

UNCLASSIFIED

FM WASHINGTON 262010Z SEP 84

TO PRIORITY FCO

TELEGRAM NUMBER 2866 OF 26 SEPTEMBER

INFO ROUTINE UKDEL OECD, UKMIS GENEVA, UKREP BRUSSELS.

PRESIDENTS REAGAN'S SPEECH AT THE IMF/IBRD ANNUAL MEETING

SUMMARY

1. PRESIDENT REAGAN, IN AN OPTIMISTIC SPEECH ON 25 SEPTEMBER TO A PLENARY SESSION OF THE IMF/IBRD ANNUAL MEETING, EXPRESSED CONFIDENCE IN THE RECOVERY AT HOME AND ABROAD BASED ON THE LEADERSHIP OF THE US ECONOMY. HE EXTOLLED THE VIRTUES OF PRODUCTIVITY GROWTH STEMMING FROM ECONOMIC FREEDOM AND LOWER PERSONAL TAX RATES COMBINED WITH NEW TECHNOLOGY. THE PRESIDENT SUGGEST THAT INCREASED US IMPORTS FROM LESS DEVELOPED COUNTRIES MORE THAN OFFSET THE EFFECT OF HIGH US INTEREST RATES ON LDC DEBT REPAYMENTS, AND REAFFIRMED THE US COMMITMENT TO THE IMF AND WORLD BANK. ON TRADE, HE MADE A STRONG PLEA FOR FURTHER LIBERALISATION AND A NEW NEGOTIATING ROUND IN THE GATT.

DETAIL

2. THE PRESIDENT, NO DOUBT WITH HIS DOMESTIC AUDIENCE PARTLY IN MIND, INVITED THE REPRESENTATIVES OF FOREIGN COUNTRIES TO JOIN WITH THE UNITED STATES IN CREATING WORLD PROSPERITY BASED ON FREE ENTERPRISE. HE RECOUNTED AMERICAN SUCCESS - 21 STRAIGHT MONTHS OF ECONOMIC GROWTH, THE CREATION OF SIX MILLION JOBS AND 4 PER CENT INFLATION - WHICH HE ASCRIBED LARGELY TO SUCCESS IN RESTRAINING PUBLIC SPENDING AND INCREASING PERSONAL INCENTIVES. HE UNDERTOOK TO MAKE FURTHER IMPROVEMENTS IN THIS DIRECTION, INCLUDING CONSTITUTIONAL LIMITATIONS ON US BUDGET DEFICITS AND A 'HISTORIC' SIMPLIFICATION OF THE AMERICAN TAX SYSTEM THAT WOULD FURTHER REDUCE TAX RATES, AND SAW A CONTINUATION IN THE CURRENT DECLINE IN US INTEREST RATES.

3. REAGAN NOTED THAT GROWTH OF OVER 3 PER CENT IS BEING FORECAST FOR OTHER INDUSTRIAL COUNTRIES IN 1984 AND 1985, AND THAT THE OUTLOOK IN THE LDCS IS ALSO IMPROVING. HE SAID THAT US IMPORTS IN 1984 WOULD EXCEED THOSE IN 1983 BY OVER 25 PER CENT, AND THAT IMPORTS FROM THE NON-OPEC LCDS HAD RISEN BY DOLLARS 12 BILLION IN THE FIRST SEVEN MONTHS OF 1984 COMPARED WITH THE SAME PERIOD IN 1983. HE CONTRASTED THIS DOLLARS 12 BILLION INCREASE WITH THE DOLLARS TWO AND A HALF BILLION ADDITION TO THE DEBT REPAYMENT OF LDCS OF A 1 PER CENT RISE IN INTEREST RATES. HE REAFFIRMED THE CURRENT APPROACH TO INTERNATIONAL DEBT PROBLEMS AND REINFORCED THE CONCLUSION OF THE WILLIAMSBURG ECONOMIC SUMMIT IN FAVOUR OF A FIVE-PART DEBT STRATEGY AND AGAINST A 'QUICK FIX' THAT WOULD NOT SOLVE DEEP-SEATED ECONOMIC PROBLEMS. HE SAID THAT A VARIETY OF CAPITAL INFLOWS INTO THE DEVELOPING COUNTRIES WOULD BE NECESSARY IN THE THE FUTURE AND TO ENCOURAGE THESE FLOWS CERTAIN CONDITIONS WERE NECESSARY: A POSITIVE REAL INTEREST RATE, A REALISTIC EXCHANGE RATE, FREE CURRENCY CONVERTIBILITY AND A RESPECT FOR PROPERTY RIGHTS.

