

INTERNATIONAL FINANCIAL LAW - PRESIDENT MITTERAND CALLS FOR A NEW
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...I would like to take advantage of this opportunity to outline France's views--which probably reflect the thoughts most of you have had--of what must be done so our work will lead to improvement in international relations and to the development of an approach to the future so that the current economic crisis can be mastered.

...I would like to discuss with you the themes I-- along with others--will shortly be considering at the Williamsburg summit later this month.

For 36 years this organization has helped to further trade among the major industrialized countries and has played an important role in developing dialogue and cooperation between the North and the South. At its origins the foundation for the reconstruction of war-devastated Europe, today it has broadened its membership and its field of interests.

In short, the OECD enables each of our countries to express its point of view freely and to look together for new paths when disagreements or difficulties arise. The debates that take place within this body are a direct outgrowth of the interdependence in which we live. Each country perceives better the impact its own decisions have on our common interests.

The work accomplished by the OECD redounds to the honor of all, and I am pleased to have the opportunity to pay tribute to this organization. But as you know, today, as it did after the last World War, the world needs to be reconstructed, and to do so we need to rediscover the spirit that inspired the founders of this organization. It is not enough to manage everyday affairs. Without clear perspectives, without rules for the game, we will not overcome the crisis.

*(Address by President Francois Mitterand at the Elysee Palace in Paris on 9 May 1983 before foreign and finance ministers of the Organization of Economic Co-operation and Development. The text was provided by the French Embassy, Canberra.)

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Remember how at the start of the 1970's the weakening of monetary disciplines and the uncontrolled creation of international liquidities led to a first wave of inflation. Then the generalization of floating exchange rates increased the instability of parities and multiplied inflationary tensions, and the second oil shock resulted in a severe recession heightened by the erratic movements of some currencies on the international markets.

To meet the problem many countries, without acting in concert, instituted policies whose cumulative disorder led the world economy into the vicious circle of recession. Unemployment rose dramatically--by 25 million--in our countries alone. Protectionism in multiple and concealed forms slowed the growth of world trade, and this in turn put a break on growth.

In the most important economies, unbalanced budgets maintained real interest rates at a level that was much too high, one without precedent over the past 30 years, and this decreased investment capacity and erected new barriers just when technology made it possible to advance. While opportunities for the future were receding, the weight of the past was increasing: indebtedness grew, bearing down on more and more countries and individuals and slowing the movement of trade.

To sum up, if we are not careful the whole world will be at the mercy of a panic or a default.

So what should we do? This is exactly the object of your work and of my comments. Experience teaches us that so far neither market forces nor the play of institutions has succeeded in overcoming the crisis.

True, since August 1982 cooperation between international financial institutions, monetary authorities and the banking sector has avoided the worst. Increasing quotas at the International Monetary Fund (IMF) and strengthening general lending agreements have increased the resources available to back the poorest countries.

But avoiding the worst is not an ambition.

If the great countries understand their duty we will overcome--soon and together--the crisis, but on this condition.

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This will not, however, be accomplished by a miracle or at just one meeting or in just one year or within the framework of just one organization. It will result from lasting international action built on a world-wide plan which I hope fervently to see.

This is an immense task, one to be carried out over a generation. And it is for those of us who are meeting here today to prepare people's minds and set the wheels in motion.

To this end I have three proposals to make.

You know better than anyone that trade relations require a two-tier motor: first a statement of differences and then cooperation. Without differences there is no useful exchange. Without cooperation, there is no lasting growth.

This observation lies behind the three key words in my remarks this evening: growth, stabilization and development.

To achieve these, ladies and gentlemen, we must act with ambition and discipline. Without effort what can ambition bring? Without a plan for the future what use is discipline?

For my part I believe we must return together to the path to growth. Nothing great will be accomplished without a spirit of adventure, without faith in the future. But to start, the first step toward setting the economy in motion again will be possible only through concerted growth that will generate the conditions for healthy and continuous recovery, that is, recovery without inflation. Knowing what I go about, the problems that must still be solved in a country such as mine, I say so with all the more force and conviction.

The recovery that is emerging here and there will fade very quickly, much more quickly than is commonly believed, if there is nothing to sustain it.

This brings us to three basic facts:

1) No one disputes the need for a massive reduction of excessive budget deficits that lead to exaggerated real interest rates and thereby reduce the capital available for investment. The more important the country, the greater the danger for itself and for others.

2) At the same time, those who have margins should be the ones to stimulate their own growth. Positive results in fighting inflation should help stimulate economic activity.

3) Lastly, the best way to fight unemployment is, as you know, to train young people for new technologies and allow more flexibility in working time.

