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ECONOMIC AND SOCIAL COUNCIL

Resumed Fifty-first Session

OFFICIAL RECORDS

Wednesday, 27 October 1971, at 3.20 p.m.

NEW YORK

President: Mr. Rachid DRISS (Tunisia).

AGENDA ITEM 1

Report of the International Monetary Fund *(continued)* (E/5075)

1. Mr. ARVESEN (Norway) said that his delegation was particularly concerned about the threat to implementation of the International Development Strategy posed by the present international monetary crisis. His Government stood ready to assist in finding solutions to that problem. It believed that there was a need both for structural and institutional reforms in the system and for improved policy performance. In reforming the system, all industrial countries should give priority to bringing about a speedy return to effective par values or official exchange rates with agreed intervention margins. His Government expected that such a realignment would be part of a package deal, under which the United States' 10 per cent surcharge, which threatened to harm developing countries and small industrialized countries by causing an escalation of protectionism and retaliation in world trade, would be eliminated.

2. His Government whole-heartedly supported resolution 26.9 adopted on 1 October 1971 by the IMF Board of Governors. However, it wished to emphasize that prompt action was needed to facilitate resumption of the orderly conduct of the Fund's operations, and it agreed with the Managing Director that such action had particular relevance to the developing countries because of their dependence on IMF resources in meeting their payments difficulties. His delegation particularly agreed with the Managing Director's emphasis on the urgent need to improve international development prospects by increasing the flow of capital to the developing countries. The Norwegian Government considered itself morally and politically committed to the International Development Strategy and would propose appropriations which would bring its official development assistance to 0.75 per cent of Norway's gross national product by 1974, at the latest.

3. Mr. McCARTHY (United Kingdom) said his delegation was particularly interested to note the Managing Director's support for phasing out national currencies in favour of special drawing rights. Many representatives had expressed resentment at the international monetary system and implied that the major Powers had been irresponsible. He therefore wished to draw attention to the latter part of the Managing Director's statement (1800th meeting), which showed great concern on Mr. Schweitzer's part to minimize the effects of the monetary crisis on economically disadvantaged countries. Both developed and developing countries could be grateful for the Fund's attitude towards the problem.

4. Mr. SIRIWARDENE (Ceylon) said that the present international monetary crisis, which had repercussions throughout the world, was caused essentially by the difficulties of the developed countries in agreeing on an adjustment process. The developing countries were not responsible for the crisis, and had, on the contrary, shown co-operation and a willingness to abide by the rules of the system. That made it all the more regrettable that the crisis was likely to stand in the way of achievement of the modest goals of the Second Development Decade.

5. The Managing Director of IMF had rightly stressed that it was essential to restore orderly trade and payments relations, for otherwise the development efforts of the third world would suffer irreparable damage. There was a particular need to develop a code of conduct applicable to all countries and to realign parities among the currencies of the major industrial countries. In the view of the developing countries, the differences between developed countries on the latter point were not irreconcilable. The international monetary system should be given flexibility without impairing the stability of the par-value system, which was vital to maintaining world economic activity. Member countries should agree to engage in consultations through international monetary institutions before taking action which could do damage to the development process.

6. Ceylon's Minister of Finance, in his address to the IMF meeting, had stressed that the value of the reserves of the developing countries should be insulated from wide exchange-rate fluctuations and had said that a system of limited flexibility could be of great assistance to developing countries by facilitating expansion of international trade and aid. If greater reliance was going to be placed on an international reserve currency, consideration should be given to the question of larger and more equitable allocations of that currency to developing countries. Any future reform of the system should provide for the possibility of an automatic transfer of resources to developing countries. Because of the severe effects of a monetary crisis on the developing countries, those countries should participate from the outset in decisions leading to international monetary reform.

7. As the Managing Director had rightly observed, it was unfortunate that disruptions in commodity prices and in development assistance had occurred at a time when developing countries were already faced with an increasing external debt and the difficult task of creating employment opportunities. The developing countries would have to make sacrifices to achieve development, but the developed countries would also have to provide the high level of investment needed for steady economic growth and ensure that their policies did not endanger the stability that

developing nations were struggling to achieve. As the Prime Minister of Ceylon had stated in her address to the 1962nd plenary meeting of the General Assembly, on 12 October 1971, steady economic growth was the only way of easing social pressures and ensuring political stability in developing countries.

