

INSTITUTE OF CURRENT WORLD AFFAIRS

CM-15

Kiev, U.S.S.R.
June 18, 1964

U. N. Financing -
A Banking Opportunity

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Dear Dick:

The subject of financing the United Nations will loom large between now and the next meeting of the General Assembly. Unless some formula or compromise is worked out or unless Soviet objections to payment of her arrearages should collapse, it can be anticipated that a confrontation will develop in the fall. A few states which have failed to pay certain of their assessments will face a large but indeterminate number of states which will insist that the penalty for two-year arrearages in payment of assessments should be applied - no pay, no vote in the General Assembly, as provided in Article 19 of the United Nations Charter.

The confrontation will be principally between the United States, which is leading the forces insisting on the strict application of Article 19, and the Soviet Union and France. This great power confrontation could bring a new cold wave to the East-West thaw which has been underway for some months. Even though the non-aligned and smaller Members of the U. N. would be most seriously affected by its weakening because of financial difficulty, they are disposed to treat the problem of financing as essentially one for the great powers. They hope to sit out the hassle.

Without going into details of the controversy, broadly speaking the Soviet Union and France insist that when the General Assembly of the United Nations votes funds for peace and security operations - such as have been required to provide for the expenses of U. N. forces in the Middle East and the Congo - the great powers should have a veto on such expenditures. (More technically, they believe such actions should only be undertaken by the Security Council, where the veto does apply.) Even though the World Court in an Advisory Opinion has refused to accept this position and believes General Assembly assessments for peace and security operations are mandatory, France and the U.S.S.R. have in effect exercised a financial veto by refusing to pay their assessments for operations of which they have not approved. By the exercise of this de facto financial veto they have now forced the United Nations into financial chaos. Its credit is threatened and default on United Nations Bonds is possible. The issue is now clear - are these defaulters to be deprived of their vote in the United Nations General Assembly as a penalty for their failure to pay assessments voted against their will?

As it happens the United Nations in the Congo and the Middle East have been supported by the United States. As a consequence, there has been no serious public discussion in the United States of what the situation would be if at some future time the General Assembly or the Security Council (where the United States, by screaming bloody murder every time the Soviet Union exercised its legal right to veto Security Council action, has painted itself into a corner if it should ever wish to exercise the veto) were to vote to send United Nations forces into some situation in circumstances opposed by the United States. Would the United States be willing to pay 33% of the cost of such an action? Would it provide logistic support to move United Nations contingents from Cuba, Ghana, and the United Arab Republic, for example, into Panama to patrol its border with the Canal Zone? At best, American enthusiasm for such an operation might be somewhat subdued!

Even should the United Nations manage to collect peace and security arrearages from the Soviet Union and France and thus avoid bankruptcy this year, the Organization is likely to continue to be plagued with the problem of finding money to support U. N. police contingents in future actions. The crux of the problem of United Nations financing is to find a source of revenue to permit either the Security Council or the General Assembly to dispatch U. N. contingents to areas where peace and security are threatened without each time forcing the Secretary General to scrounge around for funds and without needing to bow to the Security Council veto of a Great Power, or to give up General Assembly action when two-thirds of the Members believe international peace or security requires the dispatch of troops. The problem is not that of financing the regular activities of the United Nations, rather, the problem is to finance actions in such delicately balanced areas as the Middle East, the Congo, Cyprus, and Kashmir. One need not have a very vivid imagination to envisage situations developing in the future - the Cambodian border, for instance - in which Member states may agree "in principle" to United Nations intervention, but be unwilling to back up their votes with money.

There has been a variety of suggestions of methods to give the United Nations independent financial resources. These include such proposals as levies on international trade and ownership of maritime resources beyond legal territorial limits, to name but two. These suggestions have not been very practical, however, and don't have much appeal except to the all-out world government people who would just as soon give the United Nations that most basic power of all government - the power of taxation. This doesn't seem very likely.

One method of financing peace and security operations of the United Nations which has not received the attention it deserves would be to call upon the World Bank to make a portion of its profits available to help maintain the peace so essential to the very existence of international financial institutions.

The only post-war international institution that has operated at a profit is the International Bank for Reconstruction and Development - the World Bank. Blessed with highly competent management, careful criteria of investment, and a world not at war, the Bank over the past 20 years has accumulated reserves which have now reached the magnitude of well over \$800,000,000 - more than enough to pay for several peace-keeping operations. This profit melon is waiting to be cut; and, as is usual, there are plenty of claimants. Perhaps the profits should be ploughed back into the business; there is growing need for further development investment in the newer nations. Perhaps the profits should be divided among the states which contributed to the initial capital of the World Bank. Or perhaps a portion of the profits should be contributed to that institution - the United Nations - which has helped keep a relatively stable and peaceful world - the kind of world necessary for the World Bank if it is to continue to operate as successfully in the future as it has in the past.

