History of the UN's Financial Troubles

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The Early Financial Problems

The UN faced financial pressures in its earliest years. Members paid late or fell more seriously behind. But the first really serious financial crises arose over early peacekeeping operations. In 1956, the first major peacekeeping operation (UNEF in the Sinai) set off a dispute over who should pay, since there was no clear precedent. A number of states refused to pay, some on the grounds that those responsible for the crisis should bear the cost. In 1960 and thereafter, a major, controversial peacekeeping operation in the Congo led a number of countries again to withhold payments because of policy differences. The Congo mission was by far the most expensive ever mounted, so it set off an especially serious financial crisis. The Soviet Union, with its relatively large share of assessments, led the list of UN debtors.

The General Assembly solved the Congo financial crisis by authorizing a UN bond issue to cover unpaid assessments. Altogether, the UN issued $169 million in bonds in 1962 and shortly thereafter. The UN later paid off the bonds from regular assessment income. But some countries withheld pro rated sums from their assessments, refusing to pay the bond service. So before the end of the 1960s, two bad precedents were set. First, the precedent that countries would withhold assessed payments because of policy disputes. And second, that nations would reduce their regular budget payments through targeted "withholdings."

A third means to ease the financial crisis also set a bad precedent. Members authorized the organization to delay reimbursements to countries supplying troops and equipment to peacekeeping operations. This meant that the UN forced a loan onto these countries, some of which were quite poor.
Eventually, in 1965, the members came up with a formula to recoup many of the sums withheld from the UN and to attract voluntary monies to ease the financial crunch. Members were invited to contribute to a Special Account that acted as a reserve fund, expanding on a small Working Capital Fund set up in 1945. These two funds, provided the UN with a small financial cushion. But not nearly enough.

During this period, when it enjoyed a steady majority in the General Assembly, the United States paid its dues and peacekeeping assessments. Washington took the position that assessments must be paid and prepared a strong legal brief that argued in favor of payments as a treaty obligation. Since the Soviet Union, the United States’ global rival, had failed to pay, the financial dispute cast the US as defender of prompt and unconditional payments.

But by the late 1970’s pressure began to build in Washington for a different approach to UN finance. During the decade, US control over the UN weakened and the Third World bloc rose in prominence. Issues like Palestine and South Africa touched off anti-UN pressures in Congress. In 1979, during hearings on UN finance and reform, members of Congresses called for tighter control by the United States over the UN and its spending -- especially spending on policies with which the US government and members of Congress did not agree.

The Reagan Administration

In 1981, when Ronald Reagan was elected President, he adopted a more hostile policy towards the UN. The new administration turned for advice to conservative think-tanks like the Heritage Foundation, which saw the UN as a propaganda arm of the Soviet Union, hostile to capitalism, and a springboard for Third World radicalism. The Heritage Foundation proposed that the US reassert its control over the UN, either by holding back funding, on condition of certain UN "reforms," or by simply refusing to pay for objectionable programs.

The Heritage program got rolling in 1983, with the Kemp-Moynihan amendment to the UN appropriations bill, which denied US funds to UN programs that supported the Palestine Liberation Organization or SWAPO (the independence movement in Namibia). The immediate impact on the UN budget was relatively slight, but an important precedent was set. In the same year, the US demanded fiscal austerity from the Secretary General.

Beginning in 1985, Pres. Reagan intensified the squeeze on the UN and its specialized agencies intensified. The US withdrew from UNESCO, charging that it was poorly-managed and too " politicized." In the UN regular budget, the US paid only $124 million of its assessments of $198 million. US arrears jumped from $12
million in 1984 to $86 million in 1985, forcing the UN to cut its spending by 10% and lay off many staff.

In the same year, the Reagan administration delayed the timing of US payment to the UN by appropriating funds nine months late, in the following US budget year. US payments to the regular UN budget, due on 31 January, began arriving in October or November, at the very end of the UN budget year. And the Kassenbaum amendment withheld 20% of UN appropriations on condition that the UN establish weighted voting on budgetary matters. These steps created a major UN cash-flow crisis, compounded by growing US underpayment and mounting arrears.

On 21 October 1985, in a speech to the General Assembly commemoration of the UN's fortieth anniversary, Swedish Prime Minister Olof Palme proposed that the cap on maximum assessment by any one country be reduced from 25% to 10%. He said: "A more even distribution of the assessed contributions would better reflect the fact that this Organization is the instrument of all nations." A number of countries agreed and a high-level reform paper took up the idea. The German government argued with Washington that the United States should pay up or accept a lower assessment. But US Secretary of State George Schultz rejected the idea out of hand.

At the UN, the United States delegation insisted that the financial crisis could be overcome if the UN changed its method of setting budgets by two-thirds majority vote. The US wanted weighted voting but was willing to settle for budget-setting by "consensus," so that it could exercise an effective veto. By the end of 1986, US debts had leapt to more than half the total outstanding for peacekeeping and the regular budget. The US delegation offered a harsh bargain: accept the new form of budgeting, and we will pay off our arrears. Reluctantly, other members agreed, adopting in December 1986 a verbal mechanism by which a consensus principle could be adopted, even though it was in violation of the Charter. . . But when consensus budgeting was put in place, the US ignored its pledge to pay up. Two years later, as Pres. Reagan was completing his term of office, the US owed 78% of arrears to the UN regular budget -- a record $308 million.

