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ASSESSMENT OF THE PROGRESS MADE IN THE ESTABLISHMENT OF THE
NEW INTERNATIONAL ECONOMIC ORDER AND APPROPRIATE ACTION FOR
THE PROMOTION OF THE DEVELOPMENT OF DEVELOPING COUNTRIES
AND INTERNATIONAL ECONOMIC CO-OPERATION

Letter dated 27 August 1980 from the Permanent Representative
of Jamaica to the United Nations and the Deputy Permanent
Representative of the United Republic of Tanzania to the
United Nations addressed to the Secretary-General

We have the honour to enclose a copy of the text of "The Arusha Initiative: A Call for a United Nations Conference on International Money and Finance", which was adopted at the South-North Conference on the International Monetary System and the New International Order, held at Arusha, United Republic of Tanzania, from 30 June to 3 July 1980, and to request that the text be circulated as an official document of the eleventh special session of the General Assembly under agenda item 7.

It is noted that the text of the Arusha Initiative was circulated on 28 July 1980, at the first meeting of the United Nations Conference on Trade and Development (UNCTAD) Ad Hoc Intergovernmental High-Level Group of Experts on the Evolution of the International Monetary System, in an annex to document TD/B/AC.32/L.3.

Arrangements are being made for an adequate number of copies of the current issue (1980:2) of the journal Development Dialogue, which contains the Arusha Initiative and background material for the Conference, to be provided to the Secretariat. We should appreciate your assistance in distributing the copies of the journal to delegations attending the special session.

(Signed) Donald O. MILLS
Permanent Representative of Jamaica
to the United Nations

(Signed) C. D. MBAPILA
Deputy Permanent Representative of
the United Republic of Tanzania
to the United Nations

Annex

THE ARUSHA INITIATIVE:

A CALL FOR A UNITED NATIONS CONFERENCE ON INTERNATIONAL MONEY
AND FINANCE *

1. The post-1945 international monetary system has broken down. The ensuing inflationary and speculative disorders inflict serious damage on the majority of peoples and countries. It is imperative to conceive and negotiate new monetary structures and procedures. The international community has given little attention up to now to this major component of a new international order. This ARUSHA INITIATIVE is a contribution to the development of the necessary debate and action.

Mutual interest in ending monetary disarray

2. There is today a common interest, shared alike by the countries of the OECD, Eastern Europe and the Third World, to articulate a new monetary system that would reflect the employment and development needs of people living in different material conditions, social systems and cultural environments. Inflation, protectionist tendencies, competitive deflationary policies, unstable exchange markets, unregulated Euro-currency transactions, recurrent and growing balance-of-payments disequilibria and the "conditionality" of the International Monetary Fund: these are problems which affect us all, though in different ways. If there is an area in which interdependence has almost immediate effect, it is that of money and finance.

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This document represents the broad consensus of the participants though none of them necessarily agrees with all points in the analysis or recommendations. It should also be noted that most participants attended in their personal capacities, ie. without committing the organizations or governments to which they belong. Affiliations are mentioned for identification purposes only (see list of participants below). Communicators and one observer also contributed to the discussion.

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3. The present monetary disarray does no credit to human . rationality and ingenuity. Inaction is increasingly costly and dangerous. Policy initiatives for a new monetary order and public debate on them are needed now. The necessary political decisions must be taken urgently by governments acting in a collective and democratic manner.

The collapse of the Bretton Woods system

4. Money is power. This simple truth is valid for national and international relations. Those who wield power control money. Those who manage and control money wield power. An international monetary system is both a function and an instrument of prevailing power structures.

5. The monetary system devised at Bretton Woods in 1944 reflected the historical conditions of the time, particularly the domination of the United States of America within the capitalist world and the persistence of colonial empires. The Third World as we know it today did not exist then. Moreover, the Union of Soviet Socialist Republics and other socialist countries refrained or withdrew from participation in the system, which, thus came to lack universality. The monetary results of such a structural situation were inevitable: the United States dollar became the de facto international currency and the policy prescriptions on international monetary and financial affairs were designed to provide a stable basis for economic relations within the capitalist world. The International Monetary Fund is the institutional expression of these aims and conditions.

6. The world has been dramatically transformed since the Bretton Woods conference, while the formal monetary framework and the values it expresses remain unchanged. Third World countries have insistently questioned the adequacy and legitimacy of monetary rules and mechanisms in whose design the majority of them did not participate. Moreover, there was an inherent contradiction in the system itself: between the role of the US dollar

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as the main source of international liquidity and its function as a stable international store of value. The prolonged payments deficits of the USA led to the suspension by that country in 1971 of the convertibility of the dollar into gold and to the termination of the system of fixed exchange parities. These evolutions reflected a crisis in the capitalist system. More specifically, they represented the erosion of the conceptual foundations on which the Bretton Woods system was built and the consequent loss of legitimacy on the part of the IMF. For all practical purposes, the monetary system agreed upon at Bretton Woods collapsed. It had proven unacceptable to the South, inefficient for the North and anachronistic for all.

