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Remarks by the Hon. **WILLIAM CLINTON,**
PRESIDENT OF THE UNITED STATES,
at the Annual Meetings of the Boards of Governors of the
International Monetary Fund and the World Bank Group

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REMARKS BY THE PRESIDENT
TO OPENING CEREMONY OF THE
1998 INTERNATIONAL MONETARY FUND/WORLD BANK
ANNUAL MEETING

Marriott Wardman Park Hotel
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THE PRESIDENT: Thank you very much. Secretary Rubin; my friend, President Menem; Minister Fernandez; Managing Director Camdessus; President Wolfensohn; Dr. Ruttenstorfer; ladies and gentlemen: Before I begin my remarks, I hope you will permit me to say a few words about another issue of real concern to the international community, about which I have been working already this morning – the subject of Kosovo.

I have been on the phone with many of my counterparts, and I just Was speaking with Prime Minister Blair, who is in China. We all agree that Kosovo is a powder keg in the Balkans. If the violence continues, it could spill over and threaten the peace and stability of Bosnia, of Albania, of Macedonia and other countries in the region. What is already a humanitarian crisis could turn into a catastrophe.

Some 250,000 people have been forced to flee their homes. Of that number, approximately 50,000 are actually homeless. As winter sets in theys risk freezing or starving to death.

President Milosevic is primarily responsible for this crisis. The United Nations has made clear the steps we must take to end it – declare an immediate cease-fire, withdraw Serb security forces, give humanitarian relief groups full and immediate access to Kosovo, begin real negotiations with the Kosovar Albanians to find a peaceful and permanent solution to their rightful demand for autonomy.

As we meet here, my Special Envoy, Dick Holbrooke, is meeting with President Milosevic to reiterate what he must do and to make clear that NATO is prepared to act if President Milosevic fails to honor the United Nations resolutions. The stakes are high. The time is now to end the violence in Kosovo. I hope all of you will do whatever you can to that end.

Now to the matter at hand. A half century ago, a visionary Generation of leaders gathered at Bretton Woods to build a new economy to serve the citizens of every nation. In one of his last messages to Congress, President Franklin Roosevelt said that the creation of the International Monetary Fund and the World Bank – and I quote – “spelled the difference between a world caught again in the maelstrom of panic and economic warfare, or a world in which nations strive for a better life through mutual trust, cooperation and assistance.”

The Bretton Woods generation built a platform for prosperity that has lasted down to the present day. Economic freedom and political liberty has spread across the globe. Since 1945, global trade has grown 15-fold. Since 1970 alone, infant mortality in the poorest countries is down by 40 percent. Access to safe drinking water has tripled. Life expectancy has increased dramatically. Even now, despite the difficulties of recent days, per capita incomes in Korea and Thailand are 60 percent higher than they were a decade ago. A truly global market economy has lifted the lives of billions of people.

But as we are all acutely aware, today the world faces perhaps its most serious financial crisis in half a century. The gains of global economic exchange have been real and dramatic – but when tides of capital first flood emerging markets, then suddenly withdraw; when bank failures and bankruptcies grip entire economies; when millions in Asia who have worked their way into the middle class suddenly are plunged into poverty; when nations half a world apart face the same crisis at the same time; it is time for decisive action.

What has caused the current crisis? First, too many nations lack the financial, legal, and regulatory systems necessary to maintain investor confidence in adversity. Second, new technologies and greater global integration have led to vastly increased, often highly leveraged flows of capital, without accompanying mechanisms to limit the boom-bust cycle – mechanisms like those with are integral to the success of advanced economies.

I am confident that if we act together we can end the present crisis. We must take urgent steps to help those who have been hurt by it, to limit the reach of it, and to restore growth and confidence to the world economy. But even when the current crisis subsides, that will not be enough. The global economy simply cannot live with the kinds of vast and systemic disruptions that have occurred over the past year.

The IMF and the World Bank have been vital to the prosperity of the world for the past half century. We must keep them vital to the prosperity of the world for the next half century. Therefore, we must modernize and reform the international financial system to make it ready for the 21st century.

