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EMBARGOED TILL
9:00 P.M. EST
Thursday, April 6, 1978

EXCERPTS FROM REMARKS BY THE HON. RONALD REAGAN

EISENHOWER SILVER JUBILEE DINNER
Palmer House
Chicago, Illinois
Thursday, April 6, 1978

Unless you pulled the plug on your TV set, you couldn't help but see the Carter Travelogue last week. It bore out the old adage that Presidents--when in trouble--travel. We should have all gone with him or at least sent a card--"having a terrible time, wish you were here". Come to think of it we don't need the last half of that sentence. Does anyone in this administration know the meaning of the word "priority"? It means "the quality of being prior". In other words, somehow rolling down to Rio or dropping in on an African state (even one that isn't run by Cubans) falls short of a priority rating in view of our current domestic problems.

Someplace between a nightclub in Rio and the Ivory Coast, we who stayed home learned from the news wires that the dollar had nose dived again. Pretty soon it will be cheaper to eat money than to try and buy food with it.

About the same time we were told we had chalked up our 21st consecutive month's deficit in our trade balance and the 21st was the biggest deficit in all our 201 years. Eighty percent of that deficit is because we are spending more for foreign oil in a month than we spent in a year just five years ago.

The administration claims it has an energy plan. What it really has is the largest tax increase ever proposed in the history of our nation. Nothing in the plan will increase domestic production of oil and natural gas, but it does make possible the nationalization of the entire energy industry. When will they learn that government often does best when it does nothing? No bureaucrat has ever produced a barrel of oil. Republicans have suggested an answer to the energy problem; get government out of the way, let the free marketplace provide the incentives we need to encourage the discovery and production of more oil and gas here at home.

Another priority item is Social Security and here the administration's answer dutifully passed by a Democrat congressmen was the second largest tax increase in history. Of course, it won't begin until shortly after the November elections which can hardly be called accidental timing. In the coming campaign we aren't going to keep that a secret, are we?

By its own admission Social Security is \$17 trillion--(yes I said trillion) out of actuarial balance and tripling our payroll tax over the next 10 years doesn't solve that problem. Again it is Republicans in the Congress who have asked for a complete reform to stave off disaster. Our opponents come up with short term expedients which penalize workers and employers alike and do nothing to eliminate the problem.

And so it is with their proposed tax relief, reduction in the size of government and control over inflation. What they call a tax cut is further redistribution of earnings; taking from the productive to give to the unproductive but not reducing the overall percentage of money government is taking from the private

sector. It is hard to see how government can be reduced in size-- "streamlining" is the word the President used when he had issued an executive order that no one will be fired or demoted. In the first 10 months of 1977, 52,000 new employees were added to the federal payroll. As for inflation, it won't be cured by a \$500 billion budget with a built-in \$60 billion deficit. Every time we add a dime to inflation, government gets an additional sixteen-and-a-half cents in taxes. That makes it kind of hard to believe that their hearts are really in the anti-inflation fight doesn't it?

Never have Republicans had a greater opportunity to expose the falseness of the image the Democrats have fashioned for themselves or the one they have successfully fastened on us for 10 these many years. We can reveal the basic differences in policy between the two parties. Regardless of their campaign rhetoric the Democratic leadership cannot see the consistent failure of their well-intentioned social reforms. They refuse to give up regulations which are strangling the industrial genius of America and the government spending which robs our currency of all value. Instead they offer more regulations, more burcaus and agencies and increased deficit spending. Somehow they find virtue in preserving the status quo--that's Latin for the mess we're in.

They would have us believe that the days of growth and expansion in our land are a thing of the past. We must devote ourselves to a more equal sharing of what we have and accept a diminished standard of living. They preach a philosophy of resignation and despair; the sharing of scarcity instead of the creation of plenty. They have lost faith in the system handed to us by our fathers--they have lost faith in us.

It is time for us to raise our voices; to proclaim to Democrats, Independents and yes, to fellow Republicans that we believe the future of America is as limitless as it was when our grandfathers and their fathers before them spread out across this land, plowing, planting, building cities and towns and a network of roads to connect them.

If someone is going to tell newly arrived ethnic immigrants, our fellow Americans in the minority communities, and our own sons and daughters that America is now a place of no growth and limited opportunity--let it be the Democrat leadership. Republicans don't believe it nor do the American people. The President of the National Association for the Advancement of Colored People-- in rejecting the administrations energy plan -- said it was part of a no-growth policy; that it was alright for a 28-year-old, \$50,000-a-year-White House adviser but not for an unskilled resident of the ghetto still reaching for the bottom rung on the ladder.

We as Republicans have something to talk about, in the ethnic and minority communities, to blue collar workers, to craftsmen, farmers and shopkeepers. Our congressmen (some of the finest either party has ever sent to Washington) have given us a record. It proves which party is for creating jobs, wiping out inflation and reducing a tax burden that has become virtually confiscatory.

Five times in the last year and a half the the Democrat majority has voted against a Republican sponsored tax cut that is part of a program to stimulate investment, expand industry and create jobs. The President has said he would veto such a bill.

Phased in over a three year period it would reduce the income tax by one-third, cut the corporate tax and double the

exemption from the business surtax benefiting small business particularly. Economists have said that in that three year period alone it would add \$300 billion to the gross national product and create seven and a half million new jobs.

Our opponents have said no to this and to other Republican bills which would eliminate unnecessary regulations and reduce the blizzard of government required paperwork. It was Republicans who tried to save the B-1 bomber and who continue to work for a stronger national defense.

These are the things we must tell the people. But we must also have the courage to tell them we have run out of time in America. We cannot wait for a promised end to deficit spending somewhere down the road; a hoped for reduction in the percentage of private capital government pre-empts for its social experiments. We must tell them about the bookkeeping tricks government has used to keep them from knowing that the real federal debt is counted in trillions not billions and that our liberty itself is threatened.

This is our rendezvous with destiny.

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Crossfiled Under:

Energy - Market vs. Control 2
Social Security 2
Federal Spending 2-3
Tax Reduction 4-5

ADDRESS BY THE HON. RONALD REAGAN

To JAPANESE BUSINESSMEN

MONDAY, APRIL 17, 1978
TOKYO, JAPAN

MR. NAGANO, DISTINGUISHED GUESTS:

IT IS A DISTINCT PLEASURE AND AN HONOR TO HAVE THE OPPORTUNITY TO BE WITH YOU TODAY, AND I LOOK FORWARD TO THE OPPORTUNITY TO EXCHANGE VIEWS WITH YOU ON TOPICS WHICH ARE OF MUTUAL INTEREST AND CONCERN TO JAPAN AND TO THE UNITED STATES.

AS AN AMERICAN AND AS A CALIFORNIAN, AND AS ONE WHO HAS VISITED JAPAN IN THE PAST, I HAVE BEEN PROFOUNDLY AND DEEPLY IMPRESSED BY THE GREAT ACHIEVEMENTS AND CONTRIBUTIONS OF JAPAN TO THE WORLD AS A WHOLE, AND TO THE UNITED STATES PARTICULARLY.

MY STATE, WITH ITS LONG COASTLINE ON THE PACIFIC OCEAN, FACES JAPAN GEOGRAPHICALLY AND INTERACTS WITH JAPAN IN MANY WAYS -- CULTURALLY, ECONOMICALLY AND SOCIALLY. OUR ^{CALIF} LARGE, HARD-WORKING AND EXCEPTIONALLY TALENTED JAPANESE-AMERICAN POPULATION HAS LEFT ITS MARK IN EVERY FIELD OF HUMAN ENDEAVOR, AND HAS MADE CALIFORNIA AND AMERICA THE RICHER FOR THOSE CONTRIBUTIONS.

IN BROADER TERMS, THE RELATIONSHIP BETWEEN JAPAN AND THE UNITED STATES IS OF OVERRIDING STRATEGIC SIGNIFICANCE IN TODAY'S WORLD. THAT RELATIONSHIP IS THE KEY INGREDIENT FOR PEACE, STABILITY AND ECONOMIC DEVELOPMENT IN THE ENTIRE PACIFIC BASIN.

JAPAN'S ENTRY AS A FULL-FLEDGED PARTNER WITH THE UNITED STATES SIGNIFIED AN IMPORTANT NEW DIMENSION IN THE BASIC RELATIONSHIP OF OUR TWO COUNTRIES; THE LAST THIRTY YEARS HAVE BLESSED OUR TWO NATIONS, AND THOSE WHO SHARE OUR IDEALS, WITH UNPARALLELED PROSPERITY AND ECONOMIC PROGRESS. THE LIVES OF OUR CITIZENS HAVE BEEN ENRICHED AND THEIR HORIZONS EXPANDED. TRAVEL, NEW MEANS OF COMMUNICATION,

RR - JAPANESE BUSINESSMEN SPEECH

COMMERCE AND A COMMON OUTLOOK HAVE DRAWN US CLOSER TOGETHER, AND OUR SHARED PERCEPTION OF THE EXTERNAL THREAT TO OUR SECURITY HAS CAUSED US TO CREATE THE MEANS OF SELF-DEFENSE.

THERE CAN BE NO QUESTION IN THE MIND OF ANY RESPONSIBLE OBSERVER THAT JAPAN AND THE UNITED STATES DO INDEED SHARE A COMMON DESTINY. YET, WE RETAIN OUR DIVERSITY, OUR INDIVIDUAL WAYS, OUR CULTURE AND OUR LANGUAGE, AND WE EACH PURSUE OUR NATIONAL INTERESTS WITHIN THE FRAMEWORK OF OUR AGREED GOALS AND OBJECTIVES WHICH MAKE UP THAT COMMON DESTINY.

THE BASIC INGREDIENTS OF U.S.-JAPANESE RELATIONS ARE MANY, BUT NONE CAN BE MORE IMPORTANT THAN MAINTAINING MUTUAL TRUST AND RESPECT. MAINTAINING TRUST AND RESPECT REQUIRES GREAT PATIENCE AND, CRUCIALLY, AN UNDERSTANDING BY EACH PARTNER OF HOW THE OTHER PARTNER THINKS, HOW HE SEES THE WORLD AND HOW HE IS LIKELY TO REACT TO CHANGES AND ALTERATIONS IN THE BASIC PATTERNS OF THE RELATIONSHIP.

BEYOND THAT I BELIEVE THAT THE SINCERITY OF EACH PARTNER MUST REMAIN ABOVE QUESTION AT ALL TIMES, AND THAT EACH SIDE MUST ALWAYS DEMONSTRATE A WILLINGNESS TO DISCUSS, TO NEGOTIATE, TO COMPROMISE AND TO ADJUST TO MOMENTARY OR PASSING DIFFERENCES IN THE INTEREST OF MAINTAINING A SMOOTH-WORKING RELATIONSHIP.

AT THE SAME TIME, AND IN VIEW OF THE FACT THAT JAPAN AND THE UNITED STATES WILL NOT ALWAYS APPROACH EACH ISSUE OR EACH PROBLEM IN AN IDENTICAL WAY, I FIRMLY BELIEVE THAT THERE MUST BE A STRONG ELEMENT OF PREDICTABILITY IN OUR RELATIONS. SUDDEN, UNANNOUNCED SHARP DEPARTURES FROM THE EXISTING PATTERN OF RELATIONS WOULD BE HARMFUL;

RR + JAPANESE BUSINESSMEN SPEECH

EVEN COUNTERPRODUCTIVE. NEITHER SIDE MUST PERCEIVE THE OTHER AS ATTEMPTING TO GAIN A UNILATERAL OR SELFISH ADVANTAGE, AND WE SHOULD BE PATIENT WITH EACH OTHER.

IT IS, OF COURSE, NO SECRET THAT OUR RELATIONS IN RECENT YEARS HAVE NOT ALWAYS BEEN SMOOTH. THERE HAVE BEEN PERIODS OF "UPS AND DOWNS", AS WE SAY IN THE UNITED STATES; THERE HAVE BEEN IMPORTANT DISPUTES AND DISAGREEMENTS, AND THERE HAS BEEN A SERIES OF UNNECESSARY "SHOCKS" IN U.S.-JAPANESE RELATIONS.

IT IS MY VIEW THAT WE CANNOT AFFORD TO CONDUCT OUR AFFAIRS IN AN ATMOSPHERE OF TENSION, ^{U.S. + Japan} UNCERTAINTY OR UNPREDICTABILITY. A PARTNERSHIP IMPLIES EQUALITY AND THIS, IN TURN, REQUIRES THAT CANDID AND FRANK EXCHANGES OF VIEWS SHOULD PRECEDE ANY ACTIONS WHICH AFFECT THE INTEREST OF THE PARTNERS.

ESPECIALLY SINCE THE LATE 1960s, WHEN THE FIRST IMPORTANT TRADE PROBLEM REGARDING TEXTILES AROSE BETWEEN JAPAN AND THE UNITED STATES, THERE HAVE BEEN SEVERAL PERIODS OF UNCERTAINTY AND TENSION.

IN THE SUMMER OF 1971, AGAIN IN 1972 AND NOW, MORE RECENTLY, THE TIES OF UNDERSTANDING HAVE BEEN STRAINED BY FOREIGN POLICY OR TRADE ISSUES. ON SEVERAL OCCASIONS, I BELIEVE, MISUNDERSTANDINGS COULD HAVE BEEN AVOIDED THROUGH TIMELY ADVANCE WARNINGS AND SERIOUS DISCUSSIONS. (NOTE: RVA WILL PROVIDE THE BRIEFING ON TWO OR THREE EXEMPLARY ISSUES.)

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RR - JAPANESE BUSINESSMEN SPEECH

BOTH THE UNITED STATES AND JAPAN WERE PROFOUNDLY AFFECTED BY THE SO-CALLED "OIL SHOCK" OF 1974. WE BOTH CONTINUE TO FEEL ITS IMPACT IN OUR DAILY LIVES. BUT WITH RESPECT TO ENERGY, JAPAN CONFRONTS A UNIQUE AND POTENTIALLY THREATENING SITUATION, ONE THAT IS SOMEWHAT DIFFICULT FOR AMERICANS TO COMPREHEND. WHILE WE, A RESOURCE-RICH NATION, PRESENTLY IMPORT SLIGHTLY LESS THAN HALF OF OUR OIL REQUIREMENTS, YOU IN JAPAN ARE FORCED TO IMPORT VITUALLY 100 PERCENT OF YOUR OIL.

I SAID THAT AMERICANS -- AND OTHERS -- MAY HAVE DIFFICULTY COMPREHENDING THE IMPLICATION OF JAPAN'S ENERGY DEPENDENCE ON OUTSIDE SOURCES. WE HAVE OIL, COAL, NATURAL GAS AND OTHER FORMS OF ENERGY, AND EVEN IN AN EXTREME EMERGENCY WE WOULD BE ABLE TO SURVIVE FOR MANY YEARS. OUR COAL RESERVES, FOR EXAMPLE, ARE ESTIMATED TO BE MORE THAN 200-YEARS' WORTH. BUT YOU DO NOT HAVE THE LUXURY OF THIS "ENERGY CUSHION", AND WE ALL TOO FREQUENTLY FORGET THAT OTHERS ARE NOT BLESSED WITH OUR ABUNDANT RESOURCES.

THAT JAPAN HAS ACHIEVED THE RANK OF THE FREE WORLD'S SECOND LARGEST ECONOMIC POWER UNDER SUCH AN "ENERGY HANDICAP" IS TRULY REMARKABLE. AS HAS BEEN SAID COUNTLESS TIMES BY OTHERS, BUT WHICH BEARS REPEATING, JAPAN'S MOST IMPORTANT AND PRECIOUS RESOURCE IS THE JAPANESE PEOPLE. TOGETHER THE JAPANESE PEOPLE HAVE RECOVERED FROM A DEVASTATING WAR, REBUILT THE ECONOMY ALONG THE MOST MODERN AND EFFICIENT LINES, AND HAVE PROVIDED THE MATERIAL AND SPIRITUAL BENEFITS OF AN ABUNDANT, MODERN WAY OF LIFE.

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RR - JAPANESE BUSINESSMEN SPEECH

YET, EVEN THOUGH WE AMERICANS CAN UNDERSTAND, APPRECIATE AND EVEN MEASURE WHAT JAPAN HAS ACHIEVED IN THE LAST THIRTY YEARS, THERE IS STILL A "COMMUNICATIONS GAP" BETWEEN US. WE MUST WORK TOGETHER TO FILL THIS GAP, ALTHOUGH WE RECOGNIZE THAT IT WILL TAKE A LONG TIME AND MUCH PATIENCE.

AT THE PRESENT TIME, RELATIONS BETWEEN JAPAN AND THE U.S. HAVE EXPERIENCED SOME DIFFICULTIES IN THE FIELD OF TRADE RELATIONS. THERE ARE MANY REASONS FOR THIS PRESENT IMBALANCE, AND THEY MUST BE EXAMINED WITH CARE. BUT THE FAULT IS NOT ALL ON ONE SIDE, AND UNNECESSARY PRESSURES OR THREATS CANNOT BE THE BASIS FOR AN ACCEPTABLE AND ENDURING SOLUTION.

