

MARGARET, THE LADY THATCHER, O.M., P.C., F.R.S.



19.9.92.

Dear Mr Allen

Please forgive the hand-written note but I wanted to ensure you received a copy of Lady Thatcher's speech. We've only had it a short time and following my conversation with Julian Seymour I want to get it to you as soon as possible.

You can reach me on 235-6600.

Yours sincerely

Desirée Fletcher (Miss)

EMBARGO TIME: 0855 EST  
PLEASE CHECK AGAINST DELIVERY

SPEECH BY THE RT HON BARONESS THATCHER OM FRG  
TO THE CNN WORLD ECONOMIC DEVELOPMENT CONGRESS  
ON SATURDAY, 19TH SEPTEMBER 1992  
WASHINGTON D.C.

INTRODUCTION

Mr Chairman, may I begin by warmly congratulating whoever decided to schedule an Economic and Financial Conference at the end of this past week. It showed foresight of an almost astrological order - maybe some country should ask him to be its Finance Minister! It also forced us to re-write our speeches - well, some more than others!

What we have lived through this past week has been a lesson in practical economics. As my favourite poet wrote:

"Let us admit it frankly,  
As a business people should,  
We have had no end of a lesson,  
It will do us no end of good".

It has been, in particular, a lesson for Governments. The role of Government in trade and commerce, as in much else, is to create a framework of stability within which enterprise can flourish. But the rigid stability of fixed exchange rates threatened to stifle enterprise and obstruct commerce. It required heavy burdens to be placed on companies, including efficient companies. It made imports artificially cheap and exports artificially expensive. It starved firms of capital. It was bad for business. And it meant that home owners watched anxiously as the cost of their investment rose inexorably.

Yet the stability which fixed rates offered was a false one. It prevented currencies from adjusting gradually to market realities, and in the end it produced wild swings of instability. There's nothing new about fixed exchange rates collapsing. What might be new is to finally learn the lesson that fixed rates don't - and can't - work in free markets.

So I congratulate John Major and Norman Lamont for taking off this economic straitjacket and letting the pound find a level at which it can be sustained without imposing intolerable burdens and disrupting economic life.

Not all political leaders have shown such realism. In 1931 a Labour Government lost power through trying to stick to an over-valued rate of exchange. When the incoming national Government went off gold and floated the pound, a member of the previous Labour Cabinet said plaintively "They never told us we could do that"!

That Minister would have been extremely popular with the European Commission! Just imagine the things they wouldn't have told him he could do!

Once that lesson is learned, however, it cannot be unlearned. If a Government could alter its exchange rate in 1931, it could do so again in 1949, in 1967, in 1971 when Bretton Woods itself foundered, this week, or whenever its currency comes under strong market pressures. No system of fixed rates will ever again have the prestige of the pre-1914 gold standard. Nor will there ever again be a general acceptance by the voters and by politicians of the harsh deflationary medicine that its prestige made possible.

We all know - currency markets above all - that Government cannot achieve stability by fiat in the face of the speed and volume of capital movements in today's world. We now need to rediscover, or re-invent, a framework of stability that encourages growth, enterprise and trade rather than strangling them.

### THE 80's

That framework of stability is especially needed today because the 1980's unleashed a burst of creative enterprise and capitalist endeavour unequalled in this century.

If I may be permitted a personal note, in the last decade Ronald Reagan and I found ourselves pioneering the same great causes in economic, social and foreign affairs.

We started a revolution almost without realising it. And our policies led to a freer society, one of the longest periods of economic growth with stable prices, and the victory of freedom over communism.

Our first task was to restore economic vitality. We both had to confront dispirited peoples and stagnant economies, marked by low growth and high inflation.

We set about creating a framework favourable to enterprise. In Britain that meant cutting penal rates of Income Tax, cutting the tax on companies, and abolishing some taxes altogether.

It meant cutting back trade union privileges that had multiplied strikes and restrictive practices, put up industrial costs and increased unemployment.

As a result productivity in Britain rose faster than in Japan and by the mid-80's our rate of growth outpaced that of our European competitors.

