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Chairman: Mr. Moraiwid M. TELL (Jordan).

AGENDA ITEMS 38, 40 AND 42

Establishment of a United Nations capital development fund: report of the Committee on a United Nations Capital Development Fund (continued) (A/6303/Add.1, chap. II; A/6418, A/6459)

Accelerated flow of capital and technical assistance to the developing countries: report of the Secretary-General (continued) (A/6303, chap. V, sect. I; A/6461, E/4170 and Add.1 and 2 and Add.2/Corr.1, E/4171 and Corr.1, E/4189 and Corr.1 and 2, E/4240, A/C.2/L.898 and Add.1, A/C.2/902, A/C.2/L.905 and Add.1 and 2)

Inflation and economic development: report of the Secretary-General (continued) (A/6303, chap. III, sect. I and chap. XVI, sect. VIII; A/6424, E/4152 and Corr.1)

1. Mrs. KODIKARA (Philippines) noted that the flow of capital to the developing countries was not approaching the minimum target of 1 per cent of the national income of the economically advanced countries. Instead, the ratio of the net flow of capital to the gross domestic product had been steadily declining from 0.8 per cent in 1961 to about 0.6 per cent in 1963 and 1964, although the need for capital resources in the developing countries was constantly expanding. The developing countries were being urged to mobilize their domestic resources to the fullest possible extent, but domestic resources alone were not enough. With the existing pattern of their exports—usually primary commodities for which demand was not highly responsive to increases in income—most of the developing countries were unable to increase their earnings fast enough to finance the imports essential for their economic growth. If they resorted to the assistance of foreign capital, as they had to do, their external indebtedness increased rapidly, as did the burden of debt servicing which fell mainly on export proceeds. Furthermore, repayment periods had become shorter and the proportion of official grants and aid had declined.

2. It was imperative, therefore, that more attention should be given to the terms on which development capital and technical assistance were made available to the developing countries. The flow of official assistance was still governed by considerations such as the traditional pattern of relationships between donor and recipient countries. The distribution of assistance was not such as to meet the requirements of countries at different stages of development. Sometimes, credits were granted more as part of sales policy than in consideration of the problems of the recipient country. Often, too, the developing countries were obliged in exchange to purchase consumer and capital goods at prices considerably higher than those prevailing on the world market. That reduced the actual value of the assistance received. Recipient countries were also compelled to use the shipping, insurance and banking services of the lending country for goods which they purchased with the credit or aid provided. Sometimes, credits were provided more readily for the purchase of consumer goods than of capital goods. The developing countries would, directly or indirectly, remain heavily dependent on foreign aid for some time to come; and, if the net flow of resources to the developing countries was to be increased, allowances would have to be made for the differences in price of those various factors, and relations between buyers and sellers would have to be improved.

3. Her delegation supported the efforts made by the United Nations Conference on Trade and Development (UNCTAD) in that field and also endorsed Economic and Social Council resolution 1184 (XLI) on the measurement of the flow of assistance and long-term capital. The provisions of that resolution, which were reaffirmed in the draft resolution on external financing of economic development (A/C.2/L.898 and Add.1 and 2), were designed to accelerate the flow of capital to the developing countries, and also to measure the reverse flow in terms of repayments of services, particularly those financed from foreign assistance.

4. Regarding the draft resolution on the flow of external resources to developing countries (A/C.2/L.905 and Add.1 and 2), which reaffirmed the provisions of Economic and Social Council resolution 1183 (XLI), her delegation hoped that the proposed advisory service would also provide information on direct and indirect investment opportunities, both public and private, the terms of credit and investment, the projects for which the various sources of aid were earmarked, and the proportion of assistance not earmarked for specific projects. It would also be helpful to study the demand for external resources, which varied from country to country. The advisory service

would thus constitute a sort of clearing house for information on the inflow and outflow of and the potential demand for capital. Her delegation was anxious to obtain information of that kind, which her Government could use in the preparation of its programme of foreign investment and in its search for foreign capital.

5. In view of the importance of the two draft resolutions, her delegation hoped that they would be adopted unanimously with certain minor amendments, particularly in draft resolution A/C.2/L.905, the preambular part of which quotes the whole of Council resolution 1183 (XLI) which seemed rather unusual to her delegation.

6. Mr. ROOSEVELT (United States of America) said he was satisfied with the reports on inflation and economic development (E/4053 and Add.1-4, E/4152 and Corr.1). He supported the conclusions set forth in paragraph 10 of document E/4152, particularly the first three recommendations which stressed that it was essential for the developing countries, in their efforts to achieve a satisfactory growth rate, to avoid inflation, to maintain a balance between expenditures and revenues and to adopt correct over-all fiscal, monetary and income policies. Though his delegation did not believe that any further detailed study of the matter was necessary at the present time, it was fully aware of the great dangers of inflation. President Johnson had, indeed, referred to the dangers of inflation in his message to Congress on 8 September 1966. The United States delegation also welcomed the Economic and Social Council's endorsement, at its 1440th meeting, of the Secretary-General's proposals contained in paragraph 10 of his note on documentation.[1]

