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MR. COLES *M 29/9*

cc: Head of Chancery

Please find attached a summary of President Reagan's
speech to the 1983 IMF/IBRD Annual Meetings on Tuesday,
September 27. A copy of the full speech is also attached.

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UKDEL IMF/IBRD
September 28, 1983



President Reagan's speech to the IMF/IBRD Annual Meetings
27 September 1983

Summary

The President began by acknowledging the leading role of the World Bank and its Affiliates, and the International Monetary Fund, in the quest for global economic, social and human improvement. The institutions were established in the wake of a period of totalitarian violence and suppression of individual rights, and were based on the principle of the supremacy of human rights. Now, as then, prosperity, security and freedom were inextricably linked. The unparalleled economic development and improvement in the human condition of the post-war years resulted from a belief in these principles.

2 In the 1970s, too many countries (including the US) forgot these principles, and permitted governments to overspend, overtax, and over-regulate. Solid foundations have to be re-built. Though countries are interdependent, sound domestic policies must be in place before the international economic system could expand and improve. The US had made real progress; inflation and interest rates had fallen dramatically, and GNP was expanding. The US still faced deficits, but this was caused in part by their determination to provide the military strength and political security to ensure peace in the world. The world economy was already showing signs of picking up as the US economy picked up. The 1980s could - and should - be an era of transition towards sustained, non-inflationary world growth.

3 The IMF was the lynchpin of the international financial system, and the US Administration would continue to support it. He had an unbreakable commitment to increased funding, and he urged Congress to pass the IMF Quota legislation speedily; failure to do so could lead to a major disruption of the entire world trading and financial systems. The US strongly supported the World Bank, and in particular he had proposed legislation to meet US commitments to IDA, which was important in helping people in the poorest countries to raise their standards of living.

4 Bank and Fund financing could only be a complement to, and not a substitute for, sound domestic policies. The dangers of protectionism must be avoided at all costs; it was a problem creator, not a problem solver. Open markets and free trade were essential pre-requisites for mutual economic prosperity. It was his personal belief that such a system could function only where independent states respected the freedom and independence of its individual citizens; their economic progress must be consistent with their personal dignity, their independence, and ultimately their freedom.

BOARDS OF GOVERNORS • 1983 ANNUAL MEETINGS • WASHINGTON, D.C.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL MONETARY FUND

Press Release No. 3

September 27, 1983

Remarks by the Hon. RONALD REAGAN,
PRESIDENT OF THE UNITED STATES, at the 1983
Annual Meetings of the Boards of Governors of
the Bank, IFC and IDA and the Fund

On behalf of my fellow Americans, I am delighted to welcome you to the United States and to our nation's capital, and I am honored to have this opportunity to speak again to your distinguished members.

I say honored because I believe your institutions, the World Bank and affiliates, and the International Monetary Fund, serve noble purposes. There can be no higher mission than to improve the human condition and to offer opportunities for fulfillment in our individual lives and the life of our national and world communities. You are the leaders of the world community in bringing a better life to the diverse and often tragically poor people of our planet. You have worked tirelessly to preserve the framework for international economic cooperation and to generate confidence and competition in the world economy.

The unending quest for economic, social and human improvement is the basic drive that inspires and unites all of us. In 1945, when your great institutions were established, the civilized world had been brought to its knees by a wave of totalitarian violence that inflicted suffering, sacrifice, and the suppression of human rights on millions of innocent people.

Security, freedom and prosperity were very much on the minds of the citizens of the world in 1945. They should be on our minds today. The institutions you represent could not have been born, could not have flourished--and may I add, will not survive--in a world dominated by a system of cruelty that disregards individual rights and the value of human life in its ruthless drive for power. No state can be regarded as pre-eminent over the rights of individuals. Individual rights are supreme.

In this civilization we have labored so faithfully to resurrect, preserve, and enhance, let us be ever mindful: it is not just development and prosperity, but ultimately our peace and freedom that are always at stake. Too often, the demands of prosperity and security are viewed as competitors when, in fact, they are complementary, natural, and necessary allies. We cannot prosper unless we are secure, and we cannot be secure unless we are free.

The goals of the great international, political and economic institutions--the United Nations where I spoke yesterday, and the World Bank, its affiliates, and the IMF you represent here today--were to be reached by trusting in a shared and enduring truth: the keys to personal fulfillment, national development, human progress and world peace are freedom and responsibility for individuals, and cooperation among nations. When I addressed the delegates of the United Nations yesterday, I reminded them: you have the right to dream great dreams, to seek a better world for your people. And all of us have the responsibility to work for that better world. As caring, peaceful peoples, think what a powerful force for good we could be.

Today, I come before your distinguished assembly in that same spirit--a messenger for prosperity and security through the principles of freedom, responsibility, and cooperation.