BETWEEN ANY TWO NATIONS WHICH EXCHANGE \$30 BILLION IN GOODS AND COMMODITIES, AS IS THE CASE BETWEEN JAPAN AND THE UNITED STATES, THERE ARE BOUND TO BE PROBLEMS -- AND THOSE PROBLEMS MUST BE DISCUSSED, WORKED OUT AND RESOLVED WITHIN THE SPIRIT OF COMPROMISE AND RECONCILIATION.

THE TRUTH OF THE MATTER IS THAT JAPAN AND THE UNITED STATES ARE FULL-SCALE, VIGOROUS COMPETITORS WHO MUST, FOR THEIR OWN MUTUAL BENEFIT AND SECURITY, PRESERVE AND DEEPEN THEIR ALLIANCE. BY PRUDENT INVESTMENTS, LONG-RANGE MARKETING STRATEGIES AND A WILLINGNESS TO SERVE DEMANDING FOREIGN MARKETS, JAPAN HAS BECOME A PREMIER WORLD TRADER.

IN THE U.S., WE WATCH TELEVISION ON JAPANESE TELEVISION SETS, DRIVE JAPANESE CARS, USE JAPANESE STEEL AND BY JAPANESE CONSUMER ELECTRONIC PRODUCTS OF ALL KINDS. JAPAN'S IMAGE IN THE UNITED STATES

RR - JAPANESE BUSINESSMEN SPEECH

IS LINKED WITH CONCEPTS OF SERVICEABLE, QUALITY-CONTROLLED PRODUCTS THAT MAKE LIFE EASIER AND MORE PLEASANT.

SOME WOULD ERECT BARRIERS AGAINST THOSE PRODUCTS, ARGUING THAT INTERNATIONAL TRADE IS A MODERN FORM OF "GUERRILLA WARFARE". MANY OF THESE PEOPLE CHERISH ILLUSIONS THAT JAPANESE PRODUCTS ARE THE CONSEQUENCE OF ABNORMALLY LOW LABOR RATES, AND THEY DO NOT REALIZE THAT JAPANESE WAGES, WHILE PERHAPS LOWER IN REAL TERMS THAN U.S. WAGES, ARE HIGHER THAN BRITISH, FRENCH, ITALIAN AND OTHER EUROPEAN WAGES. NOR DO WE OFTEN TAKE INTO ACCOUNT THE UNIQUE JAPANESE INDUSTRIAL SYSTEM OR THE "JAPANESE WAY OF DOING THINGS" WHICH ALSO UNDERLIE JAPAN'S EXTRAORDINARY GLOBAL ECONOMIC SUCCESS.

IN MANY AREAS, THE COMPETITIVE ADVANTAGE HAS PASSED TO JAPAN, AND WE ARE NOT LIKELY TO RECAPTURE IT SOON. THIS DOES NOT MEAN THAT WE WILL NOT TRY. AS TECHNOLOGY EVOLVES, AND AS TIME PASSES, WE WILL FIND OURSELVES IN NEW COMPETITIVE SITUATIONS FROM TIME TO TIME, BUT WE MUST BE CAREFUL NOT TO ENCOURAGE THE FORCES OF BLIND PROTECTIONISM, WHICH COULD SEVERELY DAMAGE OUR ALLIANCE. FOR IF JAPAN AND THE UNITED STATES WERE TO BECOME DIVIDED, NOT ONLY WOULD THE WORLD'S ECONOMIC STRUCTURE BE SERIOUSLY AFFECTED, BUT THE CAUSE OF PEACE AND UNDERSTANDING WOULD BE SERIOUSLY JEOPARDIZED.

TO IMPROVE THE UNIQUE RELATIONSHIP BETWEEN JAPAN AND THE UNITED STATES WE WILL HAVE TO WORK HARD TO INFORM OURSELVES, AND OUR PEOPLES, OF THE VITAL IMPORTANCE OF WORKING TOGETHER. OUR TWO COUNTRIES ARE INTERDEPENDENT IN THE MOST IMPORTANT SENSE OF THAT WORD, AND PUBLIC COMPREHENSION OF THIS BASIC FACT IS VITALLY IMPORTANT TO THE NATIONAL LEADERS ON BOTH SIDES.

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RR - JAPANESE BUSINESSMEN SPEECH*

I HAVE MENTIONED, FOR INSTANCE, THAT AMERICANS DO NOT HAVE A VERY CLEAR PICTURE OF JAPAN'S EXTRAORDINARY CIRCUMSTANCES; THEY LACK INFORMATION AND BASIC FACTS WHICH, IF FULLY UNDERSTOOD, WOULD CHANGE MANY PRECONCEIVED NOTIONS OR STEREOTYPES ABOUT JAPAN. PERMIT ME TO CITE A FEW EXAMPLES, USING FACTS THAT ARE SO COMMONPLACE AND ORDINARY TO LEADERS SUCH AS YOU BUT WHICH WOULD BE IMPORTANT NEW INFORMATION TO AN AVERAGE AMERICAN CITIZEN:

.. THE FACT THAT JAPAN, WITH SLIGHTLY MORE THAN HALF THE U.S. POPULATION, HAS A GEOGRAPHIC AREA SLIGHTLY SMALLER THAN CALIFORNIA IS ASTONISHING TO US, AND THAT JAPAN OCCUPIES THE POSITION OF THE WORLD'S THIRD-LARGEST ECONOMY UNDER SUCH CIRCUMSTANCES MAKES IT ALL THE MORE SURPRISING.

.. I SPOKE OF OUR LACK OF AWARENESS ABOUT JAPAN'S ENERGY DEPENDENCE, BUT THAT IS MERELY THE "TIP OF THE ICEBERG". JAPAN IS ALSO DEPENDENT ON THE WORLD AT LARGE FOR ITS RAW MATERIALS, AND FOR MUCH OF ITS FOOD. WE DO NOT SUFFER FROM SUCH AN EXTERNAL DEPENDENCE, BUT NEITHER DO WE APPRECIATE NOR UNDERSTAND SUFFICIENTLY THE IMPORTANT MARKET JAPAN CONSTITUTES FOR AMERICAN RAW MATERIALS AND AMERICAN FOOD.

.. IT IS NOW ESTIMATED THAT ONE OF EVERY SIX MANUFACTURING JOBS IN THE UNITED STATES IS DIRECTLY RELATED TO EXPORTS, AND THAT ONE OF EVERY THREE ACRES OF CULTIVATED LAND IS BEING GROWN FOR THE EXPORT MARKET. FOR INSTANCE, IN 1956 JAPAN BROUGHT \$56 MILLION WORTH OF SOYBEANS FROM THE UNITED STATES, BUT BY 1976 THAT FIGURE HAD RISEN TO \$770 MILLION. MORE THAN 13,000 POUNDS OF U.S. SOYBEANS MOVED EVERY MINUTE AROUND THE CLOCK EVERY DAY TO JAPAN.

RR - JAPANESE BUSINESSMEN SPEECH

.. JAPAN'S INDUSTRIAL RELATIONS, INCLUDING THE PRACTICE OF LIFETIME EMPLOYMENT, IS SOMETHING WHICH AMERICANS ALSO FIND HARD TO COMPREHEND. AND IN THE FIELD OF INDUSTRY'S RELATION TO GOVERNMENT, WE LOOK WITH SOME AMAZEMENT AT THE JAPANESE GOVERNMENT'S POLICIES IN COMPARISON WITH THOSE OF OUR OWN GOVERNMENT. WHILE OUR GOVERNMENT -- OR ANY GOVERNMENT, FOR THAT MATTER -- MAY NOT PURSUE POLICIES SATISFACTORY TO YOU AT ALL TIMES, THE BASIC ORIENTATION OF THE JAPANESE GOVERNMENT IS ONE OF FACILITATING GROWTH, OF HELPING INDUSTRY. FOR OUR PART, GOVERNMENT MORE OFTEN THAN NOT ADOPTS A HOSTILE, ADVERSARY POSITION TOWARD U.S. INDUSTRY.

IN SHORT, WE IN THE U.S. HAVE MUCH TO LEARN FROM JAPAN, BUT WE ARE DOING AN INADEQUATE JOB OF INFORMING OURSELVES. PARTLY BECAUSE WE ARE SUCH A HUGE AND DIVERSE COUNTRY, AND PARTLY BECAUSE WE HAVE SO MANY RESPONSIBILITIES AND PROBLEMS OF OUR OWN, WE TEND TO FOCUS ON OUR OWN DOMESTIC AFFAIRS. THUS, WE SOMETIMES OVERLOOK THE FACT THAT OUR POLICIES AND OUR ACTIONS HAVE AN UNEXPECTED OR SOMETIMES UNWANTED IMPACT FAR BEYOND OUR OWN BORDERS -- AND, AS THE SAYING GOES, "WHEN THE UNITED STATES SNEEZES, JAPAN CATCHES COLD".

COMMENCING IN THE LATE 1960S, THE U.S. BEGAN TO ADOPT STRICT ANTIPOLLUTION MEASURES. THESE MEASURES HAVE GIVEN RISE IN OUR COUNTRY TO A HUGE AND FREQUENTLY ARBITRARY BUREAUCRATIC APPARATUS WHICH ALL TOO OFTEN OVERLOOKS THE ECONOMIC COSTS OF ITS ENVIRONMENTAL GOALS. JAPAN WAS VERY MUCH INFLUENCED BY THIS MOVEMENT IN THE UNITED STATES, AND SUBSEQUENTLY ADOPTED ITS OWN STRINGENT ENVIRONMENTAL REGULATIONS, WHICH IN SOME WAYS ARE FAR MORE STRICT THAN OURS. ONE GREAT IRONY IS THAT JAPANESE AUTOMOBILE MANUFACTURERS HAVE MET BOTH U.S. AND JAPANESE STANDARDS, BUT NOW U.S. VEHICLES CANNOT MEET JAPANESE STANDARDS AND SOME ACCUSE JAPAN OF HAVING CREATED A NON-TARIFF BARRIER TO THE ENTRY OF U.S. VEHICLES!

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RR - JAPANESE BUSINESSMEN SPEECH*

ON ANOTHER FRONT, FOR THE ENTIRE POST-WAR PERIOD THE UNITED STATES PROVIDED SUPPORT AND ENCOURAGEMENT TO JAPAN'S NUCLEAR NUCLEAR POWER PROGRAM. FOLLOWING THE 1974 OIL SHOCK, AND THE SUBSEQUENT QUADRUPLING OF OIL PRICES, JAPAN'S NEED FOR NUCLEAR POWER PLANTS BECAME ALL THE MORE OBVIOUS. THEN, SUDDENLY, IN 1977 A NEW U.S. ADMINISTRATION REVERSED OUR LONG-STANDING POLICY, AND INTRODUCED MEASURES AND PRESSURES WHICH LED TO SERIOUS TENSION IN THE RELATIONS BETWEEN US.

IN THIS SITUATION, THE U.S. GOVERNMENT INSTITUTED A POLICY WHICH HAD A HIGHLY UNPOPULAR AND UNDESIRABLE AFFECT ON JAPAN, WHICH HAD LONG AGO MADE IMPORTANT COMMITMENTS AND DECISIONS REGARDING THE NUCLEAR FUEL CYCLE AND REPROCESSING OF SPENT NUCLEAR FUEL. THE NEW U.S. POLICY WAS A COMPLICATING FACTOR, ESPECIALLY IN VIEW OF JAPAN'S SPECIAL "NUCLEAR ALLERGY". GREATER UNDERSTANDING AND PATIENCE COULD HAVE MADE THIS SITUATION LESS DIFFICULT.

FINALLY, ON THE INCREASINGLY IMPORTANT SUBJECT OF INTERNATIONAL TRADE, THE UNITED STATES IS FINDING ITSELF IN A NEW POSITION. WE PRIDE OURSELVES ON BEING "YANKEE TRADERS", ACCOMPLISHED IN THE SALE AND EXCHANGE OF MANUFACTURED GOODS. UTILIZING OUR TREMENDOUS TECHNOLOGICAL SKILLS AND GREAT RESOURCES, WE HAVE MADE OUR INFLUENCE FELT ON A GLOBAL SCALE. WE FIND THAT WE CAN COMPETE WELL IN CERTAIN PRODUCT LINES, AND LESS WELL IN OTHERS. WE HAVE WITNESSED THE STEADY GROWTH OF DEMAND FOR U.S. PRODUCTS, YET WE HAVE NOT EXPLOITED OUR OWN MARKETING SKILLS TO THE MAXIMUM DEGREE POSSIBLE.

IN THIS, WE CAN LEARN FROM JAPAN. WE NOW FIND OURSELVES AT A DISADVANTAGE IN SELLING SOME PRODUCTS TO JAPAN, PARTLY BECAUSE OF OUR UNFAMILIARITY WITH THE JAPANESE MARKETING AND DISTRIBUTION SYSTEM AND PARTLY BECAUSE OF OUR UNWILLINGNESS TO MAKE LONG-TERM COMMITMENTS TO AND INVESTMENTS IN THE JAPANESE MARKET. IN ADDITION, UNTIL RECENTLY WE HAVE BEEN

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CONFRONTED WITH MANY ADMINISTRATIVE, TECHNICAL AND OTHER BARRIERS WHICH HAVE NOW BEEN LARGELY DISMANTLED,

FOR ITS PART, JAPAN MUST LEARN STILL MORE ABOUT THE UNITED STATES, OUR SOCIAL AND POLITICAL SYSTEMS AND THE WAY WE LOOK AT THE WORLD. JUST AS THERE IS A JAPANESE WAY OF THINKING AND DOING, SO TOO IS THERE AN AMERICAN WAY OF THINKING AND DOING. NEITHER YOUR WAY NOR OUR WAY SHOULD BE AN OBSTACLE IN WORKING TOWARD OUR COMMON OBJECTIVES.

OUR WELL-BEING IS DIRECTLY LINKED TO THE QUESTION OF OUR NATIONAL SECURITY, AND IN THIS REGARD WE HAVE A LONG STANDING MUTUAL SECURITY TREATY BETWEEN JAPAN AND THE UNITED STATES FOREIGN POLICY ACTIONS AND PRIORITIES, ESPECIALLY THOSE WHICH RELATE TO ASIA, ARE OF VITAL CONCERN TO YOU IN JAPAN.

THE WITHDRAWAL OF TROOPS FROM KOREA, CHANGED CIRCUMSTANCES OF OUR CHINA POLICY, THE INTENTIONS OF THE SOVIET UNION IN ASIA, ARE ALL MATTERS WHICH CANNOT BE DECIDED WITHOUT THE DEEPEST AND MOST CANDID CONSULTATIONS AND EXCHANGE OF VIEWS BETWEEN WASHINGTON AND TOKYO. AT THE SAME TIME, WE WATCH WITH GREAT INTEREST AS JAPAN HAS BEGUN THE PROCESS OF DEVELOPING ITS OWN TIES WITH THE PEOPLE'S REPUBLIC OF CHINA. THE COURSE WHICH THESE RELATIONS TAKE MAY HAVE AN IMPORTANT EFFECT ON ALL OF ASIA. WE ALSO REALIZE THAT THE PROCESS WILL OBVIOUSLY TAKE TIME AND REQUIRE PATIENCE.

AS IN ANY PERFECTLY NORMAL CLOSE RELATIONSHIP, MINOR IRRITANTS AND DIFFICULTIES WILL CONTINUE TO BE A COMMON FEATURE OF U.S.- JAPANESE RELATIONS FOR A LONG TIME TO COME. THE CHALLENGE FOR US IS TO SEEK WAYS TO INSURE THAT THE MINOR PROBLEMS DO NOT BECOME MAJOR PROBLEMS.

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JAPANESE BUSINESSMEN SPEECH

THERE IS NO MAGIC FORMULA FOR ACHIEVING THIS HAPPY STATE OF AFFAIRS, AND I WILL NOT PRESUME TO OFFER ONE. BUT IF WE CAN KEEP OUR COMMON OBJECTIVES CLEARLY IN MIND, AND IF WE CAN DRAW CLOSER TOGETHER AS WE PURSUE OUR RESPECTIVE INTERESTS, WE CAN LOOK FORWARD TO A LONG-LASTING, HEALTHY RELATIONSHIP FOUNDED ON MUTUAL TRUST AND UNDERSTANDING.