8. Mr. AKRAM (Pakistan) said his delegation agreed with the general feeling expressed at the meeting of the IMF Board of Governors, and reiterated by the Managing Director, that the present monetary and financial crisis presented both a challenge and an opportunity. The challenge, however, was one which the developing countries had sought to avoid when they endorsed Economic and Social Council resolution 1627 (LI) of 30 July 1971, as they were concerned with the adverse effects of the crisis on their efforts to achieve an optimum rate of development. The Managing Director had rightly observed that the developing countries were vulnerable even to slight imbalances in the monetary and trade relations among the advanced countries. They were now confronted with slippage in the price of commodities, a stalemate in efforts to untie development loans, a setback in efforts to increase development assistance and the reversal of their progress towards diversifying exports, not to mention the more direct losses caused by the import surcharge and the 10 per cent reduction in United States foreign assistance.

9. The developing countries, in resolution 84 (XI) of the Trade and Development Board[1] and elsewhere, had recently drawn attention to the effects of the crisis on their economies and outlined the basis on which they felt their interests should be protected. The current meetings of the Group of 77 would no doubt also enable them to adopt a unified position on those questions.

10. His delegation believed that an accepted code of procedure for resolving both the short-term crisis and the long-term problems underlying it was urgently needed. It was encouraged that the meeting of the Board of Governors had agreed that all IMF members should work together to establish a satisfactory structure of exchange rates, facilitate full resumption of the Fund's operations, reduce restrictive trade and exchange practices and work out satisfactory arrangements for the settlement of international transactions. Lasting improvement in monetary relationships clearly required an effective adjustment process and better control over the volume of international liquidity.

11. While his delegation was pleased that the Fund was studying all possible elements of a lasting reform, the fact remained that the consensus reached on general principles concealed a continuing divergence in the positions of the developed countries. The most urgent problem was to correct the present disequilibrium in the balance of payments of those countries, especially that of the United States, on the basis of a realistic new exchange rate structure. In deciding how large a parity change was needed, the central issue was whether the other nine countries in the Group of 10 would have to make sacrifices in order to correct the United States balance of payments. It was unlikely that a unanimous solution to the problem of distributing the burden equitably could be found. If the crisis was to be resolved, therefore, the other countries would have to adopt strongly expansionist economic policies. Otherwise, there would be a relapse into competitive devaluation and protectionism. Upward revaluation of other currencies against the dollar not only involved the disadvantages already discussed by the Managing Director but was considered by the other developed countries to be an intolerable advance concession, in view of the United States import surcharge.

12. There was some question, however, of whether the present combination of inflationary and recessionary trends in the developed monetary economies would enable those economies to expand. Two obvious causes of those difficulties, among the many other explanations that had been offered, were problems in the labour market and the problem of deficient demand. As to the first problem, he agreed with the Managing Director that the major developed countries bore an especially great responsibility for maintaining financial stability without sacrificing high employment and rapid growth. His delegation hoped that the income and price policy announced by President Nixon would succeed in inhibiting inflation in the United States, thereby enabling that country to decrease its balance-of-payments deficit through domestic measures. The United States was the only Power which could prevent a trade and monetary war, and it was imperative that it should adopt a concrete negotiating position and not await proposals from the other side.

13. A solution to the problem of deficient demand required massive expenditures in the social sector, and, in particular, a large increase in foreign assistance to the developing countries, whose need was desperate. The present crisis demonstrated the adverse effects of economic nationalism. The granting of more foreign assistance would be an act of self-interest, since it would result in higher demand for capital and goods from the advanced countries. Additional development financing could be linked to a new neutral reserve system, preferably an extension of a special drawing rights scheme. International control, through IMF, over the total volume of those reserves would prevent any abrupt distortion of exchange rates and ensure a smoother process of international adjustment.

14. Mr. ORCIĆ (Yugoslavia) read out a letter dated 22 October 1971 from the Chairman of the Group of 77 to the Chairman of the Second Committee concerning the international monetary situation.[2]

15. Mr. MAKEEV (Union of Soviet Socialist Republics) noted that the statement by the Managing Director of IMF had recognized the existence of a far-reaching monetary crisis whose causes were to be found in the capitalist system itself and its impact upon the economies of many countries, particularly developing countries. His delegation shared the Managing Director's view concerning the need to take urgent measures forthwith.

