and

the political structures which support these fundamental values. His bold and dramatic initiatives opened the way to a peaceful transition from an old regime to a new system of government in the Soviet Union.

Thirty-two years ago, John Kennedy said that it was time for a new generation of leaders, leaders to cope with the new problems and the new opportunities. In Kennedy's own words, "There was a new world to be won."

Mikhail Gorbachev's own courage and vision are models for that new generation of leadership called for by President Kennedy. The task of nurturing such a new generation of leaders for the 21<sup>st</sup> century is one to which Mr. Gorbachev is devoting himself with his characteristic energy and intensity. And if anybody should doubt this man's energy all you would have to do is look at his calendar for the last two weeks. The International Press Corp must be absolutely exhausted.

His international foundation for social, economic and political research will train young people from a variety of Democratic parties in practical politics. With the respect that he has earned in the international community, Mr. Gorbachev has a critical role still to play in helping to resolve conflicts and build the peace. There is a new world to be won. And we are deeply grateful to you, President Gorbachev for all that you have done and continue to do for the cause of world peace. Ladies and gentlemen, it is my great pleasure to present President Mikhail Gorbachev.

(Applause)

President Mikhail S. Gorbachev

Former President of the Soviet Union

Thank you. Thank you. As I have been saying frequently, I have been spending a number of days in unprecedented direct contact with all of you. I never had this possibility before. Politicians don't have those kinds of privileges, first of all. You spend about 75% of your time and energy on protocol, and the other 30% you spend in intensive political efforts work. Cities, countries, flash by. But now, I, Raisa, my wife, and my colleagues have had a perfectly wonderful opportunity to meet Americans in following a program which had been worked out by the national committee here together with ourselves. I thank you all for this very warm welcome. I am extremely touched by the very warm and human welcome I have been receiving during my trip through the United States.

Since I have been talking about a great many things during my trip around the United States today, I want to concentrate on the Russian economic situation and its significance for the United States. I am using as a heading of my talk, the concept of investing in Russian Democracy.

I think that talking about economic cooperation with Russia, is premature, which seems as if on the agenda today, it is not a question of giving economics, it is more a question of giving economic assistance to Russia on an urgent basis, and indeed that is true.

Russia, definitely needs assistance to solve the most urgent and acute problems of getting out of the economic crisis and reaching a market economy. This assistance will at the same time, help to consolidate the young democracy in my country. And what I have in mind is investment in Russian democracy as I said. I need to hardly say that the solidarity of the world community creates what is the necessary atmosphere for success in our reforms. The necessary international democratic atmosphere. It is unprecedented in its depth and in its scale. I have a very warm appreciation for the steps made in this connection, in the United States, at the position of President George Bush and of his administration and of the American Congress.

I read with great interest the message of the President to Congress and I welcome his statement to the effect that today, the United States has before it an unprecedented historic opportunity to help freedom to flower in the new independent states which have taken the place of the former Soviet Union. The success of democracy and on the free-markets in these countries is one of the principle American foreign political objectives.

I am willing to sign my own signature to this statement by President Bush, and I want to state that here and now. Because I know from my contact with America these last several days that the discussions along these lines are already being undertaken. We are grateful to the International Monetary Fund, the International Bank of Reconstruction and Development, the government of the G7, the European Community for their assistance, their financial assistance at this particular critical time. When we are making the transition to a market economy, we have left the old

system behind and we are trying to institute a new one.

We have become convinced that the decisions which they reached last year in London, by where the President of the Soviet Union was present, and the leaders of the G7 were dictated, not by a monetary considerations but rather bore the stamp of a political principle, I know that all areas of public opinion are not quite aware of that yet. That is why; I want to emphasize this particular aspect in the position of the G7.

When Americans are asked; that they have to give assistance once more to another country, this could possibly be a cause of problems. The country is having its own economic difficulties here. Let me tell you that I tested this idea today. I was in the stock market here. And I asked what the signals from the stock market are indicating, we had not only the leaders of the stock market there, but also experts, and they gave me some agreed information indicating that the economy of the United States is slowly, at least slowly, is coming back to life...a very good idea.