The central economic challenge we face is to harness the positive power of an open international economy while avoiding the cycle of boom and bust that diminishes hope and destroys wealth. And the central political challenge we face is to build a system that strengthens social protections and democratic institutions so that people everywhere can actually reap the rewards of growth.

We must put a human face on the global economy. An international market that fails to work for ordinary citizens will neither earn, nor deserve their confidence and support. We need both an aggressive response to the immediate crisis and a thoughtful road map for the future. We must begin by meeting our most immediate challenges.

Two weeks ago at the Council on Foreign Relations in New York, I outlined what we have done and what we must do. I am gratified that today the leading economies speak with one voice in saying, the balance of risks have now shifted from inflation to slow down. The principal goal of policymakers must be to promote growth. Every nation must take responsibility for growth. The United States must do its part. The most important thing we can do is to keep our economy growing and open to other’s products and services, by maintaining the fiscal responsibility that has led us to the first balanced budget and surplus in 29 years.

Winning this discipline was not easy and was not always popular. But it was the right thing to do. That is why I have made it clear to our Congress that I will veto any tax plan that threatens that discipline.

Also, the United States must – must – meet our obligations to the IMF. I have told Congress we can debate how to reform the operations of the fire department, but there is no excuse for refusing to supply the fire department with water while the fire is burning.

Europe must continue to press forward with growth-oriented economic policies and keep its markets open. And Japan, the world's argest economy and by far the largest in Asia, must do its part, as well. The United States values our strong partnership with Japan – our political, our security, our economic partnership. But now the health of Asia and, indeed, the world depends upon Japan. Just as the United States had to eliminate its deficits and high interest rates which were taking money away from the rest of the world over the last six years, now Japan must take strong steps to restart its economic growth, by addressing problems in the banking system so that lending and investment can begin with renewed energy; and by stimulating, deregulating and opening its economy.

For all of us there can be no substitute for action. And all of us must also act now to restart growth in the rest of Asia by helping to restructure firms paralyzed by crushing debt and replace debt with equity across entire economies. Through OPIC and the Export-Import Bank, we are providing short-term credit and investment insurance to keep capital flowing into emerging economies.

I welcome Japan's announcement that it will contribute to the reconstruction effort. And I am gratified that the World Bank has agreed to double its investment in the social safety net in Asia to help those who have been harmed by the economic crisis.

In all these ways, we can minimize the consequences of the current financial contagion. But the flash of this crisis throws new light on the need to do more – to renew the institutions of international finance so they reflect modern economic reality. The institutions built at Bretton Woods must be updated for 24-hour global markets if they are to continue to achieve the goals established by the Bretton Woods generation.

First, we must recognize that the free and open exchange of ideas and capital and goods across the globe is the surest route to prosperity for the largest number of people. But we must find a way to temper the volatile swings of the international marketplace, just as we have learned to do in our own domestic economies.

What is troubling today is how quickly discouraging news in one country can set off alarms in markets around the world. And all too often, investors move as a herd, with sweeping consequences for emerging economies with weak and strong policies alike. We've all read of families that worked hard for decades to become middle class, families that owned homes and car suddenly forced to sell off their possessions just to buy food. We've read of doctors and nurses forced to live in the lobby of a closed hospital. With fuel and food shortages in some countries, the onset of winter threatens mass misery. And in Asia, where the ethic of education is deeply ingrained and has led to the rise of tens of millions of people, and strong schools are deprived of nations, we now see too many children dropping out of school to help support their families.

Just as free nations found a way after the Great Depression to tame the cycles of boom and bust in domestic economies, we must now find ways to tame the cycles of boom and bust that today shake the world economy.

The most important step, of course, and the first step, is for governments to hold fast to policies that are sound and attuned to the realities of the international market place. No nation can avoid the necessity of an open, transparent, properly regulated financial system; an honest, effective tax system; and laws that protect investment. And no nation can for long purchase prosperity on the cheap, with policies that buy a few months of relief at the price of disaster over the long run.