16. His delegation also noted the clear position adopted by the French representative and shared his concern that

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1 See *Official Records of the General Assembly, Twenty-sixth Session, Supplement No. 15*, part III, annex I.

2 A/C.2/L.1166.

failure to take practical steps to counterbalance unilateral actions by Governments might lead to a deterioration in the current situation which in turn would have dire consequences for international trade. It agreed that the restoration of gold as the basis for a stable and healthy international monetary system should be the first step towards normalizing the situation.

17. The monetary crisis had led to a *de facto* devaluation of the dollar and the discontinuance of the convertibility of gold against a background of ever-growing inflation, unemployment and the unprecedented militarization of the economies of the major capitalist countries, particularly that of the United States. The weakness of the United States economy had been exacerbated by the expenditure involved in the war in Indo-China, the maintenance of troops and military bases all over the world and military assistance to the country's allies. A further factor which had contributed to the current crisis was the unprecedented expansion of United States capital abroad. However, emergency measures which would merely create hardships for the workers of the United States and peoples of other countries would not solve the crisis. His delegation fully understood the indignation of other countries with regard to the unilateral measures adopted by the United States and agreed that those measures were fraught with the very real danger of a return to protectionism in world trade. The call for action to eliminate the balance-of-payments deficit of the United States should be accompanied by political demands for a revision of that country's foreign policy, and an end to the war in Indo-China, the arms race and the stationing of troops in other countries.

18. His delegation supported the proposal for a new monetary system which would safeguard countries from the consequences of arbitrary action by Governments and from the dangers of inflation. It believed that the dollar should not enjoy a privileged position and that its price should be determined by its actual purchasing power. In conclusion, it considered that a more realistic price should be established for gold, which was artificially maintained at a level set by the United States Congress some 30 years earlier.

Mr. Caranicas (Greece), Vice-President, took the Chair.

19. Mr. ZAGORIN (United States of America) said that his delegation considered that IMF resolution 26.9, which had been unanimously supported and which had been approved by all those members of the Group of 77 who were also members of IMF, was an important step in the direction of a stable international monetary system. His delegation had noted with interest the statement of the Group of 77 purporting to be an official Second Committee document which had been read out by the Yugoslav representative. The United States had supported Economic and Social Council resolution 1627 (LI), which invited the International Monetary Fund to accord the highest priority to seeking long-term improvements of a kind which would be of benefit to developed and developing countries alike, and it shared the view of the Managing Director of the Fund that the consensus reached on the international monetary situation at the meeting of IMF was in line with that resolution, notwithstanding the unbelievable statements in the second paragraph of the statement read out by the Yugoslav representative.

20. Mr. CAVAGLIERI (Italy) noted that his Government had consistently supported the policy of using special drawing rights for development purposes and that it hoped that once the situation had been normalized the developing countries would be able to use that form of financing. Meanwhile, his country would make every effort to contribute to improving the international monetary situation.

21. Mr. SCHWEITZER (Managing Director, International Monetary Fund) said that the comments on the current international monetary situation expressed by delegations during the debate had accurately reflected the concerns expressed by the Board of Governors of IMF at its recent annual meeting. There were a number of points which must be borne in mind in the search for a solution to the crisis. The main industrialized countries had a special responsibility with regard to both their internal and, even more important, their external economic policies. In the case of the former they must avoid both inflation and recession and maintain normal economic activity, since events within their economies were reflected in the situation of developing countries. In the case of their external economic policies, they should take no measures which would harm the developing countries or, if they were compelled to do so temporarily, they should rescind such measures as soon as possible. There was an urgent need to return to a satisfactory monetary order and to abolish the trade restrictions which had recently been adopted. If the major industrialized countries had the will to restore order, there was no technical problem which would prevent them from doing so. The most urgent task was to rectify the United States balance of payments, and only the major industrialized nations could achieve that goal.