FOR THE IMMEDIATE FUTURE, THIS TASK INCLUDES AT LEAST FOUR IMPORTANT GOALS:

.. STABILIZING THE WORLD ECONOMY AND STABILIZING THE VALUE OF THE WORLD'S MAJOR CURRENCIES;

.. ADOPTING ENERGY MEASURES DESIGNED TO ASSURE SUPPLY AND SIMULTANEOUSLY PROTECT ECONOMIC GROWTH;

.. CONTROLLING INFLATION THROUGH SOUND AND PRUDENT ECONOMIC POLICIES; AND

.. INSURING A MORE OPEN WORLD-WIDE TRADING ENVIRONMENT BY COMBATING UNFAIR AND DISCRIMINATORY PRACTICES, WHILE AT THE SAME TIME RESISTING AND DEFEATING THE FORCES OF SELFISH PROTECTIONISM AND NARROW MERCANTILISTIC POLICIES.

THANK YOU. IT WILL NOW BE BY MY PLEASURE TO EXCHANGE VIEWS WITH YOU.

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ADDRESS BY THE HON. RONALD REAGAN
TO THE
CHINESE NATIONAL ASSOCIATION OF COMMERCE & INDUSTRY
TAIPEI, TAIWAN
APRIL 21, 1978

MR. CHAIRMAN, LADIES AND GENTLEMEN. IT IS A PLEASURE AND AN HONOR TO BE INVITED TO ADDRESS YOU HERE TODAY.

I HAVE BEEN LOOKING FORWARD TO THIS VISIT TO TAIWAN. IT IS MY FIRST SINCE 1971. IN THE YEARS SINCE, I HAVE READ AND HEARD A GOOD DEAL ABOUT THE GROWTH AND PROGRESS HERE, BUT I MUST SAY THAT WORDS ALONE DO NOT DO JUSTICE TO WHAT YOU HAVE ACCOMPLISHED. ONE MUST SEE THESE ACCOMPLISHMENTS WITH ONE'S OWN EYES TO FULLY UNDERSTAND AND APPRECIATE THEM.

YESTERDAY, WE SAW TWO OF YOUR INFRASTRUCTURE PROJECTS AT CLOSE HAND, THE ULTRAMODERN STEEL MILL AND THE GREAT SHIPYARD AT KAOHSIUNG. FLYING DOWN AND BACK WE GLIMPSED THE NEW PORT OF TAICHUNG AND YOUR NORTH-SOUTH SUPERHIGHWAY. AS A CALIFORNIAN, I COME FROM A STATE THAT DEPENDS ON A MODERN SUPERHIGHWAY NETWORK AND I CAN ASSURE YOU THAT YOUR NEW HIGHWAY IS ONE ANY CALIFORNIAN WOULD ADMIRE.

AT A GLANCE, TAIPEI ITSELF SEEMS ALMOST TO HAVE BEEN BUILT ANEW SINCE LAST WE SAW IT. EVERYWHERE WE HAVE GONE THERE IS ACTIVITY, ENERGY AND ALL THE EVIDENCE OF A VIROROUS AND SUCCESSFUL SOCIETY. MOST IMPORTANT, WE HAVE SEEN EVERYWHERE PEOPLE WHO ARE HARDWORKING BUT WHO ALSO SMILE, FOR HERE YOU HAVE BUILT A SOCIETY WHERE PEOPLE ARE FREE TO WORK TOWARD FULFILLING WHATEVER GOALS THEY HAVE SET FOR THEMSELVES, JUST AS THEY ARE FREE TO PURSUE ADVANCED EDUCATION AND TO PRACTICE THEIR RELIGIOUS CONVICTIONS. YOURS IS A SOCIETY IN WHICH IMAGINATION AND CREATIVITY ARE REWARDED; WHERE FAMILY VALUES ENDURE AND WHERE CHINESE CULTURE, WHICH HAS CONTRIBUTED

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SO MUCH TO WORLD CIVILIZATION, HAS BEEN NURTURED. SADLY, DURING MANY OF THE SAME YEARS THAT YOU HAVE BEEN THE PRINCIPAL CONSERVATOR OF CHINESE CULTURE, YOUR COUNTRYMEN ON THE MAINLAND HAVE FOUND THE RICHNESS OF THAT TRADITIONAL CULTURE EITHER DENIED THEM OR ATTACKED FOR POLITICAL PURPOSES.

THIS ISLAND, DESPITE ITS PHYSICAL BEAUTY, IS LACKING IN MOST NATURAL RESOURCES AND HAS LITTLE RELATIVELY TILLABLE LAND. YET, IN JUST A FEW SHORT DECADES, WORKING TOGETHER, THOSE OF YOU WHO WERE BORN HERE AND THOSE WHO CAME FROM THE MAINLAND, HAVE TRANSFORMED TAIWAN INTO ONE OF THE GREAT ECONOMIC MIRACLES OF THE CENTURY. WHAT THAT HAS MEANT IN HUMAN TERMS, OF COURSE, IS THAT THERE IS PROSPERITY FOR AN EVER LARGER NUMBER OF PEOPLE. YOU HAVE DRAMATICALLY NARROWED THE GAP BETWEEN RICH AND POOR. YOUR PER CAPITA INCOME TODAY IS ONE OF THE VERY HIGHEST IN ASIA AND IT GROWS WITH EACH YEAR. TODAY, EVEN AS YOUR INDUSTRIALIZATION PROGRAM CONTINUES AT A RAPID RATE AND MORE PEOPLE MOVE FROM THE FARMS TO THE CITIES, YOUR AGRICULTURAL PRODUCTION CONTINUES TO EXPAND. OVERALL, YOUR ECONOMY GROWS AT AN IMPRESSIVE RATE.

I CITE THESE FACTS BECAUSE THEY REFLECT A SPIRIT OF HUMAN ENDEAVOR WHICH IS ADMIRABLE BY FREE PEOPLES EVERYWHERE AND MOST CERTAINLY BY MY OWN COUNTRYMEN.

THE FACT THAT THE REPUBLIC OF CHINA ONCE USED THE HELPING HAND OF AMERICAN AID IN ORDER TO BECOME SELF-SUFFICIENT (AND THUS NO LONGER NEEDS THE AID) IS ADMIRABLE BY THE AMERICAN PEOPLE, TOO.

TAIWAN IS A NET EXPORTER. YOU HAVE A FAVORABLE TRADE BALANCE WITH THE WORLD AND YOU ARE MY COUNTRY'S 13TH LARGEST

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TRADING PARTNER. LAST YEAR, WE DID NEARLY \$6 BILLION WORTH OF
BUSINESS TOGETHER. BY CONTRAST, THE UNITED STATES AND THE MAINLAND OF
CHINA DID ABOUT ONE-TWENTIETH OF THAT AMOUNT, SOME \$300 MILLION
WORTH. YOUR FREEDOM IS CLOSELY LINKED TO YOUR ABILITY TO HAVE
UNHINDERED TRADE WITH THE WORLD.

VIVID EVIDENCE THAT OUR FRIENDSHIP IS A TWO-WAY STREET WAS
GIVEN EARLY THIS YEAR WHEN YOU SENT A SPECIAL TRADE MISSION TO THE
UNITED STATES FOR THE EXPRESS PURPOSE OF BUYING MORE THAN ONE-QUARTER
OF A BILLION DOLLARS WORTH OF AMERICAN GOODS IN ORDER TO REDUCE YOUR
TRADE SURPLUS WITH US. THIS CAME AS WELCOME NEWS IN THE U.S., FOR
OUR OWN TRADE DEFICIT WORLDWIDE HAS GONE UNBROKEN FOR NEARLY TWO
YEARS NOW AND IS CAUSING US SERIOUS CONCERN BECAUSE OF ITS IMPACT ON
AMERICAN JOBS AND FAMILIES.

NOW I UNDERSTAND THAT YOU ARE PLANNING TO SEND A SECOND TRADE
DELEGATION TO MY COUNTRY SOON WITH A SHOPPING LIST OF SIMILAR
DIMENSIONS. YOU WILL BE MOST WELCOME, I ASSURE YOU.

SO, HERE WE HAVE EVIDENCE OF EACH NATION HELPING THE OTHER.
FIRST, AMERICAN AID AT A TIME WHEN YOU WERE EMBARKING ON THE
MODERNIZATION AND INDUSTRIALIZATION OF TAIWAN IN ORDER TO IMPROVE
THE LOT OF YOUR PEOPLE. AND, NOW, YOU ARE MAKING A SPECIAL EFFORT
TO "BUY AMERICAN" AT A TIME WHEN WE HAVE A SERIOUS TRADE DEFICIT.

THIS FRIENDSHIP AND MUTUAL TRUST GOES BACK A LONG WAY. OUR
TIES ARE STRONG. THEY BIND US, BUT COULD THEY BE BROKEN? I AM
AFRAID THAT THE ANSWER IS YES, THEY COULD -- UNDER CERTAIN CIRCUMSTANCES.
BUT SHOULD THEY BE BROKEN AND MUST THEY BE BROKEN? THE ANSWER IN BOTH
CASES IS, NO, OF COURSE NOT.

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THE AMERICAN VIEW OF CHINA TODAY MIGHT BE LIKENED TO A GEMSTONE THAT IS HELD TO THE LIGHT. IF YOU TURN IT ONE WAY, IT REFLECTS THE LIGHT IN A CERTAIN WAY. BUT TURN IT, AND THE LIGHT IS REFLECTED ELSEWHERE.

TIME AND AGAIN, WHEN THE AVERAGE AMERICAN IS ASKED HIS OPINION OF OUR RELATIONS WITH CHINA, HE RESPONDS BY SAYING, YES, HE WOULD LIKE TO HAVE SO-CALLED "NORMAL" RELATIONS WITH THE MAINLAND. BUT TURN THE QUESTION AND YOU GET A MUCH DIFFERENT REFLECTION OF OPINION. WHEN THE QUESTION BECOMES, WOULD YOU BE WILLING TO "NORMALIZE" RELATIONS WITH PEIPING AT THE EXPENSE OF THE REPUBLIC OF CHINA ON TAIWAN? -- THEN THE AVERAGE AMERICAN ANSWERS WITH AN EMPHATIC "NO".

JUST LAST MONTH, FOR EXAMPLE, A WIDELY-READ WEEKLY MAGAZINE, U.S. NEWS & WORLD REPORT, PUBLISHED A NATIONWIDE POLL IT HAD COMMISSIONED. IN ANSWER TO THE STATEMENT "THE U.S. SHOULD RECOGNIZE MAINLAND CHINA AND GIVE UP RECOGNITION OF TAIWAN", A MAJORITY CLOSE TO TWO-THIRDS -- 58 PERCENT TO BE EXACT -- SAID "NO". ONLY 20 PERCENT SAID "YES". ANOTHER 22 PERCENT SAID THEY HAD "NO OPINION". THIS LATTER GROUP MAY REFLECT SOME OF THE CONFUSION THAT HAS BEEN CREATED IN THE UNITED STATES BY THOSE WHO HAVE BEEN PRESSING FOR IMMEDIATE "NORMALIZATION" OF RELATIONS WITH PEIPING.

THE "NORMALIZATION NOW" VIEW IS ARTICULATED FREQUENTLY BY A FEW U.S. SCHOLARS AND IT IS SOMETIMES BELIEVED TO REPRESENT MOST INTELLECTUAL THOUGHT ON THE SUBJECT IN AMERICA. ON THE CONTRARY, A STUDY DONE RECENTLY BY A RESEARCH GROUP AT BROWN UNIVERSITY REVEALED THAT A CROSS-SECTION OF INTELLECTUALS AND OTHER OPINION

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LEADERS HOLD SIMILAR VIEWS TO THE GENERAL PUBLIC ON THE "NORMALIZATION"
ISSUE BUT ACTUALLY HOLD THEM MORE STRONGLY.

FOR EXAMPLE, 72 PERCENT OF THE 1,800 LEADERS SURVEYED
BELIEVE THAT UNILATERAL U.S. DERECOGNITION OF THE REPUBLIC OF CHINA
AND DISENGAGEMENT FROM OUR SECURITY RELATIONSHIP HERE WOULD HURT
U.S. LEADERSHIP AND CREDIBILITY IN ASIA. AN EVEN HIGHER NUMBER,
93 PERCENT, BELIEVE THAT THE UNITED STATES SHOULD NOT ACCEPT PEIPING'S
THREE CONDITIONS IN ORDER TO ACHIEVE "NORMALIZATION".

AMONG THOSE SURVEYED BY THE BROWN UNIVERSITY RESEARCH TEAM
WERE MEMBERS OF THE UNITED STATES CONGRESS, MEMBERS OF THE NATIONAL
COMMITTEES OF OUR TWO BIG POLITICAL PARTIES, STATE GOVERNORS AND
STATE LEGISLATIVE AND POLITICAL LEADERS, NEWSPAPER AND TELEVISION
EXECUTIVES AND EDITORS.

STILL, WE MUST NOT UNDERESTIMATE THE INFLUENCE OF THAT
RELATIVELY SMALL NUMBER OF AMERICAN SCHOLARS AND COMMENTATORS WHICH
IS PRESSING THE NORMALIZATION ISSUE ESSENTIALLY ON PEIPING'S TERMS.
THEY ARE WIDELY PUBLISHED AND QUOTED IN OUR NEWSPAPERS AND MAGAZINES
AND THEY HAVE SOME ADHERENTS IN OUR FEDERAL GOVERNMENT.

I HAVE READ THEIR ARGUMENTS MANY TIMES. THESE ARGUMENTS
CONTAIN A BUILT-IN CONTRADICTION. ON THE ONE HAND, THEY SAY THAT
PEIPING SEES MOSCOW AS THE GREATEST THREAT TO WORLD PEACE TODAY AND
THAT WE MUST TAKE ADVANTAGE OF THIS TO MAKE AN ALLIANCE THAT WILL
INHIBIT THE SOVIET UNION FROM EXPANDING ITS INFLUENCE AND PROVOKING
CONFLICT. YET, ON THE OTHER HAND, THEY ALSO ARGUE THAT UNLESS THE
UNITED STATES RUSHES TO "NORMALIZE" ITS RELATIONS WITH PEIPING, THE
LEADERSHIP THERE WILL SUDDENLY DROP US AND EMBRACE MOSCOW IN A NEW ALLIANCE.

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WHICH WOULD HAVE OMINOUS OVERTONES FOR AMERICA'S FUTURE SECURITY.

IN ADDITION TO THAT CONTRADICTION, THERE IS AN ODD QUALITY
TO THEIR DISCUSSION OF TAIWAN IN THE ARGUMENTS THEY PUT FORTH.

THEY TALK OF TAIWAN AS IF IT WERE SOMETHING ABSTRACT AND NOT A REAL
PLACE POPULATED BY 17 MILLION REAL PEOPLE WHO WANT NOTHING MORE NOR
LESS THAN TO BE FREE TO DETERMINE THEIR OWN DESTINY.

THOSE IN MY COUNTRY WHO ARGUE FOR IMMEDIATE NORMALIZATION
ALSO CONTEND THAT IF PEIPING WOULD ONLY GIVE QUIET ASSURANCES THAT
IT WOULD NOT ATTEMPT A MILITARY CONQUEST OF TAIWAN IN EXCHANGE FOR
"NORMALIZATION", THEN YOUR SECURITY HERE WOULD BE ASSURED. PEIPING'S
ANSWER TO THIS, AS YOU KNOW, HAS BEEN ECHOED TIME AND AGAIN BY ITS
LEADERS. THEY INSIST THAT ONCE "NORMALIZATION" IS ACHIEVED WHAT
THEY DO ABOUT TAIWAN IS NOBODY ELSE'S BUSINESS. IF YOU DO NOT
FIND THEIR STATEMENTS REASSURING WHEN IT COMES TO YOUR OWN FUTURE,
ONE CAN HARDLY BLAME YOU.

YET, WE MUST ALL ADMIT THAT THERE IS A CERTAIN LOGIC TO
THEIR STATEMENT. AS YOU KNOW, THE AMERICAN DECLARATION IN THE
SHANGHAI COMMUNIQUE OF 1972 CONTAINED THESE LINES: "THE UNITED
STATES ACKNOWLEDGES THAT ALL CHINESE ON EITHER SIDE OF THE TAIWAN
STRAIT MAINTAIN THERE IS BUT ONE CHINA AND THAT TAIWAN IS A PART
OF CHINA."

IF, IN ORDER TO "NORMALIZE" RELATIONS WITH PEIPING, THE
UNITED STATES WERE TO ACCEDE TO ITS THREE DEMANDS -- BREAKING
DIPLOMATIC RELATIONS WITH THE REPUBLIC OF CHINA, BREAKING OUR
MUTUAL DEFENSE TREATY OF 1954 AND WITHDRAWING OUR REMAINING MILITARY
ADVISORS -- THEN PEIPING COULD INDEED ARGUE, WITH SOME LOGIC, THAT

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TAIWAN AND THUS ALL OF ITS PEOPLE HAD BECOME AN INTERNAL MATTER AND NO LONGER ANY OF AMERICA'S BUSINESS. BUT, IN ORDER FOR ALL THAT TO HAPPEN, THE UNITED STATES WOULD HAVE TO AGREE TO THE THREE DEMANDS AND, AS I HAVE SAID, THE GREAT MAJORITY OF OUR PEOPLE AND MOST OF THEIR OPINION LEADERS DO NOT WANT THAT TO HAPPEN.