7. With regard to the accelerated flow of capital and technical assistance, his Government had long demonstrated, in practical ways, its concern with the problems of debt servicing and the flight of capital. It had granted a number of sizeable loans in hard currency which were repayable in soft currency, and had developed a significant number of programmes to assist the developing countries in raising capital to cover the local costs of projects. The United States Congress had been unusually liberal in allowing periods of grace of up to ten years. That would enable new enterprises to become fully productive before embarking on repayment schedules of up to forty years. In addition to the conventional guarantees for private investments, the United States Government was now guaranteeing investors against all risk in the case of projects of high priority to developing nations. It was in the light of the experience thus gained in responding to one of the world's most urgent needs that the United States had determined its position on the item. Movements of international private capital were extremely complex and difficult to measure accurately. Their magnitude was influenced by numerous factors—such as flight of capital, dividend payments, repatriation of capital and debt servicing requirements—and they were highly sensitive to tangible and intangible actions, real and implied, which affected economic conditions in the recipient country; ill-conceived action could have unfavourable consequences for those movements.

8. While his delegation would vote for draft resolution A/C.2/L.905 it would maintain its reservation on operative paragraph 3 (b) (vii) and (viii) of Council resolution 1183 (XLI), which concerned repayment in kind and reinvestment of the proceeds of repayment in the debtor countries. His delegation had abstained in the vote on that resolution in the Council.

9. His delegation thought that the Committee had gone as far as it could in the absence of a thorough analysis and evaluation of the nature and magnitude of capital flows from developing to developed countries. Only after considering the facts would it be in a position to consider proposals for specific measures; at the present stage it would be ill-advised to examine them even in a preliminary form. The Committee should at least have before it the report contemplated in Economic and Social Council resolution 1184 (XLI), which the Council would have to analyse thoroughly before the Committee could be in a position to take useful decisions. His delegation would accordingly abstain in the voting on draft resolution A/C.2/L.898.

10. The measures contemplated in draft resolution A/C.2/L.902 were not practicable at the present time. He therefore hoped that the representative of Panama would find it possible to withdraw that proposal.

11. Mr. FERNANDINI (Peru) recalled that the sponsors of the draft resolution A/C.2/L.905 had also sponsored Economic and Social Council resolution 1183 (XLI), which was simply reproduced in the draft resolution; the latter, moreover, was a well-balanced text. The developing countries had shown great moderation in formulating that draft and it was accordingly to be hoped that it would be adopted without difficulty.

12. The important draft resolution in document A/C.2/L.898 constituted an innovation in that it expressed an idea which had long been germinating. While his delegation supported the idea of studying the flight of capital, which was so dangerous for developing countries, it could not accept operative paragraph 2 of the draft resolution. Peru, like such countries as Switzerland and the United States, had a free exchange system and it therefore could not accept recommendations for measures which might impair that system. Moreover, that was a matter which fell within the domestic jurisdiction of States. The United Nations should not make recommendations on a matter which involved the principle of sovereignty, for such recommendations would be dangerous for the developing countries. If the developing countries needed more foreign capital, they should not at the same time discourage it. His delegation therefore opposed paragraph 2 and reserved the right to propose subsequently any necessary amendment to the draft resolution.

13. The draft resolution submitted by the Panamanian delegation (A/C.2/L.902) seemed to him to require further study, and the instructions which most delegations would have to request from their Governments on the matter could certainly not be received in time. He would therefore ask the Panamanian representative not to press for consideration of his draft resolution

[1] Official Records of the Economic and Social Council, Fortieth Session, Annexes, agenda item 17, document E/4157.

at the current session but to agree to defer the discussion of it to the next session, on the understanding that the draft resolution would be reproduced in extenso in the Committee's report.

14. Mr. VARELA (Panama) said that he would yield to the arguments put forward by the representatives of the United States and Peru and to those of other delegations. Moreover, in order to expedite the work of the Committee, he would agree to consideration of his draft resolution being deferred until the General Assembly's next session, provided that the text of the draft would appear in the Committee's report together with a statement of the reasons for the postponement.

15. He hoped that the draft resolution would be adopted in 1967, particularly in view of the situation with regard to the financing of the poorer countries' development. He also noted that he had merely embodied in the draft the idea presented by the Minister for Foreign Affairs of Panama in the 1423rd plenary meeting of the General Assembly and at formal meetings of Latin American delegations. The Secretary-General of the United Nations, in his report to the General Assembly (A/6301 and Add.1), had stressed the need to mobilize far greater resources for economic development. But those resources would not be forthcoming if reliance was placed exclusively on voluntary contributions made by the rich countries in a spirit of charity or in the hope of obtaining political advantages. That point had also been made the day before by the representative of Ghana, who had criticized the ineffectiveness of a system of international aid that depended solely on the will of the rich countries and had suggested the establishment of an international fiscal system very similar to that envisaged in the Panamanian draft resolution. The Panamanian people did not want charity; what they were asking for was justice, based on an international law which was evolving with the changing relationships among nations and which must not be interpreted unilaterally in such a way as to impose on the economically weak nations agreements of an anachronistic type that constituted a threat to the very life of those small nations.