I need hardly remind this audience of the success of Reaganomics in America - or perhaps I do need to remind you. For in the United States, a myth of the Eighties as a decade of individual greed and national bankruptcy seems to have been widely disseminated and accepted. The actual record - increased economic well-being for all classes at the cost of a manageable increase in national indebtedness - is now regularly dismissed as the 'illusions' of the Reagan years.

We are asked to treat the millions of jobs, houses, cars, consumer goods, new companies, personal computers, VCR's, original technologies, modern industries and greatly increased charitable giving as 'transient phantoms' while regarding an increase in the federal deficit as the only solid economic reality.

Mr Chairman, I am reminded of a remark by George Orwell: 'You have to be an intellectual to believe such nonsense. No ordinary man could be such a fool'.

Our second step was to secure sound money and the reduction of inflation. We had learned at Milton Friedman's knee that inflation is a monetary phenomenon; that it can only be controlled and reduced by a gradual squeezing of the money supply; and that a successful cure for inflation will inevitably be accompanied by a temporary rise in unemployment.

To cut inflation, therefore, required some courage as well as the right principles. But we succeeded. Inflation, in Britain, fell from over 20% to less than 4% by mid-1983. And all this outside the E.R.M.

Thanks to President Reagan and Paul Volker there was a similar achievement here.

Indeed, in my last four years of office, we had a budget surplus and were able to reduce debt - thus lightening the burden on our children and grandchildren.

Thirdly, I faced a problem which Ronald Reagan did not. Long years of socialism in Britain had created two complimentary phenomena: sluggish, inefficient, subsidised state-owned industries and a people with little prospect of accumulating capital.

We solved both problems with the same policy. We privatized state industries - steel and airlines, for example, which once absorbed billions in subsidies, began paying taxes rather than swallowing them - and we did so in ways that spread shares as widely as possible among workers and small investors: and we did so in ways that spread shares as widely as possible among workers and small investors.

Mr Chairman, we created millions of new shareholders, new homeowners, new entrepreneurs. The impact of this was not just economic. It brought about a profound change in the attitudes, social, political, even spiritual, of our people. They became more self-reliant, more responsible, more independent, more forward-looking. They have a stake in the future. And they are more resistant to the tenets of socialism.

That is why our Labour Party, like the socialists of Eastern Europe, are hastily abandoning or at least concealing their socialist principles.

Socialism has a very limited appeal to a capital-owning democracy. Americans have long known that. But in the 1980's America ceased to be exceptional in its deafness to the siren call of socialism. We are all anti-socialists now - even the Swedes!

But not even, this audience, Mr Chairman, is likely to appreciate the sheer scale of global privatization. Some \$400 billion of major sales have either taken place or are in progress. The total number of employees transferred from the state to the private sector is about equal to the population of a medium-sized European country.

The rate of privatization, moreover, is speeding up. It is now sweeping through Latin America and Central Europe and, at long last, even the former Soviet Union.

Indeed, in Eastern Europe Communist elites that treated state property as their own and political power as their birthright were forced to surrender these to the mass of people. In international affairs, the revival of western economies and the defence build-up launched by President Reagan forced the Soviet Union to abandon its aggressive military posture and to embark on internal reforms.

By the end of the 1980s, the former communist countries had become democracies but were still struggling to transform themselves into market economies.

Even China is pursuing a vigorous enterprise policy. For practical purposes the World economy is almost entirely capitalist.

But this achievement is marred by serious recession; by the slowness of GATT negotiations on world trade; and by the instability induced by artificial constraints hindering trade and commerce - an instability all too vividly encapsulated in this week's events.

### AN UNUSUAL RECESSION

The recession, into which we have drifted, is therefore, quite different in origin and nature from those of the 70's and early 80's.

It was not imposed on us by external forces like the two OPEC oil price shocks of the 70's and early 80's.

It was not a necessary side effect of long overdue economic reforms to restrain inflation and revive enterprise such as President Reagan and I pushed through a decade ago.

It is not weeding out only inefficient, overmanned and subsidised companies. Our trade union and supply side reforms had already brought about a fundamental economic restructuring in the mid-80's. This recession is attacking healthy and profitable companies - generally those of small or medium size. And it is doing so savagely. Personal bankruptcy and company liquidations in Britain are running at levels significantly higher than those of early recessions.