This is not to argue that the World Bank should be operated for the benefit of the peace and security operations of the United Nations. However, the relationship between the Bank's earnings and the maintenance of peace and security is of considerable significance. Should any U. N. peace and security operation fail for lack of funds and a world war ensue, there is little chance that the assets of the World Bank would long survive. It is in the management interests of the Bank, therefore, as well as in the interests of its Members, that a portion of its profits - say 25 percent - be used specifically to aid the United Nations in maintaining peace.

Many reasons for not permitting the United Nations to get at World Bank profits can be trotted out. Several years ago during debate on the U. N. Bond issue, Senator Aiken of Vermont was bold enough to suggest to the Treasury Department that some study be given to the possibility of devoting a portion of the Bank's profits to helping the United Nations meet its growing deficit. The Record will show that Senator Aiken got less than fulsome answers to his queries. In the meantime the Bank's melon and the United Nations' deficit have continued to grow, and both the Bank and the United Nations find the melon and the deficit, respectively, of increasing embarrassment.

Another argument against Bank assistance to the United Nations is that the Soviet Union is not a Member of the World Bank. Therefore, any dedication of Bank profits to United Nations peace and security purposes would mean that the non-communist world would once again be picking up a Soviet check. But which is more important - to provide well-financed U. N. forces in crisis situations, or to continue to accept a Soviet financial veto on the wishes of a two-thirds majority of the Members of the General Assembly?

It is most unlikely that a proposal of this kind will be greeted with joy by the hard-headed members of the international banking community. The World Bank has established a reputation unique among international organizations. Nothing should be done to impair that reputation or in any way interfere with the business operations of the Bank. At the same time, Members of the Governing Board of the Bank surely realize that the existence of United Nations military forces in such delicately balanced areas of the Middle East, the Congo, Kashmir, and Cyprus has contributed to the world stability that is essential if the Bank's loans are to be repaid, with interest, and on time.

In the case of the dispute between India and Pakistan over the disposal of the waters of the Indus Basin complex of rivers, the World Bank was the catalyst and partial financier of the Indus Basin development. But the ultimate success of that project depends upon the maintenance of peace between India and Pakistan. The United Nations observation units along the disputed borders of Kashmir contribute in a very vital way to peace in the area. Similarly, Bank loans in the Arab states and Israel would be seriously impaired should warfare break out between the Arab States and Israel. United Nations forces observing the border areas between Israel and its Arab neighbors are present to dampen down border incidents, which always hold the potential of a military outbreak. A Congo in flames again could be disastrous for Bank investments in much of the African continent. Furthermore, it takes no Drew Pearson to predict a demand in the near future for U. N. forces in the tightening African nationalist-white confrontation in the southern quarter of Africa.

Surely the interests of the World Bank as an international institution are so directly involved in the success of United Nations peacekeeping operations that a portion of the Bank's net profits might be contributed to a special peace-keeping fund for the United Nations. The existence of such a fund would do much to free the United Nations from its present inability to deal promptly with delicate situations threatening the peace. It is a disgrace for Secretary General U Thant to go from Member to Member, hat in hand, to solicit funds to support United Nations forces deployed in the world's trouble spots. Members of the United Nations show a remarkable ability to agree that United Nations forces should be dispatched to troubled areas and a remarkable inability to put their money where their mouths are.

While a relatively easy source of funds made available from a portion of the Bank's profits may only serve to encourage fiscal irresponsibility on the part of United Nations members, it must be remembered that all of the states which are Members of the Bank are also Members of the United Nations. Thus, in the final analysis, a decision by states members of the Bank to make

a portion of Bank profits available to the United Nations, will in fact be a decision of those states which are members of both institutions. These states, led by the United States as the heaviest contributor to both institutions, must agree that the foreign policy implications of Bank contributions to the United Nations outweigh banking-type considerations. Within the United States, for example, there would need to be a decision by the President - should the Treasury Department (which represents the United States in the Bank) and the Department of State, disagree - that the foreign policy considerations of finding financial support for United Nations peace-keeping forces outweigh plans which the Treasury might have for other uses of these funds.

It would be gratifying - though most unexpected - if the initiative for a move along these lines could come from the World Bank and the Treasury institutions of its Members. Initiative from those sources would give the banking community some influence over the terms of such grants as they might make to the United Nations and thus impose a degree of control over their use which might not be present if the issue were forced on the Bank by political conditions beyond its influence.

Arthur Vandenberg in the formative years of the United Nations and its specialized agencies was a strong supporter of the concept of the financial integration of United Nations activities. He believed that the U. N. should exercise budgetary controls over the activities of the specialized agencies of the U. N. He lost that fight. One result is that today each specialized agency tends to build its own empire and operate independently from the United Nations. Even within governments which are members of a number of specialized agencies, it is often extremely difficult to beat out an all-government policy toward the congeries of these international institutions. Under the circumstances it is not unreasonable to suggest that what is needed is a high-level decision in the Federal Government to explore the feasibility of this proposal. It is necessary to exercise some initiative and imagination in our role as a leading member of the World Bank, and to take steps to give effect to the proposal - and soon.

Sincerely yours,


Carl Marcy

Received in New York July 14, 1964.