REPORT
OF THE COMMITTEE
ON CONTRIBUTIONS

GENERAL ASSEMBLY

OFFICIAL RECORDS: THIRTY-THIRD SESSION

SUPPLEMENT No. 11 (A/33/11)

UNITED NATIONS

REPORT
OF THE COMMITTEE
ON CONTRIBUTIONS

GENERAL ASSEMBLY

OFFICIAL RECORDS: THIRTY-THIRD SESSION
SUPPLEMENT No. 11 (A/33/11)

UNITED NATIONS
New York, 1978

NOTE

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

/Original: English/
/20 June 1978/

CONTENTS

I. MEMBERSHIP AND LENGTH OF SERVICE OF MEMBERS OF THE COMMITTEE

1. The Committee on Contributions held its thirty-eighth session at United Nations Headquarters from 15 May to 2 June 1978. The following members were present:

Mr. Abdel Hamid Abdel-Ghani

Syed Amjad Ali

Mr. Anatoly Semënovich Chistyakov

Mr. Talib El-Shibib

Mr. Leoncio Fernández Maroto

Mr. Carlos Moreira Garcia

Mr. Gbadebo Oladeinde George

Mr. Richard V.Hennes

Mr. Junpei Kato

Mr. Japhet G. Kiti

Mr. Wilfried Koschorreck

Mr. Angus J. Matheson

Mr. Atilio Norberto Molteni

Mr. Michel Rougé

Mr. Dragoş Serbănescu

Mr. Euthimios Stoforopoulos

Mr. Tien Yi-nung

2. Syed Amjad Ali was re-elected Chairman and Mr. Japhet G. Kiti was elected Vice-Chairman of the Committee.

3. Mr. Miguel A. Dávila Mendoza was unable to attend the session and consulted the Committee, through its Chairman, on the possibility of nominating a substitute to represent him. In considering the matter, the Committee bore in mind rule 159 of the rules of procedure of the General Assembly 1/ which reads as follows:

"The members of the Committee on Contributions, no two of whom shall be nationals of the same State, shall be selected on the basis of broad geographical representation, personal qualifications and experience and shall serve for a period of three years corresponding to three financial

---

1/ A/520/Rev.12 and Rev.12/Amend.1 and 2 (United Nations publication, Sales No. E.74.I.6).

years, as defined in the Financial Regulations of the United Nations. 2/ Members shall retire by rotation and shall be eligible for reappointment. The General Assembly shall appoint the members of the Committee on Contributions at the regular session immediately preceding the expiration of the term of office of the members or, in case of vacancies, at the next session."

The Committee noted that the foregoing rule as well as legal opinions received in the past make it clear that members of the Committee on Contributions are appointed on the basis of personal qualifications and experience and serve in their own capacity. Moreover, the General Assembly appoints only certain named persons and has made no provision for these persons, in turn, to appoint substitutes. The Committee concluded, therefore, that it was not empowered to accede to the replacement of a duly appointed member by a substitute.

4. In connexion with the period of service of members of the Committee on Contributions, the Committee noted also that rule 159 of the rules of procedure of the General Assembly provides that members "shall serve for a period of three years corresponding to three financial years, as defined in the Financial Regulations of the United Nations". The Committee is aware that the Assembly normally appoints members for a period of three calendar years. However, consequent upon the adoption of the biennial budget, regulation 2.1 of the Financial Regulations has defined the financial period as consisting of two consecutive calendar years, the first being an even year. In the interests of clarity, therefore, the Committee recommends that the first sentence of rule 159 of the rules of procedure of the General Assembly be amended, following the word "experience" to read as follows:

"... and shall serve for a period of three years corresponding to three calendar years."

It may be recalled that a corresponding revision of the rules of procedures of the General Assembly in respect of the Advisory Committee on Administrative and Budgetary Questions was approved by the Assembly by its resolution 32/103 of 14 December 1977.

2/ ST/SGB/Financial Rules/1/Rev.2 (1978).

II. REVIEW OF METHODOLOGY OF CONVERTING NATIONAL INCOME IN NATIONAL CURRENCIES INTO A COMMON UNIT AND RELATED QUESTIONS

5. In its report to the General Assembly at its thirty-second session, 3/ the Committee concluded once again, and after reviewing the matter in depth, that for conceptual and practical difficulties related to "the present stage of statistical science, national income is the only single indicator which can be statistically compiled for all countries and therefore utilized as the principal measure of capacity to pay". 4/ The Committee also indicated that it intended to explore the possibility of using a basket of currencies or purchasing power parities for the conversion of national income into a common unit in the endeavour to refine the present mode of assessment. In order to place these questions, including the related problems of inflation and currency fluctuations into perspective, the Committee found it useful to describe briefly the methodology it has followed and then to evaluate possible refinements.

A. Present methodology

6. To the extent that comparative estimates of national income form the basis for the determination of capacity to pay, complete national income estimates are needed. These estimates, as a rule, are provided to the Statistical Office of the United Nations by Member States themselves in national currencies. In order to allow such estimates to be comparable, figures in national currencies must be translated into a common unit. In the absence of any other common unit, the present methodology of the Committee is to convert national figures for each year into United States dollars, using as a conversion factor the rate of exchange between the national currency concerned and the United States dollar for that year.

7. In the case of States members of the International Monetary Fund (IMF), the exchange rates used are those obtained from IMF. Prior to 1971, under the par value régime, for a vast majority of countries these rates changed infrequently and only on the occasion of a formal revaluation or devaluation of a currency. For the years in which such revaluations or devaluations occurred, period averages of exchange rates, prior to and after such changes, were calculated by the Statistical Office of the United Nations for the purpose of converting national income in national currencies into United States dollars. With the advent of floating exchange rates, period averages became the norm rather than the exception and have been methodically calculated by IMF for each year on the basis of quarterly, monthly, weekly and even daily rates.

8. In the case of the centrally planned economies not members of IMF whose currencies are not traded in the international markets, the Statistical Office has perforce relied on the operational rates of exchange established by the Controller

---

3/ *Official Records of the General Assembly, Thirty-second Session, Supplement No. 11* (A/32/11 and Add.1 and Add.1/Corr.1 and Add.2).

4/ *Ibid.*, para. 22.

for accounting purposes. The rates so established, which are based on information provided by Governments, by central banks or by United Nations offices in various countries, are used for accounting purposes throughout the United Nations system.

9. The Committee's experience with exchange rates over the years has led it to exercise great care in the application of the methodology just described. For that reason, it has always reviewed on a country-by-country basis the rates of exchange used.

10. In a few cases a measure of uncertainty has remained in the determination of the rate to be used. Instances have arisen in the past when multiple exchange rates for a single currency made it difficult to ascertain which should be considered appropriate. Occasionally, the Statistical Office has had to produce an estimate of an appropriate conversion factor for the national incomes of countries with widely fluctuating domestic prices and foreign exchange rates. The Committee has also seen cases when a given rate, which had been rendered obsolete by a very high rate of inflation, was nevertheless maintained by a Government at least for a time. On several such occasions the Committee considered a later devaluation to have demonstrated that the previous rate was overvalued and that the national income had actually been smaller than seemed to be the case using the official rate of exchange. Another difficulty concerns the marked appreciation of the currencies of several industrialized countries following the advent of floating exchange rates. As a result of these appreciations, the national incomes of the countries concerned, when translated into dollars, give the appearance of having grown more rapidly than would seem to be indicated by national incomes expressed in national currencies. The effect of this on the present scale was reduced by the lengthening of the base period - a procedure which mitigated not only the effects on the scale of variations in commodity prices or growth patterns but also the effects of sharp changes in exchange rates. The divergent evolution of currencies on the exchange markets was also the main factor behind the decision of the Committee to consider at its present session the use of a basket of currencies rather than the United States dollar for the purpose of national income comparisons.