16. The CHAIRMAN accordingly suggested that consideration of draft resolution A/C.2/L.902, the text of which would appear in the relevant report of the Committee, should be deferred until the next session.

It was so decided.

17. Mr. VLADOV (Bulgaria) reminded the Committee that his delegation had supported General Assembly resolution 2042 (XX) on the establishment of a United Nations capital development fund, abstaining only on paragraph 4, because it had felt that investment proper should be undertaken independently of the results of the proposed consultations on voluntary contributions. Like all the socialist countries, Bulgaria had long emphasized the necessity of embarking on investment proper as part of the United Nations assistance programmes, and it considered that the United Nations Development Programme (UNDP) could do so without adversely affecting its pre-investment programmes, as it had substantial uncommitted funds.

18. His delegation did not accept the arguments adduced at the second session of the Governing Council of UNDP [2] to explain that organ's inaction. He wondered why such opposition still existed when most countries, in particular the developing countries, were urgently calling for investment activities, which UNDP had, moreover, the right to initiate. The most effective way of helping the developing countries to establish independent economies was to transform the Special Fund component of UNDP into a capital development fund, which would supplement the internal and external resources of the developing countries by means of financial assistance on favourable terms for national and regional development projects and programmes, especially in the matter of industrialization. Such assistance should be provided in the form of grants or long-term interest-free or low-interest loans.

19. The executive body of the fund should be a directorate rather than a director. His delegation supported the amendments to the draft Statute submitted to the Committee on a United Nations capital development fund [3] by the Czechoslovak and USSR delegations, proposing the establishment of the United Nations capital development fund by the gradual transformation of UNDP, and draft resolution A/C.2/L.898 on external financing of economic development of developing countries.

Mr. Boiko (Ukrainian Soviet Socialist Republic), Vice-Chairman, took the Chair.

20. Mr. BAYERO (Nigeria) said that it was remarkable that domestic saving in the developing countries had risen to almost 14 per cent of the gross national product in 1964, in spite of the much-discussed crisis in international aid and the rapid increase in the demand for public services in the developing countries, which had made public saving difficult, just as the low income level of the population had hindered private saving.

21. The fact nevertheless remained that the downward trend in the flow of capital to the developing countries had not only prevented those countries from sustaining a 5 per cent annual growth rate, but had led to economic stagnation and sometimes even retrogression.

22. The situation in which many developing countries found themselves did not, however, mean that external assistance should be provided on the most unfavourable terms. Loans and grants should be given at low-interest rates, with repayment extending over long periods, and, above all, they should not be tied. It had been asked whether an effort to eliminate tied aid would not, in view of the present balance-of-payments situation of some lending countries, lead to a reduction in the total volume of aid. However, because of their economic structure, the developed countries were better equipped to surmount short-term crises in their balance of payments, and if they were, moreover, motivated by a will to co-operate, the question would not arise. It was for those reasons that his delegation had joined in sponsoring draft resolutions A/C.2/L.898 and A/C.2/L.905.

23. His delegation further believed that the time was ripe for the establishment of a United Nations investment fund, which, far from competing with the existing

[2] See documents DP/L.19 and A/AC.102/9 and Corr.1 and Add.1.

[3] See A/AC.102/SR.38.

financial institutions, would complement and co-ordinate their activities, as a logical follow-up of UNDP activities, much of whose value would indeed be lost if they were not soon followed by a growth in investment proper. The International Bank for Reconstruction and Development (IBRD) had, undoubtedly, played a constructive role in providing loans and technical assistance to developing countries which lacked adequate means for financing their economic growth. However, IBRD, which had been founded originally in order to set the industrialized countries of Europe on their feet again after the Second World War, could not, by reason of its constitution and its methods, adapt its lending terms to the needs of the developing countries, and its loans covered only a small fraction of their total needs. It was much more liberal in regard to some States where industrialization was proceeding at an unusually rapid pace. Unless the developing countries were helped to accelerate their growth through simultaneous pre-investment and investment, a situation might soon arise where the advanced countries would have to be helped to accelerate their progress. It was argued that channelling large amounts of capital towards countries at a very early stage of development would not promote economic advancement and that, in order to be able to benefit from large inflow of capital, a country must have advanced some way along the path of development. That was why it was all the more necessary to ensure that pre-investment and investment proper overlapped at the right time.

24. One argument against the establishment of the capital development fund was that it would duplicate the activities of the existing financial institutions and lead to a dispersal of resources. Such was not, however, the intention of its proponents, and his delegation considered that the fund should channel the various United Nations pre-investment and investment programmes and co-ordinate the activities of the existing financial institutions, where there was no lack of duplication. Thus, it was not uncommon for the Special Fund component of UNDP to carry out a feasibility study for IBRD, which would in turn send its experts to the country concerned to undertake a study on the same project before granting a loan.