THOSE WHO ARGUE FOR "NORMALIZATION" FOCUS THEIR ATTENTION ON FINDING SOME SUPPOSED "FORMULA" FOR PREVENTING MILITARY TAKEOVER OF TAIWAN BY PEIPING'S FORCES. BUT THEY FORGET THAT THERE IS MORE THAN ONE WAY TO WAGE WAR. ONE NEED NOT NECESSARILY DROP BOMBS OR SHOOT CANNONS. ECONOMIC WARFARE CAN BE JUST AS REAL AND JUST AS DEVASTATING. WHAT ASSURANCE WOULD THERE BE, IF THE UNITED STATES DID AGREE TO THE THREE DEMANDS, THAT PEIPING WOULD NOT USE ECONOMIC WEAPONS TO BRING COMMUNIST CONTROL TO TAIWAN?

THOSE AMERICANS WHO PUT FORTH THE SO-CALLED "JAPANESE FORMULA" AS AN ANSWER FORGET THAT THE JAPANESE FORMULA WAS MADE POSSIBLE BECAUSE JAPAN HAD NO MUTUAL SECURITY TREATY WITH THE REPUBLIC OF CHINA AND BECAUSE THE UNITED STATES WAS CONTINUING ITS CLOSE SECURITY TIES WITH THE REPUBLIC OF CHINA. WITH SOUTH KOREA, JAPAN AND THE REPUBLIC OF CHINA -- ALL IN ALLIANCE WITH THE UNITED STATES -- FORMING A SECURITY SHIELD IN THE WESTERN PACIFIC, MAINTENANCE OF JAPAN'S ECONOMIC RELATIONSHIP WITH TAIWAN CONTINUED TO BE POSSIBLE WHILE IT ALSO DEVELOPED A MAJOR ECONOMIC RELATIONSHIP WITH THE MAINLAND. THERE WAS, IN EFFECT, NO PRICE TO PAY FOR THE FORMULA.

FOR THE UNITED STATES THERE WOULD BE A SERIOUS PRICE, FOR ITS RELIABILITY AS LEADER OF THE NON-COMMUNIST WORLD AND AS AN ALLY WOULD BE CALLED INTO QUESTION. AS I HAVE SAID, THE AMERICAN PEOPLE

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CONTINUE TO EXPRESS THEIR STRONG BELIEF THAT ABANDONING A GOOD FRIEND AND ALLY TO AN UNKNOWN FATE IN ORDER TO "NORMALIZE" RELATIONS WITH PEIPING IS NOT WORTH THE PRICE OF AMERICA'S CREDIBILITY. INDEED, WHEN FRIENDS OF THE UNITED STATES HAVE ALREADY HAD REASON IN RECENT YEARS TO QUESTION AMERICA'S RELIABILITY AS A FRIEND, THE ACT OF BREAKING A TREATY WITHOUT DUE CAUSE WOULD HARDLY BE REASSURING TO OUR OTHER ALLIES.

THE ADVOCATES OF "NORMALIZATION" TEND, ALSO, TO FORGET THAT THE SHANGHAI COMMUNIQUE ITSELF DOES NOT HAVE THE FORCE OF A TREATY. IT WAS SIMPLY A DECLARATION OF INTENT AND A DESCRIPTION OF THINGS AS THEY WERE BY THE LEADERS OF TWO GOVERNMENTS AT THE TIME. THOSE TWO LEADERS DO NOT GOVERN TODAY.

UNITED STATES SENATOR JACOB JAVITS OF NEW YORK MADE THE POINT WHEN HE WAS HERE LAST DECEMBER THAT THE UNITED STATES SHOULD LOOK UPON SOUTH KOREA, JAPAN AND THE REPUBLIC OF CHINA AS ITS WESTERN FRONTIER, JUST AS IT CONSIDERS EUROPE AS ITS EASTERN FRONTIER. HE MADE THE POINT THAT ENCOURAGEMENT OF LATERAL SUPPORT BETWEEN SOUTH KOREA, JAPAN AND THE REPUBLIC OF CHINA "DOES NOT REPRESENT ANYTHING UNFRIENDLY" TO EITHER PEIPING OR MOSCOW. I THINK IT IS A GOOD POINT. IN FACT, SUCH ENCOURAGEMENT WOULD TEND TO CLARIFY FOR ONE AND ALL THE UNITED STATES' OWN DEFINITION OF ITS SECURITY INTERESTS AND WOULD HAVE THE HELPFUL EFFECT OF NOT ALLOWING FALSE IMPRESSIONS TO DEVELOP IN THE AREA OF DETENTE.

ALL OF THIS IS NOT TO SAY THAT AMERICA'S FRIENDSHIP WITH THE PEOPLE OF THE MAINLAND OF CHINA CANNOT GO FORWARD AND BE DEVELOPED WITH CARE ~~AND~~ ^{BUT} ONLY IF IT DOES NOT JEOPARDIZE OUR CLOSE FRIENDSHIP

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WITH YOU HERE. THE TRADITION OF FRIENDSHIP OF THE AMERICAN PEOPLE FOR THE CHINESE PEOPLE IS A LONG ONE AND MANY INDIVIDUAL AMERICANS ARE DESIROUS OF VISITING THE MAINLAND WHILE OTHERS WANT TO DEVELOP MORE TRADE. SUCH THINGS NEED NOT BE INCONSISTENT WITH THE PRESENT STRONG TIES WE HAVE WITH YOU.

JUST THE SAME, WHEN IT COMES TO THE MAINLAND, MY COUNTRY MUST PROCEED WITH ITS EYES OPEN. FOR EXAMPLE, MUCH NEWS HAS EMANATED FROM THE MAINLAND IN RECENT WEEKS ABOUT A SO-CALLED "LIBERALIZATION" OF CONDITIONS FOR THE PEOPLE THERE. WE HEAR ABOUT CHURCHES BEING ALLOWED TO RE-OPEN; ABOUT SOME OF THE YOUNG PEOPLE WHO HAD BEEN FORCED TO MOVE FROM THE CITIES TO THE COUNTRYSIDE BEING ALLOWED TO RETURN. WE HEAR ABOUT OVERSEAS CHINESE BEING ALLOWED TO VISIT THE MAINLAND MORE EASILY THAN BEFORE IN ORDER TO BE REUNITED WITH FAMILY MEMBERS AND OLD FRIENDS. WE EVEN HEAR THAT PEIPING IS ENCOURAGING SOME KINDS OF CRITICISM OF OFFICIALDOM.

ALL OF THIS MAY BE WELL AND GOOD -- IF IT IS TRUE. BUT, IN MY COUNTRY, THE PEOPLE OF THE STATE OF MISSOURI HAVE A SAYING THAT EXPRESSES THIS SKEPTICISM WELL. THEY LIKE TO SAY, "SHOW ME!"

FOR A LONG TIME, THE REPUBLIC OF CHINA HAS BEEN SHOWING US HOW WELL ITS SOCIETY WORKS. HUNDREDS OF THOUSANDS OF VISITORS COME AND GO AT WILL EVERY YEAR. PEOPLE WORK AND LIVE WHERE THEY WISH. THEY WORSHIP AS THEY WISH AND THEY PARTICIPATE ACTIVELY IN THE PROCESS OF GOVERNMENT.

AS TO PEIPING, I THINK MY COUNTRYMEN WILL CONTINUE TO SAY "SHOW ME" FOR SOME TIME TO COME.

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IN FACT, ONE WONDERS JUST HOW DEEP THE COMMITMENT TO THE LIBERALIZATION OF HUMAN RIGHTS REALLY IS IN PEIPING, WHEN THE DECLARATION IS MADE, AS IT WAS AT THE "NATIONAL PEOPLE'S CONGRESS" IN LATE FEBRUARY THAT (QUOTE) "THE CHINESE PEOPLE'S LIBERATION ARMY MUST MAKE ALL THE PREPARATIONS NECESSARY FOR THE LIBERATION OF TAIWAN." (UNQUOTE). DOES THAT SUGGEST PEACEFUL INTENTIONS" ONE MUST WONDER. ONE MUST WONDER ALSO ABOUT THE QUALITY OF LIFE ON THE MAINLAND WHEN SEVERAL THOUSAND OF ITS CITIZENS RISK THEIR LIVES EACH YEAR TO ESCAPE ACROSS THE BORDER INTO HONG KONG.

AND, ONE MUST WONDER, WHEN LOOKING BACK OVER THE SEVERE REPRESSIONS OF THE PEOPLE OF THE MAINLAND FOR SO MANY YEARS, WHETHER THE RECENT TALK OF LIBERALIZATION OF POLICIES DESCRIBES A SITUATION THAT IS MORE APPARENT THAN REAL.

THAT IS A QUESTION THAT ONLY TIME CAN ANSWER. AND, SPEAKING OF TIME, TIME ITSELF IS A FACTOR IN THE AMERICAN DILEMMA OVER CHINA. WE AMERICANS LIKE TO THINK OF OURSELVES AS PROBLEM-SOLVERS. HISTORICALLY, I THINK IT HAS BEEN ONE OF OUR GREATEST STRENGTHS, FOR IT HAS PERMITTED US TO SOLVE VERY GREAT TECHNICAL, SCIENTIFIC AND ENGINEERING PROBLEMS OVER THE YEARS. BUT, THERE IS AN OPPOSITE SIDE TO THAT COIN, SO TO SPEAK. IT IS THAT WE ARE ALSO AN IMPATIENT PEOPLE. WE DO NOT LIKE TO SEE PROBLEMS LEFT UNSOLVED. WE ARE RESTLESS UNTIL WE HAVE DISPOSED OF THEM. IN FACT, WE SOMETIMES RUSH TOWARD WHAT WE THINK IS A SOLUTION ONLY TO FIND OUT LATER THAT THE "SOLUTION" TURNS OUT TO BE A NEW SET OF PROBLEMS. OFTEN, IN OUR GOVERNMENT, ELECTED REPRESENTATIVES WILL SEE A PROBLEM AND, WITH GOOD INTENTIONS, RUSH THROUGH LEGISLATION TO CURE IT, ONLY TO DISCOVER LATER THAT THE CURE WAS WORSE THAN THE "DISEASE". SOMETIMES THEY

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EVEN FIND CURES FOR WHICH THERE ARE NO KNOWN DISEASES. WE KNOW THAT WE ARE IMPATIENT, BUT WE DO NOT CHANGE. THAT IS A REALITY WE MUST ALL DEAL WITH. I THINK IT EXPLAINS IN PART WHY THE ADVOCATES OF "NORMALIZATION" IN THE UNITED STATES ARE SO ANXIOUS TO COMPLETE THE PROCESS. IT MAY JUST BE A CASE OF THAT NATIVE AMERICAN RESTLESSNESS. IRONICALLY, THESE SAME "NORMALIZATION" ADVOCATES OFTEN CITE IMPATIENCE BY PEIPING AS A REASON FOR GOING AHEAD. THEY SUGGEST THAT IF WE DON'T HURRY OUR PRESENT LEVEL OF FRIENDSHIP WITH THE MAINLAND WILL DETERIORATE AND PEIPING WILL RUSH INTO THE ARMS OF MOSCOW. BUT, IF THAT WERE TO HAPPEN, IT WOULD BE BECAUSE PEIPING HAD DECIDED IT WAS IN ITS OWN SELF-INTEREST TO DO SO. AND, ANY GOVERNMENT THAT ACTED WITH SUCH CALCULATING PRAGMATISM MIGHT BE JUST AS LIKELY TO THROW OVER AN ALLIANCE WITH THE UNITED STATES AT SOME FUTURE DATE IF IT FELT IT WAS IN ITS BEST INTERESTS TO DO SO.

THIS ARGUMENT OF THE "NORMALIZATION" ADVOCATES IN MY COUNTRY IS SELF-DEFEATING. FURTHERMORE, THERE IS NO OUTWARD EVIDENCE FROM THE MAINLAND THAT IT FORESEES A DETENTE WITH THE SOVIET UNION. ON THE CONTRARY, PEIPING'S LEADERS ECHO AND RE-ECHO THE THEME THAT THE SOVIET UNION POSES THE GREATEST THREAT TO WORLD PEACE TODAY AND THAT THE UNITED STATES IS, TO THEM, A "LESSER EVIL". CERTAINLY, THE PRESENCE OF NEARLY A MILLION SOVIET TROOPS IN THE VICINITY OF THE CHINESE BORDER MUST GIVE PEIPING AMPLE CAUSE TO WORRY ABOUT RUSSIAN INTENTIONS.

BUT, LET ME RETURN TO THIS IMPATIENCE WHICH THE AMERICAN "NORMALIZATION" ADVOCATES ASCRIBE TO PEIPING. BECAUSE IMPATIENCE IS AN AMERICAN CHARACTERISTIC, IT IS PERHAPS NATURAL FOR THEM TO

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ATTRIBUTE THE SAME CHARACTERISTIC TO OTHERS. YET, THE VERY OPPOSITE IS TRUE IN THIS CASE. CHINESE PEOPLE ARE KNOWN FOR PATIENCE RATHER THAN IMPATIENCE. AND, WHEN PEIPING SENDS SIGNALS TO MY COUNTRY THAT IT IS GROWING IMPATIENT OVER THE FAILURE FOR "NORMALIZATION" TO PROCEED I SUSPECT IT MAY BE THEY ARE USING WHAT MIGHT BE CALLED "REVERSE PSYCHOLOGY" ON US.

IF EVER THERE WAS A CASE WHERE PATIENCE IS CALLED FOR -- AS WELL AS THE PASSAGE OF TIME -- IT IS IN THIS MATTER OF U.S.-CHINESE RELATIONSHIPS.

AFTER ALL, IN THE SHANGHAI COMMUNIQUE WE SAID THAT MATTERS REGARDING TAIWAN WERE TO BE SETTLED BY THE CHINESE PEOPLE THEMSELVES. THIS REQUIRES THE PASSAGE OF TIME. ANY IMPATIENCE BY THE UNITED STATES TO CONCLUDE THIS MATTER NOW CAN ONLY BRING ABOUT WHAT AMOUNTS TO AN IMPOSED SETTLEMENT, FOR IF WE DID COMPLETE "NORMALIZATION" UNDER THE CONDITIONS PEIPING HAS SET DOWN, WE WOULD, IN EFFECT, SEAL THE FATE OF THE REPUBLIC OF CHINA. IT IS HARD FOR ME TO BELIEVE THAT ANY SENSIBLE AMERICAN WHO BELIEVES IN INDIVIDUAL LIBERTY AND SELF-DETERMINATION WOULD STAND BY AND LET HIS GOVERNMENT ABANDON AN ALLEY WHOSE ONLY "SINS" ARE THAT IT IS SMALL AND LOVES FREEDOM.

THE DAYS AHEAD WILL NOT BE EASY ONES, BUT YOU KNOW THAT. IN MY OPINION THE REALITIES OF AMERICAN POLITICS ARE SUCH THAT OUR GOVERNMENT WOULD NOT BE PERSUADED TO MOVE ANY CLOSER TOWARD SO-CALLED "NORMALIZATION" THIS YEAR. AFTER ALL, WE HAVE NATIONAL CONGRESSIONAL ELECTIONS THIS NOVEMBER AND ELECTED REPRESENTATIVES DO NOT LIKE TO HAVE TO ANSWER FOR UNPOPULAR POLICIES. DEPENDING UPON THE OUTCOME

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OF THAT ELECTION, THOUGH, I THINK YOU CAN EXPECT THE ADVOCATES OF "NORMALIZATION" TO BEGIN RAISING THE SAME ARGUMENTS AGAIN NEXT YEAR THAT THEY RAISED BEFORE, PERHAPS WITH AN EVEN GREATER SENSE OF URGENCY AND RESTLESSNESS THAN BEFORE.

AS YOU MOVE AHEAD, YOU HAVE CHOSEN WISE LEADERS TO CONTINUE THE BUILDING OF YOUR SOCIETY. I OFFER MY CONGRATULATIONS TO THE PEOPLE OF THE REPUBLIC OF CHINA AND TO PRESIDENT-ELECT CHIANG AND VICE PRESIDENT-ELECT SHIEH ON THEIR FORTHCOMING INAUGURATION.

ONE OF THE BEST GUARANTEES OF YOUR CONTINUED FREEDOM TO GUIDE YOUR OWN COURSE IS THE VERY CLOSE BUSINESS AND TRADE TIES YOU HAVE DEVELOPED WITH THE UNITED STATES. THESE TIES HAVE LED TO DEEP, LONG-LASTING PERSONAL FRIENDSHIPS AS WELL AND BOTH THE TRADE AND PERSONAL TIES STAND AS A BULWARK AGAINST SUDDEN CHANGES IN THE RELATIONSHIP BETWEEN OUR TWO COUNTRIES. THAT IS GOOD, FOR NOTHING MUST BE DONE THAT TEARS ASUNDER THE FRIENDSHIP BETWEEN US THAT HAS BEEN BUILT ON THE HIGHEST OF HUMAN IDEALS.

