United Nations
GENERAL ASSEMBLY
TWENTY-SIXTH SESSION
Official Records

SECOND COMMITTEE, 1370th MEETING

Friday, 1 October 1971, at 10.50 a.m.

NEW YORK

Chairman: Mr. Narciso G. REYES (Philippines).

Organization of the Committee's work (continued)

1. The CHAIRMAN, in reply to observations made by several representatives at the 1369th meeting, informed the Committee that the Pledging Conference for the United Nations Development Programme and the Capital Development Fund had been postponed from 18 to 25 October. The President and Vice-President of the Economic and Social Council were to meet shortly to discuss the possibility of postponing the Council's resumed fifty-first session, which had been scheduled to begin on 19 October.

GENERAL STATEMENTS

and

AGENDA ITEM 12

Report of the Economic and Social Council [chapters III to VII, VIII (sections A to E), IX to XIV, XXI and XXII] (A/8403)

2. Mr. JOSEPH (Australia) said that during 1970 and 1971 inflation had become an almost chronic problem of the main industrialized countries. The failure of traditional deflationary measures was due to the fact that the current situation resulted from factors other than the usual ones, in particular from the tendency of wages to outstrip growth in real productivity. Furthermore, in many cases the rise in wages and other incomes had taken place at a time of growing unemployment and the Governments which had had to face that double problem had opted for further inflation. That being so, his delegation tended to agree with the Under-Secretary-General for Economic and Social Affairs that, in the current conditions, all advanced countries should bring incomes policies into effect. Unfortunately, experience had shown that such an undertaking was difficult. The most advanced of the industrialized countries was currently endeavouring to implement such a policy to deal with a serious situation but it remained to be seen what would happen on the expiry of the wage-price freeze in the United States of America. The matter was, of course, essentially one for the United States but, given the importance to the rest of the world of that country's economic stability, other countries could only hope that it would be possible to devise an effective follow-up to the initial measures which it had been obliged to adopt.

3. Inflation had aggravated the second of the two problems increasingly affecting the developed market economies, namely the problem of short-term capital flows which, several times in recent years, had reached such proportions as to cause severe dislocations of the international monetary system. In 1967, the drain of capital from London had been partly blamed for precipitating the devaluation of sterling. Similarly, the outward flow of capital from the United States had been held to be the cause of the currency crisis during the previous May. Although a heavy element of speculation had been involved in both cases, many of the massive flows of short-term capital had been induced by interest rate differentials between the various financial centres. In his delegation's view, such large-scale capital movements had probably come to stay, in particular because of the ease with which funds could be switched from one centre to another, thereby making huge sums available for investment. While such capital movements seemed inevitable, the resulting instability in currency values was of benefit to no one and the need therefore was to devise ways of ensuring better co-ordination of international monetary policies and offsetting the short-term effects of capital flows. Certain countries had gone so far as to recommend actual physical control of the capital flows themselves but his delegation wished to withhold comment on the question until more details of the measures proposed were available. At the current stage, all that could be said was that the participants at the Bretton Woods Conference had had no reason, in 1944, for the inclusion in the Agreements of arrangements for the multilateral control of capital flows.

4. Having regard to the fact that economic conditions in the industrialized countries exerted a strong influence on the economies of the developing countries, that the level of world trade continued to be governed by cyclical changes in the demand of developed countries for imports and that developing countries had to pay higher prices for capital goods which they imported from the developed countries, all countries without exception had a vested interest in the restoration of economic health in the industrialized countries, the more so since aid flows could also become a casualty of economic and monetary instability in the developed countries.