Even the best economic recipes will not suffice, however, to attain lasting growth. First and foremost we must rediscover--and I stress this--confidence in ourselves, in the future of our civilization, in our common values and therefore in our talent for creating and working together. This is why nothing seems more important to my mind than continual dialogue of the kind we have had this evening and today and will have tomorrow. This is the sense at least of my remarks this evening and those I shall make in the United States in a few weeks where I shall meet representatives of other countries and have occasion to bring up again the ideas I am discussing with you this evening.

It is also necessary, ladies and gentlemen, to stabilize the exchange system. A return to sustained growth will remain unattainable without the patient reconstruction of a stable system of international economic relations in three principal areas: currency, trade and raw materials. But I shall conclude, somewhat illogically since it is a beginning, by recalling the need for a new "Bretton Woods" even if the evocation of this name does not lead us to a pure and simple imitation.

As we saw after the Second World War, everything is based on currency. Reestablishing the conditions for a stable monetary system, with currencies that are fixed to a sufficient extent and given reasonable economic value, is therefore an urgent task. It is not out of our reach provided we have the will to do it. But I believe the stages that will very gradually lead to the establishment of such an international monetary system can be defined perfectly well.

May I remind you that in the first place we have to continue the work undertaken at Versailles last year and waste no time in implementing the measures decided on there. Joint consultations on the industrial countries' economic policies should be effectively established and strengthened. You are

the ones who, as ministers, must fashion this material. Exchanges of this kind must also focus on the goals of monetary policy and the underlying trends affecting exchange rates.

Next I would point out that it is essential to return to realistic parities and to limit erratic short-term fluctuations around reference rates. We should study, among other things, ways of acting together so as better to adjust medium-term interest rates when the fundamental economic parameters of the principal countries, that is, prices, interest rates and balance of payments, move apart on a lasting basis.

I know that some will judge this effort impossible in our unstable world. Yet we can see from the conclusions of the working group on intervention--a body France advocated establishing at Versailles last year--monetary cooperation quickly proves useful when disorder increases on the markets, when short-term exchange rates become increasingly volatile. Are we not experiencing such a situation even today? The seven, to mention only this group, are but one part of a whole and have they not affirmed, moreover, their desire for coordinated intervention when this is deemed to be useful? If not, what is the purpose of having all these rounds of international meetings?

Given stabilized exchange rates, trade will expand rapidly, I am certain, and this will be to everyone's benefit. Growth rates will advance at a reasonable rate and coordinating our economic policies will be easier.

So we will go further, and the three principal monetary zones, the dollar, the yen and the European currencies could move toward strengthening their ties and serve as poles of stabilization for the exchange rates of the world's principal currencies. The IMF will have a greater role to promote the use of Special Drawing Rights (SDR's) in official reserves, in operations and accounting of international institutions and in private transactions. Given the means, it could also intervene in the event a country finds itself in serious and unexpected difficulty.

Yes, I truly believe, and I am repeating myself deliberately, that the time has come to think about a new Bretton Woods. I do not wish to exaggerate my remarks and use the famous expression: "There is no salvation outside this proposal." At that time, I mean after World War II, and starting with

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You will realize that we can no longer exchange only our goods, we must also exchange know-how, that is, technologies. With increasing frequency industrial cooperation among different nations is replacing the simple commerce in each nation's goods.

Trade and international cooperation in advanced research and technology will be stepped up between private enterprises and public institutions.

The increase in technological cooperation requires in effect a new international division of labor. It is in the interest of us all to avoid excessive competition whether in declining sectors or in new industries. We must employ every effort to work out by degrees some rules of conduct regarding strategies and industrial policies.

Just now I referred to the North and the South, and to the complicated, uncertain, changing relations between the two hemispheres. So I cannot fail to mention the need to stabilize trade in raw materials for the medium term.

The more we have thought of this, the more we understand that it is possible to move quickly in this area. Let me give you a few examples:

Is it out of the question for us to conclude product agreements wherever possible? Agreements of this kind will tend to stabilize rates in realistic parameters since one cannot go against the tide of market forces indefinitely. This we know. And since financing is indispensable, I want to emphasize the need to bring into being without further delay the common fund for basic commodities, which has been much talked about but never seen.

Regulating raw materials futures markets seems also to be a priority in my opinion for these markets inform traders by determining a single price. They protect producers against speculation. When they do not exist, as in the case for rice, disorder prevails: prices are unpredictable, speculation lurks in the shadows and manipulation is a permanent feature of life. But when these markets are not regulated, instead of informing they deceive. Instead of protecting, they can overwhelm and invite speculation. In short, a more strict discipline in the interplay of competition will give back to these markets the role they should have.

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nothing, a coherent system was set up. Although everything today is more complex, we should nevertheless not give up our goal of advancing by stages toward a system adapted to the economic conditions of the end of this century.

With a view to facilitating these reforms, I should like to see a carefully prepared international monetary conference at the highest level in the framework of the IMF.

