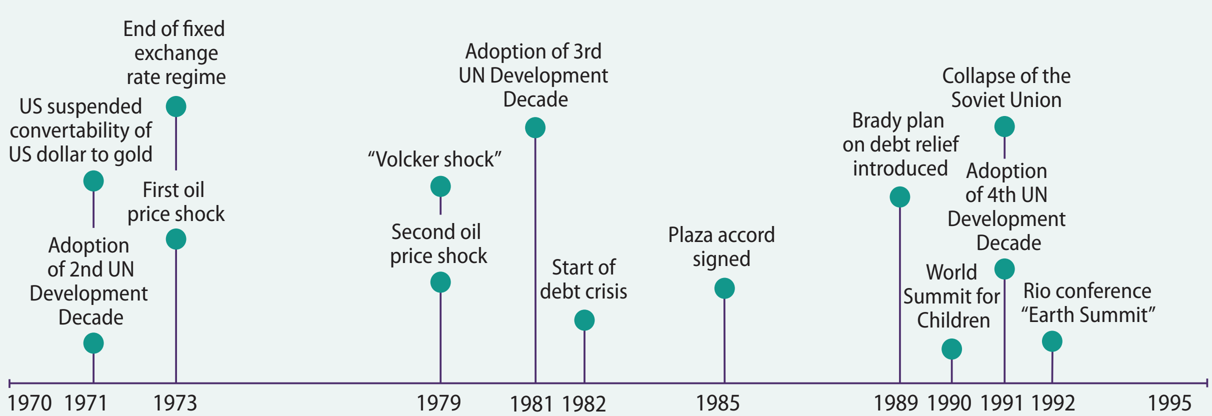
Chapter III

The end of the Golden Age, the debt crisis and development setbacks

Key messages

- The post-war economic boom ended, in 1971, with the collapse of the Bretton Woods fixed exchange rate system. While high inflation and unemployment became the norm in most developed countries, the prolonged and painful adjustment process could have been averted through more coherent international policy coordination.
- Two approaches to global coordination were advocated by the Survey, which are still relevant today: adoption of an interest rate policy designed to reduce short-term capital flows and exchange rate volatility, and expansion of demand in surplus countries. As a result of weak policy coordination at the global level, developing countries paid a high price for adjustment, which set the stage for the debt crises of the 1980s.
- In the absence of a fair debt workout mechanism, the cost of the debt crises in the 1980s was primarily absorbed by debtor countries, leading to a lost decade of development in Latin America and Africa. More judicious debt management—by debtors and creditors alike—could have reduced the social and economic cost of the debt crises.
- While countries in Africa and Latin America implemented structural adjustment reforms imposed by conditionality for financial support, most countries in Asia followed a different development strategy. The divergence of the economic performances among regions underlines the importance of national policy space and ownership in identifying the development trajectories that best respond to a country's own context.
- After the success of the First United Nations Development Decade, in 1971, the United Nations launched a Second Development Decade. However, the experience with the Second—and later the Third and Fourth Development Decades—demonstrated how quickly a global commitment can evaporate in times of economic difficulties, which highlights the importance of a stable global economic environment for upholding the commitment to ambitious development agendas.

Key events



"For many developing countries, the 1980s have been viewed as a decade lost for development. Living conditions in Africa and Latin America and the Caribbean, and in parts of Asia, have deteriorated, and economic and social infrastructure has eroded."

World Economic Survey 1990

Introduction[1]

The 1970s began with the breakdown of the Bretton Woods system

The decade of the 1970s began with unexpected global economic turmoil after a long stretch of economic stability and robust growth in the earlier post-war period. It also witnessed the breakdown of the post-Second World War consensus on the global economic governance architecture, as embodied in the Bretton Woods system of fixed exchange rates and gold convertibility of the United States dollar. In addition, there were two oil price shocks and the persistence of high inflation and unemployment—referred to as stagflation—in several developed countries.

As a result, a difficult global economic situation confronted the world as it entered the 1980s—a situation characterized by both internal and external imbalances; high inflation and unemployment (internal imbalance) in developed countries; and large deficits in the current account of the balance of payments (external imbalance) in both developed and developing countries. Lower demand in developed countries led to a decline in commodity prices and a deterioration of the terms of trade for many developing countries dependent on commodity exports.

