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MR SCHOLAR

The Prime Minister should be warned that, notwithstanding the 48½% increase in quotas and the massive increase in the general agreement to borrow, which come into effect shortly, the IMF still finds itself "short" of the funding it reckons it needs in 1983. It looks likely that it will ask for some £6-8 billion. (Some part of this is due to the IMF's assumption that Saudi Arabia would maintain the high level of funding it provided in the previous two years; that assumption is now discredited.)

It is highly likely that, in addition to this call for additional reserves from the central banks, the IMF will ask for some additional medium term facilities, even for this present year. I doubt, however, whether they will wish to make borrowing through the markets like the World Bank does.

The IMF has caused the banking and debt crisis. It is conventional wisdom to argue that only the IMF can solve the present debt/banking crisis. Yet I believe that the IMF, and its burgeoning funds, are largely responsible for the present crisis. (I am glad to see that Enoch Powell has argued on very similar lines.) Indeed I regard the quota increase that is going through this year of 48½%, together with the expansion of the GAV, as the basis for yet another debt and banking crisis in the future.

The large expansion in loans to foreign governments during 1979/1982 was associated with the sharp increase in IMF lending authority that occurred during that period. In 1978 the IMF quotas were raised 34% and in 1980 were raised a further 50%. (Indeed over longer term historical perspective, IMF total liquidity since 1960 has increased by 4½times world exports.)

Bankers act perfectly rationally when they make increasing loans to foreign governments. They evaluate the risk premium and guage the ability and willingness of the IMF to render financial support. They also take into account the IMF's role as a debt collection agency.

/The IMF in its turn

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The IMF in its turn provides subsidised loans at below market rates of interest, to the borrowing government. The presence of the IMF also acts as an implicit loan guarantee to the private banks. Thus the bankers do not rationally take account of risks. The costs of rescheduling, moratoriums and defaults are borne by those countries that pursue prudent policies. They provide subsidies for the profligate countries and the owners of the banks.

I do not think it is politically feasible to reduce the size of the IMF. But it is possible to contain it.

ALAN WALTERS
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