5. Turning to examine the international monetary situation in the wake of the measures announced by the President of the United States on 15 August 1971, he said that it was essential for the United States Government to take swift and concerted action to redress the country's balance of payments and to re-establish confidence in the parity of the United States dollar. It had to be recognized, however, that whatever the United States did had repercussions on other countries because of the size of the country and the importance of its foreign trade. It followed that the United States had special responsibilities in that context to take account of the interests of other countries. Equally, it was entitled to understanding from other countries. For 25

years, the United States had had to shoulder almost alone the responsibility for the effective functioning of the world monetary system which, since the Bretton Woods Agreements of 1944, had been based on the dollar. Under those agreements, the United States had undertaken to refrain from any unilateral action which would alter the value of its money and that policy had been basic to the maintenance of international financial stability. The United States had also denied itself the flexibility open to other countries to adjust the value of its currency in line with its true competitive strength. While that situation had presented no problem immediately following the Second World War, when the United States economy had been by far the world's most important, it had since changed. Unfortunately, the economic recovery of the countries of Western Europe and Japan had not been accompanied by a progressive adjustment of the value of their currencies. In fact, some countries had worked in the opposite direction, seeking to keep their currencies undervalued, vis-à-vis the United States dollar. The economic measures announced on 15 August had put an end to that situation. By suspending the convertibility of the dollar and giving notice to the world's financial community that new exchange rates would need to be developed, the United States had indicated that it could no longer continue to subsidize the trade of others which deliberately undervalued their currencies against the dollar.

6. There were undoubtedly other reasons for the strain on the United States balance of payments. For example, the United States had often been faced with restrictive trade barriers, in particular with regard to the export of their agricultural products. Admittedly, other countries had also been affected by such trade barriers, his own country second to none. Furthermore, the assumption by the United States of the burden of collective defence arrangements throughout the world had upset the economic balance between the United States and many of the other industrialized countries, which had been relieved of much of the financial burden of providing fully for their own defence. In addition, United States capital had been largely responsible for putting many of the other industrialized countries on their feet immediately after the Second World War and the United States had already instituted aid programmes for developing countries at a time when aid was hardly more than a concept in most other developed countries. All those factors needed to be taken into account in considering the origins of the current economic and monetary problems.

7. The most important of the substantive problems that faced the international community was the confusion in the foreign exchange markets. Some markets were partially open; others were not. The general uncertainty as to the rates applying to any particular transaction was not to the advantage of any State. His own country was anxious to see a return to stability in the world's currency system and emphasized that it should be brought about as quickly as possible. His country's financial authorities had been pleased to see that the United States, and other members of the Group of 10, had agreed to consider together the question of a realignment of currencies, of wider margins, of the removal of trade barriers and of some other non-financial problems. Admittedly, it would not be easy to resolve all the problems but his Government hoped that consideration of national prestige would not prevent members of the Group of 10 from reaching a speedy solution.

8. Once the current problem had been solved, however, there would still remain the long-term task of reforming the international monetary system. It had been suggested that a new system might be devised based neither on the dollar nor on gold but on a new reserve asset such as the IMF's Special Drawing Rights. Australia had already indicated at the IMF meeting that it would be prepared to contemplate such a system, but there were a number of points that should be borne in mind. Firstly, it was important not to erode the system of stable parities and to ensure that flexibility was not so great as to turn that system into a system of floating rates. Secondly, more attention should be paid to the role of capital. It was important for all countries that the current problem of speculative flows should be resolved without prejudicing the longer-term capital flows which had made a considerable contribution to post-war growth in world production and trade. Thirdly, the question of foreign exchange balances was an extremely delicate one, and in that connexion it should be noted that the dollar played a key role in the current reserve system, dollar balances constituting some 33 per cent of total official reserve assets. Furthermore, care should be exercised to avoid any excessive issue of Special Drawing Rights, so as not to undermine their value. Again, the basic relationship between monetary matters and domestic economic management should not be overlooked; in particular, closer consideration should be given to the elements required to achieve an effective incomes policy in many of the industrialized countries. In the view of the Australian delegation, any new monetary system should allow countries the possibility of using as reserve currencies—apart from sterling and dollars—a number of other foreign assets and perhaps Special Drawing Rights; that would enable the risks, both for the reserve currencies and the holders of such currencies, to be spread more evenly. Finally, Australia wished to caution the international community against the danger of abandoning one system before devising another satisfactory arrangement to take its place; even if a new system was developed, countries would still have to learn how to make the process of balance-of-payments adjustment work effectively.