11. In using exchange rates to translate national incomes in national currencies into a common unit, the Committee has always borne in mind that these rates are not necessarily appropriate for estimating the value of those final goods and services included in the gross domestic product which are not normally involved in international transactions. Since countries differ markedly in their economic systems, in the availability of natural resources, in the volume and type of accumulated capital and in the skill and availability of manpower in relation to other factors of production, the price relationship of goods and services not internationally traded may indeed depart greatly from exchange rates. Even in the case of goods entering international commerce, where price relationships may be assumed in the long run to approximate exchange rates, prices to the domestic consumer will differ between countries as a result of variations in net indirect taxes, domestic processing costs and internal transportation and distribution costs. Thus, in any given country, the real value to each inhabitant of his share of the national income may be quite different from the purchasing power which the same amount would represent in, for instance, the United States of America after conversion into United States dollars at the current exchange rate. In spite of this, the Committee has found the use of exchange rates for national income comparisons to be consistent with the view that, in assessing each country's capacity to pay, its foreign trade should be given more weight than the purely

domestic portion of its economy. The Committee observed, in this connexion, that national income figures converted into dollars at prevailing exchange rates are automatically increased or decreased by any amelioration or deterioration in the terms of trade of the country concerned. Nevertheless the Committee felt that it could not fail to study whether and to what extent national income comparisons could be improved by the use of purchasing power parities.

12. A further problem arising in connexion with the role played by exchange rates for international comparison purposes stems from the fact that these rates do not always respond adequately to variations in the relative rates of domestic inflation which clearly differs to a greater or lesser extent between individual countries and the United States. To the degree that exchange rates remain uncorrected for inflation by the interaction of market forces, by the intervention of Governments or by formal devaluations on their part, national incomes are correspondingly inflated. In recognizing this further limitation in the role of exchange rates, the Committee for a number of years has sought some means of taking systematic account of excessive rates of inflation.

13. For the reasons given above, the Committee, in its continuing search for improvements and refinements in the methodology employed for the conversion of national currencies into a common unit, undertook a study in depth of the possibility of substituting a basket of currencies for the United States dollar as a common unit for comparison purposes or, alternatively, of adopting purchasing power parities as the basis for determining relative capacity to pay. At the same time, the Committee again explored the problem of inflation. A summary of the Committee's studies and conclusions follows.

B. Possible improvements in methodology

1. Baskets of currencies and international units of account

14. In its consideration of the possibility of substituting a basket of currencies or an international unit of account for the conversion of national income in national currencies into a common unit, the Committee, in the absence of an existing unit common to the entire membership of the Organization, examined 14 baskets and/or units of account which for convenience may be divided into three groups. The first group consists of the special drawing right (SDR) of IMF, the transferable rouble of the Council of Mutual Economic Assistance and the unit of account of the European Community (EU), three major international units of account whose importance derives from the size of the transactions involved. The second group includes the European unit of account (EUA), the European currency unit (ECU), the European composite unit (EURCO) and the Arab currency-related unit (ARCRU), four relatively well-known international units of account introduced for the exclusive use of the private international bond markets. The third and last group consists of seven baskets and units of account (some of which the Committee was informed might no longer be in current use) which have been used either by Governments or by international organizations outside the framework of the United Nations system, or in the private sector for such purposes as capital markets, banking, international tenders and insurance contracts. In many cases such units play only a limited role for specific purposes; in others, such as in the case of the Asian monetary unit (AMU), that unit represents the equivalent of the special drawing right. A description of the 14 baskets of currencies or units of account follows. Annex I to the present report shows in tabular form the composition of baskets of currencies and international units of account.

(a) Special drawing right (SDR)

15. The Committee noted that of the 14 baskets of currencies or units of account cited above, as a result of common membership of IMF and of the United Nations, the special drawing right had gained the acceptance of a large majority of States Members of the United Nations. Within the context of its present studies, the Committee found that the special drawing right represented a basket of currencies into which national income in national currencies could be readily translated by reference to calculations undertaken by IMF and published in its International Financial Statistics. Annex II to the present report describes briefly the creation, evolution and present status of the special drawing right.

16. The Committee also noted that special drawing rights are essentially book entries or credits to the accounts of participating members of IMF. They are freely used in transactions between members of IMF and in transactions with IMF in accordance with the provisions of the Articles of Agreement. Thus, in addition to its function as a monetary reserve asset, the special drawing right acts as a numéraire for the expression of values, a unit of account and a medium of exchange.

17. Between 1 July 1974 and 30 June 1978, IMF has employed a technique known as a "standard basket" for the purpose of measuring the special drawing right in terms of currencies. Under this technique one special drawing right represents the sum of specified amounts of the currencies of the 16 countries whose share in world exports of goods and services, over the period from 1968 to 1972, exceeded one per cent on average. The amount of each of the 16 currency components is derived from relative weights, with a weight of 33 per cent selected for the United States dollar in order to approximately reflect the commercial and financial importance of that currency; lower percentage weights, broadly proportionate to the various countries' shares in international transactions, were assigned to the remaining currencies. The amounts of the currencies were determined by IMF in such a way that on Friday, 28 June 1974, the last day on which the old method of valuation was applied, the old and the new methods yielded the same values for currencies in terms of the special drawing right. The following table shows the composition of the special drawing right currency basket:

Currency	Amount (in units of each currency) (1)	Weight a/ (in percentage) (2)
United States dollar	0.40	33
Deutsche mark	0.38	12.5
Pound sterling	0.045	9
French franc	0.44	7.5
Japanese yen	26	7.5
Canadian dollar	0.071	6
Italian lira	47	6
Netherlands guilder	0.14	4.5
Belgian franc	1.60	3.5
Swedish krona	0.13	2.5
Australian dollar	0.012	1.5
Danish krone	0.11	1.5
Norwegian krone	0.099	1.5
Spanish peseta	1.10	1.5
Austrian schilling	0.22	1
South African rand	0.0082	1
		100.0

a/ From Monday, 1 July 1974, onwards, the relative weights of the 16 currencies have not necessarily remained the same as the original weights owing to the continuously changing relationships of the 16 currencies.

In order to obtain the special drawing right rate against the United States dollar, IMF values the 15 currency components other than the United States dollar, as shown in column (1) above, at their daily market exchange rates. The sum of the United States dollar equivalents of the 16 currency components of the basket yields the rate of the special drawing right in terms of the United States dollar. The value of a currency as expressed in special drawing rights can be obtained by using that currency's exchange rate vis-à-vis the United States dollar and the United States dollar rate vis-à-vis the special drawing right.

