

CONFIDENTIAL

Prime Minister

① HMT

PRIME MINISTER

IMF

Mr de la Rosiere didn't mention

any of this at his meeting with the

Chancellor (see record attached) mes 29/6

Demonstrating the principle that rescheduling begets more rescheduling, the IMF is very likely to be asking for a considerable increase in its funding (over and above the 48½% increase in quotas and the three-fold increase in the GAB) during the next two weeks or so. Jacques de Larosiere is now making his rounds. The issue of new funds is likely to be discussed at the Paris meeting of the "deputies" on 8 July. The 48½% quota increase of last January has yet to be ratified and come into operation. But it now seems likely that the pressures of the American banks will ensure that Congress does ratify it, although with several attached clauses which would inhibit lending to countries, mostly Communist, which incur the ire of Congress. We do not know how this issue will be resolved, but I suspect that it is likely that some form of words will be found which is acceptable to the IMF and to Congress. The GAB, however, constitutes an increase from 6.4 billion SDRs to 17 billion SDRs. This is already agreed and does not need ratification.

The preliminary discussions of the new additional funding suggest that West Germany, Britain and Japan should be asked to contribute more than 1 billion SDRs each. Similarly, small countries such as Switzerland and the Netherlands should be asked to contribute between 250 million and 400 million. France, which has pursued such disastrous policies, will only be asked for a minimum sum of, say, 100-200 million SDRs. It is unlikely that the IMF will dare to approach the United States yet again; Congress, and perhaps even the Administration, would not put up with yet another draft of what is widely seen as a subsidy to American and international banks.

There is also another very important change involved in the new IMF proposals. As you know, the IMF has been concerned with short term finance for balance of payments adjustments. Now it is proposed that the IMF engage in intermediate financing, probably for about a seven year period. This is a substantial change of function. The IMF will need much greater funds if the money is to be tied up for long periods, and it marks a significant departure from the original concept of the function of the Fund. In fact the Fund will become a multinational aid agency - like the World Bank, the Asian Development Bank, the Inter-American Development Bank, etc.

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/In my view

In my view this would be wrong. But in any case we should think very hard before we tie up any more funds in multilateral aid agencies. We should not allow this metamorphosis without considerable thought for what it implies.

In my view, an extension of IMF assistance would:

- a. demonstrate there are rewards to profligacy and unsound policies (viz France with her low contribution and perhaps even future borrowings, not to mention Brazil, Argentina, etc with their subsidised IMF credits);
- b. designed to save the equity holders of American and various other international bank corporations, who have committed grave errors and wish the taxpayer to bail them out;
- c. extend politically directed funding: the IMF staff have become more overtly politicised, thus ensuring that larger fractions of international capital flows are directed by political rather than commercial motives;
- d. enhance the power of an international bureaucracy and increases the likelihood of a determined take-over by "global negotiations";
- e. increase the strain on world capital markets at a time when the United States deficit is putting an unprecedented burden on financial flows;
- f. raise the rewards for blackmail, such as we see now in the case of Brazil.

The penultimate point (e) is particularly relevant to the argument that the IMF should be allowed to borrow in international capital markets. I do not know whether de Larosiere will press this point. But if he does, I think we should oppose it since, although marginally better than a quota increase, it will provide the same strain on the system and, in effect, the same order of magnitude of the subsidy for profligacy.