9. Regarding the 10 per cent import surcharge currently being imposed by the United States, Australia, while aware of the reasons which had induced the United States to take that drastic step in the short term, wished to emphasize that, because of its weight in the world economy and its impact on international trade, the United States had a special responsibility to ensure that action taken to protect its own economic interests also took account of the interests of other countries. That step, which had placed other countries, including Australia, in a difficult position, and the impact of which was not limited to trade in which the United States was itself a party, affected some countries much more seriously than others. For instance, 78 per cent of Argentine exports to the United States had been affected. Accordingly, Australia joined with other countries in urging the United States Administration to lift the surcharge as soon as possible, while appreciating that its removal was likely to depend on a realignment of exchange rates and other adjustments in the world monetary situation.

10. Mr. MAKEEV (Union of Soviet Socialist Republics) said that two tendencies could be discerned in the world economic development process. The first was the economic development of the developed industrialized countries in which the economic and financial power of the capitalist world was concentrated. In his introductory statement, the Under-Secretary-General for Economic and Social Affairs had spoken of the profound upheaval in the economy of the capitalist world, which was grappling with a severe monetary and financial crisis. That upheaval arose from the dominant position in the capitalist economy of monopoly capital which had established and assiduously developed a world-wide system of economic exploitation and financial enthralment from which the peoples of many countries and whole continents suffered. The developing countries in Asia, Africa and Latin America were in a particularly difficult position, since their economic possibilities were severely limited by the ascendancy of monopoly capital. Their economies had not yet succeeded in overcoming the serious consequences of colonial domination and were open to neo-colonialist pressures. That combination of circumstances might jeopardize the objectives of the Second United Nations Development Decade.

11. A second tendency could be discerned in the world economy: the development of the socialist economy, which accounted for a substantial proportion of world production. That tendency took the form of a planned and accelerated growth in production, reflecting the relations of co-operation and mutual assistance existing between men who had set as their goal the construction of communist society, a society based on concern for the well-being of the producers of material and spiritual wealth. In 1971, at its twenty-fifth session, the Council for Mutual Economic Assistance had adopted a complex programme designed to strengthen and promote co-operation and to foster the integration of the economies of the socialist countries. That document was of interest to all States Members of the United Nations and was an important contribution to the development of international co-operation in economic, scientific and technical matters. The programme which had been adopted reflected the requirements and perspectives of rapid development of the socialist countries. It defined socialist integration organized in a conscious and planned manner by the parties and the Governments of the socialist States as a process of socialist division of labour, a process whereby the economies of the States members of the Council for Mutual Economic Assistance would be brought closer together, the levels of economic development would be equalized, firm links would be forged between the basic branches of the economy, science and technology, the international market between socialist countries would be broadened and strengthened and their trade and monetary exchanges improved.

12. Under the programme adopted, States members of the Council for Mutual Economic Assistance would continue to develop their economic, scientific and technical relations with other countries, notably the developing countries.

13. The socialist countries had undertaken to co-ordinate their external trade policies so as to normalize international economic relations and particularly to put an end to the discrimination practised in that sphere by the western countries and their closed economic groups. The programme would have to be carried out in stages, taking into consideration the interests of all countries and of the socialist countries as a whole. The Soviet Union was taking that process of integration into account in pursuing its economic objectives.

14. The 24th Congress of the Communist Party of the Soviet Union had been held in the USSR in 1971. At that Congress, the results of the development of the Soviet economy over the eighth five-year plan had been considered and the new objectives of the ninth plan had been defined. During the previous five-year plan, the volume of capital investment had increased by 42 per cent (104,000 million roubles), and 1,900 large industrial enterprises had been constructed and had started production. Gross national product had increased by 42 per cent and national income had risen to 77,000 million roubles. Industrial output had increased by 50 per cent and the growth rate in the production of consumer goods had approached the growth rate of heavy industry. The growth rate for agriculture had also risen. There had been a 26 per cent increase in the real wages of workers and employees and a 42 per cent increase in the real income of collective farm members. Again, during the period of the previous plan more than 500 million square metres of living space had been constructed. In the report of the Secretary-General on the work of the Organization (A/8401), it was stated that the industrial output of the countries co-operating in the Council for Mutual Economic Assistance had increased at a steady annual rate of between 8 and 9 per cent. The success of the eighth plan provided the material basis for the new plan, which was aimed at raising national income by 37-40 per cent, industrial output by 42-46 per cent, agricultural production by 20-22 per cent per annum and the real income of workers by 33 per cent. It was planned to increase social consumption funds intended to meet the essential needs of the population (free medical care, free universal education, social security and housing construction) by 40 per cent to the figure of 20,000 million roubles.