25. The establishment of the capital development fund would therefore be a step forward to ensure the effective, equitable and co-ordinated utilization of available resources through a United Nations multilateral financial institution. It was often useful to set up bodies for large-scale projects which they could carry out much better than institutions with a limited function in the same area. The capital development fund would assume a role similar to that played by a country's central bank in relation to its commercial banks. Finally, the investment funds available fell far short of the requirements of the developing countries, which could easily absorb another $3,000 million to $4,000 million for their over-all economic development, and that sum would be more effectively and equitably allocated through the capital development fund. Some developing countries were finding it difficult, under the existing bilateral arrangements, to meet local costs, and the management of the fund would be able to consider that problem in the context of an over-all policy designed to accelerate economic development in the developing regions.

26. Mr. PAPADOPOLO (Guatemala) said that the published figures gave a sufficiently clear idea of the present situation regarding the flow of international aid and the difficulties being encountered by the developing countries in raising the standard of living of their people. The same was not true of inflationary trends, which were less easy to measure. There could not, however, be any doubt that one of the most disquieting aspects of inflation in the developing countries was the decrease in the volume of international liquid reserves, a situation that was linked with the inflationary pressures in the advanced countries. The inflation affecting the developing countries was a secondary and derivative phenomenon which was further aggravated by the debt servicing burden of foreign loans and the deficit on other items of invisible expenditure in the balance of payments. To oppose the study recommended in draft resolution A/C.2/L.898 at the very beginning instead of awaiting its results would be an unrealistic and premature action.

27. It was to be hoped that the Secretary-General would be able to recommend specific measures that might hinder the flight of capital from the developing countries, for otherwise the international aid being received by those countries was apt eventually to be nullified.

28. Sir Edward WARNER (United Kingdom) said that many representatives had ended their speeches with the statement that the rich countries were growing richer, and the poor countries poorer. As far as the United Kingdom was concerned, it was certainly not growing richer. His Government had had to take drastic deflationary action and to block increases in money incomes until July 1967. It was nevertheless determined to increase its assistance to the developing countries when it could do so without running into grave balance-of-payments crises.

29. The United Kingdom was opposed to the establishment of a United Nations capital development fund because it believed that existing international financial agencies—namely, the International Bank complex and the regional development banks—provided an efficient channel for the disbursement of multilateral aid and that a further capital development fund would only duplicate the work of existing bodies without increasing aid flows. Resources of sufficient magnitude to make such a fund useful and effective were unlikely to become available, especially in view of the increase of multilateral capital aid which might be anticipated over the next few years through the replenishment of the International Development Association (IDA), the scheme for supplementary financial measures and the regional banks. The United Kingdom was also opposed to the transformation of the Special Fund component of UNDP into a capital development fund. Any steps by UNDP to enter upon investment proper was bound to weaken its present pre-investment and technical assistance activities, which were valuable and in great demand. That was not to say that the United Kingdom Government did not strongly support multilateral aid. It had provided £7.1 million in government and market loans to the Inter-American Development Bank and had pledged $30 million to

the Asian Development Bank, and would co-operate with other developed nations to provide a substantial replenishment of the International Development Association. It was the United Kingdom's aim, as and when their situation permitted, to increase further the proportion of their resources devoted to multilateral institutions.

30. Turning to agenda item 40, he recalled that his delegation had abstained on Economic and Social Council resolution 1183 (XLI) embodied in draft resolution A/C.2/L.905 when it had been considered by the Council, as there had been insufficient time to study it and also a number of passages had appeared to be unacceptable. After detailed study of the text, the United Kingdom was now prepared to vote in favour of the draft resolution, although it had the following reservations. With regard to the sixth preambular paragraph, the trend in the transfer of external resources to the developing countries since 1961 had not been one of continuous decline. The total private and official flows of aid had, in fact, risen from $9,200 million in 1961 to $10,200 million in 1965. With regard to the seventeenth preambular paragraph and operative paragraph 3 (b) (vii), his delegation did not consider that the tying of repayments to purchases from recipient countries was a useful way to combat the problem of the growing debt burden. The United Kingdom did not, in general, have the machinery which would permit it to enter into obligations to make purchases of that kind. Since, moreover, the United Kingdom hoped for a concerted approach towards a reduction of aid tying, it would be a retrograde step to introduce a form of reverse tying. With regard to operative paragraph 2, his delegation could not endorse a provision recommending that action should be taken to meet the objectives set out in those recommendations of the first session of UNCTAD which it had not supported. With regard to operative paragraph 3 (b) (iii), the United Kingdom favoured an over-all increase in the amount of programme, as opposed to project, aid. Three quarters of the assistance it was already providing was on a programme basis, and his delegation did not interpret that paragraph as imposing any obligation to increase that proportion still further. With regard to operative paragraphs 3 (b) (iv) and 3 (b) (v), the United Kingdom hoped for the progressive untying of aid by all donors but could not afford to untie its own aid unilaterally. It did not regard the proposal contained in paragraph 3 (b) (v) as feasible. With regard to operative paragraph 3 (b) (vi), his Government was still studying the feasibility of that interesting suggestion. With regard to operative paragraph 3 (b) (viii), the United Kingdom was unable, in its present economic position, to give any commitment to increase its aid programme by reinvestment of loan repayments. With regard to operative paragraph 5 (b) (ii), the objective set out in that paragraph, which had been taken from a resolution of the Development Assistance Committee, should be pursued primarily by the Organization for Economic Co-operation and Development (OECD).