22. In the context of long-term reform, an improved monetary system must be set up which would be capable of preventing the recurrence of the crises which had arisen in recent years. The developing countries must have an assurance that they would be able to participate fully in all the discussions and decisions leading to the adoption of that system. It was essential to ensure that decisions affecting all members of IMF should not be taken by a small minority of countries. Economic and Social Council resolution 1627 (LI) was particularly important, and the Fund had done everything possible to respect the spirit of its provisions. The Fund had maintained close contact with the Secretary-General, and, especially since 15 August, had had particularly close relations with the United Nations Conference on Trade and Development. He had listened with interest to the views of the Group of 77, as read out by the representative of Yugoslavia.

23. IMF was only one of the specialized agencies in the United Nations system, which meant that its competence and resources were limited. However, he could assure the Council that they would be fully dedicated to the goals sought by the States Members of the United Nations. At the 1382nd meeting of the Second Committee, on 12 October 1971, the Under-Secretary-General for Economic and Social Affairs had stated that the International Development Strategy for the Second United Nations Development Decade established a series of actions aimed at bringing about closer co-operation between developing countries and developed countries, but that those actions

presupposed the normal functioning of the international exchange and payments system. It was in that area that IMF had a valid contribution to make.

24. Mr. AYOUB (Tunisia) said that in view of the seriousness of the current international monetary situation, it would be incongruous for the Council to do nothing more than take note of the report of IMF. It must face up to its responsibilities and take a decision which would contribute to an equitable solution to current problems. His delegation intended to submit a draft resolution along those lines in the near future, and accordingly requested that the debate on the item should not be closed.

25. Mr. McCARTHY (United Kingdom) said that he had no objection to meeting the wishes of the representative of Tunisia. However, the Council should not for that reason depart from its normal procedure of taking note with appreciation of the report of IMF. Two separate decisions were involved, and the first could be taken immediately, without closing the debate.

26. Mr. PIACITELLI (Italy) endorsed that view. In any case, his delegation was not convinced that a further resolution on the international monetary situation was necessary, in view of the Council's adoption of resolution 1627 (LI).

Mr. Driss (Tunisia) resumed the Chair.

27. Mr. ZAGORIN (United States of America) supported the view expressed by the representative of the United Kingdom.

28. Mr. PALEWSKI (France) agreed that the Council should take note of the report of IMF. His delegation did not agree with the view of the representative of Italy, since the situation was now somewhat different from what it had been in July. However, any draft resolution on the subject should be submitted as soon as possible, so that delegations would have time to study it before taking a decision.

29. Mr. CARANICAS (Greece) observed that it would be somewhat unusual to discuss a draft resolution relating to a specialized agency in the absence of that agency's representative. He did not believe that the Tunisian draft resolution would differ greatly from Council resolution 1627 (LI), and moreover the intention to submit it had been announced rather late. The Council should go on to the next item on its agenda and if the representative of Tunisia felt it essential to submit another draft resolution dealing with the international monetary situation at a time when discussions on that situation were taking place elsewhere, he could do so in the Second Committee, rather than in the Council, which should simply take note of the report of IMF.

30. The PRESIDENT said that if the Tunisian draft resolution was submitted within the next few days, a representative of IMF could be present. The Council should consider any draft resolution submitted to it.

31. Mr. AYOUB (Tunisia) said that the delegations which joined his delegation to co-sponsor the forthcoming draft resolution had intended to incorporate in it a paragraph taking note of the report of IMF. He was surprised at the objections to his request. At a time when the international community was making a serious effort to strengthen the Economic and Social Council, the latter should fulfil its responsibilities, which went considerably beyond merely placing its seal of approval on reports.

32. Mr. PIACITELLI (Italy) explained that his delegation was not opposed to the submission of a draft resolution by the Tunisian delegation.

Mr. Caranicas (Greece), Vice-President, took the Chair.

33. Mr. NDUNGU (Kenya) agreed with the representative of Tunisia that in the present situation the Council could and should do more than merely take note of the report of IMF. Before the draft resolution was submitted, it was impossible to say whether or not it went beyond resolution 1627 (LI), but in any case the Council should consider it as a possible positive contribution.

34. Mr. McCARTHY (United Kingdom) said that as his delegation saw the situation, the question facing the Council was whether there was any need for further discussion of the report of IMF or the Managing Director's introductory statement. If not, the Council could take note with approval of the report and the statement, and then, if it wished, undertake further discussions of the international monetary situation.

