Mr. Donald Regan
Secretary of the Treasury
Washington, D.C.

Dear Mr. Secretary:

The Joint Meeting of the Board of Governors of the International Monetary Fund and the World Bank, scheduled for Washington from September 27 to September 30, 1983, prompts me to bring to your attention some subject areas which the AFL-CIO and the International Confederation of Free Trade Unions, to which we are affiliated, feel should be addressed.

Earlier this year, the AFL-CIO supported the increase in the contributions to the General Agreement to Borrow and to the IMF's resources. However, we are convinced that beyond these emergency measures more thorough changes are needed in both policies and procedures to cope with the debt crisis and overcome the international monetary chaos. The forthcoming meeting of the IMF and the World Bank should, in our view, give serious consideration to and initiate such changes.

The utmost importance of the conditions the IMF imposes on the countries which must seek its assistance has been highlighted by the debt crisis. If the debtor countries are indiscriminately obliged to reduce their imports, the industrial countries, from which the finance for the rescue operations must ultimately come one way or the other, will lose the export markets. We consider that in each specific case the entire economy of the country in trouble and the policies of its government must be analyzed so as to enable the IMF to define such policy changes as could help develop viable economic and social structures. This requires in particular a major shift of resources in the developing countries to the development of the countryside where the majority of the people live, to agriculture and such industries as can promote a sound expansion of the domestic markets and improve the income distribution. Admittedly, this requires a much more comprehensive analysis and involvement by the IMF, and a greater reliance on the trial-and-error method, than the apparently prevailing tendency to prescribe remedies for balance-of-payments and budgetary deficits.
We find it also necessary that the Federal Reserve Bank and the central banks of other countries resume their responsibility for surveillance and control of international lending and cooperate among themselves and with the IMF to restore the IMF function in this area. Whatever the IMF conditions be, the whole concept of conditionality is in jeopardy as long as countries in need of loans can avoid the IMF conditions by borrowing from commercial banks. These banks can lend vast amounts without appropriate safeguards, on the assumption that they will be rescued in case of defaults.

Finally, we are alarmed by the fact that the surveillance of exchange rates and of the conditions in the exchange markets by the IMF has lost all practical significance. When investing in money becomes more profitable than investing money and a major manufacturer can make over 1/3 of its operating profit by a gain on foreign currency exchange (as was the case of GM last year), and when currency warfare has been added to trade warfare as one of its strategic elements, the international monetary chaos has manifestly become one of the major factors threatening any sound economic recovery. We do recognize the intricacies of the much needed effort to restore the IMF's role in this field while taking into account the changes the world economy has undergone since the adoption of the floating exchange rates.

We believe that initiatives are long overdue to reform the structure of the international monetary system and to promote the growth and development of the world economy; the recommendations we have in mind follow:

1) It should be recognized that the inter-relationships between balance-of-payments surpluses or deficits, budgetary policies, interest rates and exchange rates should be discussed among member governments for the sake of joint action rather than defined on the ground of mere theories.

2) The member governments should accept to discuss with the IMF and within the IMF the aspects of their individual policy choices that have, or can have, an adverse impact on other countries.

3) While the IMF can impose stringent conditions on countries whose balance-of-payments deficits oblige them to seek its assistance, there is no sanction with respect to countries which have persistent balance-of-payments surplus; this is certainly the time to start exploring the ways and means of removing this paralyzing asymmetry.
4) There should be an attempt to restrict increases in short-term rates and surcharges on money loaned to developing countries under IMF restructuring programs to tide them over their immediate critical difficulties.

5) The AFL-CIO had already endorsed an addition by the United States to the IMF quotas and GAB fund, provided that the IMF require private banks who have extended loans to share in the costs and burden of rescue efforts.

6) Future IMF loans should be structured to balance the internal economies of the less developed countries. If they are used to put all of the emphasis on exports and to further polarize income distributions in these countries, their fragile political institutions will, in all likelihood, be unable to withstand the internal pressures generated by its victims; thereby threatening what there is of orderly democratic processes in these countries. On the other hand, programs to promote balanced economic growth would enhance debt repayment potential for a larger GNP.

7) The IMF should serve as a clearing house so that central banks can coordinate their domestic interest rate policies and thereby enhance greater stability in exchange rates that would support stable growth in international trade. The Federal Reserve Board and other central banks would have to be encouraged to give serious consideration to the effect of domestic monetary policies upon exchange rate.

We feel that these measures would be a first step in the direction of attaining international economic stability and look forward to your reaction to these recommendations.

Sincerely yours,

[Signature]

President