4. ON WORLD TRADE, HE REFERRED TO FEARS - ESPECIALLY AMONG DEBTOR COUNTRIES - OF A TRADE PROTECTIONISM IN THE UNITED STATES. HE EXPRESSED THE WISH TO PUT THESE FEARS TO REST AND REFERRED TO ANT-PROTECTIONIST DECISIONS BY THE ADMINISTRATION ON TUNA, CUTLERY, SHOES, COPPER AND TO LAST WEEK'S DECISION NOT TO ALLOW FORMAL QUOTA AND TARIFF RELIEF FOR THE STEEL INDUSTRY. HE ALSO REFERRED TO US PROPOSALS AT THE LONDON SUMMIT FOR NEW EFFORTS TO LIBERALISE AND EXPAND INTERNATIONAL TRADE: CLAIMED THAT CONSULTATIONS WERE CONTINUING AMONGST GATT COUNTRIES FOR A NEW NEGOTIATING ROUND WHICH HE SUPPORTED: AND URGED ALL TO JOIN IN.

5. ON THE INTERNATIONAL FINANCIAL INSTITUTIONS THEMSELVES, HE GAVE EXPLICIT SUPPORT FOR THE DECISION OF THE LONDON ECONOMIC SUMMIT TO HOLD INTENSIFIED DISCUSSION ON FINANCIAL ISSUES OF CONCERN TO DEVELOPING COUNTRIES WITHIN THE DEVELOPMENT COMMITTEE AND TO THE INTERIM COMMITTEE'S DECISION TO ACCEPT TREASURY SECRETARY REGAN'S PROPOSAL FOR AN ENHANCED DIALOGUE BETWEEN THE INDUSTRIALISED AND DEVELOPING COUNTRIES ON HOW TO SUSTAIN NONINFLATIONARY GROWTH. RECALLING THAT THE UNITED STATES WAS ONE OF THE FOUNDING FATHERS OF THE IMF AND IBRD, HE RE-COMMITTED THE US TO THE AGREED LEVEL OF ITS CONTRIBUTION TO THE IBRD SELECTIVE CAPITAL INCREASE, THE SEVENTH REPLENISHMENT OF IDA AND THE CAPITAL INCREASE OF THE IFC. HE ALSO REFERRED TO THE PROBLEMS BESETTING SUB-SAHARAN AFRICA AND SAID THAT THE US LOOKED FORWARD TO WORKING WITH THE IMF/IBRD, OTHER DONORS, AND AFRICAN COUNTRIES IN RESPONSE TO THE PROBLEMS THERE UNCOVERED IN VARIOUS IBRD REPORTS, AND ALSO MENTIONED THE US ECONOMIC POLICY INITIATIVE FOR AFRICA, PROVIDING FOR A US CONTRIBUTION OF DOLLARS 500 MILLION OVER FIVE YEARS.

6. FCO PLEASE PASS TO HEALY (DTI), LAVELLE (TREASURY), TAIT (ERD), WARE AND D W GREEN (BANK).

WRIGHT

MONETARY

NAD
ERD.

COPIES TO

MR. HEALY - DTI
MR. LAVELLE - TSY
MR. TAIT - ERD
MR. WARE
MR. DW. GREEN } B/E.