

RONALD REAGAN

December 29, 1978

The Rt. Honorable Mrs. Margaret Thatcher, M.P.
House of Commons
London, SW1A 0AA
England

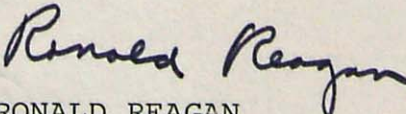
Dear Mrs. Thatcher,

It was a great pleasure to see you again and to have an opportunity to visit and exchange ideas. On my visits in France and Germany I found that most leaders share your concerns about European defense matters. I am enclosing a copy of an address I gave on my return. One of its purposes is to raise the consciousness of my own countrymen as to these concerns.

By the way, I have been telling the story of the British bread strike and the admonition to the workers to "use your loaf". I find that even though the expression isn't common here everyone gets the point very quickly.

Best wishes to you for a most successful New Year.

Sincerely,


RONALD REAGAN

Enclosure

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EMBARGOED TILL
12:00 Noon (PST)
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ADDRESS BY THE HONORABLE RONALD REAGAN
to the Los Angeles World Affairs Council
Beverly Hilton Hotel, Los Angeles, California
December 14, 1978

With increasing frequency we have read and heard of the concern of our friends and allies about what to them appear to be the on-again, off-again policy contradictions of the United States, especially in matters of collective security, NATO and disarmament. Considering this rising chorus of criticism of our country coming from leaders in Western Europe especially, I felt it was time to learn about these concerns at first hand; to have candid discussions with political leaders both in and out of government, with business leaders and with some of our own officials and scholars abroad.

My trip, beginning in late November and ending a little over a week ago, took me to London, Paris, Bonn, Berlin and Munich. In all, I had some 20 meetings and they covered virtually every topic that might concern our allies. But, all of these discussions brought us back to the underlying concerns which we share with Europe; how can the peace be maintained and how can we strengthen the bonds that unite us not only in search of a common defense, but that also link our economies in a web of interdependence?

The essential ingredients of any successful strategy designed to promote peace and to deter aggression include political, economic, military and psychological measures.

MORE--MORE--MORE

Too often we focus on the purely military aspects when we consider our own national security, and while we must always be certain that our guard is up and that we have a strong, viable deterrent force poised against any potential aggressors, this alone will not meet the requirements of the 1980s.

On this trip I had the opportunity to hold extensive discussions with leaders from government and business who are concerned with the trade talks that are scheduled to end shortly in Geneva. All of Europe (and, I might add, Japan, too) hopes for a successful conclusion to the Multilateral Trade Negotiations. But, many are concerned that -- should those talks fail -- the world could slide backward into protectionism, perhaps even touching off an explosive and devastating trade war.

We are the world's largest and most important market for finished products, and our recent staggering trade deficits -- now running on the order of \$30 billion annually -- attest to this fact. Americans, whatever else they may be or have, do possess enormous purchasing power. Others recognize this, and send their wares to our shores. From Sony television sets to Mercedes-Benz automobiles. In this holiday season we'll have our typical American Christmas -- hanging the ornaments from Hong Kong and the colored lights from Japan on a tree which in many parts of our country is imported from Canada.

We also sell to the world -- airplanes, computers, machinery and all forms of technology. Even more important, it can be said that we help feed the world, blessed as we are with the conditions that provide abundance and the ever-growing productivity of our farmers.

It is vital for the maintenance of good relations with our allies -- particularly those in Europe and Japan -- that the free flow of goods not be impeded by the beggar-thy-neighbor policies of protectionism.

My clear impression is that most of our friends abroad are convinced that their security and well-being will suffer if economic warfare should break out. Without a doubt, the NATO Alliance would be put to a supreme political test because it is inevitable that economic matters will have an unfortunate -- and perhaps devastating -- impact on our military security.

So, it is clear that Europe (and Japan) are apprehensive about United States policy on trade and economic matters. They fear most of all a faltering, divided America that continues to spend more than it takes in, whose currency remains under attack and whose broad credibility is undermined.

Our friends are concerned that we may take the first steps to erect damaging barriers to trade and commerce, and they are preoccupied with the long-range consequences of such actions.

While we have always prided ourselves on being resourceful and imaginative "Yankee Traders", we are being out-competed and out-sold throughout the world, and even sometimes here at home.

The truth of the matter is that we really do not need to export to live well and to prosper, while Europe and Japan must. They depend on access to markets abroad, and if those markets are choked off -- for whatever reason -- unemployment and economic crisis will result. Such developments can be contagious, and the industrialized world could not long endure a sustained economic conflict.

Generally, it seems to me, we are recognizing the importance of world trade to our own economy and to our prosperity. As the U.S. dollar has steadily weakened and depreciated against other currencies, one consolation is that our exports have become increasingly competitive abroad. It's expected that we can remain competitive as costs of production rise in other countries. But we'll have to work hard to maintain our share of markets, because other countries are now able to match us technologically, and there's no mistaking that they really know how to sell their products. I followed a fellow in traffic the other day who had a bumper sticker on his pickup truck -- "BUY AMERICAN". He was driving a Toyota.