(Applause)

I welcome this indeed, because this has some impact on us too. And that is why I talked about what is going on in Russia, because that affects you too. Time has gone by, when we would have considered ourselves totally out of touch with each other, and not much influencing much at all. Right now we find our interests are interconnected increasingly. And this is something which we all have to bear in mind. I think that the representatives of the business world and those who are

associated with it, the financial press and the rest, have more perhaps a realistic approach than many other people in helping us to reach a healthy economic situation in the United States and the other countries of the west are, plowing an enormous field for their own future activity in the very near future by the way. They are helping to form a market for their own products and a sphere where they can invest their own capital.

However, everyone understands that the assistance which has been talked about today is exceptional in its character. To be perfectly sincere, considering the scale of the world economy and of the Russian and of American economy, we shouldn't exaggerate the amount of the difficulty of the task that we have. We are able to spend \$63 billion to solve the Persian Gulf Crisis, and this didn't seem to cause any particular problem to those who participated, then when (laughter) we state that at this critical moment that is necessary to urgently support critical reforms in this enormous country, even though that is very difficult. Like yesterday I heard from my very good friend, who I am sure if he is here in the room now, he said, yesterday, that the cut back in the arms race has already given us a couple of dozen billion dollars and in a couple of years it will give us \$253 billion released which can be plowed back in the American economy. I am talking about my friend Donald Kendall of PepsiCo International.

We have all got our responsibilities. At this moment let me speak out openly and sincerely this way. Because of the following reason, us, when I was in a political position, I attributed great importance to establishing a relationship between our countries on a new basis, assuming that

there could be no normal relations in the world that could not be, perestroika in our country without this. The events have confirmed this. Now we have a totally different relationship. And thus, as a friend of this country and a partner and a person who believes in the potential of America, let me say, quite sincerely that any investment made will bring back returns.

What I am talking about is very urgent. Obviously no donor would be in a position to cure a sick organism, if the organism itself was not capable of mobilizing its own vital resources. I don't think that anyone here would raise any argument against that. This is particularly true with respect to such an enormous and complex organism as the economy of Russia and of the Commonwealth. To restoring health in such an enormous space would be beyond the wealth of even the most rich donor. I think that the best thing for us to do is to have mutually beneficial cooperation, therefore, not being a donor but rather investment and trade, that is how I would formulate the thesis. Enormous growth here, goes to the administration and the Congress of the United States. No one would ever say that business here is totally independent of what the government does after all, although some people do say it. (Laughter) We know that one thing depends on the other. And I want particularly to stress the significance of the agreement which was recently concluded on investment guarantees in Russia. The main force of Russian/American economic cooperation has got to be, and will be, as I am sure private business. If business is not interested, there cannot be any active involvement on a substantial role in developing of the varied economic context among our countries.



In America, firms often seem to manifest some reserve, not all of them, but it seems that the majority of them are somewhat reserved and cautious and I am referring in particular to economic and political instability in our country. That is rather peculiar that anyone should imagine that one system replaces another, without a considerable element of instability being involved. But it simply means that you have to give that much more help in such a watershed period. I know that doubts are being expressed as to the adequacy of existing legal guarantees for foreign investors. That is something I can easily understand. You can't deny it; the situation in our country is difficult at best. But, as is well known, any crisis is not only an outburst of contradictions but also represents not only an upheaval but it also contains a healing element that is a starting point for the continuation of life. Thus, from that point of view, with respect to the position in my country and on its prospects, let me make a few more comments.

As you know, from the beginning of this year, the Russian government undertook to carry out a number of radical steps for transition to the market economy. A central place in these was the liberalization of prices. I criticized the Government for its rations of these measures and for their sort of landslide impact. But, in principle I support it and continue to support this strategic course of reform. Without decisive measures, it would not be possible to prevent catastrophe. Of course, it is early now to draw conclusions, but something has already started to change there and this I think will very soon give us some reasons for optimism if, and I say if, the lessons of the early months are taken into consideration and if the necessary corrective steps are made in the policy of the Russian Government reform. At this very acute stage, we cannot think only on a

macroeconomic level. What is necessary are particular measures to correct the existing policy which would stimulate the producer and stimulate the enterprises, which would stimulate privatization and something to stabilize the ruble.