18. With effect from 1 July 1978, the composition of the basket of currencies will be revised to reflect statistics for the period 1972-1976, in contrast to the original basket which reflected the relative importance of member countries of IMF in the export of goods and services over the five-year period 1968-1972. The revised basket and the relative weights of each of the 16 currencies comprising the basket are given below. The amounts of the currencies will be determined by IMF so

as to ensure that the value of the special drawing right in terms of any currency will be exactly the same on 30 June 1978 under the revised valuation as under the present valuation.

Currency	Weight (in percentage)
United States dollar	33
Deutsche mark	12 1/2
French franc.	7 1/2
Japanese yen	7 1/2
Pound sterling	7 1/2
Italian lira	5
Netherlands guilder	5
Canadian dollar	5
Belgian franc	4
Saudi Arabian riyal	3
Swedish krona	2
Iranian rial	2
Australian dollar	1 1/2
Austrian schilling	1 1/2
Norwegian krone	1 1/2
Spanish peseta	1 1/2

In connexion with the revised basket, the Committee was informed that IMF intends to adjust the composition of the basket at five-year intervals commencing on 1 July 1983, unless the Executive Board should decide otherwise at the time.

(b) Transferable rouble of the Council of Mutual Economic Assistance

19. The transferable rouble was introduced in 1963 by the Organization of the International Bank for Economic Co-operation (IBEC) as a unit of account for multilateral settlements and as a common measure of value. IBEC serves as a clearing centre for multilateral payments between members of CMEA and performs banking operations in convertible (non-CMEA) currencies at the request of its members.

20. The transferable rouble has an official gold content of 0.987412 gramme - equal to that of the USSR rouble but legally independent of the latter currency. However, the transferable rouble is not automatically convertible into gold, the USSR rouble or any other currency. It represents an important unit of account which is presently used as such in a significant part of world trade and payments. However, it is much less clear to what extent, if any, this unit could be regarded as providing a safeguard against exchange rate fluctuactions. The transferable

rouble is held only by countries in the accounts of an international institution. It serves as a means of payment in the servicing of "reciprocal accounts" pertaining to commercial transactions between CMEA members, in credit operations between these members and IBEC and the International Investment Bank (IIB) and as a store of value in the accumulation of transferable roubles in accounts with IBEC and IIB.

(c) Unit of account of the European Community

21. The unit of account of the European Community (EU) was originally introduced in 1950 by the former European Payments Union and continued by the European Economic Community (EEC). It is intended to serve not only as an internal accounting instrument but also as a safeguard against the effects of unilateral exchange rate action by countries. It has the additional purpose of ensuring that common prices are adopted for various commodities in the interests of a common agricultural policy.

22. The original EU introduced in 1950 was modified in March 1975. The weights of the currencies in EU were based on the gross national product and world trade share of the Community members. Its composition is as follows:

Currency	Amount (in units of each currency) (1)	Weight a/ (in percentage) (2)
Deutsche mark	0.828	27.3
French franc	1.15	19.5
Pound sterling	0.0885	17.5
Italian lira	109	14.0
Netherlands guilder	0.286	9.0
Belgian franc	3.66	7.9
Danish krone	0.217	3.0
Irish pound	0.00759	1.5
Luxembourg franc	0.14	0.3

a/ From March 1975 onwards, the relative weights of the nine currencies have not necessarily remained the same as the original weights owing to the continuously changing relationships of the nine currencies.

The value of the EU is represented by the sum of the Belgian franc equivalents, at Brussels market exchange rates, of each of the currency components shown in column (1) above. It is used for accounting purposes by the European Coal and Steel Community, the European Investment Bank and the European Development Fund and will gradually be introduced into all the Community's activities.

(d) Other baskets of currencies and international units of account

23. As indicated in paragraph 14 above, the following units relate exclusively to the private international bond markets:

European unit of account (EUA);

European currency unit (ECU), also known as European monetary unit (EMU);

European composite unit (EURCO);

Arab currency-related unit (ARCRU).

The Committee did not consider that the foregoing units were appropriate for the purpose of translating national incomes into a common unit.

24. In its examination of the remaining seven baskets and units of account, the Committee found them to be limited in scope and totally unrelated to its work. They are listed below for information only.

Arab dinar

Asian monetary unit (AMU)

Barclays unit (B-UNIT)

International Air Transport Association (IATA) unit of value (IUV)

International financial unit (IFU)

International Union of Railways (UIC) franc

Islamic Dinar

(e) Evaluation of baskets of currencies and international units of account

25. In paragraphs 14 to 24 above, the Committee describes a number of baskets of currencies and units of account which have been created by various institutions primarily for financial transactions and for accounting purposes. In no case, however, have these baskets or units been adopted for or adapted to conversions of national accounts or incomes. Nor has any composite unit been conceived with the aim of achieving comparative estimates of national incomes.

26. In so far as concerns the existing composite units, the Committee wishes to draw attention to the fact that no such unit embraces the entire membership of the United Nations. Thus no single composite unit represents a realistic reflection of the economic relationships between all Member States.

27. Nevertheless, the Committee studied the possible use of the special drawing right (which constitutes the most widely accepted basket) for the conversion of national incomes in national currencies into a common unit. It found, however, that the results obtained by the use of the special drawing right in terms of a scale of assessments were only marginally at variance with a scale based on

United States dollars. This stems from the fact that the conversion of all currencies into the special drawing right is made by using sets of exchange rates in which the United States dollar, and currencies stable in terms of dollars, have a predominant role. In examining various periods, more especially the period 1969-1975 on which the present scale is based, the Committee found that if the national incomes of all countries had increased or decreased uniformly over that period, the relative share of each would have remained the same, whether measured in dollars, special drawing rights or in any other monetary unit, for that matter. As regards countries whose currencies are included, directly or indirectly, in the special drawing rights basket, a country with an appreciating currency would, of course, have shown a slower rate of growth in special drawing rights for example, compared with dollars; but one with a depreciating currency (stable in terms of dollars) would also appear to have grown more slowly in special drawing rights. Thus the relative position of both countries might have remained unchanged. The relative share of one country in the total national incomes of all countries would have changed only in circumstances when the growth of its national income, for example, had taken place mainly in the latter part of the base period when the special drawing rights had appreciated in terms of United States dollars. Its total income for the seven years would thus have decreased in comparison to what it appeared to be when computations were made in dollar terms. Even then, the Committee found that the changes in the relative shares of national income would in most cases have been too small to affect rates of assessment.

28. The use of the special drawing right in place of dollars does tend to mitigate the effects on the scale of sharp rises or decreases in national income owing more to a sudden appreciation or depreciation of a national currency than to actual variations in the volume of production. However, the Committee found that this result is achieved in a way which does not differ markedly from or appear notably superior to the lengthening of the base period.

29. The Committee also noted that the use of any basket of currencies for national income comparisons necessarily implied resorting to exchange rates to establish conversion factors. Any such device would therefore entail most of the difficulties and limitations outlined in paragraphs 10 to 12 above.