In Europe recently, and earlier while in Japan, I encountered repeated criticism of U.S. business for not trying hard enough to sell its products in new markets, and for not adapting its products to the special needs of other countries. This may be true in certain instances, but I have also spoken with American businessmen who have tried hard, and who have been met with arbitrary obstructions, restrictive government practices and complicated barriers to their products.

But an equally important reason why the Yankee Trader has a hard time functioning is because his own government is one of the few in the world that has a basically adversary relationship with its nation's business community. Our government penalizes Americans working abroad by unfair income tax policies. Regulation upon regulation drives up the price of our products, making them less competitive. In most parts of the world, the Yankee Trader has been overtaken by the French, German and Japanese Trader because the Yankee Trader carries a burden of unnecessary government regulations and punitive taxes. One of our largest automobile companies employs 20,000 full-

time employees to comply with government required paper work. This must be typical of others also.

While I am for free trade, I also vigorously support fair trade and equal treatment. Our own state of California, with a gross product that ranks it among the top industrialized nations of the world, finds itself frustrated when trying to market its agricultural products in some industrialized nations -- and specifically in Western Europe and Japan. Citrus, rice, beef and other high-quality competitive products are among the best in the world, yet they cannot enter other countries under conditions that permit them to be sold competitively to the foreign consumer.

It is easy to understand that nations wish to protect their key industries -- and especially the politically sensitive ones. We have lived with this before, and we'll have to live with it in the future. There will always be exceptions to the rule of free trade. But we cannot tolerate gross discrimination against U.S. products abroad and still allow others virtually unrestricted access to our own markets. We must therefore make it repeatedly clear that reciprocity will be the governing feature of our policies. That seems to have been the basic thrust of the negotiating posture of the United States in Geneva over the past two Administrations.

Again, free trade must also mean fair trade. In spirit as well as in practice, this should be attainable by the industrial countries.

And that's why we all must hope that the industrialized world can come to agreement on the terms of international trade. It cannot be a partisan matter, nor can it be handled in a narrow, parochial manner. If we cannot succeed in reaching a workable

agreement, everyone will suffer, and the impact on those who can afford it least -- the billions who live in the underdeveloped countries will be the most severe of all.

Much of the dismay, criticism and dissatisfaction which we encounter seems to add up to an uneasy feeling that the American people have lost their national will. I think that this is not quite accurate. I travel about these United States a great deal and I sense, instead, a strong grassroots desire to reaffirm American leadership. Certainly at the polls the voters told us last month that they are sick and tired of government's excesses. In this context, I can tell you that I was frankly amazed at the fascination that British and Europeans alike have with Proposition 13 and the wave of tax revolt that is sweeping the United States. While I had gone to Europe to ask questions of others, I found that business and government leaders were eager to learn of the implications of this movement for them and for their future. As you can imagine, I wasn't bashful about discussing it.

I'd like to turn now to a subject of great concern to all of us, and one which is certainly on the minds of our European allies -- the military security of the West.

If you've visited Western Europe or Japan recently and paid a hotel bill, eaten a meal or done some shopping, your sense of insecurity will have been awakened. The dramatic drop in the value of the dollar has a sobering effect -- matched only by an equally dramatic decline in confidence in the United States.

Our national security and the performance of our economy are inseparably linked and meeting with leaders in Europe and Asia has convinced me that the world wants desperately a stable, confident, predictable America.

We may feel from time to time that our friends abroad are altogether too critical of us, and we may resent that criticism. But, what they do know and appreciate is that the United States serves as the guarantor of the peace; that we provide the umbrella of security for them and for ourselves; and that our capabilities and our resolve are absolutely fundamental to their future.

Some 16 years ago, during the Cuban Missile Crisis, the United States enjoyed an enormous strategic advantage over the Soviet Union -- about eight to one in our favor. That clear-cut superiority, coupled with our determination to remove Soviet intermediate range missiles from our doorstep, enabled us to achieve a satisfactory outcome.

Since that time, the Soviet Union, vowing never again to be caught in a position of such inferiority embarked upon a no-holds-barred effort to catch up with us. By systematically outspending us in absolute terms, and by the steady development and deployment of an awesome array of weapons systems aimed at us, at Europe and at Asia, the Soviets have largely achieved their objectives.

While there remains a dispute as to where they will go from here, there is no dispute about two fundamental points:

- (1) What the Soviets are doing in terms of weapons development exceeds by far any legitimate needs they may have for self-defense; and
- (2) If present trends continue, the United States will be assigned a role of permanent military inferiority vis-a-vis the Soviet Union.

The presence of tremendous Soviet military might on their borders has produced mixed reactions among Europeans, but all seem to share a sense of uneasiness over the implications for Europe's future. At the risk of oversimplification, I'd like to try to characterize the main streams of opinion as I found them.