The inadequacies and inequities of IMF prescriptions

7. The package of "stabilization" measures prescribed by the IMF for countries with balance-of-payments deficits required these to accept a credit squeeze to reduce the money supply, reduced public spending particularly on welfare services, reduced real wages, liberalized price controls, the encouragement of private foreign investment, and the substitution of devaluation for tariffs and direct controls over trade.

8. The IMF claims to have a "scientific" basis for these policies and to be an objective and neutral institution charged with the "technical" function of "helping" countries overcome their financial difficulties. Available evidence, including internal Fund documentation, points the other way. This contradiction is particularly clear when the Fund addresses Third World countries' balance of payments problems. What does the record show?

a) The IMF is not "scientific" because its analytical approach and policy prescriptions ignore the structural and inevitable nature of payments disequilibria that result from the development process. Its instruments were never designed to cope adequately with the development-deficit problems of Third World countries, or with "shock" deficits arising out of sudden and unforeseen

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adverse turns in their import costs or export incomes. These phenomena are now qualitatively and quantitatively different from when the IMF was set up. To continue considering them as temporary situations, susceptible of correction through monetary mechanisms, highlights the analytical irrelevance of the Fund's policy approaches. The resulting performance tests which the Fund imposes upon deficit countries lack scientific basis. Yet, failure to comply with these tests, and the consequent penalties, disrupt economic life and politically discredit governments in Third World countries.

b) The IMF is not objective in the application of its own criteria. Double standards have been applied to similar situations. Examples show that certain countries, because of their geo-political situation, international weight or political orientation, receive more lenient treatment than others, whose development strategies do not gain the sympathy of the Fund and who are thus subjected to extremely harsh conditions. The attitudes of the International Monetary Fund have ranged from the passive acceptance of the unilateral abrogation of US-dollar convertibility to the draconian prescriptions applied to certain small Third World countries.

c) The IMF is not neutral because it systematically bases its prescriptions on market ideology, giving the preponderant role to local private enterprise and transnational investment. It envisages the State in a restrained and subsidiary role, promoting the free play of national and international market forces. The principle of State participation and intervention, involving a significant presence of public enterprises, is anathema to it. Alternative development patterns that reduce or control the space for private market logic are labelled as inefficient in economic terms and considered inadequate in political terms.

9. The IMF has proven to be a basically political institution. It tends to reproduce colonial relationships by constraining

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national efforts which promote basic structural transformations in favour of the majorities... Its orientation is fundamentally incompatible with an equitable conception of structural change, self-reliance and endogenous development. The IMF medicine systematically favours the more conservative sectors of society and traditional centres of power. Worse still, when these sectors constitute real national power alternatives, the Fund prescriptions and its manner of dispensing them become an unabashed form of external political intervention in their favour. The Fund's policies, conceived to achieve "stabilization", have in fact contributed to destabilization and to the limitation of democratic processes.

10. At the centre of all these issues lie the questions of national responsibilities, consciousness and discipline. Structural change generates imbalances and new policies may produce understandable mistakes as part of the development process. Under such conditions, self-discipline and coherent economic management, including efficient planning and tight administrative controls, become particularly crucial for the survival of policies of change. Moreover, democratic communication and consultation between the government and the people are essential to counter destabilizing forces. Such basic questions as how to reconcile social consensus with basic accumulation and how to harmonize revolutionary expectations with actual possibilities, or productive efficiency with popular participation, need to be adequately resolved in both technical and political terms.

11. For all these reasons, we wish to highlight our solidarity with Jamaica, Tanzania and other countries in similar situations. Their chosen development paths and their confrontation with the Fund deserve international backing. It is morally and politically unacceptable that their efforts at independent and equitable development be blocked by the IMF. The demands made by these countries and the priorities they wish to pursue have the full

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legitimacy of their popular representation, national sovereignty and right to self determination. We call upon progressive forces, groups and institutions, in both industrialized and Third World countries to express in practical terms their support for the right to determine autonomously national development objectives. This should constitute a rallying point around which to generate a massive international movement of public opinion in favour of Jamaica and Tanzania. What happens to them now will constitute a warning signal for others in the future. These, and other countries attempting social transformations, are in the front line of an international power struggle to assert autonomy and independence.