For all these reasons, the psychology of this downturn is different.

When I was navigating my way through the 1982 recession, I found people understood that certain fundamental changes were necessary and in fact overdue - that there had to be an economic restructuring, and the transformation of industry to fit it for the information age. People will endure hardships if they understand the reason for them and if they can see that the changes will make life better for the future.

But they find the same hardships intolerable when they have done all the right things - when companies have invested in new technology, when homeowners have taken out mortgages at interest rates which seemed reasonable at the time, when workers on the factory floor have co-operated in better working practices, and when they still find themselves out of work, bankrupt or facing repossession.

And when the recession seems not only inexplicable, but is also prolonged beyond the time they had been led to expect, then tend to lose hope and confidence in the future.

### WHAT WENT WRONG?

What went wrong. The achievements of the 1980's were based on a marriage of two principles. Stability in financial policy and the encouragement of enterprise. Both were essential.

No-one can subsist on a diet of change and competition alone. We would all suffer a nervous breakdown without some stability in our lives. A successful policy of enterprise requires, above all, the financial and monetary stability we enjoyed in the 80's.

That stability disappeared in the late 1980's. The 1987 stock market crash convinced Western governments that a sharp increase in the money supply was needed to avert a slump of 30's dimensions. But the crash was merely a market correction of overvalued stocks. The money thus fed directly into high inflation.

Meanwhile, in Britain, attempts to 'shadow the Deustchmark' attracted funds into the country and expanded the money supply further.

Inflation duly occurred. Among its effects were rises in asset and property prices, large-scale borrowing on inflated assets, and what the British columnist William Rees-Mogg called 'the financing of nonsense'.

Nonsense cannot be sustained. In due course, governments had to prick this inflationary bubble with monetary restraints and high interest rates. When they did so, property prices fell, over-debted businesses went broke, homeowners received larger mortgage bills, and the euphoric expectation that asset values would go on rising forever evaporated.

Recession followed inflation.

Fixed exchange rates - now embodied in the E.R.M. - were having a damaging secondary effect. They acted as a transfer mechanism transmitting the problems of one country to its partners in the system.

Germany's reunification had been purchased with a vast injection of money into East Germany financed by borrowing. That duly threatened inflation throughout the country. To prevent this, the Bundesbank raised interest rates, and through

the perverse alchemy of the E.R.M., German's anti-inflationary pressure was transformed into deflation throughout the rest of Europe.

Nations like Britain have found themselves raising interest rates in a recession - real interest rates in Britain this week rose to over 10%. But, in the end, reality was bound to burst through these barriers - and this week Britain resumed control of its own economic destiny.

In effect, the conservative revolution went wrong by forgetting some of its own principles. By making a well-intentioned attempt (that owed more to Keynes than to either Friedman or Hayek) to stimulate demand, conservative governments blundered into monetary instability. By attempting to rig the markets, they perpetuated their error.

And the monetary instability they reaped then undermined the successful enterprise on which their other economic and social achievements were based.

#### A NEW BEGINNING

Yet if I may coin a phrase, Mr Chairman, we have nothing to fear but fear itself. What we have seen this week is not the destruction of European unity and international cooperation but the inevitable collapse of rigid economic structures that could not accommodate change and diversity, did not reflect popular wishes, and inflicted unnecessary recessions. As the rise in the London share market demonstrated, **we in Britain have been liberated.** We are now free to pursue an economic policy that will reduce interest rates to stimulate recovery as the Fed has done here.

More vital, we in the West as a whole are free to devise looser, more flexible but more durable arrangements for European and international cooperation: flexible exchange rates, free trade under a revived GATT, incorporating all the countries of the Pacific Rim, a Europe of nation-states encompassing the new democracies of Central Europe, a more active assistance to Russia by the IMF and the G7 countries, and continuing U.S. leadership of a NATO prepared to uphold international law in and out of area, and strengthened by moves towards trans-Atlantic free trade. We have it in our power today to establish a framework of stability for the world economy so that world enterprise can flourish.



## APRES MAASTRICHT

The third lesson concerns the Maastricht Treaty aimed at creating a "European union". Even before the unnerving events of the last few days, I believe that sentiment in European and particularly in Britain was moving against ratification.

