



Susan

THE SECRETARY OF THE TREASURY
WASHINGTON

1979 MAY 16 AM 11: 38

May 15, 1979

The Honorable
Paul E. Tsongas
United States Senate
Washington, D.C. 20510

Dear Paul:

Thank you for your letter of May 10 urging that the United States oppose requests by the Nicaraguan Government for balance-of-payments financing from the International Monetary Fund (IMF). I have considered this matter carefully and concluded that the United States should not oppose the requests.

Before explaining the reasons for this decision, let me emphasize that our position on the IMF requests is in no way an act of political support for the Nicaraguan Government and should not be so interpreted. Our attitude toward the Nicaraguan Government has been made clear by the State Department. We deeply regret that the Nicaraguan Government has been unwilling to work toward a democratic solution to its political crisis. This has led the United States to take a number of steps, such as the withdrawal of the U.S. military mission, and a general reduction in U.S. diplomatic presence. We deplore the continuing violations of human rights that have occurred in recent weeks, and we remain convinced that the overall situation in Nicaragua cannot substantially improve without a resolution of the deepening domestic political crisis.

Let me also emphasize that respect for human rights is a fundamental element of U.S. foreign policy. We have launched major initiatives to promote that objective, initiatives which I strongly support, and I believe we must use all appropriate policy instruments to that end.

The IMF, however, is not an appropriate instrument for these efforts, and an attempt by the United States to introduce human rights considerations into IMF decisions, by opposition to the financing request for Nicaragua, would be a serious mistake. It would be seen as a U.S. move to politicize the IMF -- an institution that has remained remarkably free of political interference, and whose continued success requires that it remain that way. Politicization of the institution would severely damage it and harm the interests of the United States and other member countries for the following reasons.

The IMF is the centerpiece of our efforts to promote a stable and smoothly operating international economic system, and improve the economic well being of people throughout the world. It can further these interests only so long as it is permitted to serve the purposes for which it is intended.

Every member of the IMF has both legal rights and obligations -- including the right to receive financing when experiencing balance of payments difficulties, and the obligation to provide financing when its balance of payments is strong. Each IMF member has a quota, and is legally obligated to make subscription payments to the IMF equal to that quota. Thus the member's quota determines its obligation to provide financing. It also determines its access to IMF resources.

If a member develops a balance of payments problem and adopts an economic stabilization program giving substantial justification of the member's efforts to overcome its difficulties, that member is entitled to use its currency to purchase freely usable currencies under the IMF's regular credit facility in an amount determined mathematically by its IMF quota.

If a member in balance of payments difficulty experiences a temporary shortfall in its export earnings due to circumstances largely beyond its control, and cooperates with the IMF to solve its payments difficulties, that member can use its currency to purchase freely usable currencies under the IMF compensatory financing facility, also in an amount determined by its IMF quota.

Under its charter, decisions on IMF operations are made only on the basis of economic and financial criteria.

Application of human rights considerations to IMF transactions would represent an effort to deny a country the rights in the IMF to which it is legally entitled. Not only would this be inequitable, it would undermine members' willingness to meet their IMF obligations. It could also invite other countries to raise political objections to IMF transactions, including possibly those involving the U.S. (The U.S. has drawn from the fund on 24 occasions in amounts totaling \$6.5 billion.)

The IMF is the world's central monetary institution and is unique. It is not a development bank or AID agency and differs fundamentally in character, purpose and operation from development banks and AID agencies. The IMF's purpose is to promote international monetary cooperation, and to help provide the framework for an open, growing world economy.

The IMF's membership is widespread and spans a broad political spectrum. Despite the conflicts -- political, social and even military -- that have arisen among members from time to time, the membership and the IMF as an institution have carefully respected the rules in the charter, recognizing that all benefit from the universal system represented by the IMF, and that all lose from politicizing the institution.

This matter must therefore be seen not just as a Nicaraguan issue, but also as an issue involving the policies and practices of the IMF. Nicaragua is a member of the IMF, has met its legal obligations, and should be treated accordingly. The financing it has requested is available to all members who meet the criteria, and Nicaragua has met the criteria. For these reasons, the United States did not dissent from the IMF action.

I hope you will find this response helpful in explaining the U.S. position on the requests from the Government of Nicaragua for balance of payments financing from the IMF. If I can be of further assistance on this matter, please do not hesitate to call me.

Sincerely,

Mike

W. Michael Blumenthal