A steep increase in interest rates in the United States of America triggered sovereign debt crises

Given the difficult economic situation, many countries in Latin America and Africa experienced an increase in debt levels. This was fostered in part by the recycling of abundant petrodollars by the financial institutions of developed countries. In this context, the steep increase in interest rates in the United States of America to combat inflation at the turn of the decade triggered debt crises in many countries of Latin America and Africa. Highly indebted countries in those regions were unable to repay the debt, as debt service payments rose sharply. The debt crisis of the 1980s is generally considered to have begun when, in August 1982, Mexico declared that it would no longer be able to service its debt. This ignited a succession of sovereign defaults around the world, with one country after another declaring a similar inability to repay.

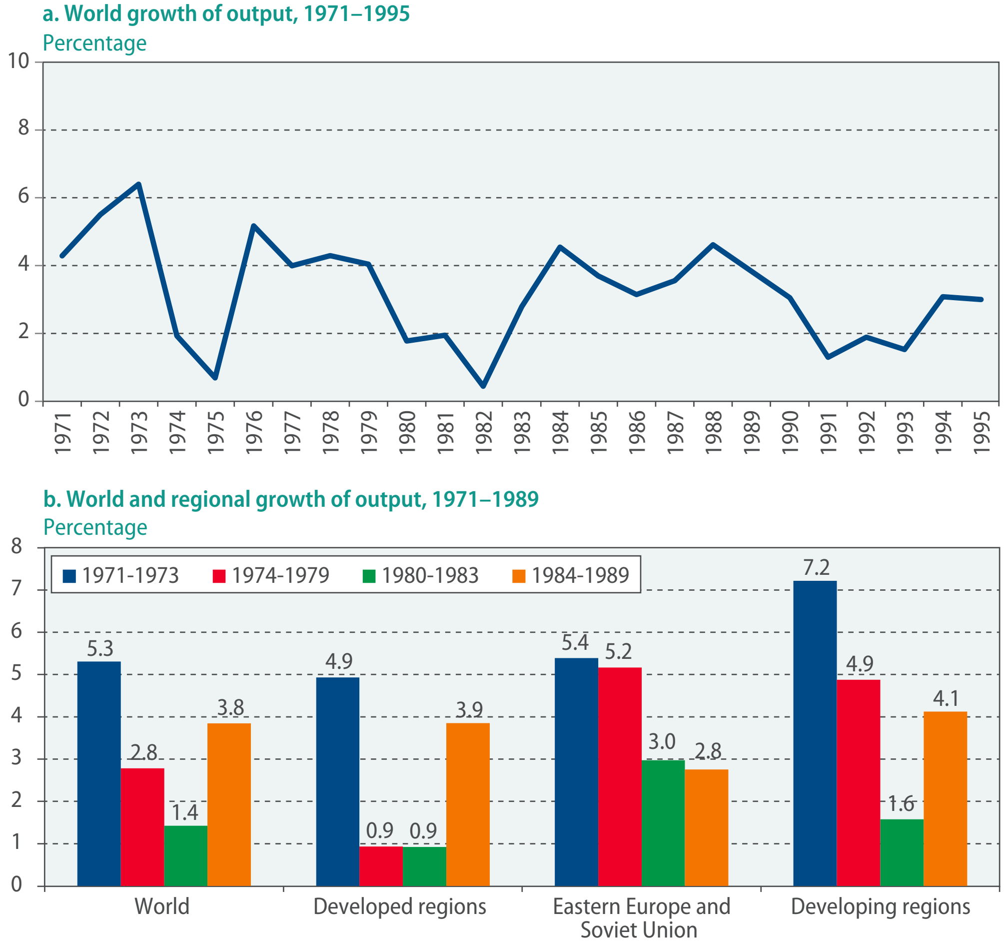
Economic growth slowed down in all parts of the world during the second half of the 1970s and the first half of the 1980s. Before the oil price shock of 1973, the annual growth of world gross product (WGP) had been at 5.3 per cent, while during the rest of the 1970s, annual world growth reached only 2.8 per cent. In the early 1980s, annual growth decelerated even further, to only 1.4 per cent in the first four years of the decade. In particular, growth in developing countries fell dramatically. While, globally, growth recovered to some extent in the latter half of the 1980s, it was still below the levels that had marked the beginning of the 1970s (figure III.1).

Countries were under pressure to implement policy reforms, collectively known as the Washington Consensus

In response to the debt crisis in many developing countries, the most profound economic policy changes since the Second World War were implemented in many parts of the world. Those policy reforms, aimed at stabilization, liberalization and privatization,

1 The present chapter reviews the conditions in the global economy and development trends in the period between 1972 and the mid-1990s, as examined in the *World Economic Survey*. In 1993, the *World Economic Survey* changed its name to *World Economic and Social Survey*. In 1999, an additional report was launched on short term economic issues, the *World Economic Situation and Prospects*. In this chapter, all these reports are referred to as the *Survey*.