THANK YOU.



DEAKNEWS

PUBLISHED BY THE DEAK-PERERA GROUP

Foreign Money
Remittances
Gold Coins
Silver Bars
Gold Certificates
International Banking
Blocked Funds
Foreign Drafts
Foreign Collections
Perera Express Travelchecks
Foreign Travelchecks

TRAVEL AGENTS SELL CURRENCY UNDER DEAK-PERERA PLAN

Soon it will be possible for a traveler living anywhere in the country to go into his local travel agency and buy the currency and travel checks he needs to go anyplace in the world.

This service is part of a new Deak-Perera program called "Travelers Currency Exchange." And it verges on being a revolution in the field of international travel.

It was launched April 21 at, appropriately enough, the "Windows Of The World" restaurant, high atop New York City's spectacular World Trade Center, with a gala press luncheon.

Under the program, each travel agency which chooses to participate becomes a satellite Deak-Perera

office. The travel agent will be able to mail order any of 120 foreign currencies or any of seven foreign travel checks for his customers from one of five regional Deak-Perera offices. The customer can even **charge** his purchase. As part of the "Travelers Currency Exchange" service, travelers will receive useful information.

"We're living in a different world today than we used to 10 years ago," Deak-Perera President Nicholas L. Deak told reporters and travel agents, explaining that with the loss of confidence in the dollar abroad, travelers "don't want to take chances." The company's Marketing Vice President R. Leslie Deak,

who headed development of "Travelers Currency Exchange," expanded on this theme.

"No longer is it possible for Americans to travel to Europe or Asia or South Africa with dollars," the younger Deak observed. "They're just not as acceptable anymore." Deak-Perera Executive Vice-President Otto E. Roethenmund made the analogy of a foreign traveler coming to the United States and trying to use **his** native currency. The rules changed in 1971, when Roethenmund recalled being stranded without purchasing power in Japan after all trading in dollars ceased amid the foreign exchange tumult attending

(Continued, p. 2)

USING THE STOCK MARKET TO GAIN HARD ASSETS AN INTERVIEW

(First of a three-part series)

There are some good reasons why the stock market should be regarded with a healthy disrespect. But should it be ignored?

Trying to keep an open mind on the subject, DEAKNEWS interviewed two rather unique stockbrokers, Arthur N. Zahos and George L. Knutson, President and Executive Vice-President respectively of Crucible Securities Corp. and its investment advisory subsidiary Crucible Capital Management Ltd.

Convinced that political realities dictate a worsening inflationary spiral, Zahos and Knutson are great believers in gold, which makes them a rare breed among stockbrokers. They nevertheless believe that a highly selective, conservative approach to the stock market can yield good results in terms of capital growth for their clients. And their track record over the past 15 years, when they were portfolio managers with other large brokerage firms, seems to bear this out.

The recently formed Crucible Securities Corp. has a close working relationship with the Deak-Perera Group. At a time when the market is inspiring boredom and despair among most investors, despite its recent brief awakening from a somnambulant state,



George L. Knutson (l.) and Arthur N. Zahos (r.), Executive Vice-President and President respectively of Crucible Securities Corp., study latest stock prices in Manhattan office. Zahos and Knutson have apparently found a successful way of using the world's biggest market. They explained how in an interview in their offices at 29 Broadway in New York City. The following is the first part of that interview which will be continued in the June issue:

DN: Let's start off with the stock

market. What do you think is the cause of the recent bull rally, if it can be called that?

KNUTSON: We stopped following the Dow Jones Industrial Average and the broad-based indices over two years ago. We have not thought that they are particularly representative of what's going on in the marketplace. . . . To be honest we don't know where the Dow Jones Industrial Average is going, and I suppose we really don't care where it goes. We have found that our studies lead us to a variety of investments in the U. S. stock market that have relatively low-risk characteristics and have very adequate funda-

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CURRENCY EXCHANGE (Cont.)

President Nixon's "closing of the gold window." "I'm afraid it can happen again," he warned.

Because of the decreased acceptance of the dollar and because of the uncertainty in the currency markets, Leslie Deak recommended that all travelers take a minimum of \$50-100 in foreign currency with them, wherever they go. In the first place, he noted, it is "just not the case" that one can get better rates abroad. In fact, he noted, a traveler may pay a 20% premium if he waits to buy currency upon arriving at the airport or from a hotel clerk. Under the new program, he said, the normal rate for foreign currencies would be only about 2-4% above the "inter-bank rate" (the rate for very large purchases of foreign funds). "This premium is virtually the same everywhere in the world," Deak noted.

But the "big difference," he went



Deak-Perera Executive V.P. Otto Roethenmund (l.), President Nicholas Deak (c.) and Marketing Vice-President Leslie Deak (r.) stand on world map amid foreign flags at New York "money meeting."

on to say, is not any rate advantage one may obtain, but the "convenience of having the money when you arrive."

As innovative as the "Travelers Currency Exchange" program is, most people, including most journalists—and even most travel agents—do not comprehend foreign exchange. It is viewed as obscure, complicated and, hence, something to be avoided. How then was the press luncheon, or "money meeting" as it was called, able to attract every publication from the *New York Times* and *Wall Street Journal* to *Seventeen* and *Esquire* magazines? How do you get so many jaded journalists to come and listen to a presentation on foreign exchange? And, for that matter, how do you get them to understand it? Very simple: you give them 1000 yen. Not as a bribe of course, but as playing money in a very special game—the foreign exchange game.

At the door, each reporter and travel agent was required to ex-

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CRUCIBLE INTERVIEW (Cont.)

mentals. . . . And we can tell in most cases because of the way they trade, principally by analysis of volume, that these very stodgy companies, some of which have not moved for over a decade, are in the process of very positive change in terms of their price movement on the various exchanges. So if we can find stocks that have very good balance sheets, very good (profit and loss) statements in half-way decent industries, that have reasonably low multiples with relatively heavy dividend yields . . . we assume that a positive shift in volume in a stodgy stock . . . is **positive**, and hence we can buy the stock with relatively little risk, and with the expectation of substantial upward price potential. . . . If we had had our eyes locked on the Dow Jones Industrial Average, we would have been negative, and we wouldn't have bought a thing, and we would have kept our money in bonds I suppose, and in an inflationary environment we would have lost money. We

"We still think that there are substantial investments that can be made in the stock market with relatively little risk and with reasonably high expectations of profit potential. . . ."

still think that there are substantial investments that can be made in the stock market with relatively little risk and with reasonably high expectations of profit potential. . . . I suppose we are bullish short-term. It has nothing to do with our long-term attitude, which is probably as negative as you will find.

DN: This sounds like a pretty unorthodox view. I gather that what you are saying is that if one can be very selective, and of course, very astute in choosing one's stocks, there is still money to be made. But as far as the general market is concerned, would you classify yourself as bearish? Mr. Zahos?

ZAHOS: As far as the general market is concerned on a long-term basis we are bearish. . . . We are bullish on certain stocks or certain groups of stocks. . . . We are not bullish on the old favorite 50, the Dow Jones or the institutional fa-

vorites. We don't believe these stocks have bottomed out yet. They have come down in price over the past 18-24 months, and they may rally a bit, . . . but I don't think the long-term downtrend is over yet. We'll know when it's over. . . . But in the meantime our posture is: what does one do in the U. S. securities market? I don't think an investor today, whether he is investing domestically or internationally, in precious metals, bonds, currency or what-not, can afford to overlook the U. S. securities market. It is the largest financial market in the world, bar none. One day's trading on the major U. S. markets exceeds the total of what Europe does on a combined basis.

DN: It is exceeded now, is it not, by the commodities market in terms of volume?

ZAHOS: Well, the commodity

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Hawaii Conference — Reagan Interview:**REAGAN SLAMS CARTER
ON INFLATION, PRAISES GOLD**

The decline of the U.S. dollar, which seems apt to continue following an April correction, "simply reflects that we're not doing what we should be doing, which is to control inflation," said former California Governor Ronald Reagan in an interview with DEAKNEWS at an April financial conference in Hawaii.

Reagan was the keynote speaker at the Bank of Hawaii's "Investment and Economic Conference" in Honolulu, where some 200 investors gathered to hear a list of speakers that also included Rep. Phil Crane, Deak-Perera Executive Vice-President Otto E. Roethenmund and Louis Rukeyser, well-known host of television's "Wall Street Week," whose wit and outside perspective was the catalyst for the seminar.

When asked whether he would be willing to make the weakness of the dollar and the need to return to some form of gold standard priority issues in a future Presidential campaign, Reagan replied, "I don't know if I can comment specifically on that." However, he went on, "I believe that it would be beneficial if we saw more private contracts made in gold."

"There is no control on the printing press" in the United States, observed the 1976 contender for the Republican Presidential nomination, warning, "No nation has ever survived fiat money."

DEAKNEWS asked Reagan whether it wasn't time for the Republican Party to emphasize economic issues such as taxation, inflation and the currency's depression, in preference to social and foreign policy issues. Reagan replied by decrying the Panama Canal treaties as "just another example of the weakness in the foreign policy area." But he added, "foreign policy is no good (as an issue) if economic pol-



Ronald Reagan (l.) back on hustings with wife Nancy (r.) at Hawaii investment conference.

icy is falling apart." He commended Rep. Jack Kemp's (R-N.Y.) tax cut as a good economic policy initiative. Referring to the Carter Administration, the onetime actor charged, "No one can call for a \$500 billion budget and a \$60 billion deficit and claim that he is fighting inflation."

This same question of legislative priorities was put to Congressman Crane. He responded that such issues as the Panama Canal are important and help garner support for conservatives, but he conceded, "if we cannot reach out to the working class on economic issues, the others are transitory." He noted that he and Rep. Kemp tried to do this recently when they met with a labor union group in Youngstown, Ohio, where several thousand people had been thrown out of work by burdensome government regulations. Crane said they found these union members blame unemployment on government over-regulation and destruction of the "climate for investment."

Crane warned in his speech that government's uncontrolled spending and its "vested interest in inflation" are leading to a "massive capital shortfall" in the private sector. As

the government's proportion of income taken from taxpayers to provide for "tax consumers" approaches 50%, he said the United States is reaching a point where "no man can any longer argue that he is a free person." Still, Crane was optimistic that it is politically feasible to "relatively reduce the size of government" by limiting total spending, while spurring the private sector through tax cuts.

Other speakers were not so sanguine about the possibilities of stopping the spending-taxing-inflating juggernaut. The consensus seemed to be among all but a couple speakers that the government will be forced into hyperinflation.

One speaker, former New York Federal Reserve officer and Citibank speaker, Vice President John Exter prefers, as always, to believe that a "deflationary depression" will happen first. American banks "have violated the cardinal rule not to borrow short and lend long" and "have been willing to become illiquid (by "postponing repayment" of loans) on a scale that I never dreamed possible," said Exter, predicting a "liquidity squeeze" and a bursting of the inflationary bubble.

But even Exter now seems to be waffling on the inflation vs. deflation debate. He said banks, in cooperation with the Federal Reserve, "might manage to keep the debt pyramid growing," in which case debts would eventually become "worthless," in other words—hyperinflation. Again, he qualified his deflationary prediction by saying, "I'm only talking about the next few years." After that, he added, "we could have more inflation," which implies that deflation would be a mere interlude.

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CRUCIBLE INTERVIEW (Cont.) market is totally different. . . . (It) has expanded dramatically in the past 10 years. . . . There has been a dramatic upswing in participation. The commodity market is not for all participants, however. The commodity market is basically a two-pronged operation for the traders who use the commodities and the speculators who take up the slack. And it takes a certain type of individual to be able to utilize this market.

DN: Getting back to this current "bull rally" once more, . . . in terms of inflationary values, the Dow Jones average would have to be . . . as high as 1900 to really be classified as a new high. How much further do you see this rally going?

KNUTSON: Well, as I said we don't track the Dow Jones Industrial Average any longer. If we thought it was an important index then we would do something with it. We have found that the American stock exchange index has gone to new highs. The NASDAQ over-the-counter index has gone to new highs. And the Dow Jones Industrial Average has done absolutely nothing. The significance of this is nothing more than bank trust departments running into trouble in their stocks, which are the very heavily capitalized issues on the exchanges, and a shifting from stocks to bonds. Hence there has been selling in the Dow Jones Industrial Average stocks and in the institutional stocks. That's why they haven't performed. . . . Our attitude is, if a bank owns a stock in any significance, it's probably a weak stock. We believe that bank trust departments are very weak holders of securities. Institutional stocks held by bank trust departments . . . are the new odd-lot indicator.

DN: Can you give some examples of the kind of stocks you are talking about?

KNUTSON: IBM, Xerox, Merck,

"A \$300 million gold sale is really just a subway token. We are selling off one of the few hard assets we have left."

International Flavors and Fragrances, Equity Funding, Eastman-Kodak, Franklin Mint, and some other gems that the institutions fall in love with. Our replacement for IBM has been Superior Oil, and now Superior Oil is the highest priced stock on the New York Stock Exchange. IBM has been at virtually the same price for over a decade, despite the fact that their earnings have tripled. That has to tell you that somebody is selling that stock in spite of increasing fundamentals in terms of earnings. . . . On the other hand, if you have a stock like Superior Oil, with a beautiful 10-year base and no substantial institutional interest in it and a tremendous asset position in crude oil, you

have to believe there is some room there for upward price movement.

DN: So you're saying that the fundamentals may be basically the same between Superior Oil and IBM, but because institutional investors are more enamored with IBM, that's the kiss of death, so to speak?

KNUTSON: I would say it's a question of being overowned. There are two elements to a price-earnings multiple. There's earnings, which in the case of IBM are very good, and there's price, which over the past 10 years has been very negative, because it's been an overbought institutional stock. That can take 10-20 years to work itself out. Our clients don't have 20 years to wait. ■

(To be continued)

CONFERENCE (Cont.)

And even Exter agrees with the inflationary viewpoint that gold is the best hedge investment. In fact, when it came to proposing sample portfolios, the deflationary prophet urged a larger proportion in gold than anyone else. At the same time, in a seemingly contradictory position, he warned against investing in strong foreign currencies, arguing that "no currency can for long stay stronger than the dollar. . . . Mark my words, the dollar is going to get strong."

Exter warned, for example, that the Swiss economy cannot bear further appreciation of the franc and hence will fall in value relative to the dollar. "I would not regard (the Swiss franc) as a long-term solution to your problem," Exter advised investors. Thus far this analysis is belied by the success with which Swiss, as well as German, exports have been able to stay competitive in world markets, because real export prices have increased much less than nominal increases in the exchange rate, thanks to lower costs.

Pointing to this record, DEAKNEWS asked Exter whether he

thought the Swiss would be able to cope with appreciation of their currency. He replied that "if the Swiss would let their wages drop as fast as their currencies rise they would not be hurt at all," but since this doesn't seem likely, he predicted "even the Swiss will eventually suffer unemployment." He stated the franc "will not go above 56 cents."

Roethenmund took exception to this view. "As long as the U. S. is going to keep a budget deficit, the Swiss franc will get stronger," he told a workshop audience. "There is no end to where the Swiss franc can go." He noted that despite a more than doubling of the franc's value in the past seven years, Swiss trade surpluses are "bigger than ever."

This view was echoed by **World Market Perspective** Editor Jerome Smith, in response to a question from DEAKNEWS. "There are no limits on U. S. inflation," Smith asserted, "and therefore I have to conclude that viz a viz a nation that is not inflating, there is no limitation to how much the dollar can depreciate against the Swiss franc, and no limit to how much the Swiss

(Continued, p. 7)

GOLD MAKING COMEBACK DESPITE TREASURY SALE

The big news of April was not the stock market rally or the dollar correction or the U. S. Treasury gold sale announcement. It was the Common Market's movement toward monetary union, backed in part by gold.

It was an eventful month. As DEAKNEWS anticipated, the Treasury confirmed what it had denied for so long—that it intends to sell some of the U. S. gold stock, beginning late this month. Not so coincidentally, the announcement came after the startling rush of the Dow Jones Industrial Average—a run-up of about 70 points within two weeks at this writing, with a new one-day volume record of 67 million shares.

Simultaneously the dollar recovered a few square yards of its acres of lost ground. The dollar-stock recovery came on the strength of improved industrial statistics, a decline in the U. S. trade deficit from March and heightened anti-inflation rhetoric backed by some credit tightening moves by the Federal Reserve. These later turned out to be fairly slim reeds, in light of the latest consumer price index horror story—a 9.6% increase in April on an annual basis—and in light of a first quarter trade deficit of a record-shattering \$11.2 billion. Wholesale prices rose more than 15% in April on an annual basis!