It was already difficult for people to harbour affection for Maastricht. Indeed the Government itself considered our exemption from EMU and the Social Chapter to be its main negotiating success - and yet urged the French to endorse the treaty without those same exemptions. People were also indignant that the French were allowed a referendum while we were denied one.

It is high time to make as complete a reversal of policy on Maastricht as has been done on the ERM. And of course the connection is very close, economically and politically.

If the divergence between different European economies is so great that even the ERM cannot contain them, how would those economies react to a single European currency? The answer is that there would be chaos and resentment of the sort which would make the difficulties of recent days pale by comparison.

Huge sums would have to be transferred from richer to poorer countries and regions to allow them to take the strain. Even then unemployment and mass migration across now open frontiers would follow. And a full-fledged Single currency would allow no escape hatch.

The political consequences can already be glimpsed: the growth of extremist parties, battering on fears about mass immigration and unemployment, offering a real - if thoroughly unwelcome - alternative to the Euro-centrist political establishment.

If in addition you were to create a supra-national European federation, and the people could no longer hold their national parliaments to account, extremism could only grow further.

It is time for the European politicians to sit up and take note. Time to stop their endless rounds of summits - summitry is fast becoming a substitute for decision-making - and observe the reality around them.

There is a growing sense of remoteness, an alienation of people from their institutions of government and their political leaders. There is a fear that the European train will thunder forward, laden with its customary cargo of gravity,

towards a destination neither wished for, nor understood by electorates. But the train can be stopped.

Tomorrow, the French people will vote on the future of Europe. It is not for me to instruct them on French interest.

But I must stress that the referendum is not a vote on whether we should have a European Community - but on what kind of European Community it should be.

Whatever the result, France will continue to build Europe because Europe cannot be built without France. But is it to be a Europe des Bureaux? Or a Europe des Patries? The Europe of Delors? Or the Europe of De Gaulle? If I were a Frenchwoman, I would rally to the General's standard and cry: "Vive L'Europe Libre!".

#### NATIONHOOD AND EUROPE'S FUTURE

What kind of Europe should that be? Any policy or programme which fails to recognise the power of national loyalties is doomed to ultimate failure.

The larger Europe grows, the more diverse must be the forms of co-operation it requires. We should aim at a multi-track Europe in which groups of different states forge varying levels of co-operation and integration on a case-by-case basis. Such a structure would lack graph paper neatness. But it would accommodate the variety of post-Communist Europe.

Instead of a centralised bureaucracy laying down identical regulations, national governments should offer different mixes of taxes and regulations, competing with each other for foreign investments, top management and high earners. Such a market would impose a fiscal discipline on governments because they would not want to drive away expertise and business. It would also help to establish which fiscal and regulatory policies produced the best overall economic results.

And that Europe must not only be diverse internally, it must be outward-looking in trade and foreign policy. It will be no real gain if greater trade within Europe is bought at the cost of less trade between Europe and the rest of the world.

Still more serious, however, are the political risks. And these are barely grasped.

### EASTERN APPROACHES

We in Britain wish to enlarge Community membership to include the new East European democracies. That would help to bring greater prosperity and much-needed stability to a region which has twice this century generated conflicts drawing both our countries into world wars, and which today suffers from both political and economic troubles.

Communism may have been vanquished but Communists themselves have not. From the powerful positions they retain in the bureaucracy, security apparatus and the armed forces, from their places in not-really-privatised enterprises, they are able to obstruct, undermine and plunder.

The systems of proportional representation in these countries here allowed such tactics to succeed, leading to weak governments and a bewildering multiplicity of parties. All these risks bringing democracy into discredit.

But we can help by allowing them free access to our markets. I would like to welcome President Bush's far-sighted proposal in his Detroit speech to extend free trade to Central Europe. I see it as perhaps the first step towards the goal of trans-atlantic free trade to which I shall return. But in any event it is a typically American combination of generosity and far-sighted self-interest.

I am also delighted that Association agreements have been signed between the EC and several of these countries. But two years is too long to wait before restrictions of trade are removed. I would like to see these countries offered full membership of the Community as rapidly as possible.