Figure III.1
Growth of output



Source: UN/DESA, based on data from the Statistics Division.

became known collectively as the Washington Consensus because they reflected the influence of three Washington, D.C.-based institutions, namely, the United States Treasury, the International Monetary Fund (IMF) and the World Bank. The reforms were often imposed on developing countries as conditionality for debt relief and financial support.

IMF and the World Bank, in particular, were influential in countries experiencing debt distress and, this being the case, countries in Africa and Latin America were pressured to adopt Washington Consensus-type policies. They therefore had to undertake drastic measures for fiscal consolidation, which contributed to a prolonged recession and a lost decade of development in those regions. Meanwhile, most countries in Asia, which were not under the same kind of pressure, enjoyed a larger national policy space. Contrary to what the Washington Consensus dictated, East Asia, and to a lesser extent South Asia, chose to follow a development strategy where an important role was played by the State.

A difference in policy choices led to a great divergence in the economic performances of developing regions

The different development strategies and policies adopted by various developing regions contributed to a great economic divergence in the 1980s. While all developing regions enjoyed relative robust growth in the 1970s, the experience of the 1980s was marked by dramatic divergences. Led by China, South and East Asia grew by an annual average of 7.2 per cent in the 1980s, while developing countries in Latin America, Africa and Western Asia experienced dismal growth, of 1.5 per cent, 1.7 per cent and 1.7 per cent, respectively (figure III.2). Thus, a new division—between countries of East Asia and other developing countries—emerged alongside the traditional division between oil exporters and importers.

Eastern Europe and the Union of Soviet Socialist Republics (the Soviet Union) also experienced a slowdown in growth during the 1980s, compared with the post-war years, together with various other types of problems in their economies and societies. Grappling with these problems contributed to political change and by the conclusion of the decade, communism had been brought to an end in Eastern Europe, which was followed shortly thereafter, in 1991, by the dissolution of the Soviet Union and the formation of the Commonwealth of Independent States (CIS).

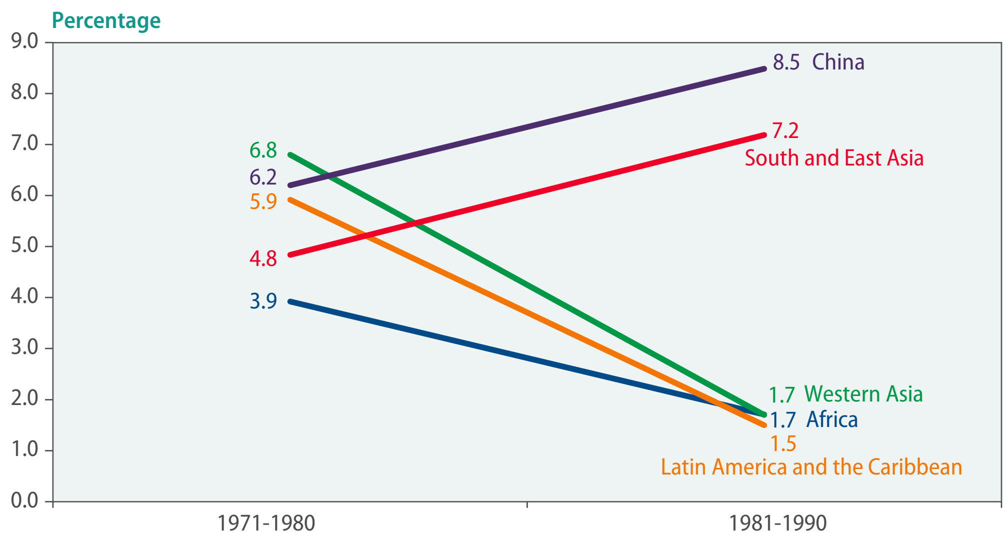
In the 1970s and 1980s, there were a number of economic debates on fundamental issues. There were intense discussions on the appropriate policies for tackling stagflation in developed countries, management of the growing global imbalances and the international responses to debt crises. Contractionary policies under the Washington Consensus as well as its implementation through IMF conditionality were also heavily discussed issues. The difference in policy direction among developing countries, resulting in differences in economic performance, led to a substantial debate on appropriate development strategies.