31. In so far as draft resolution A/C.2/L.898 was concerned, his delegation was unable to support operative paragraph 2, for it did not consider that the Secretary-General should be asked to make recommendations until Governments had studied the factual report requested under Economic and Social Council resolution 1184 (XLI).

32. In conclusion, in reference to agenda item 38, he endorsed the Secretary-General's suggestion that relevant material concerning inflation could in future best be handled in the context of part II of the World Economic Survey (see A/6424, para. 4).

Mr. Tell (Jordan) resumed the Chair.

33. Mr. INGRAM (Australia) said that his Government had stressed on many occasions the importance it attached to the free flow of capital and to the growth of international capital markets. With regard to operative paragraph 2 of draft resolution A/C.2/L.898, he expressed the hope that the Secretary-General's recommendations would not be purely restrictive and that he would take a broad and realistic view of the measures that might be taken to decrease the outflow of capital from developing to developed countries.

34. So far as draft resolution A/C.2/L.905 was concerned, his delegation was pleased to note that it recommended that consideration be given to the special position of some countries which were net importers of capital. His country fell into that category and the formula of supplying to developing countries external resources equivalent to 1 per cent of the national income would be a misleading criterion in its case since the aid it provided was in grant form and therefore did not contribute to the formidable problem of debt repayment and servicing. Nevertheless, the percentage of his country's national income devoted to foreign aid had increased from 0.56 per cent in 1961-1962 to 0.64 per cent in 1965-1966. With regard to operative paragraph 5 (b) (i) he also expressed the wish that any study made by the Secretary-General would have regard to the peculiar circumstances of countries like his own which had some of the attributes of both developing and developed countries. The fourth preambular paragraph of Economic and Social Council resolution 1183 (XLI), which the Committee was asked to endorse, recognized the need for the developing countries to improve their own efforts to accelerate their economic and social progress. His delegation would have liked the draft resolution under discussion to place more emphasis on that point. While there was no doubt as to the importance of the flow of capital to those countries and the sums involved, it was essential not to lose sight of the part played by factors such as the level of literacy, a skilled labour force, stable government etc., none of which should be considered in isolation.

35. Mr. OKWENJE (Uganda) said that the establishment of a United Nations capital development fund had to be viewed in the light of the new world economic situation. An increasing proportion of the needs of the younger Member States would have to be met by capital assistance. If sufficient capital was to be made available to them on acceptable terms, there would have to be a multilateral fund under the direct control of the United Nations and insulated from all political pressures. Despite their admirable contribution to the development of many countries, the existing financial institutions did not quite measure up to that task. It was common knowledge how undemocratic

some of them were. In the case of IDA, for instance, a handful of big Powers controlled 52 per cent of the votes and its funds were not distributed in an equitable manner. The International Bank for Reconstruction and Development had been established to facilitate the rehabilitation of Western Europe after the war, and since that time its structure had not been changed to the extent necessary. Generally speaking, the existing financial institutions seemed to meet the needs of the developed countries more than those of the developing countries. Only an independent body open to all States with equal voting rights would give the developing countries the type of assistance they required. It would enable small but highly industrialized States to participate more actively in international investment activities and would provide incentives for more extensive multilateral efforts. The United Nations capital development fund would not, of course, compete with other financial institutions but would rather supplement their efforts. Moreover, there should be no conflict between the assistance provided by such a fund and bilateral assistance. However, in advocating the establishment of a capital development fund his delegation sought to prevent bilateral aid from having strings attached or being accompanied by threats of unilateral withdrawal.

36. His delegation fully endorsed draft resolution A/C.2/L.905. He wished to stress in that connexion that the developing countries were not the sole beneficiaries of the flow of capital and technical assistance. In the case of the United States, for instance, every 10 per cent increase in per capita income abroad resulted in a 16 per cent increase in United States exports and every $1,000 million worth of additional exports created more than 100,000 new jobs. Moreover, 80 per cent of all aid provided by the United States was spent on purchases of United States goods and services.

37. At the present time the developed countries were devoting little more than 0.5 per cent of their gross national product to development assistance. The annual flow of aid had increased by less than $1,000 million between 1961 and 1965 and it had decreased as a percentage of the gross national product. United States expenditure on foreign aid had not increased during that period but that country's gross national product had increased by between 35 and 40 per cent. Moreover, the backflow of capital from the developing countries had affected their rate of gross capital formation and slowed down their economic growth generally. In view of those considerations, his delegation would support draft resolution A/C.2/L.898.