15. The various aspects of that programme would have a considerable influence on the establishment and development of new economic relations between States, based on equal rights.

16. Together with the other socialist countries, the Soviet Union would continue, as it always had in the past, to assist in the economic development of the developing countries and would strengthen its economic, scientific and technical relations with them. Over the period 1966-1970, there had been a 54 per cent increase in the aid granted by the Soviet Union to the developing countries by comparison with the period 1961-1965. Between 1966 and 1970, Soviet trade with those countries had increased by 76.5 per cent, and now constituted 13.5 per cent of the Soviet Union's external trade, as against 11.9 per cent in 1965.

17. The Soviet Union participated in the activities of more than 400 international organizations and was a party to more than 7,000 treaties and international agreements. As L. I. Brezhnev, General Secretary of the Central Committee of the Communist Party of the Soviet Union, had stated, the USSR attached great importance to the United Nations and would endeavour, together with other States which cared for freedom and peace, to make it an effective organ

for international co-operation with a view to ensuring the maintenance of peace and respect for human rights. The signing of long-term economic, commercial, scientific and technical agreements with countries such as Finland, France, Italy, Japan, the Federal Republic of Germany and Austria, provided a basis for the development of trade relations with those countries. However, the development of trade would inevitably be hindered by the discriminatory policies practised by various western countries and by closed economic groups such as the European Economic Community. Moreover, the United States policy of maintaining lists of "strategic goods" remained a serious impediment to the trade of many countries. The Soviet Union was opposed to any discrimination of that kind.

18. The Soviet Union would base its discussion of the development of international economic, scientific and technical co-operation within the United Nations on the principles set forth in the joint statement of 21 September 1970 by eight socialist countries on the second decade of development and social progress.[1] It should be emphasized that the steady growth and rapid development of the economy of the socialist countries provided a firm foundation for developing and strengthening co-operation between those countries, industrially developed capitalist countries and developing countries of Asia, Africa and Latin America.

19. There was, however, another tendency in world economic development, rooted in the laws of development of the advanced capitalist countries and the contradictions inherent in the capitalist type of production. The report of the Economic and Social Council pointed to certain manifestations of that tendency. However, the authors of the report had done everything they could to avoid telling the whole truth about that aspect of world economic development, the contradictions which lay behind it and the harmful influence which it had on the life of workers in various countries and on the economy of the third world.

20. In his book *The Challenge of World Poverty,*[2] Mr. Gunnar Myrdal had candidly criticized the economic policies of monopolies in the world; he had explained how they plundered the developing countries; he had demanded the abandonment of the customary terminology of economic studies, which was used to hide the harmfulness of the policies of those monopolies; and he had said that things should be called by their real names. The unprecedented upsets which had occurred recently, such as the fact that the dollar was no longer convertible, showed that the general crisis of capitalism was becoming more serious. That crisis was nothing more than a reflection of the very nature of capitalist production. It showed itself particularly in inflation and unemployment, as the authors of the report of the Economic and Social Council had been obliged to observe. They had pointed out that production had declined while prices had risen in the United States and that the trade balance had been unfavourable for two years. That situation was worsened by other causes, particularly larger war expenditures, the arms race, the maintenance of foreign military bases and the continuation of aid to aggressors. The United States Government had planned still further expenditures of $77,500 million on such items.