I believe it is essential to organize both the trade of goods and technological cooperation. After speaking of currency I should like to say a word about the goods themselves. Protectionism, which everyone regards with suspicion when it is practiced by another, constitutes without doubt and by definition an obstacle to increased trade and to the economic takeoff of poor countries. But we must establish its importance.

At the present time protectionism accounts for only 10% in lost earnings for the developing countries; 90% can be attributed to the absence of growth in the wealthy countries, to insufficient public aid, to the instability of raw materials prices and above all to rising interest rates. The additional burden runs to \$45 billion of which \$29 billion is due directly to the rise in interest rates, and the rest to increases in outstanding debt which represent almost twice the amount of aid to the countries or \$26 billion.

I stress these facts here this evening not for the purpose of keeping you longer but to tell you these things in behalf of my country which does not have all the answers but wishes to contribute to the general discussion. What more suitable occasion would I have to say such things to all the countries of the world?

It is time to remedy the main causes of the malady and to show that no one stands to gain anything from protectionism, even the most veiled kind in the form of technical or health standards. The remedy lies primarily in ensuring an equitable opening of markets, a precondition for economic growth for the North as well as the South. Furthermore, the General Agreement on Tariffs and Trade (GATT) already plays a role in stimulating the flow of trade and helps to resolve the difficulties resulting from structural differences and the varying rates at which economies evolve. This is good but it is not enough.

For the South to be a full partner in this market reorganization we must, in conjunction with those countries that are already our partners and will be even more so in a more open world, undertake programs to train their people. In accordance with the provisions of the Lomé agreements, whose importance is demonstrated every day, we will have to institute programs to prepare nationals of Third World countries in marketing techniques. This is what we are trying to do for our part, and I know that other countries represented here have achieved some remarkable successes.

Lastly the financing of investment in non-renewable energies in the developing countries has to be encouraged, especially through the World Bank or in the form of some new special institution. But the World Bank has already announced plans that could by and large answer this question.

So you see, I am emphasizing a point that is in our thoughts: Nothing is possible for the North if the economic recovery of the South is not ensured. It is inconceivable that we could save one half of the planet without the other! It is inconceivable to want to liberalize trade and at the same time put up barriers to solidarity.

We all know that only a recovery, an economic rebirth, will solve our own problems by opening up new markets and exploiting new resources. However, by some unacceptable paradox, we seem to want to ignore the most obvious markets, the ones most avid for growth. I refer to the markets of the Third World.

Politically, I am certain, the survival of our democracies and our capacity to foster a free world around us depend on this. No recovery, no monetary system or system of trade will be stabilized until the economic and financial situation of Third World countries is unblocked. If these countries do not have dependable and lasting means to finance their debts and promote economic growth, their political balance will be in more jeopardy every day. This is already very often the case. It is up to us to help them to develop.

To do so, financing based on their needs has to be available. High interest rates and the world recession have added to the indebtedness of the poor countries. Their indebtedness threatens not only themselves; it is tragically dangerous for the entire world. It is in our own enlightened interest to alleviate the debt of the South.

It is essential for all countries to lower their real interest rates, the primary cause of the increasing cost of debt in the countries of the South. With that, the situation, the perspectives would become different; [today] the most advanced countries have extensive recourse to the private financial market whereas those countries with scant revenues have access only to public aid.

For those countries in the South in the process of industrializing, I believe that multilateral institutions according their guarantees or at least their backing to certain resources from the private sector will prove to be increasingly necessary. Their guarantees could first be applied to long-term supplementary loans.

In the case of the poorest countries, the share of the developed countries in the issue of a new allocation of SDR's would serve to subsidize their conditional loans to the Third World through the intermediary of international financial institutions so as to ensure a reasonable management of the debt of these countries.

Since the reform in 1975, the amounts available from the IMF facility have attained a respectable level. So far so good. But the extent of this resource is still inadequate. In this respect, as I have pointed out, the recent increase in IMF quotas constitutes an important step. But at the same time more rigorous procedures must not have the effect of limiting the use of this new resource, which is vital for many developing countries.

I would like to see the role of the World Bank considerably enlarged and diversified in response to the needs of the borrowing countries. It would be timely, I believe, to modify ratios and augment substantially the capital of the Bank itself in 1985 so as to enable it to meet the needs of the poorest countries.

In a general way I am emphasizing the importance of stability over time in financial commitments in regard to aid and credits. How can sizable projects be undertaken, I ask you, on the basis of annual financing? How can the very poor countries plan strategies if they cannot count on foreign aid beyond the year in question? An essential element of the Lomé

convention between the European Economic Community and 60 developing countries has been guaranteed financing over a five-year period. Financing over a period of time is imperative and, I believe, this accord sets an example.

We must act specifically in the interests of the poorest countries.