When our nations trusted in these great principles in the postwar years, the civilized world enjoyed unparalleled economic development and improvement in the human condition. We witnessed a virtual explosion of world output and trade, and the arrival of many free, self-determined, independent nation states as new members of the international system.

And, as I said when I last spoke to you, the societies that achieved the most spectacular, broad-based economic progress in the shortest period of time have not been the biggest in size, nor the richest in resources and certainly not the most rigidly controlled. What has united them all was their belief in the magic of the marketplace. Millions of individuals making their own decisions in the marketplace will always allocate resources better than any centralized government planning process.

Trust the people, this is the crucial lesson of history. Because only when the human spirit is allowed to worship, invent, create, and produce, only when individuals are given a personal stake in deciding their destiny and benefiting from their own risks--only then do societies become dynamic, prosperous, progressive and free.

In the turbulent decade of the 1970s, too many of us--the United States included--forgot the principles that produced the basis for our mutual economic progress. We permitted our governments to overspend, overtax, and overregulate us toward soaring inflation and record interest rates. Now we see more clearly again. We are working and cooperating to bring our individual economies and the world economy back to more solid foundations of low inflation, personal incentives for saving and investment, higher productivity, and greater opportunities for our people.

Our first task was to get our own financial and economic houses in order. Our countries are interdependent, but without a foundation of sound domestic policies, the international economic system cannot expand and improve. Merely providing additional official development assistance

will not produce progress. This is true for all countries, developed and developing, without exception. As the 1983 development report of the World Bank notes, "International actions can greatly improve the external environment confronting developing countries, but cannot supplant the efforts that the developing countries must make themselves."

I believe the United States is making real progress. Since we took office, we have reduced the rate of growth in our Federal Government's spending by nearly 40 percent; we have cut inflation dramatically, from 12.4 percent to 2.6 percent for the last 12 months; the prime interest rate has been cut nearly in half, from 21 1/2 percent to 11 percent. Figures released last week reveal our gross national product grew at an annual rate of almost 10 percent in the second quarter and about 7 percent in the third.

In the United States, we still face large projected deficits which concern us because deficit federal spending and borrowing drain capital that could otherwise be invested for stronger economic growth. But as Secretary Regan correctly pointed out, in the Interim Committee on Sunday, the deficit is coming down as a result of economic growth. Revenues are higher than anticipated, and we expect continued improvement. We will continue to work for greater restraint in federal spending, but we will not risk sabotaging our economic expansion in a short-sighted attempt to reduce deficits by raising taxes. What tax increases would actually reduce is economic growth--by discouraging savings, investment and consumption.

One other point about the United States deficit: let me make clear that it is caused in part by our determination to provide the military strength and political security to ensure peace in the world. Our commitment to military security is matched by our resolve to negotiate a verifiable nuclear arms reduction treaty. Only then can we safely reduce military expenditures and their drain on our resources. As I mentioned at the outset, there can be no lasting prosperity without security and freedom.

Turning more directly to economic development, all signs point to a world economic recovery gaining momentum. As early as last February, the Conference Board predicted that economic growth rates in the United States and six major industrial countries spell economic recovery in any language. Since then, industrial production in the OECD countries has been moving up. Your own IMF economists are predicting growth in the world economy of at least 3 percent next year. This is the brightest outlook in several years.

As the U.S. economy picks up steam, our imports rise with it. When you consider that half of all non-OPEC developing country manufactured goods exported to the industrial countries come to the United States, it is clear what a strong stimulus our imports provide for economic expansion abroad. And as other economies prosper, our exports, in turn, increase. We all gain. Many nations are moving steadily forward toward

self-sustaining growth, and like us, they are doing it by relying again on the marketplace. This period of adjustment has not been easy for us; in fact, it has been very painful, but it is the one way that does work, and it is beginning to pay dividends.

Economic recovery is spreading its wings and taking flight. We all know those wings have not spread far enough, and I would add, recovery alone is not good enough. Our challenge is far greater: lasting, worldwide economic expansion. Together, we must make the 1980s an historic era of transition toward sustained, noninflationary world growth. I have every confidence that we can--and with our combined leadership and cooperation--we will.

The IMF is the linchpin of the international financial system. Among official institutions, it serves as a counselor, coaxing the world economy toward renewed growth and stability. At various times in its history, the IMF has provided important temporary balance of payments assistance to its member nations--including my own. At times, it must play the "Dutch uncle," talking frankly, telling those of us in government things we need to hear, but would rather not. We know how significant the IMF's role has been in assisting troubled debtor countries, many of which are making courageous strides to regain financial health. We warmly applaud the efforts of Mr. de Larosière and his staff.

My Administration is committed to do what is legitimately needed to help ensure that the IMF continues as the cornerstone of the international financial system. Let me make something very plain: I have an unbreakable commitment to increased funding for the IMF. But the U.S. Congress so far has failed to act to pass the enabling legislation. I urge the Congress to be mindful of its responsibility, and to meet the pledge of our government.