Anyone who is aware of the pending gold sale is also aware of how pitifully small it is: a mere 300,000 ounces per month over the next six months, or a little over \$300 million worth at current prices. It is far less than the 525,000 ounces being sold monthly by the International Monetary Fund, and those sales have long since become negligible in impact. One day's transactions in the gold futures market can easily surpass it.

Interviewed in New York, Deak-Perera President Nicholas L. Deak

said there may be a short-term "psychological impact" on gold markets, but he said the amount offered "doesn't make the slightest impact." Even if the entire U. S. gold stock, valued around \$50 billion in market price terms, was sold, "it wouldn't solve the heavy dollar overhang" (estimated at around \$500 billion outside the U. S.), Dr. Deak observed.

"It makes a very poor impression on European central banks and the banking community," he continued, taking issue with the popular belief that the gold sale signifies a U. S. intention to support the dollar. "Traditionally strong currency countries always have more respect for gold than paper money, and now that they have been told the Treasury is going to dispose of its gold they will have even less respect."

The European respect quotient seems particularly apt to fall as time goes on, and the underlying factors behind the dollar decline go uncorrected. As Sen. Jesse Helms (R-N.C.), who introduced a bill in March to require the Treasury to mint half-ounce and one-ounce medallions in the event of a sale, said in a statement, "Selling gold today to aid the dollar is attacking a flood with a sponge. It treats one symptom of the dollar's decline—the dollar price of gold. It will not cure the sickness—massive deficit and expansionary monetary policy." The looming gold medallion bill may have been one factor in the timing of the gold sale. Although the sale would seem to preempt it, Chris Lay, an aide to Rep. Steve Symms (R-Idaho), who introduced the House version of the medallion bill, said the Congressman will continue to push for sales to the public.

The ongoing discussions among the nine Common Market countries on how to bring currency stability to

their trade bloc bears heavily on gold, despite the studious efforts of most observers to ignore it. (DEAKNEWS has been forecasting such a move for a couple years now.)

It now appears that these nations are moving tentatively but determinedly toward a new alignment of currencies, utilizing a pooling of central bank reserves, among which is gold. The up-til-now neglected European Unit of Account, a partially gold-backed clearing unit, would be used more extensively in settling trade transactions among members. Eventually, to be successful, the monetary policies of the participating nations would have to be rationalized. Meanwhile, currencies would be allowed to fluctuate against each other within a broad 10% range, with pooled reserves (including gold) being used to intervene to maintain the currencies' interrelationships.

The world is still nowhere near being back on the gold standard, but whether politicians like it or not, the yellow metal is making a roaring comeback. The fact that it is so much in the news is an indication. Early in April, for example, Japan announced it had decontrolled import-export transactions in gold.

Switzerland, after moving much of its gold in New York home to Zurich, announced a proposal to eliminate its formal 40% gold-backing requirement for currency in circulation in an effort to dampen speculation in the Swiss franc. This proposal must be approved by the Swiss Parliament and then by the people in a referendum, assuming sufficient signatures are gathered. Swiss Embassy Economic Counselor Silvio Arioli told DEAKNEWS, "if normal procedure is followed, it could be terminated by the end of the year," but he added, "I really doubt that the

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CURRENCY EXCHANGE (Cont.)

change these yen for 80 Belgian francs and 2000 Italian lira. Once inside, they found themselves in a strange, new (but very real) world of fluctuating currencies. Initially, it took 500 Lira to buy a drink and 20 Belgian francs to purchase an hors d'oeuvre.

Suddenly an announcement was made: "We have just received news of a weakening of several of the world's currencies. Because of this we are obliged to adjust our rates." Now, an hors d'oeuvre cost 40 Belgian francs, and a drink 1000 lira. These rates held awhile, but then another dramatic announcement was made: "We have just received confirmation of news of the worst kind. The world currency markets are in total chaos." The markets were closed, but being a good host, the company invited all its guests to lunch. There was a catch, however. The only thing a guest could use to get into lunch was his secret Swiss bank account book, which each guest had received.

A silly game perhaps, but it brought home what travel abroad is really about. It is to help travelers cope with this chaotic currency world that "Travelers Currency Exchange" was started. Using either cash or a "cash advance" through "Visa" or "Mastercharge," the traveler can **fix his rates before leaving the country** by purchasing banknotes and travel checks through a participating travel agent.

He can order pre-packaged currencies in \$50 "starter packs," \$100 "touring packs," or \$150 "custom packs." On the same application, he can order English, Italian, Dutch, Swiss, French, Japanese or Spanish travel checks. (The minimum order here is \$150). There is a 1% charge on foreign travel checks to cover issuers' commissions. For the total order of currency and travel checks, there is a \$2.50 shipping and insurance charge. The company

BAHAMAS CONFERENCE

Renowned financial writers Harry Schultz and Harry Browne will join Deak-Perera Executive-Vice-President Otto E. Roethenmund and many other participants at an early June investment conference in the Bahamas.

The "Fourth Annual Summer Off-Shore Seminar," sponsored by the National Committee for Monetary Reform, will be held June 1-4. It will feature a total of 15 speakers, as well as 9 "question and answer workshops." The conference is "designed for investor guidance during today's climate of monetary crisis," according to organizer Jim Blanchard.

Topics to be discussed include not only the regular fare of currency and precious metals and economic prognostication, but also such topics as real estate, diamonds, stamps, estate planning and legal tax avoidance.

Advance registration is \$295 per person or \$495 for husband and wife. The fee includes two luncheons and three cocktail parties as well as admission to all conference activities. To register write to NCMR: 1524 Hillary St.; New Orleans, La. 70118. Or call either (504) 865-9919 or 865-7561. For hotel reservations and special reduced air fares, call toll free to (800)-525-2837.

advises travelers that payment should be received a minimum of 10 days prior to their departure date. If, upon returning, they have left over currency, they can convert it to dollars by registered mail for a 1% fee.

In addition to their foreign money, travelers will also receive some excellent new literature to help them understand the currency and customs of the countries they are going to visit. A special "Currency Guide and Travel Tips" brochure has been prepared for each of 11 most-visited nations. These brochures tell everything from the country's customs and health regulations to how to shop, tip, travel and use a telephone there. It also contains a currency conversion guide to help the traveler determine the dollar value of a given amount of, say, German marks. (Special brochures have also been printed for France, Greece, Great Britain, Israel, Italy, Japan, Mexico,

Netherlands, Spain and Switzerland.)

In addition to services to their clients, travel agents themselves get new services under the program. Travel agents must constantly worry about making remittances abroad in connection with tour packages, and about collecting on foreign checks. By trying to pay in dollars, an agent may find himself either overpaying or underpaying a foreign bill—depending on what is happening to exchange rates. And collecting on a foreign check can be more trouble and expense than it is worth.

Under the new program, however, travel agents can avail themselves of the experience and international connections of the Deak-Perera Group to make a remittance or a collection abroad for a flat charge of \$1.00. That is the cost of a foreign draft purchased from a Deak-Perera office in the exact amount of currency needed to pay a bill. As for collections, when a travel agent receives a check written in another currency, he can simply endorse it "payable to Deak-Perera," and he will be paid the dollar equivalent at current rates minus a \$1.00 fee.

Of course, all these services have been offered before, but never have they been so accessible to the public. The program is administered by five Deak-Perera regional offices in Chicago, Los Angeles, New York, San Francisco and Washington, D. C. And each of these cities will soon have their own "money meetings" to promote the plan.

Thousands of travel agents all over the country have been sent packages containing all the information and materials they need to start offering "Travelers Currency Exchange." A number have already joined. An agent's commission is fairly small—.5%—but it is an additional, easy-to-render customer service that few can fail to see the advantage of. If your travel agent fails to get the message, why not mention it to him? ■

CONFERENCE (Cont.)
franc can appreciate.”

The conference had its share of “gloom and doom,” but with a difference—a pessimism tempered by a determination to deal with and even profit by coming economic problems. Dr. Hans Sennholz, economics professor at Grove City College, went so far as to exhort: “These are years of excellent opportunity to make a fortune. . . . Dr. Sennholz also came up with a new first in long-term investment advice: “plant black walnut trees.”

More than anything else, the conference seemed to signify a move to diversify investments. The presence of non-“gold bug” Rukeyser as Master of Ceremonies was symbolic of a greater openness toward the full range of investment alternatives.

DEAKNEWS asked Rukeyser his opinion of the real cause of the dollar's decline, how much more could be expected and what role gold should play in a typical portfolio. “Over the next year we are not going to see a repeat of the disastrous performance we've seen in the last year,” opined the television personality. He attributed this outlook to improved Administration economic rhetoric; a probability that the “faster U. S. growth rate (relative to the rest of the industrial world) will be less of a factor this year;” the “beginnings of a price advantage for U. S. goods,” and the “beginnings of some improvement” **on oil.**

Rukeyser said that the long-term depends on whether U. S. inflation continues to be higher than in Europe and on whether the U. S. stimulates domestic energy production. If these problems are not solved, then “those holding dollars will be holding currency with decreasing value,” he warned. Rukeyser allowed that “there will be times to buy gold and times not to buy gold,” but for now he suggested holding gold coins as 10-15% of a portfolio

An interesting tactical approach

DEAK-PERERA TO PROVIDE GOLD COINS TO FUND SHAREHOLDERS

The first American mutual fund to make its dividends payable in gold is using Deak-Perera (Washington) as its source of gold coins and as its payment intermediary.

Research Capital Fund, Inc. of San Mateo, California, a member company of Franklin Distributors Inc., is offering its shareholders the option of having their dividends paid in any of three types of coins through the Washington office of the Deak-Perera Group.

Under this new plan, Research Capital Fund shareholders who wish to participate in the gold payment program authorize the company's transfer agent to make their dividend checks payable to Deak-Perera (Washington). At the same time, these shareholders authorize the latter to purchase gold coins with the proceeds from the dividend checks it receives.

At its discretion, the Washington office will use the proceeds to buy Krugerrands, Austrian 100-Coronas and/or Mexican 20-Pesos, depending on which coin is the best bargain at the time. The coins are purchased at a volume price of about \$1 above the inter-dealer rate. The coins are then sent to the share-

was suggested by Morgan Maxfield, namely to follow the Federal Reserve's “discount rate” (the rate the Fed charges when it lends to member banks) as part of a new strategy for what he calls “the pendulum era of economics.”

As a general rule, he said, when the discount rate is falling, government is fighting recession and this is a good time to expand a business and invest in the stock market and a bad time to own gold. And when the discount rate is rising, as now, government is fighting inflation—a bad time to be in the stock market and a good time to invest in gold, ac-

holders, with shipping charges running \$5.50 for three coins or less, with declining rates per coin for larger numbers. Any funds remaining after the cost of the coins and the shipping charges are subtracted from the proceeds of the dividend checks are returned to the shareholders with the coins. Sales taxes are charged only on shipments within the District of Columbia.

If dividends are insufficient to buy at least one coin, they are returned to the shareholder. Research Capital Fund recommends additional purchase of its shares in that event. At any time, a shareholder may stop the gold-payment arrangement by notifying the transfer agent, Applied Financial Systems, Inc., in writing at least 10 days before his “record date.”

Shareholders who wish to split their dividends between gold coin payments and dollars, or who want to reinvest part of their dividends in additional shares can do so by establishing two separate accounts with the Fund. Further information on this innovative new program can be obtained by writing to: Research Capital Fund, Inc.; 155 Bovet Road; San Mateo, Calif. 94402. ■

cording to Maxfield. In the near future, Maxfield sees discount rates as high as 8½% by year-end, with a 10% prime interest rate. He also predicted, agreeing with Exter, that within the next year, “short term rates (will be) higher than long term rates,” the conditions for a liquidity squeeze. Further, he predicted a move out of currencies into gold.

With the exception of James McKeever, who advised everyone to sell gold in October and move “heavily” into stock warrants and options, there was hardly anyone who did not feel that 1978 is a good time to invest in gold. ■

BULLION PRICES

(April)

GOLD

(London P.M. Fixing)

| | |
|---------------------------------|----------|
| High..... | \$188.40 |
| Low | 167.65 |
| Year Ago (April 28, 1977) | 145.60 |

SILVER

(N.Y. Spot)

| | |
|---|---------|
| High..... | \$ 5.39 |
| Low | 4.92 |
| Year Ago (April 28, 1977 trading price) | 4.68 |

GOLD (Cont.)

Parliament can act on it by the end of this year." The citizens would have three months following enactment to petition for referendum, and a year would likely follow before an actual vote is taken, according to Arioli.

Regardless of the outcome, the Swiss franc is sure to stay heavily backed by gold. In fact, the government may even buy more. The Swiss constitution requires the franc to be backed by gold and foreign currencies. The 40% gold backing is a **legislative** requirement, which in practice has been exceeded over two-fold.

Shortly after the Treasury announced its gold sale, the Indian government announced one of its own. The sale is even less significant than the U. S. one, as it is confined to Indian citizens. It is designed to counter the increased gold smuggling into India.

Finally, as mentioned in these pages before, the central banks are now free to buy and sell gold at market-related prices. It seems just a matter of time before they start utilizing this tool. As Jerome Smith noted at the Hawaii conference, central banks have some \$150 billion in reserves and "would rather have gold in their coffers than dollars." They thus have a natural incentive "to buy a little here, a little there." When that begins to happen, gold will rise inexorably no matter how much gold the U. S. sells. ■

CURRENCY NOTES

CANADIAN DOLLAR—As far as it is below the old one-to-one parity with the U. S. dollar, there is little of a fundamental nature that can cause an about face in the Canadian dollar's decline as yet. Much lower levels could be tested. This is not only because of the Quebec situation, which by now is becoming a rather tepid affair, but more importantly because of disastrous government policies which have driven up both inflation and joblessness, and have succeeded in giving Canada the dubious distinction of being one of the few industrial nations with a weaker currency than the United States. With the Trudeau government doing an increasing amount of borrowing abroad, additional problems of foreign debt are being created which will be difficult to unwind.

DEUTSCHEMARK—While remaining steady to stronger against most currencies, the Deutschmark could fall further behind parity with the Swiss franc. Finance ministers and central bankers, German or otherwise, cannot always be taken at their word, but the increasing amount of "reflationary" rhetoric emitted by Otmar Emminger and his underlings—designed to appease American and British inflationary cravings—cannot be ignored. Fundamentally, the Deutschmark is as sound as ever, for price inflation has been kept low despite large money stock increases. German exports are doing quite well in most markets, despite the currency's appreciation. And so it seems likely the Deutschmark will continue to rise, unless rhetoric becomes reality and West Germany joins the inflationary parade.

FRENCH FRANC—As it begins to appear likely that France will once again enter a broadened (in terms of membership and flexibility) version of the European currency joint float "snake," the franc looks to continue firm. The Barre plan continues to impart economic stability, and interest rates, though falling, are still high enough to attract foreign capital.

JAPANESE YEN—It is becoming increasingly clear the yen is overvalued, much to the dismay of many Japanese firms. But it remains to be seen whether the recent correction, from 217 back to 226, is a major reversal or just a temporary phenomenon. Trade surpluses are still growing, and hence speculative yen fever can be expected to continue. Japan has recently liberalized foreign exchange restrictions governing the outflow of capital, and interestingly enough, decontrolled export-import transactions in **gold** at the same time, but this will have little effect on the exchange rate short-term.

SWISS FRANC—will stay firm, and possibly much stronger. Recent restrictions, reported changes in banking law and in the gold backing of the franc all pale into insignificance, when properly understood and when measured against the very real strengths of the Swiss system and its currency. Whether or not de jure change in the 40% gold-backing requirement for currency in circulation is made, the **de facto** gold backing of **well over 100%** will not change. Talk of eliminating banking secrecy emanates from the tiny Swiss socialist party and is given very short shrift outside the pages of American newspapers, according to knowledgeable Swiss sources. These same sources told us the recent constitutional granting of additional powers to the Swiss National Bank merely gives the authorities added "flexibility" and does not signal any worrisome policy changes.

U. S. DOLLAR—Positive industrial statistics, a slight improvement in trade and a resultant stock market rally, coupled with a meaningless gold sale announcement, helped fuel a dollar revaluation in April. However, the overaweing political factors—unprecedented deficit spending, near-double-digit consumer price rises and the all-too-familiar policy-making muddle-headedness—dictate further weakness.



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This newsletter is neither an offer to sell, nor is it a solicitation for purchase of investments. It is produced for subscribers who are interested in the services of our company, the economic conditions that affect those services, and our analyses of current monetary events.

Draft--RR/RNC tv taping for 5/31/78.

When May 6 rolled around this year, chances are you didn't think of it as a special day. But it was. It was Tax ~~Freedom~~ Freedom Day. According to the Tax foundation, that was the day when the average American worker stopped working to pay for his taxes and began working for the benefit of himself and his family. You might say it was the day you got government out of your pocket.