38. Mr. ROOSEVELT (United States of America), exercising his right of reply, said that the figures quoted by the representative of Uganda related to public aid only which had not, in fact, increased since 1961. They were, however, incorrect in so far as they did not include private assistance, the volume of which had increased over the period in question.

39. Mr. MOLLER (Sweden) said that the slackening in the flow of capital to the developing countries was all the more disturbing as pre-investment activities had greatly increased in recent years the capacity of those countries for capital absorption.

40. In the view of his Government, multilateral assistance was preferable for political reasons and it also had an optimum impact on development, especially as a large proportion of actual bilateral assistance was tied. Forty-six per cent of the assistance provided by his country in the current fiscal year was channelled through multilateral agencies and his Government was prepared to contribute its full share under the proposal to increase IDA's annual contribution from $250 million to $1,000 million.

41. With regard to bilateral assistance, the representatives of his country had on many occasions pointed out the disadvantages of the common practice of tying assistance to sources of supply in the donor country. Procurement restrictions had to be taken into consideration in all discussions on the terms of aid. It was not appropriate to disregard questions of price and quality and to consider only the interest and amortization factors. What was the use to the recipient of a long-term loan and a low rate of interest if those benefits were nullified by high prices? According to a present study undertaken by one of the major recipient countries, bids accepted under tied credits were, on the average, 50 per cent higher than the lowest competitive international price quotations.

42. The qualitative aspect of assistance, though often neglected, was of vital importance with regard to the implementation of over-all aid targets. The 1 per cent target set by UNCTAD recommendation A.IV.2[4] referred, in fact, to the supply of capital and could hardly be equated with assistance proper. It could not provide a suitable basis for comparison between different aid efforts since it included transactions of a purely commercial character and since important return flows of capital from the developing countries were not taken into consideration. Aid statistics were also lacking in precision. They lumped together private and public flows, grants and credits, multilateral and bilateral aid, tied and untied aid, etc. Efforts to measure aid proper, i.e., first and foremost, grants, contributions to international agencies and, possibly, untied loans, were therefore fully justified. They should exclude transfers with a negligible aid element, such as short-term export credits. In the absence of such a differentiation, international comparisons of aid levels would be not only purely academic, but in many instances quite misleading. The ultimate aim of economic development was, moreover, the improvement of the standard of living of the individual and it would therefore be more appropriate to measure progress in terms of increases in per capita incomes rather than in terms of national aggregates.

43. His delegation would vote in favour of draft resolution A/C.2/L.905. It was pleased to see that the text emphasized multilateral aid and the importance of assistance free from political conditions and not tied to the purchase of goods of the home markets of donor countries. It would, however, abstain in the vote on operative paragraph 3 (a) of the Economic and Social Council resolution included in the draft resolution, if a separate vote were taken on it. The

[4] See Proceedings of the United Nations Conference on Trade and Development, vol. I: Final Act and Report (United Nations publication, Sales No.: 64.II.B.11).

Governments of the five Nordic countries had adopted UNCTAD recommendation A.IV.2 on the 1 per cent target, but they could not undertake to attain that target at a precise date.

44. Mr. BOUATTOURA (Algeria), speaking in exercise of his right of reply, said that the day before (1075th meeting), the Ukrainian representative had attributed to his delegation certain remarks which it had not made and had expressed unfounded views concerning his country's policy.

45. Desiring to add to the reply made at the time by the Algerian representative, he voiced surprise that an attempt should be made to deny his country the right to join with the other countries of the "international third estate" in expressing disappointment with regard to international co-operation; it was to be noted that the Secretary-General had also expressed such disappointment in the introduction to his annual report (A/6301/Add.1). That sense of disappointment could be expressed in general terms without the necessity of referring each time to the responsibilities which colonial history imposed on certain groups of countries in particular. Instead of drawing up an indictment against some countries rather than others, an earnest effort must be made, in a spirit of fairness, to achieve even-handed justice.

46. The high price which Algeria had paid for its political liberation and the achievements of the Algerian revolution relieved his country of any obligation to act as a prosecutor and reduced to their true worth certain unfortunate remarks which had been made. He hoped that those remarks had been due merely to ignorance of Algeria's position or to a sense of grievance which should not be unjustly directed at a single delegation. He trusted that there would be no further need for him to correct views which did not seem to reflect the actual situation—a situation which was characterized by steady progress towards normalization.

47. Mr. BOIKO (Ukrainian Soviet Socialist Republic) said that he wished to thank the Algerian delegation for having given a correct assessment, in its reply the previous day, of the assistance provided to Algeria by the socialist countries. Returning to his own statement, he said he had been surprised to hear the Algerian representative, in presenting draft resolution A/C.2/L.905 (1074th meeting), criticize in advance the attitude of certain countries, including in particular the socialist countries, towards a text on which they had not yet taken a position. Moreover, the Algerian representative's statement had, in the Russian interpretation, contained such remarks as "I accuse all the developed countries, both those with planned economies and those with market economies etc." —remarks which he had thought unwarranted. It appeared from the explanations offered subsequently that the interpretation had not been completely faithful to the French text. Accordingly, his delegation was prepared to accept the necessary corrections in the summary record of the meeting.