35. Mr. RABETAFIKA (Madagascar) agreed with the views expressed by the representative of Tunisia. It was true that the Council had adopted a resolution on the international monetary situation at its fifty-first session, but he did not believe that the Tunisian draft would differ sufficiently from that resolution to give rise to objections on the part of members. The adoption by the Council of a formal resolution approving the report of IMF should not prevent it from expressing itself on the international monetary situation. A representative of IMF could be present for the debate on the Tunisian draft resolution, which would be available shortly, and he saw no reason why it should not be discussed. However, it did not seem appropriate for the Council to take note of the Managing Director's oral statement.

36. Mr. ANDERSON (Jamaica) associated his delegation with the views expressed by the representative of Tunisia. Some delegations appeared to feel that resolution 1627 (LI) precluded the possibility of the Council taking a further decision with regard to the international monetary situation. His delegation did not believe that any position could be taken until the Tunisian draft resolution was before the Council.

37. Mr. AYOUB (Tunisia) said that his delegation had no objection to the Council taking note of the report of IMF. With regard to resolution 1627 (LI), he observed that the situation had changed considerably since its adoption in July.

38. Mr. HAMID (Sudan) said that the international monetary situation was a subject of crucial importance. His delegation could not accept the argument that because the Council had adopted resolution 1627 (LI) it should take no further action on the subject. That approach was supported

neither by the rules of procedure nor by the traditions of the Council. The Council could take note of the report of IMF, and deal separately with the Tunisian draft resolution.

39. Mr. ZAGORIN (United States of America) proposed that the Council should follow the practice of earlier resumed sessions and take note with appreciation of the report of IMF and the statement by the Managing Director. Such a decision would be without prejudice to any further action which the Council might deem it necessary to take.

40. Mr. AYOUB (Tunisia) said that the Council should not take note of the Managing Director's statement, since his delegation's draft resolution would deal with the same subject.

41. The PRESIDENT said that in the absence of any objection he would take it that the Council wished to adopt a draft resolution reading:

"*The Economic and Social Council*

"*Takes note with appreciation* of the report of the International Monetary Fund."

It was so decided.

Mr. Driss (Tunisia) resumed the Chair.

42. Mr. MAKEEV (Union of Soviet Socialist Republics) said his delegation had reservations with regard to the use of the words "with appreciation" in the resolution just adopted. At a time when further discussions of the international monetary situation were proceeding, it might have been more appropriate simply to take note of the report of IMF.

43. Mr. McCARTHY (United Kingdom) said that when discussion of the item was resumed his delegation would welcome a verbatim text of the statement made by the representative of France at the Council's 1800th meeting, and also an explanation of the frequently used phrase referring to larger and more equitable allocations of special drawing rights or liquidity.

Organization of work

44. The PRESIDENT said he wished to suggest an amendment to the work programme outlined in document E/L.1463 and Corr.1. He had been informed that the Committee for Programme and Co-ordination would not be in a position to submit its report on its tenth session to the Council before 5 November, the date on which that item was listed for discussion. The Council would therefore have only item 6 (World Food Programme: pledging target for 1973-1974) on its agenda for that date. He accordingly proposed that item 6 should be considered at the meetings scheduled for Friday, 29 October, and that the meetings scheduled for 5 November should be cancelled.

45. At its fifty-first session (1799th meeting) the Council had taken note of the annual report of the United Nations/FAO Intergovernmental Committee of the World Food Programme, and had decided to defer to its resumed session consideration of the draft resolution proposed by that Committee, pending a firm recommendation by the Intergovernmental Committee concerning the pledging target for the period 1973-1974. The Committee had now recommended a target of $340 million. A decision could be taken on the subject during the current week. The draft resolution proposed by the Intergovernmental Committee had been issued as document E/L.1462, while its recent recommendation would be brought to the attention of members in document E/L.1462/Add.1.

46. Mr. PIACITELLI (Italy) said his delegation had no objection in principle to the President's suggestion, but would require instructions from its Government concerning the target which had been adopted.

47. The PRESIDENT suggested that the meeting scheduled for 5 November could be provisionally cancelled. The possibility of meeting on that date could then be considered again on Friday, 29 October, if members were still awaiting instructions from their Governments.

It was so decided.

The meeting rose at 5.15 p.m.