Still, ~~when you~~ every time you get paid it ^{probably} feels as if government ~~is still there,~~ ~~is still there,~~ ~~has never gotten out of your pocket.~~ Your cost-of-living wage increase is eaten up by the surtax brackets you're thrown ~~into~~ into when you get a raise. And government's hidden tax -- inflation -- makes ~~you~~ the dollars you do get to keep worth a little less every day.

Tax Freedom Day comes a little later every ~~day~~ ^{year} too. That's because government gets bigger every year. Today, government at all levels is taking nearly 40 percent of the American people's income.

And, if you work in private business or industry you're one of the _____ million American men and women who provide every last nickel to run that giant called government.

~~But~~ Of course, ~~the~~ government employees pay taxes, too, but ~~the~~ the money ^{to} ~~to~~ pay their salaries in the first place comes from those of you who work to produce the goods and services that keep our economy rolling.

Can anything be done about the crushing tax load and the galloping growth of government? Yes, but it won't be easy. There are a lot

of people in important jobs in Washington who believe that they know better than you how to run ~~the~~ and plan your life. In the process, they'll extract Washington's usual carrying charge. The fact is, the nation's capital has become our only recession-proof city and government has become the nation's most predictable growth industry.

Despite his promises, things haven't ~~been~~ changed under Mr. Carter, and the Democratic leadership in Congress still trots out the same tired old schemes, instead of solutions. They use the term "tax reform", which somehow always turns out to be a tax increase.

When it comes to creating jobs, ~~that's~~ the only thing they can think of is more make-work public jobs. But the money for those jobs has to come out of your pocket in the form of taxes.

The solutions are staring them in the face, but none are so blind as those who won't see. ~~If you want~~ To create real, lasting jobs that produce tax revenues--not eat them up--we need to free the ~~pent-up~~ ~~pent-up~~ pent-up energy in the American economy. We need growth -- a bigger pie so everybody can have a slice. Not the same pie (or a smaller one as the "no growth" people want) sliced ~~thinner~~ ever thinner. ~~pieces.~~

Earlier in this program you heard about one solution proposed by Republicans in Congress: the Kemp-Roth plan which would cut the average family's income tax load by one-third over a three year period. Three times in this century we have had major across-the-board tax cuts (twice under Republicans, once under a Democrat, John F. Kennedy). All three times, we had strong economic growth ~~and~~ -- ~~and~~ and the Treasury's revenues even increased because of that growth.

Growth means jobs. More of the American Dream for more Americans.

That's why it's no accident the Kemp-Roth plan is called the Jobs

Creation act. New jobs will be one of its important results -- an especially important one for minority Americans and ~~many~~ young people ~~people~~ who aren't finding jobs now because of current government policies.

~~Another~~ The innovations are coming from the Republicans ~~and~~ these days. Another proposal in Congress would generate new capital for our economy. Without capital, you can't replace old plants. You can't expand. If you can't do that, you can't hire new people to create new products; to make old ones better and more economical; to become more competitive in world markets. We've been losing our competitiveness ~~in world trade~~ because of costly government regulations and taxing policies which discourage new capital from coming into the economy.

Without incentive, innovation ~~will~~ dries up. ~~The American~~
Not Enough of ~~that is called~~ "risk" or
~~venture~~ capital, ^{which} ~~that~~ makes innovation possible, just ~~isn't~~ ^{is} available without incentive. Already, other countries are challenging us for the lead in areas of technology where we have ~~always~~ ^{ways} been strongest. This could ~~make us~~ makes us even less competitive in the future--and could cost us more jobs.

The Republican proposal would create the incentives which will draw ^{new} capital into the economy. We'll need ~~the~~ four-and-a-half trillion dollars of ^{it} ~~over~~ the ~~next~~ decade, according to a New York Stock Exchange study.

As I travel the country, I meet more and more ~~people~~ people ~~in all walks of life~~ who are fed up with government that is too big; taxes that are too high; ~~inflation~~ inflation that won't stop; and social tinkering. They want to get government out of the way so our economy can work the way it should -- for all Americans.

These are the people I call our unsung heroes. You may be one of

them. You pay your bills, send the kids to school, support your church and charity, take part in your community, and you ask very little from government except to be safe in the streets and in your home and to be free to develop your abilities.

The Republicans in Congress understand that. They know that tomorrow will be better for all Americans if the productive majority can unleash its energy to make it so. Cutting taxes and cutting government government deficits is the place to start.

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EMBARGOED TILL
1:15 P.M.
Saturday, June 17, 1978

EXCERPTS FROM REMARKS BY THE HON. RONALD REAGAN
CALIFORNIA CANDIDATES LUNCHEON
Senator Hotel
Sacramento, California
Saturday, June 17, 1978

I was pleased to read the other day that some political pundits are crediting -- or blaming, depending on their political orientation -- me and my administration when I was governor for what appears to be the beginning of a taxpayers' revolt.

I hope they are right on both counts, one, that we are seeing the beginning of a taxpayers' revolt across the nation, and two, that I have had a hand in it.

You may remember why they blame me. It has to do with an effort we made in 1973 to limit the amount of taxes Californians would have to pay as a percentage of income. We wanted to limit their taxes so that state government could not take more than a certain percent of the total annual income of our citizens.

It was an idea whose time had not quite arrived. Or rather -- Californians had not yet realized to what distortions and half-truths those who feed at the public trough or who are charged with spending the public purse will stoop in order to keep that trough brimful -- at the taxpayer's expense. They stooped pretty low. And the voters, fearful of upsetting the status quo believed the distortions and voted our proposal down.

But, on June sixth, this year, Californians went to the polls

and voted on Proposition 13, the Jarvis-Gann amendment. They defied the dire warnings and panicky ravings of the bureaucracy and, if I remember correctly, the incumbent governor -- and they passed Proposition 13 by a two-to-one margin.

Now, Proposition 13 probably isn't the best legislation that was ever devised, but it is simple and easily understood. It sets property taxes at one percent of assessed valuation. And better yet, it mandates that two-thirds of the state legislature must agree to any other tax increases, which was something we had tried for in 1973.

Mr. Jarvis and Mr. Gann, circulating petitions with almost no money at their disposal, rounded up a million and half signatures to put that measure on the state ballot.

You remember the screams from the taxers and the spenders and even some big businessmen.

They warned of dire consequences, of closed schools, and reduced police and fire forces and cuts in government programs. They didn't understand ~~that~~ that the people not only didn't believe them this time, they didn't care -- and they wanted an end to excessive taxation, excessive spending and excessive government.

Jerry Brown who talks "small is beautiful", but practices "big is better" never caught on about the public mood until just before the election.

Then, in a flip-flop that would do credit to George McGovern or even Jimmy Carter, he embraced Proposition 13. Embraced it? He clutched it to his bosom. And, he hasn't let go since.

But I hear a lot of Californians snickering at that. They remember that it wasn't so long ago that Jerry Brown was talking about a different kind of tax relief. He wanted to give out some of the

state's giant surplus through something he called a "circuit breaker" program. That was a nifty title for a socialist redistribution scheme. His idea was, the more you paid in in taxes, the less you'd get back and vice versa. That was too much for even the Democratic majority in the legislature and his idea was given a quiet burial.

The governor, who has a well recognized talent for wetting a finger and holding it aloft to determine the direction of the political wind, may have been a little late this time.

Polls tell us that the governor -- invincible even three months ago -- is now vulnerable.

Those who practice "politics as usual" all across our land are being caught up in a tidal wave -- a tidal wave of protest against irresponsible government and against those who think they are chosen to rule when they were only given leave to serve.

I am one of those protestors. I began protesting 25 years ago when I was still a Democrat. For a while during this last campaign I knew I was going to vote for Proposition 13, but I had no plans to get involved in the fray. Then someone put a "mike" in front of me and there I was on the radio doing some tapes for Prop. 13. And, I was in good company -- Nobel laureate Milton Friedman and other noted economists like Art Laffer and Neil Jacoby.

And I'm still in good company as the battle continues on other fronts. The battle to control government, to control inflation and to reinvigorate the economy and the job market by cutting and limiting taxes.

There is Senator Bill Roth of Delaware and Congressman Jack Kemp of New York who have given us the Kemp-Roth bill which would cut the average American family's income taxes by one-third over the next three years. I'm in good company with Congressman Bill Steiger of

Wisconsin whose amendment would roll back capital gains tax rates so we can get fresh capital pumping back into the economy to create more jobs. And, I'm in good company with George Deukmejian's bill here in California to limit state government spending. What these Republican proposals in Washington have in common with Proposition 13 here in California is that they are aimed at economic growth. They show our party's faith in the good sense of the American taxpayer. They know that when his taxes are cut he won't bury the money in the backyard, the way the spenders are assuming. He'll invest it in savings; he'll add a room to his home; he'll purchase the things his family needs. And, the economy will grow and jobs will be created. And, not so incidentally, it results in new sources of revenue for public services, too.

That must be our Republican message. I hope every candidate of ours will point out the simple truth that tax reduction can actually end recession and create prosperity by broadening the base of the economy.

Three times in the 20th Century that has been proven -- by President Harding, by President Coolidge and by President John F. Kennedy.

In each of these administrations taxes were cut in the face of dire warnings that revenues would go down, deficits -- the real cause of inflation -- would go up and the country would be thrown into an economic tizzy.

The opposite happened. In each case the tax cuts put more money into circulation. Prosperity increased as purchasing power increased and more money flowed into government's treasuries at every level as each government took its tax bite of that additional

money that was left in the taxpayers' pockets. But most important, the taxpayers had more left in their pockets also.

Everybody benefited, government, business, job seekers, and those employed.

And, given a little time for the impact to be felt, that's what Proposition 13 will do for California. Those officials who try to block it, try to stop it, try to thwart it are going to find out they're on the wrong side. They're not on the side of those who pay their salaries and vote them into office -- the people of this state.

And, if they don't get on the right side very quickly, the people who voted them into office will vote them out.

But only part of the responsibility for making Prop. 13 work lies with the elected officials who are wrestling right now with all those conflicting priorities and fewer dollars to spend on them. The responsibility also lies with those who will actually receive the greatest share of Prop. 13's benefits. I'm speaking of business and landlords -- business, industry and those who rent apartments and houses. I hope they will share some of the benefits with their customers and tenants. Let them show that they recognize the frustration and distress that made Prop. 13 possible. I earnestly urge leaders in the business community and among landlord groups to announce now that they intend to share the tax reductions with their fellow citizens.

When I began this speech, I didn't mean for it to be an in-depth analysis of Prop. 13 or Kemp-Roth or Steiger or Prop. 1 or any other tax reduction or limitation plan.

I spoke of these things because it seems clear to me that maybe a time has come that I talked about a long time ago.

It was in the 1966 campaign that I expressed a belief that the people of California could start a prairie fire that would sweep across our land. A prairie fire that would sweep out the advocates of costly, overpowering government and return to the people their right to control their own lives.

A prairie fire that would leave in its wake a renewed America dedicated to limited government and unlimited freedom, a renewed America so strong it need have no fear of foreign tyrants or domestic agitators. An America where each man and woman, unhampered by government, can travel as far and climb as high as his talents can take him. An America that has compassion for its weak and its aged and its infirm. An America that is what our forefathers dreamed of and what our children have a right to.

Today, as much as in 1966, I want to help start that prairie fire. This is a good year to light the torch. Together, I know we can build America into the kind of nation we all are striving for.

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EMBARGOED TILL
1:30 P.M.
Saturday, June 24, 1978

EXCERPTS FROM REMARKS BY THE HON. RONALD REAGAN
CITIZENS FOR THE REPUBLIC LUNCHEON
Sheraton Hotel
Philadelphia, Pennsylvania
Saturday, June 24, 1978

I was pleased to read the other day that some political pundits are crediting -- or blaming, depending on their political orientation -- me and my administration when I was governor of California for what appears to be the beginning of a taxpayers' revolt.

I hope they are right on both counts, one, that we are seeing the beginning of a taxpayers' revolt across the nation, and two, that I have had a hand in it.

Of course, some here may not remember why they blame me. It has to do with an effort we made in California in 1973 to limit the amount of taxes Californians would have to pay as a percentage of income. We wanted to limit their taxes so that state government could not take more than a certain percent of the total annual income of our citizens.

It was an idea whose time had not quite arrived. Or rather -- Californians had not yet realized to what distortions and half-truths those who feed at the public trough or who are charged with spending the public purse will stoop in order to keep that trough brimful -- at the taxpayer's expense. They stooped pretty low. And the voters, fearful of upsetting the status quo believed the distortions and voted our proposal down.

But, on June sixth, this year, Californians went to the polls and voted on Proposition 13, the Jarvis-Gann amendment. They defied the dire warnings and panicky ravings of the bureaucracy and, if I remember correctly, the incumbent governor -- and they passed Proposition 13 by a two-to-one margin.

Now, Proposition 13 probably isn't the best legislation that was ever devised, but it is simple and easily understood. It sets property taxes at one percent of assessed valuation. And better yet, it mandates that two-thirds of the state legislature must agree to any other tax increases, which was something we had tried for in 1973.

Mr. Jarvis and Mr. Gann, circulating petitions with almost no money at their disposal, rounded up a million and half signatures to put that measure on the state ballot.

You should have heard the screams from the taxers and the spenders and even some big businessmen.

They warned of dire consequences, of closed schools, and reduced police and fire forces and cuts in government programs. They didn't understand -- that the people not only didn't believe them this time, they didn't care -- and they wanted an end to excessive taxation, excessive spending and excessive government.

Jerry Brown who talks "small is beautiful", but practices "big is better" never caught on about the public mood until just before the election. Meanwhile, he was sitting on a state surplus of nearly five billion dollars (he thought it belonged to him, not the people) and the tax assessors were doubling, tripling and in some places quadrupling property tax assessments. That did it! The people went to the polls in record numbers and voted against big taxes and big spending.

Then, in a flip-flop that would do credit to George McGovern or even Jimmy Carter, he embraced Proposition 13. Embraced it? He clutched it to his bosom. And, he hasn't let go since.

But I hear a lot of Californians snickering at that. They remember that it wasn't so long ago that Jerry Brown was talking about a different kind of tax relief. He wanted to give out some of that giant surplus through something he called a "circuit breaker" program. That was a nifty title for a socialist redistribution scheme. His idea was, the more you paid in in taxes, the less you'd get back and vice versa. That was too much for even the Democratic majority in the legislature and his idea was given a quiet burial.

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Those who practice "politics as usual" all across our land are being caught up in a tidal wave -- a tidal wave of protest against irresponsible government and against those who think they are chosen to rule when they were only given leave to serve.

I am one of those protestors. I began protesting 25 years ago when I was still a Democrat. For a while during this last campaign I knew I was going to vote for Proposition 13, but I had no plans to get involved in the fray. Then someone put a "mike" in front of me and there I was on the radio doing some tapes for Prop. 13. And, I was in good company -- Nobel laureate Milton Friedman and other noted economists such as Arthur Laffer and Neil Jacoby.

And I'm still in good company as the battle continues on other fronts. The battle to control government, to control inflation

and to reinvigorate the economy and the job market by cutting and limiting taxes.

There is Senator Bill Roth of Delaware and Congressman Jack Kemp of New York who have given us the Kemp-Roth bill which would cut the average American family's income taxes by one-third over the next three years. I'm in good company with Congressman Bill Steiger of Wisconsin whose amendment would roll back capital gains tax rates so we can get fresh capital pumping back into the economy to create more jobs.

And, Jeff Bell is company, too. His winning campaign in New Jersey was based on the need for major tax cuts.

What the Republican proposals in Washington have in common with Proposition 13 in California is that they are aimed at economic growth. They show our party's faith in the good sense of the American taxpayer. They know that when his taxes are cut he won't bury the money in the backyard. He'll invest it in savings; he'll add a room to his home; he'll purchase the things his family needs. And, the economy will grow and jobs will be created. And, not so incidentally, it results in new sources of revenue for public services, too.

That must be our Republican message. I hope every candidate of ours will point out the simple truth that tax reduction can actually end recession and create prosperity by broadening the base of the economy.

Three times in the 20th Century that has been proven -- by President Harding, by President Coolidge and by President John F. Kennedy.

In each of these administrations taxes were cut in the face of dire warnings that revenues would go down, deficits -- the real cause of inflation -- would go up and the country would be thrown into an economic tizzy.

The opposite happened. In each case the tax cuts put more money into circulation. Prosperity increased as purchasing power increased and more money flowed into government's treasuries at every level as each government took its tax bite of that additional money that was left in the taxpayers' pockets. But most important, the taxpayers had more left in their pockets also.

Everybody benefitted, government, business, job seekers, and those employed.

And, given a little time for the impact to be felt, that's what Proposition 13 will do for California. Those officials who try to block it, try to stop it, try to thwart it are going to find out they're on the wrong side. They're not on the side of those who pay their salaries and vote them into office.

And, if they don't get on the right side very quickly, the people who voted them into office will vote them out.