And there have to be undertaken a number of measures of social protection as well. The government of Russia has carried its reforms to the edge and if it goes over this edge, there can be a social explosion which is something we cannot permit to happen, but that is why I have refrained from criticizing the force undertaken by the government, but at the same time, I believe that it is necessary to make the necessary correctives in order to support reform.

The population is bearing the basic burden of this. There has been a sharp drop in the \_\_\_ living, especially with respect to those that do not have much to live on. There are many people who need to have their wages raised in order to cover their social needs. Indeed, Russia is going through a very difficult time. Indeed people are having a tough time. They are swearing at the authorities, and rightly so. And rightly demanding that more attention be paid to their needs, to their social protection. This makes the political situation unstable. In society there are forces which are opposed to reform, and these were the forces which were the basis of those who plotted the coup. The increase in...they raised their heads when social tension reaches a peak, and at this very acute stage in the reforms we have to make sure that they do not raise their heads again.

At the initial stage of these reforms, the reaction of the population was very sharp, as was expected, but this did not lead to the sort of reaction which some economists had, and which our press manifested. And I don't think this is due to the so-called long suffering nature of the Russians, but rather because people had hope. The great mass of the population is in favor of reform and opposed to changing course. People's social consciousness is changing radically. This is very important as well. Yesterday I perhaps too sharply expressed myself at the Council on Foreign Relations, when I said, that the new democracy cannot, in carrying through these reforms and undertaking a crucial position in this, cannot still use the methods that Stalin would have used, and treat our people the way people would have done in the past. Driving them into a free-market the way they were driven into the causes in the past.

Thus, transformation will be maintained, if and only if we are able to consider certain key factors and above all ensuring that the situation not get out of control. However acute, the criticism of the government has been made at the Congress of People's Deputies, nonetheless they are still headed in the direction of reform. These are all facts which are characterized at the stage we are going through today.

Now, that the Congress of People's Deputies has concluded and the credit and tax policy has been adjusted in such a way as not to stifle initiative and I emphasize, that contrary to promote a growth in production, especially of consumer goods, and in the service sphere and in the extraction industries and in agriculture, today at the focus of everyone's attention is the question

of energy prices. To introduce world prices on oil, is something we cannot do, but it is inevitable that prices on energy will be increased in the near future. And this is as equally inevitably this will give rise to a chain reaction in the sense that other products, or prices will also raise.

Another words we will have another downward loop in the devaluation of the ruble. I would say that this will be a decisive and perhaps the final test on the path to market relations.

I think that the reform will stand this test, at least we have to do everything and act in such a way to ensure that at this decisive moment society will be in a position to withstand these shocks.

In conclusion let me say the following. First of all, recently the question of western investors engaging in the Russian market was a purely theoretical one. But today, there is true competition for the Russian market. And businessmen in Italy or Germany, South Korea, Turkey, Greece and other countries are opening up new opportunities for themselves, actively establishing bridgeheads in our country. They have already understood that it is not just a question about the enormous consumer market or about the practically unlimited raw material resources of the country, they are also thinking about the enormous potential for science intensive industry.

Two, after seven years of perestroika, which is designed to gradually restore the country to a civilized mode of life, American capital is still practically absent in Russia. Major companies, either continue to follow the beaten track by maintaining their long-term ties with the structures of the state, or they have made only the minimum investments so as to establish a presence there.

Small and medium sized businesses have practically not engaged in the Russian market at all.