There was less attention paid to income distribution, living standards, education, health and environmental degradation

The frequency and depth of economic crises as well as the adjustment and austerity imposed by the Washington Consensus meant that less attention was paid to issues of income distribution, living standards, education, health and environmental degradation. This also shifted attention away from the International Development Strategies for the Second and Third United Nations Development Decades (1971-1980 and 1981-1990, respectively). When the General Assembly, by its resolution 45/199 of 21 December 1990, adopted the International Development Strategy for the Fourth United Nations Development Decade (1991-2000), as set forth in the annex thereto, the aim was to change this record of unsatisfactory progress.

While the collapse of the Soviet Union generated new hope for international cooperation and momentum for international agreements, the goals and objectives of the Fourth Development Decade were overshadowed by the economic difficulties that arose in the aftermath of that collapse. The United Nations nevertheless continued to push the development discourse towards more people-centred and rights-based approaches through

Figure III.2
Annual average growth of GDP in developing regions, 1971–1990



Source: UN/DESA, based on data from the Statistics Division.

a series of world summits and international conferences on children, women and the environment in the 1990s (see appendix A.4).

The collapse of the Bretton Woods system, oil price shocks and stagflation

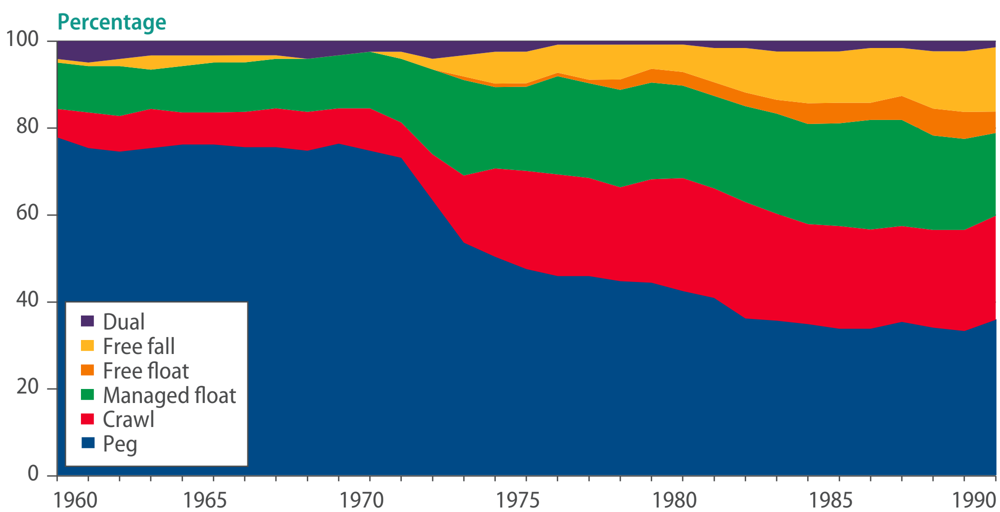
The early 1970s were marked by a series of economic crises that destabilized the global economy. The first of these crises was the collapse of the Bretton Woods system in August 1971, when the United States suspended convertibility of the dollar into gold and other currencies and imposed a 10 per cent temporary surcharge on dutiable imports.[2]

This move came as the result of widespread speculative movements of capital from the United States as monetary easing reduced interest rates relative to those of its major competitors, in particular, France and the United Kingdom of Great Britain and Northern Ireland. However, the main factor underlying the collapse was the increasing reliance of the international monetary system on growing trade and fiscal deficits in the United States, in part driven by the large expenditures associated with the Vietnam War, and the consequent expansion of United States international liabilities against an inadequate value of gold reserves. The inevitable devaluation of the dollar, which had been long in the making, reached 12 per cent against major currencies in 1971.

After the collapse of the Bretton Woods system, countries struggled to establish new foreign exchange regimes

After the collapse of the fixed exchange rate regime under the Bretton Woods system, there was a struggle to establish new foreign exchange regimes among developed and developing countries. Various approaches to exchange rate management were tried, such as establishing more flexibility around a fixed peg, often using the special drawing rights (SDRs) base and varying degrees of floating. By 1973, floating had become widespread (figure III.3) as more and more countries abandoned the fixed rate regime. Forced by high

Figure III.3
Exchange rate regime by share of countries, 1960–1990



Source: Ilzetzki, Reinhart and Rogoff (2010).

2 Under the Bretton Woods system, all currencies were linked to the United States dollar which was in turn linked to gold. In the end, the system turned out to be too rigid and in 1971, with the abandonment by the United States of the link between the dollar and gold, the fixed exchange rate system collapsed.

levels of inflation, floating gave rise to a new, special category of exchange rates characterized as "free falling". The size of this category increased throughout the 1970s and 1980s and peaked in the early 1990s.