48. Mr. KHAN (Pakistan) said that the deceleration in the economic growth of many of the developing countries during the 1960's as compared with the 1950's was directly attributable to the loss of momentum in the flow of development assistance; that loss of momentum had, incidentally, been acknowledged by some statesmen in the developed countries and by eminent international civil servants.

49. In adopting resolution 1183 (XLI), the Economic and Social Council had shown its awareness of the problems resulting from the inadequate flow of assistance and the increasing burden of debt service borne by the developing countries. His delegation had therefore joined in sponsoring draft resolution A/C.2/L.905, which called for the Assembly to endorse the Council's resolution. The draft resolution, which was the product of a difficult series of compromises, represented a minimum position as far as the developing countries were concerned, and his delegation hoped that it would be adopted unanimously without being watered down. He urged all member States to give the Secretary-General their co-operation in the preparation of the report called for by the resolution. In view of the urgent need for action to limit or curtail the outflow of capital from the developing countries, his delegation had also joined in sponsoring draft resolution A/C.2/L.898.

50. With regard to the question of inflation and economic development, his delegation was in general agreement with the conclusions contained in the Secretary-General's report (E/4152 and Corr.1). Heavy public and private expenditure on development inevitably created inflationary tendencies; moreover, in many developing countries which were dependent on agriculture, variations in agricultural output had a direct effect on the price level. Inflationary trends could be checked only if action was taken to correct the growing imbalance between monetary demand and the volume of available goods and services; needless to say, such action would have to be taken, in the first instance, by Governments. He suggested that the question of inflation and economic development should no longer appear on the Assembly's agenda as a separate item; since the Economic and Social Council had decided in its resolution 1154 (XLI) that, in the future, the question would not be dealt with separately but in part II of the World Economic Survey, the General Assembly could, if it wished, discuss it in connexion with its consideration of the Council's report.

51. His delegation had been associated since 1952 in the efforts to bring about the establishment of a capital development fund. In 1960, the General Assembly in its resolution 1521 (XV) had decided in principle upon that step, but the establishment of the fund had been constantly postponed on one pretext or another, and the Assembly's decision should now be given effect. He hoped that the developed countries would agree to the establishment of the fund and give it their support so that it could provide assistance to the developing countries on favourable terms, especially in the field of industrialization, which had become particularly important since the creation of the United Nations Industrial Development Organization, and also in such sectors as agriculture and education which did not receive adequate assistance under bilateral arrangements.

52. Mr. Mohamed AL-ATRASH (Syria) said that inflation could be defined as a situation in which

national monetary expenditure increased more than real national product; it could manifest itself in the form of higher prices, of shortages, if prices were controlled, or of a deficit in the balance of payments. The causes of inflation were well known and were varied: an autonomous increase in internal demand for goods and services; an autonomous rise in wages not warranted by a rise in productivity; a shortage of essential goods such as food products or a shortage resulting from the unavailability of imported goods; a rise in export prices resulting from an autonomous increase in external demand; a rise in import prices —a factor whose importance was greater in the case of countries which were highly dependent on imports; and, finally, speculation, which was itself the result of inflationary tendencies and helped to intensify them.

53. The consequences of inflation were also well known: when it was excessive, it brought about a redistribution of income at the expense of the fixed-income groups, which, particularly in those developing countries where the wage-earners were not well organized and the private sector was strong, created an increasing imbalance in favour of the capitalist class; inflation also distorted the pattern of investment and production, encouraging investment in real estate and inventories which gave a quick return at the expense of sectors which were more essential to development; it also caused a flight of capital abroad owing to fear of devaluation; finally, inflation produced a deficit in the balance of payments by increasing the demand for imports and reducing exports through the diversion of part of them to domestic consumption.

54. It was therefore essential to combat inflation, and that was a task which ultimately devolved upon Governments. When inflation was caused by excessive demand, Governments could exercise budgetary and credit restraint, which could be done, in a planned economy, by adapting the financial plan to the physical plan. When inflation was caused by an autonomous rise in wages not warranted by a rise in productivity, an income policy acceptable to the labour unions was essential. In a developed market economy, excessive wage demands were a means by which the unions sought to increase the workers' share in real national product. At the same time, while it was true that the task of combating inflation was one for Governments to undertake, that did not mean that international financial assistance could not help them by sparing them the necessity of taking drastic measures that were not always politically feasible.

55. Furthermore, the Government of a country which was carrying out a development programme might not be able to avoid a moderate rise in prices, but provided the rise was limited to 3 or 4 per cent annually, it need not prove harmful. It was precisely in order to keep inflation within such reasonable limits that the Governments of developing countries needed an adequate net flow of external resources; without such assistance, they might, in order to accelerate development, succumb to inflationary policies which were doomed to failure in the long run. It was for those reasons that his delegation had joined in sponsoring the two draft resolutions before the Committee.