2. Purchasing power parities

30. An entirely different approach to the conversion of national incomes was taken by the Committee when it examined a paper provided by the Secretariat on the International Comparison Project (ICP) which had been instituted some 10 years earlier as a co-operative venture of the Statistical Office of the United Nations, the World Bank and the University of Pennsylvania with the aim of establishing a world-wide system of consistent and reliable comparisons of the real product and purchasing power of countries. The first step towards the establishment of this system is the development of national purchasing power parities for gross domestic product (GDP) and for the major final expenditure components of GDP, and the derivation from these parities of a correlated system of final expenditure flows in real terms. The methodology of the system involves the binary and multilateral forms of comparisons, the latter being an extension of the former by the use of highly sophisticated techniques. The United States of America is chosen by ICP as the numéraire country in the binary comparisons. Thus the purchasing power parities are calculated for each selected country relative to the United States.

31. To illustrate the binary comparison methodology employed by ICP, an example is presented of "bread and cereals", one of many summary categories of goods and services comprising gross domestic product. Each summary category is made up of several items. "Bread and cereals", for example, consists of six items rice; meal and other cereals; bread and rolls; biscuits and cakes; cereal preparations; and macaroni, spaghetti and related foods. For each such item, ICP gathers expenditure data and representative data of price for final consumer for each of two countries selected. The estimation of the purchasing power parity for a summary category between a selected country and the United States involves two steps. First, a price ratio in national currencies for the item rice is calculated using sample prices to the consumer of rice sold in the selected country and in the United States. In a similar manner, a price ratio is calculated for each of the other five items comprising the summary category. Second, the price ratios for rice and the other five items in the summary category so obtained are each weighted by the respective per capita expenditures on these six items, first in the selected country and then in the United States. This yields the two purchasing power parities for the summary category, one in terms of the selected country's weights and the other in terms of United States weights. These two results are then combined into a single purchasing power parity between the selected country and the United States.

32. The purchasing power parity for GDP as a whole between a selected country and the United States is obtained by using a procedure very similar to the one described above. The purchasing power parity for each of the items comprising GDP (such as rice) is weighted by the per capita expenditure on that item, first in the selected country and then in the United States. This gives the two purchasing power parities for GDP between a selected country and the United States. The two purchasing power parities are then combined into a single number which represents the purchasing power parity for GDP between a selected country and the United States.

33. The development of the work of ICP to date has taken place in three well-defined phases. The first phase was centred on 1970 as the reference year and, in addition to establishing the basic methodology, produced comparisons for that year for 10 countries (Colombia, France, Germany, Federal Republic of, Hungary, India, Italy, Japan, Kenya, United Kingdom of Great Britain and Northern Ireland and United States of America). For six of these countries (Hungary, India, Japan, Kenya, United Kingdom and United States), parallel comparisons were also produced for the reference year 1967. This phase was effectively completed in 1974:

34. The second phase of the work was introduced as an interim phase. It was designed to extend country coverage to produce a revised and expanded set of bench-mark comparisons for 1970, and to develop a general methodology for bringing those comparisons up to date on an annual basis. In this phase, the over-all coverage was expanded to 16 countries and the representation of the developing countries improved by the inclusion of Iran, Malaysia, the Philippines and the Republic of Korea. Belgium and the Netherlands were also included. Work on this second phase was concluded early in 1977.

35. The third phase of ICP began late in 1974 and was planned as a new round of bench-mark comparisons centred on 1975 and with substantially broader coverage. The Committee noted that work on this phase has involved over 30 countries and is expected to be completed by mid-1979.

36. The fourth phase of ICP will commence in mid-1979. Its objectives, *inter alia*, are to refine the methodology currently employed and to extend its full-scale comparisons to approximately 60 countries. The Committee noted that this fourth phase has been scheduled for completion by 1985.

37. In considering the possible usefulness for its own work of the results expected from ICP, the Committee noted that data covering the entire membership of the United Nations for an appropriate base period would certainly not be available for many years to come.

38. On examining the results achieved so far, the Committee noted that, in the case of industrialized countries having comparable levels of development, purchasing power parities seemed to be roughly in line with exchange rates. Furthermore, in the case of those industrialized countries for which appropriate data were available, it appeared that discrepancies between exchange rates and purchasing power parities existing in 1973 tended to be smaller than those in 1970 before the dollar depreciated in terms of the currencies of a number of industrialized countries. The Committee was thus led to believe that the increase in the exchange values which resulted in higher relative national incomes for the countries concerned and, therefore, in increases in their assessments, was probably justified not only on the basis of the present methodology of using exchange rates, but also in terms of the actual purchasing power of the various monetary units in which the underlying national income figures had been calculated. In the case of the developing countries, comparisons in terms of purchasing power parities are more difficult and perhaps less meaningful for the purpose of the Committee's work. To the extent that the prevailing wage levels reflect a very low national income *per capita*, the price of locally-produced goods requiring a large labour force can be expected to be very low as compared to the cost of similar goods in industrialized countries or to the price of foreign imports incorporating high labour costs. Consequently, the purchasing power of the domestic currency in terms of such local goods may be relatively higher than exchange rates might lead one to expect. What this implies in connexion with the measurement of "capacity to pay" for the purposes of the assessment of Member States is not clear at this stage.

3. Impact of inflation on the scale of assessments

39. The impact of inflation on the comparison of national incomes of Member States has been described briefly in paragraph 12 above. It may be defined as the result of unusually large price increases insufficiently corrected by exchange rate adjustments by the authorities concerned or by market forces. The Committee appreciates the importance placed by Member States on the possible distortion of individual rates of assessment as a consequence of inflation, and for this reason it has sought, over the years, to devise some means of making adjustments for excessive rates of inflation. This has been particularly true of the years since 1971 when the volatility of currency fluctuations and price movements dominated the world economic scene.

40. The Committee, therefore, again considered the feasibility of expressing national income in constant rather than in current prices - a procedure which would serve to eliminate the effect of differential price changes on the national incomes of Member States. The Committee was informed, however, that aside from conceptual and practical problems of long standing, as described in its report of the previous year, 5/ data in constant prices were available for only some 70 Member States. Furthermore, not only were such data not comparable but it was not anticipated that they would be available for all Member States for at least another decade.

C. Conclusions

41. The Committee agreed that its examination of baskets of currencies and of purchasing power parities had broadened its appreciation of the problems of exchange rates and had given it greater understanding of the underlying mechanism of conversions of national incomes into a common unit for comparison purposes.

42. The Committee found, however, that the results obtained through the formulation of a scale of assessments based on special drawing rights would differ only marginally from results obtained through the use of the United States dollar. The Committee also noted that theoretically the appropriate means for the conversion of national income into a common unit for the formulation of scales of assessment would be to devise a basket of currencies especially conceived for this purpose. The Committee was aware that such a venture would present serious difficulties, such as those involved in selecting currency components and in assigning relative weights to each. Moreover, it believed that a measure of caution should be injected in this latter respect since a basket of currencies tailored for United Nations scales would not avoid all problems inherent in exchange rates.

43. With regard to the possible use of purchasing power parities as a substitute for exchange rates, the Committee noted that, in addition to the limitations described in paragraph 38 above, no data would be available for all countries for many years to come. In the circumstances the Committee decided that it would serve no purpose to consider this substitution in the near future.