The impact of monetary disorder and the impotence of the IMF

12. The current monetary disorder is neither inevitable nor accidental. It is truly man-made and can consequently be redressed by political decisiveness and action. Creeping inflation was a characteristic of the international economy during the 1950s and 1960s. In the 1970s, this situation worsened as a result of a series of successive and interrelated events, namely, the continuous balance-of-payments deficits of the United States, the devaluation of the US dollar, strong price increases in certain commodities and the capacity of large transnational enterprises to increase prices above current costs and inflation levels. The compounded effect of these and related phenomena was to push inflation into double digit figures. Western governments overreacted by applying deflationary measures which - under present conditions of monopoly and concentration of big business - have stimulated leading firms to increase prices in order to compensate for fallen sales and to maintain and improve their cash flow. Such policies have actually aggravated rather than reduced recessionary tendencies in industrialized countries, without really affecting the pricing and profits of large firms. The real burden has been borne by workers and weaker social groups through unemployment and the reduction of real wage levels.

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13. Such a situation serves those very institutions - the transnational enterprises and banks - which have dominated monetary reform efforts since the demise of the Bretton Woods system. Only they have the information and the capacity to profit from instability in currency markets. Ironically, even the transnational banks are now seeking to establish a private "safety-net" to protect themselves from possible collapse. Yet, where is the safety-net for the peoples who bear the burdens of the current disorder?

14. Instead of relieving these burdens, the IMF has perversely combined a policy of deflation for the weak and inaction for the strong. The Fund has allowed the principal deficit country, the United States, to escape blame for much of the current inflation by taking no action in response to its chronic deficits and to its unilateral abrogation of the Bretton Woods obligations in 1971. The Fund has not sought to regulate the creation of international money, fuelled by the US deficits, which takes place through the transnational commercial banks and the Euro-currency markets. It has done nothing to bring about adjustment by the chronic surplus countries, which contribute as much as deficit countries to payments imbalances.

15. The severity of the Fund's treatment of most deficit countries must indeed be contrasted with the complete freedom of action of those industrialized countries which have been in surplus for most of the last three decades. Thus, while the deficit countries are forced to open up their markets to imports in exchange for the relatively limited credit flows whose provision is dependent on agreement with the IMF, surplus countries are free to solve their own short-term problems by exporting deflation and unemployment, and even to adopt protectionist measures against Third World exports.

A United Nations Conference on International Money and Finance

16. The experience of world development has demonstrated with increasing force that it is impossible to implement a genuine

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international development strategy without fundamental restructuring of the international monetary system. It is imperative that a new monetary system be constructed with the agreement of the international community. If this is not done, the current non-system will continue to evolve through the ad hoc arrangements made in their own interests by a few industrialized countries and the transnational corporations and banks, under the constant threat of an international financial catastrophe.

17. We therefore call for a United Nations Conference on International Money and Finance. This will provide a universal, democratic and legitimate forum for the negotiation of a new monetary system - one, moreover, which can be open to public scrutiny. We also urge that the drafting of a charter for a new system should start now and we call upon the extragovernmental community ("third system") to take the lead in this endeavour, so as to show the way to governments.

Characteristics of a new international monetary system

18. A new international monetary order must serve two fundamental objectives. First, it must be capable of achieving monetary stability, restoring acceptable levels of employment and sustainable growth, and checking the present strong inflationary and stagflationary policies and tendencies in the world economy. Second, it must be supportive of a process of global development, especially for the countries of the Third World, which contain the majority of the world's poor.

19. The main attributes of a new monetary system must be:

a) Democratic management and control: While it may be inevitable that significant influence will be wielded by economically powerful countries, the interests of the majority of the world must be clearly reflected.

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b) Universality: As trade and payments have become increasingly internationalized, global interdependence demands that all countries should participate in the institutional arrangements for international monetary management.

c) The establishment of an international currency unit, as the international means of exchange and primary reserve asset: The world cannot continue to afford a situation where one country imposes its own currency to play this role, and uncontrolled international money creation and transnational speculative movements are allowed to occur.

d) A certain degree of automaticity in transfers of resources through reserve asset creation by the international community.

20. A new international monetary authority would need to be established to manage the monetary system. Universal and democratic, it would be capable of accommodating the needs of different development patterns and economic and social systems. Such an authority would have to control the supply of international money and be capable of redistributing national payment surpluses and existing exchange reserves. To prevent manipulation, firm rules and adequate mechanisms governing the creation and distribution of the international currency would be required. The existence of an international currency unit must serve to re-introduce in the international payments system the principle of asset settlement, the abandonment of which in the late 1960s was both a symptom of past contradictions and a cause of further disorder. Observance of this principle would imply convertibility of national currencies into the international currency unit. However, provision would have to be made by international agreement for the limitation and suspension of convertibility to meet special circumstances, such as those of some Third World countries and socialist countries.