Three, the reluctance of Americans in business is perfectly understandable. In contrast to businessmen of other countries who have only recently opened up their own market economies, Americans are used to civilized forms of conducting business and prefer stable rules of the game. We know that the American character was formed by the frontier in moving boundaries which opened up in a dynamic way, territory from the Atlantic to the Pacific Ocean. It became a sort of symbol of the national energy of Americans; it regenerated the pioneer spirit, the willingness to take risks and brought American society the ideal of opening up new frontiers and a continuous desire to lay down a road on a continuous basis to prosperity and happiness. And now these qualities are the ones which made the American economy the strongest in the world. Its stable domination for decades has made businessmen able to act on a future with more calculation, and enable them to prefer reliable guaranteed conditions for expanding their investments.

Four, today the situation is changing, and the world...enormous new world is opening up in the world economic system; a large part of this being occupied by Russia. I would say this should rather be called a new frontier and this I think is not something marginal for the world economic order, but rather an event which can be of enormous influence for the whole world economy and for its future structure. As quite recently, James Baker said, quite rightly, "You must support for democracy and a free-market in Russia and in Europe, and it will serve to expand not only the zone of peace but also of progress". And this will be beneficial for all of us.

Five, today's reluctance of American businessmen could lead to disproportions which would not be beneficial to anyone. Neither to the Americans themselves, or to the world economy, or certainly to Russia either. Preliminary studies done by us with involvement by foreign firms show that the most profitable areas of activity for foreign capital are investments in modernizing the extraction and the oil refinery industries, the gas industries, in the agro-industrial sector, in communications and transport, in the defense industry conversion, and in the development of science and technology.

Six, and finally, today the eastward expansion as we may call it, is a bold adventure but not a reckless one. Indeed there is some risk, but it is one that can be calculated. Today, the situation in Russia for foreign capital is improving. The formation of a law based society is moving ahead and of a civil society. The right of private property is being recognized, although this is not adopted fully yet. We have a group of private businessmen with many of whom American businessmen can speak the same language and even, I mean, they can even speak the same English language with them. The government is orienting its reforms firmly toward a market, following world experience and gradually pulling Russian legislation up to world standards.

Another words the political and the market uncertainty of recent months has relaxed and the level of business risk to date is more or less what it is in other countries. Initially, American business might want to take a look and investigate the territory, collect information, open their offices, etc. In present conditions of non-convertibility of the ruble, the starting costs will be very

minimal. And the benefit could be enormous. Anybody who, regardless of these difficulties, comes to the Russian market today and stays there, in a few years will have the opportunity to carry through enormous projects and to extract substantial profits. Thereby unifying the power of American potential with the enormous task of creating a new civilization for all, continuing, and enriching, the noble tradition of America.

I would like to tell you, ladies and gentlemen, that I ask you to give some thought to these considerations which in these very rapid and fleeting contact I had with you; I want to extend to you. (Applause)

#### QUESTION AND ANSWER SESSION

CHAIRMAN RICHARD A. VOELL: Thank you Mr. President. The applause really speaks for itself. We will probably have a little bit of an abbreviated question and answer period. Our questioners today are the Chairman and CEO of Paramount Communications, Mr. Martin Davis, seated to my far right. And Mr. Felix Rohatyn, Partner in Lazard Freres, seated to my far left. And Mr. Davis will ask the first question.

MARTIN DAVIS: President Gorbachev you have clearly been established as the premier commentator in the West on the former Soviet Union. What place do you see for yourself in the future of the CIS and what might that be?

PRESIDENT MIKHAIL GORBACHEV: When I was stepping down as President I said that I was not running out to hide in the Taiga. I was not leaving public affairs and I was not leaving political life. In public affairs and political life there are many roles and I have chosen the role in which I act now. My near term plans do not include any plans to seek any kind of public or state office. But both in my private capacity and within the foundation which is now gaining momentum, I will do my best in order to promote and contribute to Democratic change in Russia and in the other countries of the Commonwealth. But to conclude my answer I would like to quote the same phrase that I quoted in answer to a similar question in Japan. “Everything flows and everything changes, so let us monitor those changes.” (Applause)

FELIX ROHATYN: Mr. President, you have changed the world over the last seven years, and your successor President Yeltsin is trying to change Russia, probably as radically as you have changed the world. I have heard you express concerns about the program of reform that is presently being implemented in Russia. Are you, despite your reservations, totally supportive of a program of reform, whose final results will be a market system based on private property and what could be done to make your concerns a little lesser in terms of the social repercussions of these programs?