If the EC does not respond rapidly to the needs of Eastern Europe, the problem will still arrive on our doorstep, because the people of Eastern Europe will join the Community even if their governments cannot. They will vote with their feet and arrive in vast numbers.

### TRADING & GATT

Our final challenge is to prevent the world slipping back into protection and instead to give a new momentum to freer trade.

We must ensure that the Uruguay Round is completed - and soon. But other moves towards free trade should be encouraged.

Free trade is the truest form of international co-operation, daily enabling people in different continents to contribute to the manufacture and distribution of goods as varied as a computer or a matchbox. It enables nation-states, large and small, to form a complex economic network, co-operating in their mutual interest, without the need for any centralised bureaucracy to direct the process or level the playing field.

Indeed, in conditions of free trade, the size and extent of government need not be dictated by economies of scale; they can be built instead on democratic efficiencies of closeness to the people. With free trade, you can have both large-scale economic efficiency and small-scale political decentralisation.

I welcome the creation of a US-Canada free trade area and its extension to Mexico. These reforms should strengthen the economies of your two neighbours and hold down the cost of living for Americans.

It is vital, however, that these should not be steps towards a world of three protectionist blocs built around the US, the European Community and Japan. There are those in Europe who regard the prospect of two such blocs, engaging in managed trade with a new European Superstate, with apparent equanimity and even enthusiasm.

I am not among them. Nor, I believe, should anyone who has at heart the interest of America or the West as a whole. For it would undermine the sense of Western solidarity under American leadership which is the only sure foundation of any new world order built to last.

So these new blocs must be steps not towards protectionism but towards a world of freer trade. When the Uruguay Round has been successfully completed therefore - we must take the next step towards wider economic integration.

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

This proposal has all the merits which are attached to any extension of free trade - greater economic efficiency leading to greater wealth, benefiting all those taking part. But it has two other important advantages, as well.

Given the liberal economic tradition of the US, Britain and several European Community countries, and given the fierce commitment to free market economics

of the former communist states - such a bloc would be imbued with the philosophy of free trade.

And because it would account for no less than 58 percent of world GNP, other trading blocs and potential trading blocs would have to follow its lead in such matters. It would give the GATT real clout - halting and reversing the drift towards a world of protectionist blocs.

The second advantage is that, by moving in this direction, it would strengthen the vital ties of defence and culture which link America and Europe, and which the drift to protectionism and trade wars threatens to undermine.

It would, in effect, be the economic underpinning of NATO - and make a great deal more sense than the various schemes for giving a defense identity to the European Community.

For, as the Gulf War showed, when the chips are down, American leadership and American military technology are essential to decisive military intervention. A common European defence and foreign policy is both a recipe for paralysis and an excuse for others to avoid action.

Most threats however to both the West's strategic interests and to world order are nowadays likely to occur out of NATO's area. NATO's constitution needs to be revised to take that into account.

But the American people - and who can blame them - will not be the policeman of the world alone. This has to be a collective talks with the burdens, both financial and military, fairly shared and agreed in advance.

## CONCLUSION

Mr Chairman, to some people these last few days may have seemed like a nightmare. But that is a wrong perception. The trauma and the turbulence have brought home to governments the limits of their ability to shape the world on lines of political convenience. That is profoundly healthy.

This was the week when the British and other economies broke free of largely self-imposed constraints. And, as a result, new possibilities have opened up - not just to end our recessions but for more enduring and productive international co-operation.

The histrionics of this time will soon be forgotten. The benefits will be increasingly appreciated. Dire warnings of what will happen when the economic straitjacket is removed will quickly prove false. The patient may perhaps wave his arms around a bit at first. He may even make a noise. But his odd behaviour reflects the torture of the straitjacket, not an inherent disordered condition. And the long concealed truth quickly dawns that this patient was perfectly sane all the time.

Mr Chairman, let us never again forget that the market has its own spontaneous order, on which the most effective economic co-operation will always be based. Free trade, flexible exchange rates, domestic policies to encourage enterprise and sound money - these amount to an open international system of co-operation that can accommodate both the dynamic capitalist economies of the far east and the new democracies of Eastern Europe struggling towards a market order. And on that foundation let us go forward to overcome the remaining obstacles to our prosperity and progress bringing a better, stabler, freer future within our grasp.

THE END