44. Similarly, with respect to the use of constant prices in lieu of current prices, for the reasons cited in paragraph 40 above, the Committee had no choice but to discontinue its consideration of the subject pending the compilation of constant prices by Member States on a uniform and internationally comparable basis. Here again, the Committee was informed that it would take at least a decade before a systematic array of data would become available.

45. The Committee concluded, therefore, that for the near future it should retain its use of the United States dollar for the conversion of national income data into a common unit. Nevertheless the Committee agreed that its examination of a broad range of issues in connexion with conversion methods had been valuable and that in exercising its collective judgement those issues would be taken into account in individual cases to the extent possible and feasible.

5/ *Ibid.*, paras. 26 and 27.

III. ASSESSMENT OF NEW MEMBERS AND OF NON-MEMBER STATES

46. Under the terms of rule 160 of the rules of procedure of the General Assembly, 6/ the Committee is called upon to advise the Assembly on assessments to be fixed for new Members. At the same time, regulation 5.8 of the Financial Regulations of the United Nations provides that new Members shall be required to make a contribution for the year in which they become Members and to provide their proportion of the total advances to the Working Capital Fund at rates to be determined by the General Assembly (ST/SGB/Financial Rules/1/Rev.2 (1978)).

47. At the thirty-second session of the General Assembly two States were admitted to membership in the Organization on 20 September 1977. Those States, and the related General Assembly resolutions, are shown below:

Member State	General Assembly resolution
Djibouti	32/1
Viet Nam	32/2

48. Under the provisions of General Assembly resolution 69 (I) of 14 December 1946, new Members are required to contribute at least 33.33 per cent of their percentage of assessment, determined for the following year, applied to the budget for the year of admission. However, by subsequent decisions of the Assembly, exceptions have been made to the one-third rule, with the prescribed minimum having been reduced to one ninth for the majority of States newly admitted to membership in the Organization since 1955.

49. The United Nations scale of assessments for the year 1977, as established by the General Assembly in resolution 31/95 B of 14 December 1976, was based on national income and related data for the years 1972-1974. The scale for 1978-1979, as adopted by the General Assembly in resolution 32/39 of 2 December 1977, was based on similar data for the years 1969-1975. On the same basis, the Committee recommends that the States admitted to membership in the Organization in 1977 should be assessed for 1977, 1978 and 1979 as follows:

	Percentage contribution	
	For 1977	For 1978-1979
Djibouti	One ninth of 0.02	0.01
Viet Nam	One ninth of 0.03 a/	0.03 a/

a/ See para. 52 below.

6/ A/520/Rev.12 and Rev.12/Amend.1 and 2 (United Nations publication, Sales No. E.74.1.6).

The rates of assessment proposed for 1979 should be added to the scale for that year, as contained in subparagraph (a) of Assembly resolution 32/39.

50. The Committee further recommends that for 1977 and 1978 the contributions of the new Members should be applied to the same basis of assessment as for other Member States, except that, in the case of appropriations or apportionments approved by the General Assembly under its resolutions 31/5 C and D of 22 December 1976 and 32/4 B and C of 2 December 1977 for the financing of the United Nations Emergency Force and of the United Nations Disengagement Observer Force as well as under its resolution S-8/2 of 21 April 1978 for the financing of the United Nations Interim Force in Lebanon, the contributions of the two new Member States (in accordance with the group to which they may be assigned by the Assembly) should be calculated in proportion to the calendar year.

51. In the above connexion, the Committee noted that its Chairman, in his oral introduction 7/ of the Committee's report to the General Assembly at its thirty-second session, had indicated that its recommendations for rates of assessment for the Socialist Republic of Viet Nam in respect of the years 1977, 1978 and 1979 8/ were no longer applicable in the light of that State's admission to membership in the Organization on 20 September 1977. He proposed, therefore, that the matter be reconsidered by the Committee at its 1978 session. At the same time, and on a proposal of Viet Nam, it was also agreed that the recommendations of the Committee on Contributions with respect to the participation of the former Republic of South Viet Nam as well as of the Socialist Republic of Viet Nam in various activities of the Organization as non-member States in 1976 also be reconsidered by the Committee at its current session.

52. In view of the arguments presented in a submission to the Committee dated 5 April 1978 from Viet Nam, which drew attention to the most difficult economic situation which continues to obtain in that country as a result of the prolonged and devastating hostilities which took place on its territory, several members of the Committee considered that this was a special case and supported the request of Viet Nam to have its contribution for 1978 at the minimum rate of 0.01 per cent rather than at the previously proposed level of 0.03 per cent. Other members held the view that the Committee had received no new statistical data regarding the relevant base period since its session in 1977 when it had recommended a rate of assessment for the Socialist Republic of Viet Nam on the basis of official data for the period 1969-1975, and that there was therefore no justification for revising the Committee's previous recommendation which had already taken into account the special circumstances of Viet Nam by considerably reducing the percentage rates of assessment that would have been indicated by reference to statistical data alone. A proposal that the level of assessment for Viet Nam be reduced from 0.03 to 0.02 per cent was narrowly rejected.

53. The Committee recommends that, in respect of its participation in various United Nations activities as a non-member State, Viet Nam should be called upon to

---

7/ See A/C.5/32/SR.16, para. 15.

8/ See Official Records of the General Assembly, Thirty-second Session, Supplement No. 11 (A/32/11), paras. (g) and (i) of the draft resolution contained in para. 98.

contribute at the rate of one half of 0.06 per cent for the first half of 1976 9/ and at the rate of one half of 0.02 per cent for the remainder of that year. For 1977, the Committee proposes that Viet Nam contribute at the rate of eight ninths of 0.03 per cent Some members wished to place on record their disagreement with these recommendations which they felt should have been based on the minimum rate of assessment.

9/ In respect of the former Republic of South Viet Nam.

IV. REPRESENTATIONS BY MEMBER STATES

54. During the course of the debate in the Fifth Committee at the thirty-second session of the General Assembly, dissatisfaction was expressed by a number of Member States, more particularly Angola, Bangladesh, Italy, the Libyan Arab Jamahiriya, the Netherlands, Pakistan, Poland, Portugal, Singapore, Spain and the Syrian Arab Republic, as to the rates of assessment recommended by the Committee on Contributions for their countries for 1978 and 1979. As indicated by the Chairman of the Committee on Contributions at the time, the views of each of the foregoing Member States were brought to the attention of the Committee as a whole at its current session.

55. In addition, the Committee had before it representations in writing from Poland and Singapore.

56. In addressing itself anew to its recommendations of the previous year in relation to the interventions in the Fifth Committee, the Committee on Contributions was satisfied that its proposals had been carefully formulated and based on all available facts. The Committee recalled, furthermore, that it had already made a number of downward adjustments in individual rates for economic and other factors of a compelling nature to the extent that such adjustments had been feasible and practical within a scale of 100 per cent.

57. In connexion with the written representations of Poland, the Committee studied again in depth the question of the rate of exchange to be applied in translating into United States dollars for the purpose of the formulation of a scale, the figures in zlotys of the annual national income of Poland. Information was received regarding the question from the Permanent Mission of Poland and from the Controller. The Committee noted again that different rates had been used in the past by the Polish authorities and/or by the United Nations. The difficulties facing the Committee, when asked to choose among these different rates, stem from the fact that each rate was introduced for a specific purpose.