One unmistakable current of opinion holds that recognition of the Soviet juggernaut is but a fact of life, and that the best one can do is to accommodate to such a reality, hoping that the Soviets will -- once they have achieved what they consider to be strategic equality with the West -- begin to devote more of their resources to domestic needs, thus reducing the chance of eventual conflict.

Another bloc of opinion recognizes Soviet might, fears that it will reach new levels and urges arms control agreements and increased trade as a means to moderate and constrain Soviet ambitions.

A third school of thought believes that the Russians are pursuing a program to achieve clear-cut military superiority over the West. Once this is accomplished they will intimidate, "Finlandize", and ultimately neutralize Western Europe. Those holding this view believe the most effective response by the West is a reinvigoration of NATO and an explicit military deployment program designed to counter the Soviet threat. They do not exclude the possibility of reaching meaningful arms control agreements, but argue that such agreements must be balanced and must contain mutual advantages; they argue that a one-sided arms control agreement would be worthless.

This range of opinion, running from what I would characterize as "accommodationist" to realist, dominates European discussions

about East-West relations and national security. Much of Europe remembers World War II, but the younger generations have only vague or second-hand recollections of it. Europe has recovered -- prosperity is everywhere -- and people are primarily concerned about the quality of life, their work and their families.

But they must also deal with the reality of Soviet tanks just three hours' drive from West Germany's capital of Bonn; with the threat of the Soviet SS-20 missiles being deployed in increasing numbers and with a range to reach every city in Europe; and with the Soviet Backfire bomber, which has a capability of delivering nuclear weapons to any point on the continent.

And, Europe is very much aware that those tanks, SS-20 missiles and Backfire bombers are not covered by the SALT II agreement now being negotiated.

We do have the capability to neutralize this growing Soviet advantage, and in ways which will not only demonstrate our determination not to fall behind, but which will also result in a more secure Europe. European realists recognize this, and urge that the United States retain, at a minimum, its bargaining advantages in the cruise missile and neutron weapons.

But there are differences of opinion in Europe concerning how to achieve national objectives and Europeans will have to resolve those differences. We are not in a position (nor do we wish) to impose our will upon our allies. Our role must be to lead within NATO and to show ourselves as a determined and capable leader.

Thus, the first requisite for peace in Europe must be a genuine partnership -- and that means common goals must be agreed upon, effective measures must be designed to achieve those goals and the alliance must work harmoniously.

Anything less will weaken the alliance structure and place our security at risk. That is unacceptable to Americans.

We must be certain that we do not send out conflicting signals. It is imperative that we stop our "on-again, off-again" contradictory policy declarations.

The present administration, for example, first promised to increase our NATO expenditures by three percent in real terms and then -- 10 days ago -- let it be known that the commitment might not be honored because of the demands of inflation. But, last week, faced with massive opposition from Europe and from those who are not afraid to speak out on the issue, it retreated by floating the rumor that it would honor the three percent commitment, but that the rest of the defense budget would be subject to substantial cuts.

Inflation, the administration claims, is the culprit; it might properly have pointed the finger at itself, because there is but one cause of inflation, and that is government itself.

In the final analysis, then, we return to some common sense precepts to guide our affairs of state. This is not to say that the world is not complex and that its problems are basically simple; everyone knows that is not so.

But because such matters appear very complex and muddled does not mean that the solutions to them must be equally complex. Just as the American soldier stationed in Germany sees the value

of his dollars erode as the level of confidence in his country declines, so also our national security -- and with it the world's -- depends on our ability to deter war, but then to fight and win any war not successfully deterred. Most Americans have no difficulty in perceiving that in order to achieve a sound national security we must be strong.

To deter war we and our allies must remain united and we must display a willingness to recognize the challenges which confront us. Those challenges are real; and while we may differ with one another here in America or abroad concerning how to meet them, we recognize that sound actions and responsible leadership are at the heart of the matter.

There may never come a day when we will see eye-to-eye on every affair of state, but we have a supreme duty to ensure that we are well informed about the challenges to our security, and an equally important duty to fight for sound, responsible measures that will ensure our survival and our growth -- in conditions of freedom and dignity.

Winston Churchill once said, "The destiny of man is not measured by material computations. When great forces are on the move in the world we learn we are spirits not animals. There is something going on in time and space and beyond time and space which whether we like it or not spells duty".

We are, it seems, a nation in transition. Polls show a majority of Americans wanting some kind of arms control agreement to ensure peace, while at the same time expressing concern about our falling behind the Soviets. That is not as contradictory as it at first may seem if we see it in terms of a transition from what might be called national self-hatred, stemming from the

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Vietnam war, to the beginnings of restoration of self-confidence. And, we must have confidence in ourselves as a people before our allies in Europe and elsewhere will regain their confidence in us as a nation.

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