The IMF quota legislation has been pending for several months, and I do not appreciate the partisan wrangling and political posturing that have been associated with this issue during recent weeks. I urge members of both political parties to lay aside their differences, to abandon harsh rhetoric and unreasonable demands, and to get on with the task in a spirit of true bipartisanship. The stakes are great. This legislation is not only crucial to the recovery of America's trading partners abroad and to the stability of the entire international financial system, it is also necessary to a sustained recovery in the United States.

The sum we are requesting will not increase our budget deficit, and it will be returned with interest as loans are repaid to the IMF. What's more, it will keep the wheels of world commerce turning and create jobs.

Exports account for one out of eight manufacturing jobs in the United States. Forty percent of our agricultural products are exported. I am afraid that, even today, too few in the Congress realize the United States is interdependent with both the developed and developing world.

Examine the record: the United States has been a dependable partner, reaching out to help developing countries who are laboring under excessive debt burdens. These major debtor countries have already undertaken difficult measures in a concerted effort to get their economic houses in order. Most of them are working closely with the IMF to overcome economic hardships. They continue to demonstrate a commendable willingness to make necessary adjustments. That is why I can state that our participation in the IMF quota increase is not a government bailout of these debtor countries or of the banks which are sharing the burden. On the contrary, IMF plans to assist financially troubled countries call for the banks to put up more new money than the IMF itself.

This is by nature a cooperative enterprise. If the Congress does not approve our participation, the inevitable consequence would be a withdrawal by other industrial countries from doing their share. At the end of this road could be a major disruption of the entire world trading and financial systems--an economic nightmare that could plague generations to come. No one can afford to make light of the responsibility we all share.

We strongly support the World Bank; in fact, the United States remains its largest single contributor. We recognize its key role in stimulating world development and the vital assistance it provides to developing nations. Here again, I have proposed legislation to the Congress to meet our commitment for funding the World Bank, and especially the International Development Association. It is important that these funds be available to help the people in the poorest countries raise their standards of living. Tomorrow, Secretary Regan will be discussing both the Fund and the Bank in more detail. Because our investment in the World Bank's operations is so large, we feel a special responsibility to provide constructive suggestions to make it more effective.

Let me simply underscore again a fundamental point, and I say this as the spokesman for a compassionate, caring people. The heart of America is good and her heart is true. We have provided more concessional assistance to developing nations than any other country--more than \$130 billion over the last three decades.

Whether the question at hand be Bank project financing or Fund balance of payments assistance, it must be considered a complement to, not a substitute for, sound policies at home. If policies are sound, financing can be beneficial. If policies are irresponsible, all the aid in the world will be no more than money down the drain.

As we work together for recovery, we must be on guard against storm clouds of protectionist pressures building on the horizon. At the recent economic summit in Williamsburg, my fellow leaders and I renewed our commitment to an open and expanding world trading system. The Williamsburg Declaration reads, "We commit ourselves to halt protectionism, and as recovery proceeds, to reverse it by dismantling trade barriers."

Whether such words will prove to be empty promises, or symbols of a powerful commitment, depends on the real day-to-day actions which each of our governments take. Everyone is against protectionism in the abstract. That is easy. It is another matter to make the hard, courageous choices when it is your industry or your business that appears to be hurt by foreign competition. I know. We in the United States deal with the problem of protectionism every day of the year.

We are far from perfect, but the United States offers the most free and open economy in the world. We import far more goods than any nation on earth. There is more foreign investment here than anywhere else, and access to our commercial and capital markets is relatively free.

Protectionism is not a problem solver, but a problem creator. Protectionism invites retaliation. It means you will buy less from your trading partners, they will buy less from you, the world economic pie will shrink and the danger of political turmoil will increase.

You know I have made this analogy before, but we and our trading partners are in the same boat. If one partner shoots a hole in the bottom of the boat, does it make sense for the other partner to shoot another hole in the boat? Some people say yes and call it getting tough. I call it getting wet--all over.

We must plug the holes in the boat of open markets and free trade and set sail again in the direction of prosperity. No one should mistake our determination to use our full power and influence to prevent anyone from destroying the boat and sinking us all.

I firmly believe that we can and must go forward together, hand in hand, not looking for easy villains to explain our problems, but resolved to pursue the proven path on which these institutions embarked almost four decades ago--a path of economic progress and political independence for all countries and for all people.

In closing, let me share with you a very deep personal belief I hold. We are all sovereign nations and, therefore, free to choose our own way as long as we do not transgress upon the sovereign rights of one another. But we cannot really be free as independent states unless we respect the freedom and independence of each of our own individual citizens. In improving their lot, which is the only reason you and I hold high offices in our lands, we cannot forget that how we help them progress economically must be consistent with this highest objective of all--their personal dignity, their independence and ultimately their freedom. That is what this job of ours is all about.