The oil price shock in 1973 contributed to a doubling of inflation in developed countries and high unemployment

In late 1973, not too long after the collapse of the Bretton Woods system, oil prices more than doubled owing to the actions of the Organization of Arab Petroleum Exporting Countries (OAPEC) and in January 1974, they doubled again. In parallel, food prices also doubled in 1973 owing to increasing global demand and production problems in many countries (*World Economic Survey*, *1974*, Part Two, p. 1-7). This contributed to a doubling of inflation in developed countries, which rose from an average of 5.1 per cent in 1971 to 10.4 per cent in 1975. All developed countries, without exception, experienced these price increases. In the United States, inflation rose from 3.3 per cent in 1971 to 11.1 per cent in 1973, and in Japan, from 4.5 per cent to 24.4 per cent over the same period (figure III.4).

The prolonged uncertainty after the collapse of the Bretton Woods system, compounded by the oil crisis in 1973, led to a stock market crash in 1973-1974 and a slowdown in growth in developed countries. In the period from 1973 to 1975, growth in the United States and in the United Kingdom fell from 5.6 to -0.2 per cent and from 6.5 to -1.5 per cent, respectively. The biggest slowdown was in Japan which grew at 9.9 per cent in 1973 and experienced negative growth in 1974. Accordingly, unemployment rates began to rise, in particular in the United States, reaching 8.3 per cent by 1975 (figure III.4).

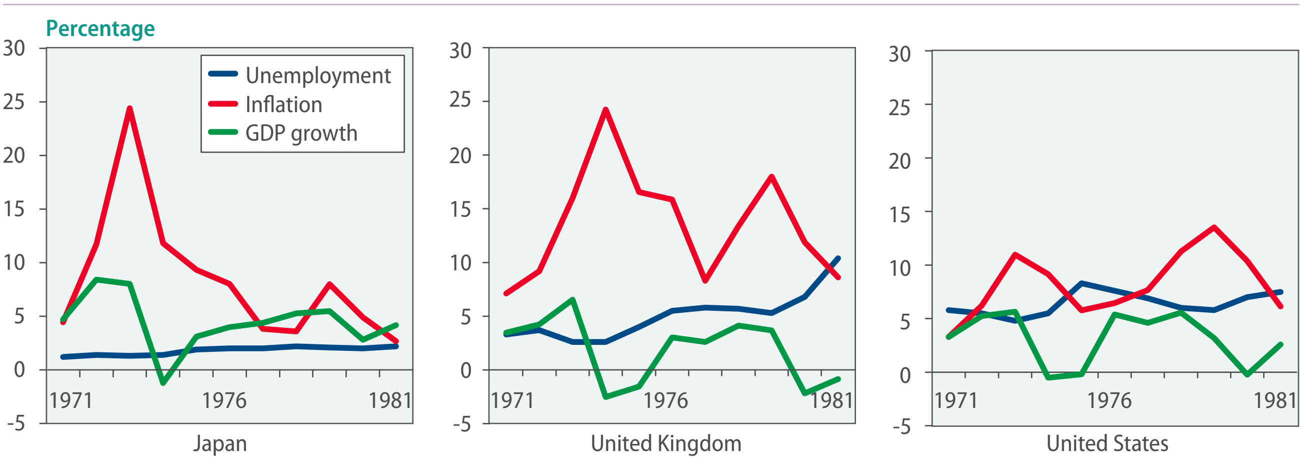
To deal with the problem of stagflation, countries abandoned Keynesian fiscal policy and replaced it with monetarism

These developments meant that Governments in developed countries faced an entirely new problem of declining growth, rising unemployment and high rates of inflation, called stagflation. Hence, much of the economic debate centred around how developed country economic policies should respond to this new challenge. The Keynesian fiscal policy favoured in the 1960s seemed ill-equipped to address simultaneous problems of unemployment and inflation, and monetary policy appeared to be too blunt an instrument to deal with cost-induced inflation.

Initially, most developed country Governments attempted a blend of monetary and fiscal policies. However, as the decade wore on and with the experience of the second oil price shock of 1979, utilization of monetary policy became more prevalent. Developed countries with both progressive and conservative Governments tackled the inflation pro-

Figure III.4

Unemployment, inflation and GDP growth in Japan, the United Kingdom and the United States, 1971–1981



Source: UN/DESA, based on data from the International Labour Organization, the Statistics Division and the United Nations Conference on Trade and Development.

blem by raising interest rates and restricting credit. Eventually, contractionary monetary policy was accompanied by tight fiscal policies aimed at reducing government budgets as conservative Governments became dominant in the larger advanced economies.