56. His delegation believed that the Secretary-General's report on inflation and economic development (E/4152 and Corr.1) might prove very useful to the Governments of the developing countries. However, in view of the fact that further reports would be appearing in the World Economic Survey, he wished to point out that the order in which the forces generating inflation were analysed in the Secretary-General's report was not, in his opinion, entirely logical. Among those forces, the report included increases in investment, consumption and money supply (paras. 15, 16 and 21); he thought that the last-mentioned increase did not of itself lead to inflation unless it was translated into an increase in investment or consumption expenditure. Similarly, in the analysis of the causes of inflation, the information concerning changes in monetary conditions (paras. 57 and 58) should have been included under the heading "changes in demand". Secondly, he thought that the Secretary-General's report did not analyse thoroughly enough the extent to which the inflation that had occurred in some developing countries in the period 1957-1964 had affected their economic growth.

57. Mr. CARANICAS (Greece) said he attached particular importance to the problem of inflation, which his country had experienced during and after the Second World War. However, since Greece was well aware that price stability was essential for economic development, it had managed during the past thirteen years to achieve a regular increase in its gross national product, at an annual rate of 6 to 8 per cent, while preserving complete monetary stability. It followed that economic development did not necessarily produce inflation.

58. A recent survey of fifteen low-income countries showed that the average cost-of-living index had risen appreciably less, over a given period, in six countries with an annual economic growth rate above 4 per cent, than in six others in which the economic growth rate was lower. Conversely, the average increase in per capita gross national product had been noticeably greater in the six countries where inflation had been least severe.

59. The experience of those countries, like that of Greece, prompted the conclusion that inflation caused social tensions due to the desire of all sectors of society to protect themselves against it; that it did most harm to the poorest classes; that it reduced personal savings—especially the commonest forms of savings; that it handicapped investment planning, distorting industrialization and the application of resources; that it provoked a flight of capital to safer markets; that it encouraged imports at the expense of exports, especially where the depreciation in the foreign exchange value of the currency was less rapid than the increase in domestic production costs; and that it discouraged foreign investors and led them to impose stiffer terms.

60. All Governments vowed to abolish inflation and economists predicted that nations would wilt under it. However, neither came to pass, notwithstanding the widespread fear that creeping inflation would suddenly become uncontrollable. In the circumstances, instead of pretending to abolish inflation, it would be more sensible to recognize that inflation was not dangerous if kept within certain limits (a maximum rate of

2 to 4 per cent), which could be done at the cost of some sacrifice in economic growth.

61. He thought it would be useful for the Secretary-General to undertake a survey of the various ways in which the problem of inflation might be dealt with, and agreed with the Pakistan representative that it would be preferable to remove the item from the agenda of the General Assembly pending the results of the survey.

62. With regard to the problem of capital flow, he agreed entirely with the remarks of the Ghanaian representative (1076th meeting) concerning the current trend and the implementation of the UNCTAD recommendation of a 1 per cent target. He also thought it necessary to ensure that investments in developing countries were effectively utilized, and felt that the conditions on which assistance was granted should be made more flexible. In that connexion, he was glad to see from a recent London publication that, in order to avoid a major debt crisis among developing countries, Barclays Bank Ltd. was advocating the immediate lowering of interest rates, longer grace periods and much longer periods of repayment. It was also encouraging to note that some statements made to the Committee had confirmed that trend. The Ghanaian representative's idea of an international fiscal system was most interesting but somewhat utopian, in view of the fact that the foreign aid granted by most Governments was subject to approval by their Parliaments. Chapter II of part I of the World Economic Survey, 1965,[5] admirably described the administrative and financial problems encountered by the Governments of developed countries owing to the complexity of assistance machinery and to the budgetary limitations imposed by the competing claims of their own national needs. That was why the adoption of UNCTAD recommendation A.IV.2 had not appreciably affected financial procedures and the commitments of the industrialized countries, Norway being the only State to earmark part of its tax revenue for development aid. The main reason for the decline in the flow of capital to the developing countries in relation to the national income of the developed countries was undoubtedly the political difficulties of donor Governments.

63. His delegation would support the two draft resolutions before the Committee, although it doubted the propriety of operative paragraph 3 of draft resolution A/C.2/L.898, which involved deciding, during the current session, on the inclusion of an item in the agenda of the following session and settling the wording of the item.

64. Mr. Donald MACDONALD (Canada) said he did not think that the Committee would be able to conclude its consideration of the three points under discussion at the current meeting, and suggested to the Chairman that he should close the list of speakers on agenda items 40 and 42 and postpone further discussion until the following meeting.

65. The CHAIRMAN proposed that the list of speakers on agenda items 40 and 42 should be closed.

It was so decided.

66. After an exchange of views in which Mr. KADLEC (Czechoslovakia), Mr. MARTIN WITKOWSKI (France), Mr. RWAMAVUBI (Burundi), Mr. PIÑERA (Chile) and Mr. KARMARKAR (India) took part, the CHAIRMAN moved that the meeting should adjourn.

It was so decided.

The meeting rose at 1.25 p.m.

[5] United Nations publication, Sales No.: 66.II.C.1.

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