



UNITED STATES CATHOLIC CONFERENCE

Department of Social Development and World Peace

4312 MASSACHUSETTS AVENUE N.W., WASHINGTON, D.C. 20005 (202) 659-6812

Office of International Justice and Peace

May 11, 1979

The Honorable
W. Michael Blumenthal
Secretary of the Treasury
Washington, D. C.

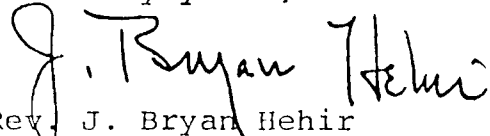
Dear Mr. Secretary:

The proposed \$40 million standby loan to the government of Nicaragua by the International Monetary Fund can, if approved, have the dual effect of strengthening a notoriously corrupt and callous regime, and of reenforcing popular perception of the Fund as a political instrument at variance with the aspirations of the people affected.

I realize that much of the pressure for approving the loan stems precisely from the desire to avoid excessive politicization of the Fund. It is argued that to deny the request of the government of Nicaragua because of human rights or other not strictly economic considerations is needlessly to inject politics into the deliberations of the Fund.

It seems to me, however, that a more compelling case can be made for the proposition that Nicaragua is today and for the foreseeable future will remain a supremely politicized element in the world community whose economic condition cannot improve until major social and political changes have first occurred. To attempt to shore up the present political economy of the Somoza government by means of this loan is not only likely to fail in its stated purpose but, given the worldwide repugnance for the Somoza regime, will make a mockery of the International Monetary Fund's protestations of political neutrality.

Sincerely yours,


Rev. J. Bryan Hehir
Associate Secretary

JBH/aff

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REVEREND J. BRYAN HEHIR
ASSOCIATE SECRETARY
DEPARTMENT OF SOCIAL DEVELOPMENT AND WORLD PEACE
1312 MASSACHUSETTS AVE., N.W.
WASHINGTON, D.C. 20005

1. YOU HAVE URGED THAT THE UNITED STATES OPPOSE REQUESTS BY THE NICARAGUAN GOVERNMENT FOR BALANCE-OF-PAYMENTS FINANCING FROM THE INTERNATIONAL MONETARY FUND (IMF).
2. I HAVE CONSIDERED THIS MATTER CAREFULLY AND CONCLUDED THAT THE UNITED STATES SHOULD NOT OPPOSE THE REQUESTS.
3. BEFORE EXPLAINING THE REASONS FOR THIS DECISION, LET ME EMPH_ASIZE 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 UNWILLIIG TO WORK TOWARD A DEMOCRATIC SOLUTION TO ITS POLITICAL CRISIS. THIS HAS LED THE U.S. 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 WEEK, AND WE REMAIN CONVINCED THAT THE OVERALL SITUATION IN NICARAGUA CANNOT SUBSTANTIALLY IMPROVE WITHOUT A RESOLUTION OF THE DEEPENING DOMESTIC POLITICAL CRISIS.

[4. 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 SSTRONGLY SUPPORT, AND I BELIEVE WE MUST USE ALL APPROPRIATE POLICY INSTRUMENTS TO THAT END.

5. 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.--

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6. 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.

7. 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.

8. 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.

9. IF A MEMBER IN BALANCE OF PAYMENTS DIFFICULTY EXPERIENCES A 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.

10. 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).

11. 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.

12. 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

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▶ 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.

13. 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.

SINCERELY,

W. MICHAEL BLUMENTHAL

13:02 EST

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