The Bush Years

The Bush administration (1989-92) set another record in its first year in office as US arrears rose to 79% --$365 million. But thereafter, US arrears fell, as the UN came to play a more central role in US policymaking during the Gulf War and its immediate aftermath. Congress reluctantly agreed to appropriate funds to pay off UN arrears and by Pres. Bush's last year in office, Washington's debts were down to $240 million or 48% of the total. Meanwhile, other countries' arrears had risen, especially as economic difficulties hit the transitional economies of
Eastern Europe, forcing such large payers as Russia and Ukraine into large arrears. In 1992, while US arrears had diminished, UN regular budget debts had risen to a record $501 million.

The Presidency of Bill Clinton

President Bill Clinton promised in his electoral campaign to support the UN and to base his foreign policy on multilateral institutions. However, in his first two years in office (1993-94), US arrears to the UN regular budget rose from late Bush levels, to just over half of all UN regular budget debts. The new administration did not change the Reagan budget cycle. And expensive peacekeeping operations, proposed by the US in the Security Council, further burdened the UN with bills that were hard to collect and that the US was itself slow to pay. Meanwhile, continuing economic difficulties in Eastern Europe and pressures on government budgets everywhere, created a climate for ongoing UN budget woes. [For data on growing UN debts and the US share, see GPF's Tables and Charts on the UN Financial Crisis.]

Soon after taking office, the Clinton Administration set to work to define the new US policy towards the UN and its expanding role in conflicts around the world. This new policy was to be defined in a comprehensive "Presidential Decision Directive" on peacekeeping. The policy discussion included financing the rapidly-increasing peacekeeping budget. The administration's initial intent was to create a policy environment for more reliance on the UN and to tap the Pentagon budget for peacekeeping finance. There was even talk of a special UN rapid reaction force. This new reliance on the UN was referred to within the administration as "aggressive multilateralism." An 18 August article in the New York Times reported on the policy discussion and asserted that the Administration was "considering an expanded role in United Nations peacekeeping operations."

But those drafting the Decision Directive ran into intense pressure from critics of the UN -- in Congress, in the Pentagon and among the National Security policymaking establishment. These forces drew strength from faltering peacekeeping operations, especially in Somalia. An article of 18 November in the New York Times revealed that the administration had changed course and was "taking a more restrictive approach to United Nations military operations than the President implied before his election." The Times article stated that the administration planned to approve the new guidelines "before the end of the year."

By year-end, the administration had made little headway. Opponents of the new policy stepped up their attacks on the UN and their pressure on the administration. Rather than engaging the issues directly -- since public opinion
was not on their side -- opponents made use of conservative side-issues to undercut UN credibility. In one telling maneuver, critics attacked the consultative relationship of a controversial NGO -- the International Lesbian and Gay Alliance. Conservative lifestyle groups in the US complained to Congress that by giving the ILGA accreditation in 1993 the UN gave tacit support to pedophilia, the sexual exploitation of children. In January 1994, the US Senate voted unanimously to withhold $129 million from US payments to the UN if ILGA continued to be accredited. Faced with this threat, and in spite of strong measures by ILGA, UN members were forced to withdraw consultative status to the organization -- proving once again the devastating effect of the Congressional "financial veto."

As UN opponents organized, the Clinton initiative stalled and moved away from its original purpose. Debate continued into the spring and the administration did not complete the Presidential Decision Directive (PDD-25) until May, 1994. The final text of the Directive took a narrow approach to peacekeeping and called for restrictions on the use of peacekeeping in international crises. Most strikingly, it set a goal of reducing US peacekeeping assessments from the current rate of just over 31% to 25%. As the *New York Times* headline put it bluntly: "New U.S. Line Downgrades U.N.'s Role."

The US policy debate showed that financial support for the UN was hostage to larger political and geo-strategic debates about the role the United States should play in the world. The debates about the Decision Directive, that took place quietly within the Administration and Congress over nearly sixteen months, signalled a gathering crisis for the UN within the US policy-making establishment. The main issue was certainly not a financial one. Had the early Clinton administration proposal to tap the Defense Department budget been adopted, billions of dollars would have been available for peacekeeping. But policy elites' opposition to the UN led to budget-cutting and a sharpened rhetoric about waste and inefficiency. The US government increasingly adopted a posture like that of the Reagan years -- the Heritage posture, marked by merciless pressure on the UN and especially on the UN budget.

By September 1994, with US Congressional elections approaching, the UN faced record arrears totalling $3.5 billion. The US was the organization's largest debtor, with outstanding assessments of over $1.5 billion. In August, the Clinton Administration had managed to persuade Congress to vote $1.2 billion in supplemental funds to pay off arrears to the US peacekeeping account. On 26 September, President Clinton came to the UN and delivered a major speech. He called for a new Working Group to address the broad reform of the organization "so that we can do more with less." And he announced: "I am happy to report that, as I pledged to you last year, and thanks to the support in the United States Congress, $1.2 billion is now available from the United States for this critical [peacekeeping] account." The US government was aware, however, that
the new appropriations were far below what was needed, if the US debts to the UN were to be substantially reduced. As new peacekeeping bills came due, US obligations to the UN would soon again rise to the same very high level.

The situation turned immediately for the worse when November elections in the United States gave a majority in both houses of Congress to a Republican party hostile to the UN. In January, this Congress came into office and serious UN financial problems turned into a full-scale crisis.

For a clear and detailed discussion of U.S. policy through the Bush Administration, see Robert W. Gregg, About Face? (Boulder, 1993)