That is why I support the fundamental approach of the IMF. The international community cannot save any nation unwilling to reform its own economy. To do so would be to pour good money after bad. But when nations are willing to act responsibly and take strong steps, the international community must help them to do so.

Too often, what has appeared to be a thriving market system, however, has masked an epidemic of corruption or cronyism. Investors and entrepreneurs, foreign and domestic, will not keep their money in economies where prosperity is a facade. Bank balance sheets should mean the same thing in one country as another. Contracts should be awarded on merit. Corruption cannot be tolerated.

To this end, I applaud the Working Group reports that call for the IMF to examine and publicize countries' adherence to strong international standards, as well as higher accounting and loan standards for private institutions. The United States will continue to press for new ways the private sector can implement sound practices – for example, through an accreditation system for national bank examiners.

But while strong policies and sound business practices within each nation are essential, at times they simply will not be enough. For even the best functioning markets can succumb to volatility, soaring in unrealistic expectations one minute, followed by a sudden crash when reality intervenes. Such miscalculations of risk are an inevitable fact of market psychology.

In our own domestic economies, we have learned to limit these swings in the business cycle. In the United States, for example, a strong Federal Reserve has ensured a stable money supply. The Securities and Exchange Commission promotes openness and makes the market work. Rigorous bank regulation and deposit insurance have helped to keep downturns in the business cycle from spinning out of control. Other nations have their own institutions performing these same functions.

Now, though we understand that the realities and the possibilities in the international marketplace are different, some of the same functions clearly need to be performed. We must address not only a run on a bank or a firm, but also a run on nations. If global markets are to bring the benefits we believe they can, we simply must find a way to tame the pattern of boom-bust on an international scale. This task is one of the most complex we face. We must summon our most creative minds and carefully consider all options. In the end, we must fashion arrangements that serve the global economy as our domestic economies are served, enabling capital to flow freely without the crushing burdens the boom-bust cycle brings.

While we must not embrace false cures that will backfire and lead in the end to less liquidity and diminished confidence when we need more of both, we must – we must – keep working until we find the right answers. And we don't have a moment to waste.

Meanwhile, we must find creative ways to protect those countries that right now have strong economic policies, yet still face financial pressures not of their own making. This past weekend, Secretary Rubin and Chairman Greenspan have worked with their G-7 counterparts to find new ways to strengthen our cooperation based on the IMF to make precautionary lines of credit available to nations committed to strong economic policies, so that action can be quick and decisive if needed. This is a critical way to prevent the present crisis from reaching Latin America and other regions, which are doing well. And I ask your support.

Strong government policies, sound business practices, new ways to limit the swings in the global market – all these steps are needed to ensure growth into the future. But let us also acknowledge that we face a political challenge. For the best designed international economic system will fail if it does not give a stake and a voice to ordinary citizens. So I say again, today we see a profound political challenge to the global economic order.

The financial crisis poses a stern test of whether democracies are capable of producing the broad public support necessary for difficult policies that entail sacrifice today for tomorrow's growth. I believe strong democracy, fair and honest regulation, sound social policy are not enemies of the market. I believe they are essential conditions for long-term success. Nations with freely elected governments, where the broad mass of people believe the government represents them and acts in their interests, have been willing and able to act to ward off crisis. Korea and Thailand, with elected leaders who have been willing to take very difficult steps, have succeeded in weathering the worst of the economic storm when so many others have not. Countries in Central Europe have done remarkably well.

But even among the strongest nations, as we have found here in our own, broad change is often difficult. Unless the citizens of each nation feel they have a stake in their economy they will resist reforms necessary for recovery. Unless they feel empowered with the tools to master economic change, they will feel the strong temptation to turn inward, to close off their economies to the world.

Now, more than ever, that would be a grave mistake. At a moment of financial crisis, a natural inclination is to close borders and retreat behind walls of protectionism. But it is precisely at moments like this we need to increase trade to spur greater growth.

Again, we must never lose sight of what the fundamental problem is – we need more liquidity, more growth in this world today. Only by tearing down barriers and increasing trade will we be able to bring the nations of Asia, Latin America, and other parts of the world back on to the path of growth.