The need for immediate short-term policy responses to stabilize the economy in developed countries completely overshadowed the Second United Nations Development Decade with its focus on long-run economic and social policies in the early part of the decade (*World Economic Survey, 1974*, Part One, p. 1). See below for a further discussion on the three Development Decades.

Critical reflections in the *Survey*

One critical message of the *Survey* during this period was that managing the trade-off between unemployment and inflation required using a variety of policy measures as opposed to resorting solely to blunt monetary or fiscal instruments (*World Economic Survey, 1975,* p. 93; *World Economic Survey 1980-1981*, p. 10).

The *Survey* argued for policy measures beyond monetary policy

In the earlier part of the 1970s, the *Survey* argued that structural and institutional changes would be needed if unemployment was to be reduced without exacerbating inflation. These changes would involve "the selective expansion or redirection of public employment in the light of perceived social needs, the selective stimulation of private employment through new and modernizing investment that avoid[ed] freezing workers into declining industries and a much more eclectic and imaginative approach to training and retraining in facilities that [were] linked more closely to industrial and other employers and thus capable of increasing the mobility of labour not only geographically but also in terms of skills" (*World Economic Survey, 1975,* p. 93).

Beginning in 1980-1981, the *Survey* started to stress the need for coordination among developed countries in combating inflation, promoting growth, avoiding protectionism and dealing with the imbalances between trade surplus and trade deficit countries. The concern, however, was that the international coordination needed to achieve lower interest rates, as designed to stimulate investment and economic recovery, might not be feasible "as long as one or more major country [was] relying solely on monetary policies to combat inflation and those policies impl[ied] high interest rates" (*World Economic Survey 1980-1981*, p. 10). The *Survey* argued that such coordination could avoid damaging national anti-inflation programmes "only when those programmes [were] being undertaken through a wide variety of policy measures" (ibid.).

The interrelated problems in the global economy led the *Survey* to argue for improved international economic coordination

World Economic Survey 1983 argued that a number of problematic tendencies affecting the global economy had originated in the developed countries. These included lower growth rates, unemployment, inflation, a fall in commodity prices, high real interest rates, increased protectionism and significant fluctuation in exchange rates. Since those issues were clearly interrelated, the *Survey* contended that it would be hard for any one country to tackle them alone and thus strongly recommended improved coordination among developed countries.

For example, the 1983 *Survey* observed that even the developed countries could not act alone: "some concordance in policies affecting current accounts and capital flows" was needed; and that more generally, a greater measure of economic cooperation among countries was "a shared requirement for sustained revival of the world economy" (p. 18). Areas for more concrete cooperation were suggested, including exchange rate policy and flows of long-term capital such as official development assistance (ODA) and multilateral bank loans to developing countries. It was also suggested that cooperation not just among developed countries but among developing countries as well could be useful.

In *World Economic Survey 1986*, a more ambitious approach to cooperation and coordination was introduced (pp. 7-10). This entailed the division of policy issues into categories according to the appropriate level of coordination required, as follows:

(a) Policy issues requiring international cooperation and action within a multilateral framework including (i) adjustments to the international trading system and the international monetary and financial systems; (ii) restoration of growth in developing countries through financing for development; (iii) resolution of commodity pricing problems; (iv) solutions to debt crises;

(b) Policy issues requiring concerted policy action within country groups including; (i) *developed countries*: pursuit of faster, non-inflationary growth and the unwinding of trade imbalances; (ii) *developing countries*: a greater voice and participation in discussions within multilateral trade and finance institutions and greater regional integration; (iii) *centrally planned economies*: greater coordination within the Council for Mutual Economic Assistance framework.

Over the decades, the *Survey* advocated for greater joint action and in doing so made a good case for international coordination; however, no guidance was provided on how that coordination might be accomplished nor was there a discussion of organizational challenges. Instead, the *Survey*'s overarching recommendation centred on the use of multilateral and regional organizations. While coordination was a valuable concept, greater benefit would have been derived from closer attention to the mechanisms required for its achievement and the associated challenges.