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Urgent transitional measures

21. As the process of building a new international monetary order will undoubtedly be long and difficult, there are a number of urgent steps which must be taken in the meantime to deal with the immediate problems, while supporting the transition to a fundamentally new system. Most of these short-term steps have to be taken within the framework of the IMF.

22. First, the IMF should be equipped and prepared to finance those deficits which are the natural consequence of serious and disciplined efforts at development and structural change. The conditionality of such financing must reflect the sovereign right of States to choose their own social and economic models and development paths. In particular, there must be no penalization of countries which opt for strategies which emphasize national planning, systems of administrative budgeting (of foreign exchange, imports, investment and credit), the reform of traditional institutions and an active role for the public sector. Rather, assistance needs to be provided to help these countries to overcome the difficulties and obstacles which such a development model necessarily encounters, and to help improve the efficiency of their planning, economic management and allocation of resources. In this context, the use of quarterly performance tests, based on a small number of narrowly-defined monetary variables, is highly inappropriate to the conditions of a Third World country.

23. Secondly, Third World countries' access to the higher credit tranches of the IMF must be guided by an unambiguous recognition that a large part of the deficits they now experience is attributable to factors for which they are in no way responsible. These include high international inflation, weak and fluctuating

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export prices, low demand for their exports, deterioration of their terms of trade and high interest rates: all symptoms of the present international monetary disorder and more generally of an unjust international system. Financing such deficits by the IMF must be much more flexible and automatic; it must not be guided by present conditionality criteria.

24. To this end, the compensatory financing facility should be expanded and a new low-conditionality facility established to deal with external shock deficits (like the former Oil Facility). Access to these facilities should be related to the size of externally-caused deficits, not tied to quotas. Repayment should be related to recovery of the balance of payments from export deterioration or external shocks, instead of being tied to arbitrary time periods.

25. Next, further decisions need to be taken to make the SDR the principle reserve asset in international payments and to ensure that the role of national currencies in international settlements is effectively reduced. For that purpose, the SDR should be made more attractive. The allocation of SDR's and proceeds from sales of IMF gold should be made according to criteria separate from the IMF quota structure and should be based on relative need, economic vulnerability and development deficits.

26. Finally, there is an urgent need for the establishment of a mechanism of appeal and international arbitration, independent of the Fund, to deal with cases of dispute between the Fund and member countries applying for the use of Fund resources. The enormous power wielded by the staff and management of the Fund in negotiations with these countries provides the justification for a mechanism which would ensure the equitable resolution of such disputes.

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New financial mechanisms

27. Besides the above mentioned measures, the financing of Third World development deficits and acute needs calls for a massively-increased and qualitatively-improved resource transfer that goes beyond the capacity of the IMF. The industrialized countries, both East and West must recognize their obligations in this respect. The principle of international redistributive taxation must be pushed toward acceptance, since an international tax (for example on oil consumption in industrialized countries) could be used to mobilize funds for resource transfers.

28. Third World countries must develop strategies of collective self-reliance in the financial and monetary fields, backed by specific mechanisms. Initiatives should be strengthened to channel resources from capital-surplus oil-producing Third World countries directly to other Third World countries in need of resources. The OPEC Special Fund should be augmented and expanded into a genuine development bank. The establishment of regional monetary systems within the Third World should be actively pursued.

The thrust of the Arusha Initiative

29. Success in building a new international monetary system in the 1980s requires that the issues on the monetary agenda be demystified and exposed to public debate and scrutiny. Those who hold power derived from money must be made publicly accountable for the consequences of its exercise. We hope that this ARUSHA INITIATIVE will help people to launch debates in their different national contexts, putting pressure on their governments to engage in serious study and preparation for intergovernmental negotiations on a new monetary system under the auspices of the United Nations.

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30. We therefore, call upon the people of the industrialized countries, and their organizations, including unions, parties and churches, to be aware of the costs of the present monetary non-system to themselves as well as to the Third World. They must recognize their interest in a stable system which would help them to fight inflation and would lead the way out of the present era of unemployment and recession. We urge the governments of East and West to pursue together their common interest in a universal and democratic monetary system. We appeal for tangible manifestations of international support for the people of Third World countries, and their governments, seeking to preserve their sovereignty and dignity through self-discipline in face of external financial threats. We entreat the Third World to reduce its dependence on Western-dominated financial institutions and to express its solidarity through institutions of its own making for monetary and financial cooperation. Finally, we invoke the community of nations to respond promptly to our call for a United Nations Conference on International Money and Finance and to make this one of its major commitments for the decade ahead.

THE SOUTH-NORTH CONFERENCE ON "THE INTERNATIONAL
MONETARY SYSTEM AND THE NEW INTERNATIONAL ORDER"
ARUSHA, TANZANIA, JUNE 30 - JULY 3, 1980