It should be possible to loosen the hold indebtedness has on these countries by allowing them to borrow under more flexible conditions amounts far greater than their quotas. Moreover, part of the new allocations of SDR's could be used to lower the cost of this aid significantly.

Another type of special protection is already available to these countries and operates within the framework of the Lomé convention Stabex agreement. Our highest priority is to strengthen this agreement. At the 1981 Paris conference on the least developed countries commitments were made to extend the Stabex guarantees to all of these countries. This orientation should be pursued. Interesting suggestions in this area have been made both within UNCTAD and at the meeting of non-aligned countries.

Additional aid to the 36 least developed countries is required. It could be made available within the framework of the follow-up to the Paris conference and be based on development programs drawn up and reviewed by consortiums of donor countries. This is a duty that should be assumed by the countries meeting here today. Each of us must do what he can to reach the U.N.-recommended levels of aid as rapidly as possible.

Lastly, an "emergency plan for Africa" must be implemented. The per capita gross national product of this continent has been at a standstill for ten years, and because of its debts, it is in danger of becoming the "continent lost to development." It is urgent for the Western countries to make an exceptional effort to demonstrate their solidarity. My country will shortly make detailed proposals to this end. Some of you have given many examples of imagination and bold thinking. We have often taken our inspiration from others but we will make our own contribution.

Recovery, stabilization, development--these will enable us to organize the reconstruction of the international economic order. This evening I have only the force of my words to invite you to work for this reconstruction, but action is essential, and it depends on you.

The general picture I have just sketched in its bare outlines does not meet all present needs. I have deliberately emphasized North-South relations and stressed the underlying economic and political interrelationship between the future of these countries and our own. I solemnly affirm to you that this relationship is central to all else.

To conclude I would simply like to add that to my mind these are not just abstract formulas or utopian visions. Rather, they are principles we apply already to the greatest possible extent within a community that is limited but nonetheless important, the community of the ten European countries, which is represented here today.

The significance of my appeal to you, ladies and gentlemen, is specifically an outgrowth of the daily experience of these ten countries. Of course this experience has often been disappointing, as we who are participants know better than anyone else, and this is particularly true when we reflect on the difficulties encountered rather than the distance we have already traveled.

But in the final analysis, despite the crisis, Europe knows that it is called upon to develop a stronger identity, greater responsibility and more unity. We feel that the equitable opening of borders, the progression of agricultural prices, the relative stability of exchange rates work to its advantage. When the Europeans forget this, the rest of the world reminds us in one way or another, and this is as it should be. So it is Europe's duty to be stronger and more united both for itself and for the example it sets for others in the world. We will certainly have other occasions to discuss this matter, for example at the meeting scheduled to take place in Stuttgart in June.

Ladies and gentlemen, I have taken the risk of increasing your fatigue late in the day--but what better opportunity to meet at one and the same time so many of those who are truly responsible for economic policy in the world? I wanted to speak to you this evening using my own words, trusting I express the truth, but even more important, trusting, I speak the language of hope. We are experiencing a period of crisis and we are suffering from it. It is with us, deep-rooted and multiple in its forms. It calls upon us collectively to go beyond the current situation, to harness our energies both within

each of our nations and on a world-wide scale. However, we feel this only confusedly and do not always draw the necessary conclusions. Yet the future is not written in advance. Throughout the ages it has never been written in advance. It depends on our ambition, on our cooperation. World-wide action to reconstruct the economic order is possible. True, it will take time, true, it will take years; true, it will take important financial commitments. But if we do not make this commitment, if we do not implement reforms and agreements and concertation, what will we come to?

And how can we hesitate to use as best we can the immense possibilities opened by the genius of mankind, possibilities of which we are the standard bearers today?

It is obvious that time is running out. We cannot allow ourselves the luxury of missing opportunities. I have mentioned to you the European meetings, and a summit meeting of the industrialized countries is coming up. These are opportunities to check whether we are on the right path or whether we will turn our backs, choosing anarchy and crisis rather than recovery. Each of us will draw the consequences he desires and will use this to gauge the usefulness of this kind of meeting.

Above and beyond our differences, the essential depends upon a shared outlook, a will, a mobilization of our scientists, our businesses, our young people and our authorities. You know that this is the price of creating together a world that will be more civilized, more free and more tolerant. And who among you, ladies and gentlemen, doubts that this is the real goal of our own peoples? We are associated, we have come together in this room because it has been demonstrated that the world takes its inspiration from the principles of freedom and work, progress and peace, and in the past has succeeded in overcoming events. I hope you will all share my conviction. This is within our means, within yours, ladies and gentlemen. Each day the responsibility and importance of your work brings new evidence of this.

This time I hope you will continue your work while constantly searching for the conciliation that is indispensable.... Let us work for the good of all. I know this is your law.