PRESIDENT MIKHAIL GORBACHEV: I said so yesterday, I would like to repeat this today, and this is something that I have said several times. Indeed I do support fully the thrust of the



program of reform that are currently undertaken by the Russian government. What the Russian government has been doing has been consistent with the overall course of the policy of perestroika with the course of democratic change in our country. And I will continue to support this course with the resources available to me which are quite considerable. But, given the fact that you have in me a person who is more than anyone else who has a stake in the success of the policy of reform and the success of democratic change, I also have to be very attentive to the tactics of the reform and not just to the strategic thrust of our reforms. Yesterday speaking to the Foreign Policy Council, many members of which are here, as I understand, I have been giving my views and my opinion about this. And I am very pleased that in today's editorial in the *Wall Street Journal* something similar has been said to what I said yesterday at the Foreign Policy Council. The final sentence in that editorial really summarizes that all and I really share that view. When you treat a patient, you can treat him with a dose of medicine that will kill the patient. So one must not kill the patient, and that is why I am commenting on the tactics of the reform I would like the reforms to succeed and the reforms will succeed if too many mistakes are not made in the tactical conduct of the policy of reform. I don't want now to list all of my suggestions to this effect, but in very general terms I will say this, there is a need for certain adjustment in the reform, and mostly those adjustments have to be aimed at stimulating, at giving incentives to the producers. And secondly, there is a need for certain social safeguards that would make sure that the living standards of the people do not deteriorate even further because we have come to a point, which we really cannot cross, we really must not cross those points in terms of people's lives. And let us not pray to any kind of abstract blueprints, even to those who

have been invented in the most prestigious centers of academic thought. Let us see life how it is.

And I think you know that even better than I do. So this is my answer. (Applause)

CHAIRMAN RICHARD A. VOELL: Unfortunately, there will just be one more question. Mr. Davis, make it a good one.

MARTIN DAVIS: I'll go to another subject. Little has been said about China. Do you believe or think that the (AUDIO STOPS AND STARTS AGAIN...NO OVERLAP)

PRESIDENT MIKHAIL GORBACHEV: Well, I am tempted to quote Hagel who said that when someone is asleep you shouldn't wake him up, speaking of China. (Laughter and applause)

China is now on a very broad historic road, historic path. And I think that noble, good international relations are inconceivable without a contribution, a great and constructive contribution which I am sure China will increasingly make to the world. I believe that on the part of the United States and the Soviet Union and now Russia, there has been, over the past few years a very respectful attitude toward China, even though sometimes we make critical remarks about each other. And I am very pleased to say that I think that the understanding that no one has a right to play the China card, that, that would be a strategic mistake. That, that understanding is being observed. As President of the Soviet Union, I said, and I would like to repeat this now that I have even greater freedom to speak out, I would welcome a decision by the United States Congress to fully normalize relations with China. China is now involved in addressing its major

problems. China is undertaking major reforms and I am sure that cooperation with the United States, with Russia, and other countries of the Commonwealth and with other countries, that will get China increasingly involved in the development and the building of a new world civilization. Recently, we have heard statements from China, statements of Deng Xiaoping which were supported by China's leaders. Statements that do indicate that the Chinese leaders understand they have greater responsibility to their people and to the world community. And also I think we must all learn to live with each other with a full recognition of the world's diversity and the special features of every country, even though, of course, we are all part of the same civilization and there is a lot in common. And I think that if developments stay this course, I don't think that there is any need to worry about the scenario that you indicated in your question. Thank you again. (Long Applause)

CHAIRMAN RICHARD A. VOELL: Mr. Gorbachev the most important thing anyone can share is his time and his ideas, you have very generously shared both with us, and we are most appreciative. Thank you. (Applause) Ladies and gentlemen, lunch will be served immediately.