58. The Committee carefully examined the written representation of Singapore and agreed to bear in mind the points raised in that representation in the formulation of the next scale of assessments.

V. OTHER MATTERS CONSIDERED BY THE COMMITTEE

A. Collection of contributions

59. Under its terms of reference, 10/ one of the functions of the Committee on Contributions is to consider and report to the General Assembly on the action to be taken in regard to the application of Article 19 of the Charter. Article 19 reads as follows:

> "A Member of the United Nations which is in arrears in the payment of its financial contributions to the Organization shall have no vote in the General Assembly if the amount of its arrears equals or exceeds the amount of the contributions due from it for the preceding two full years. The General Assembly may, nevertheless, permit such a Member to vote if it is satisfied that the failure to pay is due to conditions beyond the control of the Member."

60. The Committee took note of a report of the Secretary-General which indicated that, at the conclusion of its session, four Member States - the Central African Empire, Democratic Kampuchea, the Dominican Republic and South Africa - were in arrears in their contributions to the expenses of the United Nations within the terms of Article 19.

61. With respect of the composition of "arrears", the Secretary-General had included contributions for the financing of the regular budget of the Organization, the United Nations Emergency Force (1973) and the United Nations Disengagement Observer Force. One member of the Committee wished to place on record his view that peace-keeping operations were not relevant to arrears within the context of Article 19. Other members were of the opinion that it was not within the Committee's competence to judge the legal and juridical aspects of the matter. The Committee further noted that the four Member States cited in paragraph 60 above were subject to Article 19 whether or not assessments for the peace-keeping forces were included in the arrears.

62. In regard to the collection of contributions, the Committee decided to authorize its Chairman to issue an addendum to the present report, should it be necessary.

B. Scale of contributions for specialized agencies

63. The General Assembly, by its resolution 311 B (IV) of 24 November 1949, authorized the Committee "to recommend or advise on the scale of contributions for a specialized agency if requested by that agency to do so".

10/ See *Official Records of the General Assembly, Thirty-second Session, Supplement No. 11* (A/32/11 and Add.1 and Add.1/Corr.1 and Add.2), annex I, sect. A.

64. In considering requests for advice received from the International Labour Organisation, the United Nations Educational, Scientific and Cultural Organization, the World Health Organization and the International Atomic Energy Agency, the Committee decided to provide those agencies, as requested, with the rates of assessment recommended by the Committee for Members of the United Nations and with theoretical rates of assessment for States not Members of the United Nations but members of such agencies.

C. Date of the next session of the Committee

65. The Committee decided that, in accordance with its decision of the previous year, its session in 1979 would be held in New York and would be of five weeks' duration, commencing on 4 June 1979.

VI. RECOMMENDATIONS OF THE COMMITTEE

66. The Committee on Contributions recommends to the General Assembly the adoption of the following draft resolutions:

DRAFT RESOLUTION I

Scale of assessments for the apportionment of the expenses of the United Nations

The General Assembly

Resolves that:

1. The rates of assessment for the following States, admitted to membership in the United Nations on 20 September 1977, shall be as follows:

Member State	Percentage contribution	
	1977	1978-1979
Djibouti	0.02	0.01
Viet Nam	0.03	0.03

For 1979, these rates shall be added to the scale of assessments established under subparagraph (a) of General Assembly resolution 32/39 of 2 December 1977;

2. For 1978, Djibouti and Viet Nam shall contribute at the rate of 0.01 and 0.03 per cent, respectively;

3. For 1977, Djibouti and Viet Nam shall contribute at the rate of one ninth of 0.02 and 0.03 per cent, respectively;

4. The contributions of the two new Members for 1977 and 1978 shall be applied to the same basis of assessment as for other Member States, except that in the case of appropriations approved under General Assembly resolutions 31/5 C and D of 22 December 1976 and 32/4 B and C of 2 December 1977 for the financing of the United Nations Emergency Force and the United Nations Disengagement Observer Force, and under Assembly resolution S-8/2 of 21 April 1978 for the financing of the United Nations Interim Force in Lebanon, the contributions of those States (as determined by the group of contributors to which they may be assigned by the Assembly) shall be calculated in proportion to the calendar year;

5. The advances to the Working Capital Fund of Djibouti and Viet Nam under regulation 5.8 of the Financial Regulations of the Untied Nations shall be calculated by the application of rates of assessment of 0.01 and 0.03 per cent, respectively, to the authorized level of the Fund, such advances to be added to

the Fund pending the incorporation of the new Members' rates of assessment in a 100 per cent scale;

6. Subject to rule 160 of the rules of procedure of the General Assembly, and notwithstanding the provisions of subparagraph (f) of General Assembly resolution 3062 (XXVIII) of 9 November 1973:

(a) Viet Nam shall be called upon to contribute towards the 1976 expenses of those United Nations activities in which it participated at the rate of one half of 0.06 per cent for the first half of 1976 11/ and at the rate of one half of 0.02 per cent for the remainder of that year;

(b) Viet Nam shall be called upon to contribute towards the 1977 expenses of those United Nations activities in which it participated at the rate of eight ninths of 0.03 per cent.

DRAFT RESOLUTION II

Amendment to rule 159 of the rules of procedure of the General Assembly

The General Assembly

Decides to amend rule 159 of its rules of procedure to read as follows:

"Rule 159

"The members of the Committee on Contributions, no two of whom shall be nationals of the same State, shall be selected on the basis of broad geographical representation, personal qualifications and experience and shall serve for a period of three years corresponding to three calendar years. Members shall retire by rotation and shall be eligible for reappointment. The General Assembly shall appoint the members of the Committee on Contributions at the regular session immediately preceding the expiration of the term of office of the members or, in case of vacancies, at the next session."

11/ In respect of the former Republic of South Viet Nam.

ANNEX I

<ins>Compositions of baskets of currencies and international units of account</ins>