But only part of the responsibility for making Prop. 13 work lies with the elected officials who are wrestling right now with all those conflicting priorities and fewer dollars to spend on them. The responsibility also lies with those who will actually receive the greatest share of Prop. 13's benefits. I'm speaking of business, industry and those who rent apartments and houses. The other day in California I asked them to show that they recognize the frustration and distress that made Prop. 13 possible. I urged leaders in the business community and among landlord groups to announce now that they intend to share the tax reductions with their fellow citizens. Well, they are beginning to do just that. Two large California apartment management firms, with some 7,000 tenants between them, this week sent notices to all their tenants announcing rent cuts.

Because about 10 percent of all the people in America live in California some of the national trends get their start there -- everything from blue jeans to air pollution rules.

Maybe we've done it again. One Democrat Congressman, who likes to spend other people's money, said there was "panic in the House" -- the House of Representatives -- because his fellow Representatives suddenly started to chop spending from various appropriations bills. They called on H.E.W. to cut \$1 billion and Secretary Califano -- a died-in-the-wool big spender himself -- said it was no problem.

They are even talking about cutting the operating budget of Congress, which should rank along side the miracle of the fish and loaves.

Meanwhile, in Sacramento, the fever mounts. Even though the taxers and spenders are talking of a new constitutional amendment to split the tax rolls so they can tax commercial property at a higher rate (not realizing that the voters understand that business will pass that cost on to them in the form of higher prices), time is running out on them.

The Governor who hadn't liked Prop. 13 at all -- until he heard the size of the vote -- then faced with an election year discovered there are \$400 million in his budget he can do without. And what do you know -- 48 hours later he found another \$100 million that was unnecessary. One the 3rd day he was ready to cut \$750 million. You know, it makes you wonder. If there were \$750 million he could so easily do without -- what were they doing in the budget to begin with?

Liberals not up for reelection this year are reading much darker signs into the Proposition 13 vote. Senator George McGovern,

in his valedictory as president of the Americans for Democratic Action, hinted that the vote was mean-spirited, maybe even racist. Never mind that middle class taxpayers -- regardless of racial, ethnic or social background -- were literally being taxed out of their homes.

Then some of the liberal periodicals weighed in. One suggested that Americans were turning their backs on generosity to the less fortunate by voting for lower taxes, as if cutting aid to the needy were the only way for government to economize. Of course, there is that \$7 billion Welfare Secretary Califano says was lost last year in fraud. Americans are the most generous people on earth. Each year we contribute, as a people, over and above welfare, \$35 billion to charitable causes. I doubt there is an American alive who doesn't want the truly needy to be given a helping hand.

One gets the feeling that some of those liberals have gotten so used to patronizing the poor and the minorities that they may resent the fact the actual numbers of poor are declining and that more and more Americans from the minorities are making it into the middle class. That's as it should be, and can be, if the limits-to-growth people and Big Government will get out of the way so we can make a bigger economic pie so that every American, regardless of race, color or creed can have a good slice.

Today, it is the Republicans, from one end of the country to the other, who are carrying the message of economic growth, for they know that with economic growth comes individual freedom -- and, that is the promise of America; that is the fundamental ingredient of the American Dream, to be able to participate in a growing, prosperous society and to reach for the stars.

You can't reach for the stars if you can't pay your monthly bills. If you are being taxed out of your home, you can't reach for the stars; and, if you can't get fresh capital to make your store or factory expand, you can't hire new people so they can reach for the stars.

Turning government around so that it becomes once again the servant of the people, not the master, will not be easy. There is a Latin phrase that translates, "To the Stars Through Difficulty". No, it won't be easy, but we've found the road, we Republicans, and we'll travel it till all Americans can benefit. Tax cuts, followed by a more sober, wiser handling of the people's money by governments, large and small, is the place to start.

When I began this speech, I didn't mean for it to be an in-depth analysis of Prop. 13 or Kemp-Roth or Steiger or Prop. 1 or any other tax reduction or limitation plan.

I spoke of these things because it seems clear to me that maybe a time has come that I talked about a long time ago.

Forgive me my pride in California, but it was in the 1966 campaign that I expressed a belief that the people of California could start a prairie fire that would sweep across our land. A prairie fire that would sweep out the advocates of costly, over-powering government and return to the people their right to control their own lives.

A prairie fire that would leave in its wake a renewed America dedicated to limited government and unlimited freedom, a renewed America so strong it need have no fear of foreign tyrants or domestic agitators. An America where each man and woman, unhampered by government, can travel as far and climb as high as his talents can take him. An America that has compassion for its weak and its

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Today, as much as in 1966, I want to help start that prairie fire and this is a good year to light the torch. Together, I know we can build America into the kind of nation we all are striving for.

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EMBARGOED TILL
7:00 P.M.
Monday, April 10, 1978

EXCERPTS FROM REMARKS BY THE HON. RONALD REAGAN

BONDS FOR ISRAEL DINNER

Hyatt Regency
Chicago, Illinois
Monday, April 10, 1978

We meet tonight in what is possibly a different mood or atmosphere than was anticipated when this dinner was originally planned. Only a short time ago, President Sadat made his historic journey to Jerusalem seeking peace for that troubled area we call the Middle East. It raised the hope of all who cherish peace. For the first time since the birth of Israel as a nation, an Arab state -- indeed the largest of the Arab states -- declared its acceptance of the right of that nation to exist.

It was a time of near euphoria and those who planned this dinner had every right to think we would meet tonight in an atmosphere of celebration. Sadly, that euphoria has been replaced by an uneasiness, a fear that possibly the tanks and guns will talk again, as they have in the past, drowning out the voices crying for peace.

To Americans, the Middle East is not just another of the world's trouble spots where we are concerned lest a misstep (perhaps even by ourselves) will trigger World War III. Our interest and involvement are much more deeply rooted than that. Our very heritage is built around and founded upon the Ten Commandments of Moses as well as the Sermon on the Mount. It has been said that man, over all the time of recorded history, has concocted more than four billion laws. None has improved upon or added one thing to those Ten Commandments.

In his book tracing the roots of our American heritage, Dr. Russell Kirk quotes one of our founding fathers -- the son and grandson of Protestant ministers who came here to worship freely in the faith of their fathers. When this nation, which he helped create, was only 25 years old, John Adams said, "I will insist that the Hebrews have done more to civilize man than any other nation. If I were an atheist and believed in blind eternal fate, I should still believe that fate had ordained the Jews to be the most essential instrument for civilizing nations."

Bonds for Israel Dinner

As our country grew, people from every corner of the world -- those who had a special love for freedom -- brought that love, their energy, their skill and talent to this land. Human nature being what it is, they also brought ancient hates and prejudices as well, and in our melting pot there were ugly moments when the old animosities surfaced. Nevertheless, there came to be a new breed we called American. There was always someone to write an "Abie's Irish Rose"; to point out that tolerance of each other was not good enough; that we must take pride in our differences. Now we all know that our diversity is part of the greatness of America.

Many Americans -- perhaps some here tonight -- may be surprised to know there is no treaty, no paper or parchment bearing a pledge between the governments of Israel and the United States. There is only a deep-seated and widely held feeling of moral obligation on the part of the American people; and unwritten -- but nonetheless binding -- commitment by the United States to the sacred rights of the children of Israel to have a homeland.

Tonight, as we gather here, Americans of all faiths are disturbed by the seeming vacillation of our government. It is not our government's place to court extremists and propose their inclusion at the conference table. Nor should our government be imposing or even advancing conditions upon which a peace agreement in the Middle East must be predicated. And it is an error of enormous proportions to invite, as we have, the Soviet Union back into participation in the Middle East deliberations.

Whatever else anyone may say, the Nixon-Kissinger diplomacy removed that influence. If it had not, there would have been no peace overtures by President Sadat.

There is an evil influence throughout the world. In every one of the far-flung trouble spots, dig deep enough and you'll find the Soviet Union stirring a witches' brew, furthering its own imperialistic ambitions. If the Soviet Union would simply go home, much of the bloodshed in the world today would cease.

As a result of removing them from the Middle East, the United States was in a position to be helpful. We had the trust of Israelis and Arabs alike. The United States did not go in as judge or arbitrator, but rather as "amicus curiae" -- friend of the court -- and both sides trusted in our fairness. That no longer seems to be the case.

It is essential that we restore Israel's confidence that we are dedicated to its right to continue as a nation in peace and freedom. Both sides must be reconvinced that we will stand by, willing to be helpful in arriving at a peaceful settlement -- when our help is requested. We will not impose a settlement on either Israel or the Arab states.

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At the moment, we are guilty of contributing to a great and persistent distortion of history by suggesting that resolution of the Palestinian refugee problem is the sole responsibility of Israel. No one can deny that the refugee problem must be solved, and all of us have sympathy for a people who have lived for decades in a no man's land. But, it's time to expose the myth that the refugees are people driven from their homes, displaced by the creation of the State of Israel and that Israel therefore must bear full responsibility for their plight and provide a homeland for them.

A look at history will reveal the unfairness of such a view. Prior to World War I, there was no Palestine in the usual sense of a state or entity within prescribed borders. The name was applied to an area occupied by Turkey and inhabited by both Jews and Arabs. In 1920, the allied powers gave Great Britain a mandate over that occupied territory and two years later this was confirmed by the League of Nations. The mandate also provided for fulfillment of the 1917 promise that Britain would establish a homeland for the Jewish people. Britain would also protect the civil and religious rights of the Arabs.

The mandated territory of Palestine extended from the Mediterranean eastward to Iraq and north from Egypt to Syria and Lebanon. Palestinians were known as such, used Palestinian passports and were Christian, Hebrew and Muslim.

About two years after the League of Nations action, Britain named the grandfather of the present King of Jordan as Emir of that part of Palestine lying east of the Jordan River. The British declared it to be a reserve for the resettlement of the Arabs, once the boundaries of Israel were determined. Zionists were asked not to migrate east of the Jordan, indicating that the Jewish homeland would be created west of the river. That request was complied with.

Then, in 1946, Britain unilaterally created -- by a simple piece of paper -- the Kingdom of Jordan. It encompassed the 80 percent of Palestine lying east of the Jordan. Later, Israel became a nation west of the Jordan, taking up something less than 20 percent of Palestine because the West Bank and the Gaza strip remain part of the Palestine mandate confirmed by Article 80 of the U.N. Charter (which provides that Palestinians, Christians, Jews and Muslims have the right to live there).

Israel has never tried to annex the West Bank and the present administration in Washington is dead wrong when it says Israel's West Bank settlements are "illegal". Another U.N. resolution (242) negotiated in 1967 makes it plain that Jewish and Arab Palestinians have a right to settle there until Jordan and Israel between them decide on "secure and recognized borders."

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Menachem Begin made a proposal to President Sadat calling for self-rule by Arabs on the West Bank with Israel providing security. There would then be a review of the situation at the end of five years.

The Carter administration praised this proposal. But that was four months ago. Now the President finds it unacceptable. It is another of the vacillations which are all too characteristic of this administration's foreign policy. It is wrong for the administration to place the responsibility for the refugee problem on Israel alone. It is another example of the mythology surrounding this issue. The Palestinian refugees were not driven from their homes and into exile. They chose to flee Israel, fearing the Arabs would carry out their threat of "death to the Israelis" and they as Arabs would be slaughtered as traitors if they remained in Israel. The Arab states made use of their plight in their hostility toward Israel.

No one denies the refugee problem must be resolved, but it is unreasonable and unjust to make it anything but a 20% Israeli and 80% Jordanian problem. One thing is certain: none of the Arab states is any more willing than Israel to say the solution should be a new and separate nation of Palestine.

But this is an issue to be negotiated by Israel and the Arab states. The best and most helpful thing we can do is to stand by, meanwhile keeping the Middle East free of Soviet influence. That, I'm afraid, will require more will and determination than this administration has displayed in these last several months. It does not reassure our friends nor discourage our enemies when we cancel the B-1 bomber, stop production of our Minuteman missiles, withhold funds for the MX mobile missile and show a lack of resolve about producing and displaying what could be the most effective deterrent weapon yet conceived -- the neutron bomb. It comes the closest to meeting that most important requirement of a deterrent to war; a weapon so effective it might never have to be used.

But our problem is not just one of weaponry. The world sees us still immobilized by what has been called the Vietnam syndrome, flogging ourselves for involvement in an "immoral war". Some would have us believe we supported a corrupt, undemocratic regime against the legitimate effort of the Vietnamese people to free themselves. They continue to spread this false doctrine, even though the Commanding General of the North Vietnamese has now written a book in which he reveals the so-called rebels, (the Viet Cong) were, in truth, regulars in the North Vietnamese army and the goal from the first was conquest. There is nothing wrong

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with arguing about whether we should or should not have been in Vietnam, but let the argument be based on truth. Whether it was right or not for us to do so, we went to the aid of a small nation that sought to defend its freedom against the onslaught of a neighboring country bent on naked aggression.

There are too many today in our State Department, too many counseling the President and too many in Congress who seem to have learned all the wrong lessons from Vietnam. When they declare, "never again," they mean we must never again oppose Communist aggression. When they say, "never again," they really mean the right side won that war. If Israel had subscribed to such a belief in its own situation there would be no Middle East problem -- because there would no longer be an Israel. The lesson we should have learned from the Vietnam war is that never again will we ask our young men to fight and die in a war we have no intention of winning.

The real immorality of the Vietnam war is that we did exactly that. We all hate war. We want peace in the world and hope and pray there can be an end to bleeding away the lives of our finest young men on beachheads, deserts and jungles. But, sadly, we realize there are things -- those things we value most in civilization for which men have always been wishing to die if need be. The Israelis have shown they understand this. They proved it in the sands of the Sinai, on the Golan Heights and, yes, in a place called Entebbe.

For us to suggest that Israel fall back to borders which leave potential enemies within artillery range of its very heartland is dishonest unless we are willing to offer an iron-clad guarantee. An implied assurance is not good enough. Tens of thousands of Vietnamese who relied on such assurance are now wasting away in concentration camps.

But now let us look at what must be done here at home if we are to be capable of helping a friend and ally. In the dark aftermath of WW II when American military and industrial power were all that stood between the free world and darkness, Pope Pius XII said, "the American people have a genius for great and unselfish deeds. Into the hands of America God has placed an afflicted mankind." Those words are as true today as when they were first spoken. Whether we like it or not the responsibility for insuring mankind's right to live in dignity and freedom is ours.

The Soviet Union is building the most powerful military machine ever devised. While we are determined to prevent a war, they are preparing to win one. Are we going to close our eyes and minds as we did almost a half century ago when the thunder of hobnailed jackboots echoed on the wind, foretelling the inhumanity, the slaughter of the innocents that followed?

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Are we hearing also "the hollow tapping of Neville Chamberlain's umbrella on the cobblestones of Munich"?

Let us this time understand that war can be prevented if only we will recognize our own strength. The Soviet Union cannot possibly match us in an arms race. We only have to make them understand that our people will, as a young President said we would a few years ago, "bear any burden, pay any price." We must make those who represent us in Washington know that we are unwilling to be second to any nation in our ability to defend ourselves.

But it will do us little good to build military hardware if the economic system which has been the miracle of the world is eroded by a government which shows little understanding of the magic of the marketplace.

We are taxing away almost half the earnings of the people -- 44¢ out of every dollar earned -- for redistribution to the unproductive and to pay for a multitude of agencies and bureaus that harass us with tens of thousands of unnecessary regulators. Government-required paperwork has created an unproductive administrative overhead that adds hundreds of billions of dollars to the price of the things we buy. Government grows beyond the consent of the governed, feeding on taxes that are almost confiscatory.

Under the name of consumerism free enterprise is becoming far less free. In the name of environmental protection ownership and property rights are being reduced and even eliminated. And profit has become a dirty word, blamed for many of our social ills. It is time to raise our voices proclaiming that profit, property rights and freedom are inseparable and we can't have the third unless we continue to be entitled to the first two.

There are roughly 71 million of us working and earning in private enterprise, supporting ourselves and our dependents. We also support 83 million Americans who are totally dependent on tax dollars for their year-round living. We are told our national debt is more than \$750 billion and that the proposed \$500 billion budget contains another \$60 billion deficit. Actually, the government employs bookkeeping methods that would be declared illegal for any corporation. This is done to hide the fact that our real federal debt is measured in trillions of dollars, not billions.

Time is running out for us. The path of history is littered with the bones of dead empires. If we are to follow we'll have no decades or centuries for leisurely decay and disintegration. The barbarians in today's world are combat-lean and hard, hungry for all we've created. They talk of the brotherhood of man, but they would destroy the God of Moses and extinguish with an evil darkness a light man has been tending for 6,000 years.

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But we are still an industrial giant of enormous power. We are a people with the capacity to perform great and heroic deeds. Our friends in the world are watching to see if we have the will to pledge that strength to the preservation of freedom; to say that we will shoulder the responsibility of free world leadership; to say that Israel is and will continue to be a trusted ally among the world's free nations.

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