Growing global imbalances and increasing protectionism

Trade imbalances started to grow in the 1970s and many countries experienced balance-of-payments difficulties

At the same time that growth rates were falling and unemployment and inflation were rising, record trade imbalances arose in both developed and developing countries. In the 1970s, several developed countries, including the United States and the United Kingdom, were prone to balance-of-payments crises. In the 1980s, the debate focused mainly on growing trade deficits in the United States and corresponding surpluses in Japan and several European countries.[3]

In the second half of the 1970s, the balance-of-payments deficits of developing countries (except for major oil producers) more than doubled, from \$46 billion in 1975 to \$108 billion by 1981. It was the ability to finance such deficits through access to overseas finance that permitted imports to rise and the economy to therefore grow at the rate it did, despite rising import prices and deteriorating terms of trade. The availability of financing came as a result of ongoing liberalization of international capital markets, which led to more cross-border lending and bond issuances. As a consequence of the ongoing

3 Balance-of-payments difficulties arise when a country cannot obtain sufficient financing to meet international payment obligations. In the face of such difficulties, the country's currency is often forced to depreciate rapidly. Countries with deficits in their current accounts, also called external accounts, are likely to increase the level of sovereign debt, which can result in a debt crisis.

liberalization, more developing countries could finance current account deficits by tapping into international capital markets.

Economic instability gave rise to the policy debate on handling "internal imbalances" held in developed economies (see the discussion above). That debate had its counterpart in the debate on how best to manage global balance-of-payments surpluses and deficits, that is, "external imbalances". The large surpluses of oil exporters, of exporters of manufactures and, from time to time, of major developed economies, had to be reduced or recycled if global recession was to be averted.

This led to debates on the responsibility of current account surplus countries in the adjustment process. One option open to surplus countries was to expand their demand so as to increase imports and, in the process, help restore balance through growth. A second option entailed an increase of capital flows from surplus countries to countries facing deficits in the current account. A drawback in this regard, however, stemmed from the fact that international institutional arrangements were not equipped to deal with large capital imbalances. A third alternative for achieving balance entailed the restriction by developed economies of economic growth, which would result in a reduction of the exports of developing countries.

The global imbalances led to an increase in protectionism which affected all countries

The global imbalances also led to increased protectionism. While negotiations continued on the progressive reduction of tariffs within the Tokyo Round of Multilateral Trade Negotiations, held under the auspices of the General Agreement on Tariffs and Trade (GATT), the United States and Europe complained bitterly about Japan's export juggernaut. The United States in formal terms and Europe more informally pressured Japan to agree to a set of voluntary export restraints for exports of autos, steel and other products. The pace of anti-dumping suits also picked up and protectionism was employed against developing countries as well. The renewal of the Multifibre Arrangement was of primary importance in this regard, as it resulted in a reduction of exports of textiles and clothing by developing countries.

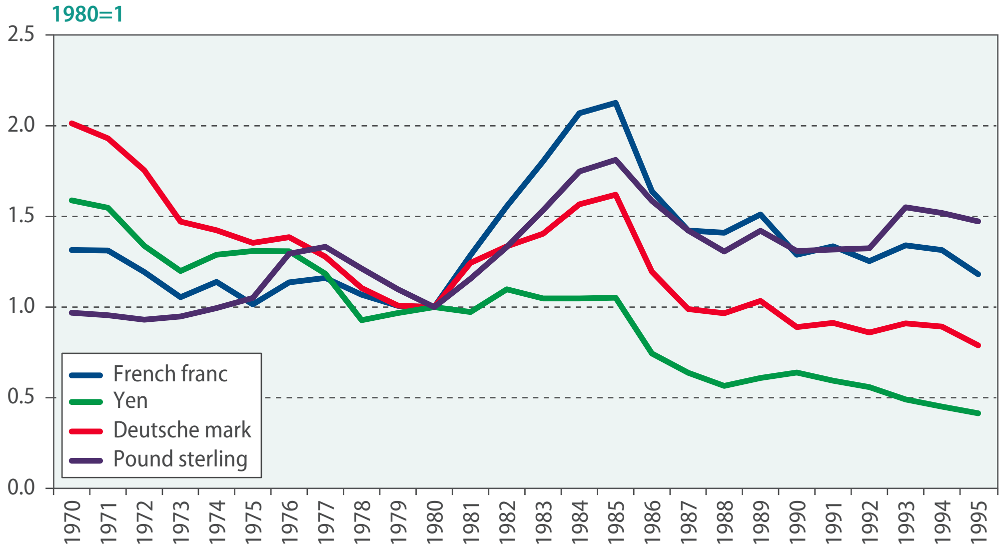
Another attempt to resolve the above-mentioned imbalances centred on exchange rates. With the end of the fixed-rate system in the early 1970s came the establishment of floating rates, which resulted in greater volatility than had initially been expected. In particular, the early 1980s witnessed the rise of the dollar against the major European currencies, which exacerbated the United States trade deficit (figure III.5).