Basket of currencies or international unit of account / Currency classified by country membership of currency or trade area	GROUP (i)					GROUP (ii)				
	Special drawing right (SDR)		Transferable rouble	Unit of account of the European Communities (EU)		European unit of account (EUA) a/	European currency unit (ECU) b/		European composite unit (EURCO)	
	Currency component	(weight)		Currency component	(weight)		ECU1	ECU2	Currency component	(weight)
United States dollar area										
1. Canadian dollar	0.071	(6%)								
2. United States dollar	0.4	(33%)								
European Economic Community										
3. Irish pound c/				0.00759	(1.5%)	d/			0.005	(1.0%)
4. Pound sterling c/	0.045	(9%)		0.0885	(17.5%)	d/			0.075	(15.3%)
5. Belgian franc	1.60	(3.5%)		3.66	(7.9%)	=48.6572	=50	=44.8159	4.50	(9.3%)
6. Danish krone	0.11	(1.5%)		0.217	(3.0%)	=8.13824			0.20	(2.7%)
7. French franc	0.44	(7.5%)		1.15	(19.5%)	d/	=5.55419	=5.11570	1.20	(20.2%)
8. Deutsche mark	0.38	(12.5%)		0.828	(27.3%)	=3.15664	=3.66	=3.2225	0.90	(30.0%)
9. Italian lira	47	(6%)		109	(14.0%)	d/	=625	=581.50	80.00	(10.5%)
10. Luxembourg franc				0.14	(0.3%)	=48.6572	=50	=44.8159	0.50	(1.0%)
11. Netherlands guilder	0.14	(4.5%)		0.286	(9.0%)	=3.35507	=3.62	=3.2447	0.35	(10.0%)
European Free Trade Association										
12. Austrian schilling	0.22	(1%)								
13. Norwegian krone	0.099	(1.5%)								
14. Swedish krona	0.13	(2.5%)								
15. Swiss franc										
League of Arab States										
16. Algerian dinar e/										
17. Bahrain dinar										
18. Egyptian pound										
19. Iraqi dinar e/										
20. Kuwaiti dinar e/										
21. Lebanese pound										
22. Libyan dinar e/										
23. Omani rial										
24. Qatar riyal e/										
25. Saudi Arabian riyal e/										
26. Syrian pound										
27. United Arab Emirates dirham e/										
Non-affiliated countries										
28. Australian dollar	0.012	(1.5%)								
29. Japanese yen	26	(7.5%)								
30. South African rand	0.0082	(1%)								
31. Spanish peseta	1.10	(1.5%)								
32. Yugoslav dinar										
Council for Mutual Economic Assistance										
33. Bulgarian lev			Transferable rouble has official gold content equal to that of the USSR rouble but legally independent of the latter. It is used by members of CMEA							
34. Cuban peso										
35. Czechoslovakian koruna										
36. German Democratic Republic mark										
37. Hungarian forint										
38. Mongolian tugrik										
39. Polish zloty										
40. Romanian leu										
41. USSR rouble										

a/ Values presented are as of November 1977; these values can change.

b/ These values cannot change.

c/ Also belonging to sterling area.

d/ Presently these currencies are not reference currencies.

e/ Also belonging to Organization of Petroleum Exporting Countries (OPEC).

	GROUP (iii)								
Arab currency-related unit (ARCRU)	Arab dinar	Asian monetary unit (AMU)	Barclays unit (B-Unit)		International Air Transport Association unit of value (IUV)	International financial unit (IFU)		International Union of Railways (UIC) franc	Islamic dinar
			Currency component	(weight)		Currency component	(weight)	Currency component	
						0.073	(7.5%)		
			2.40	(20%)		0.21	(21%)		
			1	(20%)		0.044	(10.5%)	0.0117601	
						2.35	(6%)	0.639018	
	Equals three SDRs	Equals one SDR	11.50	(20%)	Equals one SDR	0.477	(10%)	0.267854	Equals one SDR
			6	(20%)		0.432	(17%)	0.236890	
						46.70	(7.5%)	15.1692	
						0.188	(7%)	0.0195434	
								0.200830	
						0.154	(3.5%)	0.0432885	
			7	(20%)				0.0371854	
ARCRU is based on the average movement (since base date) of the remaining 8 Arab currencies (equally weighted) against the dollar, after disregarding the 2 strongest and the 2 weakest of these 12 Arab currencies									
						27.90	(10%)		
						27.90	(10%)		
								0.623373	
								0.143028	
								0.0086785	
								0.251729	
								0.0574162	
								0.279779	
								0.608208	
								0.0601823	

ANNEX II

Creation of the special drawing right, its early evolution and present status

/Extract from IMF Survey, 18 April 1977, summarizing portions of a published work by Margaret G. de Vries entitled: The International Monetary Fund, 1966-1971: The System Under Stress; volume I, Narrative, and volume II, Documents./

1. The special drawing right remains a relatively novel feature of the world monetary system, having been set up in the Fund only a little less than eight years ago, on 6 August 1969. In the late 1950s and early 1960s a few economists, mainly outside official circles, had begun to discuss the problem of international liquidity and to propose the creation of a new reserve unit to supplement gold or national currencies. One proposal, for instance, in 1962 and 1963 was that a collective or composite reserve unit (CRU), consisting of a stated proportion of the leading currencies, be created by a group of industrial countries and used as exchange between their monetary authorities.

2. The start of official discussions that led to the eventual creation of the special drawing right was probably the announcement by President John F. Kennedy to the Board of Governors of the Fund on 30 September 1963 at their 18th Annual Meeting, held in Washington, that the United States "stands ready to support such measures as may be necessary to increase international liquidity". At that time, the Group of 10 - the finance ministers and central bank governors of the 10 countries participating in the Fund's General Arrangements to Borrow (Belgium, Canada, France, Germany, Federal Republic of, Italy, Japan, Netherlands, Sweden, United Kingdom of Great Britain and Northern Ireland and United States of America) - stated their intention to study world liquidity. Simultaneously, Pierre-Paul Schweitzer, who had then been the Fund's Managing Director for only a month, announced that the Fund, as well, was intensifying its study of international liquidity.

3. Five years to the day after President Kennedy's statement, President Lyndon B. Johnson, on 30 September 1968, announced to the Board of Governors of the Fund, at their 23rd Annual Meeting, again in Washington, that the United States was among the first countries to accept the proposed amendment of the Fund's Articles of Agreement which established the special drawing right. Almost another year went by before a sufficient number of member countries had ratified the first amendment, permitting it to become effective on 28 July 1969, and it was not until 6 August 1969 that the required number of members had deposited the necessary instruments of participation in the Special Drawing Account, permitting it to come into existence.

4. The period from 1963 to 1969 had been filled with discussions and negotiations about whether any new reserve asset was needed at all and about the specific features required for such an asset. For years, the concept of creating a reserve asset and even the term itself were repugnant to some national authorities, who preferred something more comparable to international credit - such as drawings on the Fund.

The special drawing right as a reserve asset

5. There were also sharp differences between industrial countries that favoured expansion of the supply of world liquidity through the introduction of a new reserve asset and others, mainly the six original members of the European Economic Community (EEC), that wished to see, first the elimination of the balance-of-payments deficits of the United Kingdom and the United States. The EEC countries were concerned about whether the United Kingdom and the United States, which were under less pressure to correct their payments deficits because their currencies were held as reserves by other countries, would pursue financial policies that would aggravate world inflation. Accordingly, progress in the discussions often hinged on the status of the balance of payments of these two reserve currency countries as well as on the levels of world reserves, especially of gold. Meanwhile, study groups were set up to examine proposals for deliberate reserve creation.

6. As a result of their differing viewpoints, the countries of the Group of 10 could agree by September 1965 only to draft a contingency plan for reserve creation - that is, a plan that could be used if a supplement to world reserves was ever needed. Thus, it was necessary to work out both the provisions of such a contingency plan and the method of implementation.

7. In 1966, Mr. Schweitzer, as Managing Director, took an important initiative in proposing to the Group of 10 arrangements for reserve creation that would operate through the Fund and would include all Fund members. He spoke out repeatedly against the limited approach then being favoured by the Group of 10 and strongly advocated a world-wide arrangement.

8. Determining the features of the new reserve and the method of allocation took the better part of two years. The deputies of the Group of 10 met nearly every six weeks, while the Fund's executive directors and management discussed intensively all the relevant issues. Then, in an unprecedented move, the Fund's executive directors held four joint meetings with the deputies of the Group of 10 for the purpose of exchanging views and facilitating agreement on a plan.