21. The United States economic crisis manifested itself also through the decreased production of its trade partners, to which the United States exported its inflation, as was shown by increased prices in those countries, particularly the United Kingdom and Japan. The crisis had not prevented the movement of United States capital abroad. In 1969, United States investments in Europe had reached a total of $3,300 million, whereas the countries of the European Economic Community had invested only $1,100 million in the United States. United States companies had continued to purchase European firms, and United States short-term securities held by European countries totalled $50,000 million, whereas United States gold reserves made it possible to convert only a fifth of that amount. Those facts made it evident that instead of fighting the economic crisis, the United States had, on the contrary, worsened it. The United States press, although it reported on the seriousness of the economic and financial situation of the country, did not show the true causes of that situation, and shifted the responsibility to the workers of the United States and other countries. It was therefore not surprising that the countries concerned had become indignant about the measures taken by the United States Government, as was shown by the Declaration of the Special Committee on Latin-American Co-ordination, of 5 September 1971, the joint declaration of the Common Market countries of 13 September and the most recent meeting of the Trade and Development Board. The effect of the crisis was that the tactic of dealing from a position of strength, which the United States had previously practised mainly in the political sphere, had been extended to economic relations.

22. The measures taken to right the unfavourable balance of payments should be political, and should especially affect United States foreign policy. The United States should, in particular, cease to maintain foreign military bases and to give aid to aggressors. Instead of taking such steps, however, it had asked sacrifices of workers by "freezing" their wages while the profits of the monopolies continued to increase. Those measures were doomed to failure and proved once again that capitalist society was an exploitative one which defended the interests of a minority at the expense of the workers.

23. The crisis manifested itself also by even greater exploitation of the developing countries which were not yet independent of foreign countries. Paragraph 13 of the Council's report (A/8403) correctly observed that inflation led to a crisis of confidence in the developing countries and added another obstacle to their progress.

24. The economic crisis had a direct connexion with the questions dealt with by the Committee, particularly agenda items 12 and 45 (Review and appraisal of the objectives and policies of the International Development for the Second United Nations Development Decade: report of the Secretary-General). How was it possible to create stable conditions and to promote well-being and full employment, i.e., to apply Article 55 of the Charter, without trying to remove obstacles to the attainment of the objectives of the United Nations? It was necessary to define the true problems, as well as the means and methods of bringing

1 *Official Records of the General Assembly, Twenty-fifth Session, Annexes,* agenda item 42, document A/8074.

2 Gunnar Myrdal, *The Challenge of World Poverty: a World Anti-poverty Program in Outline* (New York, Pantheon Books, 1970).

about continued development. The gap between the developing and developed countries should decrease, not grow wider. To reach that objective, there was a need for forceful measures aimed at achieving general and complete disarmament. Unfortunately, according to the Secretary-General's report (A/8401), expenditures on weapons throughout the world had increased to more than $200,000 million. Of that amount the share of the developing countries was over $12,000 million, compared to $6,800 million spent on assistance, not counting private investment. The developed capitalist countries continued to plunder the developing countries and to practise discrimination in their trade with them. According to an UNCTAD study,[3] the terms of trade had worsened considerably for the developing countries in 1970, and the prices of raw materials had increased only 3 per cent while those of manufactured products had risen 6 per cent. The developing countries' share of world trade had therefore continued to decline during the past decade, from 21.3 per cent to 17.6 per cent. Their debt had been increasing, and had reached $60,000 million in 1970. In order to end that state of affairs and to develop the economies of those countries, all their resources had to be mobilized, and measures had to be taken which affected all branches of the economy, particularly agrarian reform, redistribution of the national income and subordination of the private sector to national interests. Most of those principles had been adopted by the United Nations but had so far remained a dead letter because certain developed countries refused to apply them.

25. As the new decade began, the USSR, which was continuing its own economic progress, had launched a programme for the freedom and the defence of peoples and would continue to work for peace, particularly by acting to promote the reduction of tension in areas of conflict, by working for the application of conventions prohibiting nuclear, chemical and bacteriological weapons and conventions for the elimination of racism, by ensuring the protection of the environment and the exploitation of energy resources, by developing transportation, by seeking to eliminate the most dangerous diseases, by exploring outer space and by following its traditional policy of co-operation and peaceful economic competition between differing economic systems.

The meeting rose at 12.10 p.m.

3 Document TD/B/369 and Add.1.