The world economy today needs more trade and more activity of all kinds, not less. That is why when the leaders of APEC meet next month, we must press forward to tear down barriers and liberalize trade among our countries; why next January when the United States Congress returns, we will seek a comprehensive effort to tear down barriers at home and around the world, including new negotiating authority and legislation to expand trade with Africa.

But unless we give working people a strong stake in the outcome, they will, naturally and understandably, erect obstacles to change. The answer to these difficulties is not to retreat. It is to advance and to make certain every nation has a strong safety net providing the security people need to embrace change.

At the very least, people who are suddenly without work must have access to food and shelter and medical care. And over time, all nations must develop effective unemployment and retirement systems. We must find ways to keep schools open and strong during times of economic downturn. We must make certain economic development does not come at the cost of new environmental degradation.

I am pleased that the World Bank will be redoubling its efforts to building this strong safety net, especially in Asia. And I urge all international financial institutions to do more to incorporate environmental issues into your operations, and to significantly increase direct lending for environmental and natural resource projects.

Every time we seek to protect the environment, short-sighted critics warn that it will hurt the economy. But over the last quarter century, we have seen time and again, in nation after nation, that protecting the environment actually strengthens, not weakens, our economies.

International institutions themselves must reinforce the values we honor in our own economies. In Geneva last May, I asked the World Trade Organization to bring its operations into the sunlight of public scrutiny, to give all sectors of society a voice in building trade policies that will work for all people in the new century. We must do the same for other multilateral institutions.

When the IMF agrees with a member country on policy measures to restore stability, the people of that country and investors around the world should be told exactly what conditions have been set. Therefore, I urge the WTO, the World Bank, and the IMF, working with the ILO, to give greater consideration to labor and environmental protections as a part of your daily business. Only by advancing these protections will these organizations earn the confidence and support of the people they were created to serve.

Finally, though we are seized with the crisis of the moment, we must not neglect those whom the capital flows have passed by in the first place. That is why it is critical to continue our efforts to lighten debt burdens, to expand educational opportunities, to focus on basic human needs, as we work to bring the poorest countries in Africa and elsewhere into the international community of a thriving economy.

Creating a global, financial architecture for the 21st century; promoting national economic reform; making certain that social protections are in place; encouraging democracy and democratic participation in international institutions – these are ambitious goals. But as the links among our nations grow ever tighter we must act together to address problems that will otherwise set back all our aspirations. If we're going to have a truly global marketplace, with global flows of capital, we have no choice but to find ways to build a truly international financial architecture to support it – a system that is open, stable and prosperous.

To meet these challenges I have asked the finance ministers and central bankers of the world's leading economies and the world's most important emerging economies to recommend the next steps. There is no task more urgent for the future of our people. For at stake is more than the spread of free markets, more than the integration of the global economy. The forces behind the global economy are also those that deepen liberty, the free flow of ideas and information, open borders and easy travel, the rule of law, fair and even-handed enforcement, protection for consumers, a skilled and educated work force. Each of these things matters not only to the wealth of nations, but to the health of nations.

If citizens tire of waiting for democracy and free markets to deliver a better life for themselves and their children, there is a risk that democracy and free markets, instead of continuing to thrive together, will shrivel together.

This century has taught us many lessons. It has taught us that when we act together we can lift people around the world and bind nations together in peace and reconciliation. It has also taught us the dangers of complacency, of protection, of withdrawal. This crisis poses a challenge not to any one nation, but to every nation. None of us – none of us – will be unaffected if we fail to act.

On the day he died in 1945, as these institutions were taking shape, President Roosevelt wrote in the last line of his last speech: "The only limit to our realization of tomorrow will be our doubts of today. Let us move forward with a strong and active faith." At a time of testing, the generation that built the IMF and the World Bank move forward with a strong and active faith.

Now we who have been blessed with so many advantages must, ourselves, act in the same manner. If we do, we will surmount the difficulty of this moment. We will build a stronger world for our children. We will honor our forebears by what we do to construct the first 50 years of the 21st century.

Thank you very much.