9. The most crucial question concerned the number of countries entitled to receive the new asset. Undoubtedly, the most significant outcome of the long negotiations was agreement on a plan that included all Fund members - both developing and industrial countries. But there were other important questions as well: How was the new asset to be financed? What rules would govern its use? Would the new asset be subject to repayment? In finding answers to these questions, the basic issue was whether the new instrument would be a genuine reserve asset, freely usable and not subject to repayment, or whether it would more closely resemble credit, subject to rules for its use and to repayment obligations. Some countries - mainly the United Kingdom and the United States - preferred to shape the new reserve in such a way that it would be readily accepted in place of gold; other countries - most notably France - were eager to retain gold as the heart of the monetary system and strongly preferred that the new unit be more like credit than money.

10. The special drawing right that finally emerged was a compromise - what the General Counsel of the Fund has called an alchemy, a blend of both a reserve asset

and a credit. After the specific features of the special drawing right had been decided on, the difficult question of what voting power would be required for the entry into force of this plan and for any decision to create special drawing rights thereafter had to be answered. The majority of 85 per cent of the total voting power of the Board of Governors was agreed on, and as part of the compromise, at the insistence of the countries members of EEC, it was agreed that certain changes in the Fund's rules and practices regarding its regular resources would also go into effect.

11. Thus, the principal elements of a plan entitled "An outline of a facility based on special drawing rights in the Fund" gradually took shape over a four-year period. The Board of Governors approved the plan at the 22nd Annual Meeting of the Fund at Rio de Janeiro on 29 September 1967. It remained to incorporate the plan into the Fund's machinery, and for this it was necessary to translate the general terms of the plan into the precise language required for an amendment to the Fund's Articles of Agreement. The amendment took the form of 13 new articles and four new sections, plus other substantial changes in the articles. As the drafting in the Fund proceeded, once again a meeting of the ministers of the Group of 10 was called to permit the industrial countries to settle their differences.

12. A proposed amendment to the Articles of Agreement was, none the less, drafted within a few months' time, and the Board of Governors approved it in May 1968.

<u>The first allocation of special drawing rights</u>

13. Again, there was discussion of the question of how the need for supplementing world reserves should be determined. In brief, the decision to allocate special drawing rights $9.5 billion over a three-year period beginning 1 January 1970, as approved by the Governors late in 1969, was based on a determination that the world reserve situation existing at the time was tight.

14. Before special drawing rights could actually be allocated and put into use, other important and difficult decisions had to be made. How should the principles governing transfer of special drawing rights between participants be implemented in practice? How far should the Fund go in exercising its authority to accept special drawing rights in lieu of gold or members' currencies in its General Account? The first issue, which had come up in many previous discussions, was the degree of ease or constraint to be placed on transfers between participants. Again, some executive directors were concerned that a few industrial countries would have to hold the bulk of the special drawing rights, while other directors were afraid of making the use of special drawing rights so restrictive that they would not become fully accepted as reserves. With regard to the second issue, it was clear that Fund acceptance of the special drawing right would help to establish the new unit, but there was the danger that the Fund itself might hold too great a volume of special drawing rights. The executive directors had to weigh the various factors and, in taking the necessary decisions, played a unique role in the successful launching of a new reserve asset.

15. The special drawing right became an accepted reserve asset, even more quickly, probably, than its advocates had dared to hope. By the time of the 1970 Annual Meeting, in Copenhagen, Mr. Schweitzer was able to state that in his judgement, the

experience up to that time with the operation of the special drawing rights facility had been highly successful, and it could be stated that the special drawing right had become established as a reserve asset. And after the middle of August 1971, when the United States suspended convertibility of officially held dollars into gold, monetary officials began to suggest giving the special drawing right an increasingly prominent role.

16. The lengthy debates over the formation of the special drawing right illuminate many facets of present-day international monetary problems. For example, those who today contend that the special drawing right should have been set up with additional features - such as a link to development finance - can appreciate how much was really accomplished. Those who believe that, in retrospect, too much attention may have been paid in the late 1960s to the problem of liquidity and too little to the problem of balance-of-payments adjustment can recall why the liquidity exercise took so long. Those who are interested in measuring the present supply of world liquidity may find useful the techniques considered earlier. And those who, in recent years, have regretted the slowness of the reform of the monetary system can take comfort from the ultimately fruitful negotiations on liquidity and reserve creation.

17. In a very short time, the special drawing right has become an accepted feature of the world monetary system. It has virtually replaced gold and the United States dollar as the numéraire of the system and is being increasingly used as a unit of account for international financial transactions, both official and private. The proposed second amendment of the Articles of Agreement sets out as an objective that the special drawing right is to become the central reserve asset of the international monetary system as the role of gold in the system is reduced. Among the important provisions of the amendment, which member Governments are now considering for ratification, are several that will strengthen the use of the special drawing right as a reserve asset and broaden its possible uses.

18. In view of the large amounts of United States dollars still being used as reserves in the monetary system and the uncertainty about the future role of gold, the extent to which the special drawing right will become the primary reserve asset is still a subject of conjecture. Nevertheless, attention continues to focus on the special drawing right. For instance, a number of monetary specialists have been advocating measures, including greater control of all reserves by the Fund, that would bring about early use of the special drawing right as the primary reserve asset.

كيفية الحصول على منشورات الامم المتحدة

يمكن الحصول على منشورات الامم المتحدة من المكتبات ودور التوزيع في جميع انحاء العالم . استعلم عنها من المكتبة التي تتعامل معها أو اكتب الى : الامم المتحدة ،قسم البيع في نيويورك او في جنيف .

如何购取联合国出版物

联合国出版物在全世界各地的书店和经售处均有发售。请向书店询问或写信到纽约或日内瓦的联合国销售组。

HOW TO OBTAIN UNITED NATIONS PUBLICATIONS

United Nations publications may be obtained from bookstores and distributors throughout the world. Consult your bookstore or write to: United Nations, Sales Section, New York or Geneva.

COMMENT SE PROCURER LES PUBLICATIONS DES NATIONS UNIES

Les publications des Nations Unies sont en vente dans les librairies et les agences dépositaires du monde entier. Informez-vous auprès de votre libraire ou adressez-vous à : Nations Unies, Section des ventes, New York ou Genève.

КАК ПОЛУЧИТЬ ИЗДАНИЯ ОРГАНИЗАЦИИ ОБЪЕДИНЕННЫХ НАЦИЙ

Издания Организации Объединенных Наций можно купить в книжных магазинах и агентствах во всех районах мира. Наводите справки об изданиях в вашем книжном магазине или пишите по адресу: Организация Объединенных Наций, Секция по продаже изданий, Нью-Йорк или Женева.

COMO CONSEGUIR PUBLICACIONES DE LAS NACIONES UNIDAS

Las publicaciones de las Naciones Unidas están en venta en librerías y casas distribuidoras en todas partes del mundo. Consulte a su librero o diríjase a: Naciones Unidas, Sección de Ventas, Nueva York o Ginebra.

Litho in United Nations, New York

Price: $U.S. 2.00
(or equivalent in other currencies)

14623—July 1978—3,550