The most dramatic attempt to achieve the coordination needed to address the volatility of exchange rates was represented by the 1985 Plaza Accord, under which the value of the dollar was lowered by about 50 per cent through a coordinated sale of dollars by the central banks of France, Germany, Japan and the United Kingdom. The signing of the Louvre Accord, whose goal was stabilization of the value of the dollar, occurred two years later, in February 1987.

Critical reflections in the *Survey*

The *Survey*'s main concern was whether the trade and fiscal deficits of the United States could be financed or whether they were more likely to result in a "hard landing". While opinion on this question changed over time, the viewpoint towards the end of the period was more positively inclined. What was less discussed, however, were the implications of financing the United States deficits through a redirection of financial flows from the rest of the world.

Figure III.5
Major exchange rates vis-à-vis the United States dollar, 1970–1995



Source: UN/DESA, based on data from the Statistics Division.

Protective measures introduced by developed countries were opposed by the *Survey*…

The *Survey* consistently opposed the introduction of protective measures by developed countries and voiced opposition to the temporary surcharge on imports imposed by the United States in 1971, in general terms but more specifically on behalf of developing countries, "since the payments deficit of the United States was on the whole unrelated to trade relations with these countries" (*World Economic Survey*, *1971,* p. 4). Furthermore, the surcharge ran "counter to the commitment to introduce a general preferential scheme favouring imports from developing countries" (ibid.).

…because they ran counter to the commitment for a preferential scheme favouring imports from developing countries

The opposition of the *Survey* to protectionism continued into the 1980s, during which protectionist tendencies were denounced in almost every issue. For example, in *World Economic Survey, 1981-1982*, it was asserted that while the world economy had "avoided trade wars of the type experienced in the 1920s and 1930s" and liberalization efforts had continued on some fronts, the slowdown in economic growth in the industrial countries since the mid-1970s had "been accompanied by growing protectionist pressures and increasing resort to special trading arrangements as a way to ease domestic tensions" (p. 80). These tensions were closely related to the increased levels of unemployment in developed countries.

The *Survey* continued to advocate for international coordination, in particular of monetary policy among developed countries, with respect to addressing exchange rate volatility and massive short-term capital flows, which at that time were already closely associated with financial instability and crisis.

Another issue highlighted by the *Survey* was that large developed economies running balance-of-payments surpluses had an obligation to expand their demand for imported goods which would, to some degree, have as its complement an increase in the exports of developing countries. Expanding effective demand in surplus countries was therefore considered an important accompaniment to any domestic adjustments required in those developing countries that were incurring external deficits (*World Economic Survey, 1971*, p. 8; *World Economic Survey, 1975*, p. 109; *World Economic Survey, 1977*, p. 3). In addition, the *Survey* critiqued the tendency towards managing imbalances through both demand compression and asymmetrical adjustments in countries experiencing external deficits versus those running surpluses.

This echoed Keynes's views on international adjustment, but ran counter to the dominant approach of IMF, which was to demand adjustment mainly from deficit countries. The dampening of economic activity in developed countries as a means of dealing with problems of inflation simply meant more balance-of-payments problems for developing countries running external deficits, which in turn increased their need for external financing (*World Economic Survey 1979-1980*, p. 12). It is because of this kind of activity that *World Economic Survey, 1971* concluded that "the major source of disequilibrium may stem from the policies of [trade] surplus countries rather than those of the deficit countries" (p. 8).

Emergence of debt crises and reverse capital flows

By 1980, developed countries had begun to adopt restrictive monetary policies aimed at reducing inflation, which led to high nominal and real interest rates, especially in the United States. Moving from negative values in the 1970s, real rates in the United States reached 3.9 per cent in 1980-1982 and 6.7 per cent in 1983-1987 (*World Economic Survey 1988,* p. 132). For developing countries, this meant higher costs of borrowing, reduced demand for their exports and limited growth of foreign concessional assistance.

The high interest rates were especially damaging to those countries that had borrowed heavily at floating interest rates in the 1970s. Typically, loans were contracted at the London Interbank Offered Rate (LIBOR) plus a spread based on the borrower's creditworthiness. The nominal LIBOR on six-month dollar deposits reached 18.5 per cent in late 1981 and did not fall below 9 per cent until 1985 (p. 131). As a result of the pegging of the interest rate to the interbank market, the risk associated with variations in those rates was borne mainly by the borrowers (Ocampo, 2013).

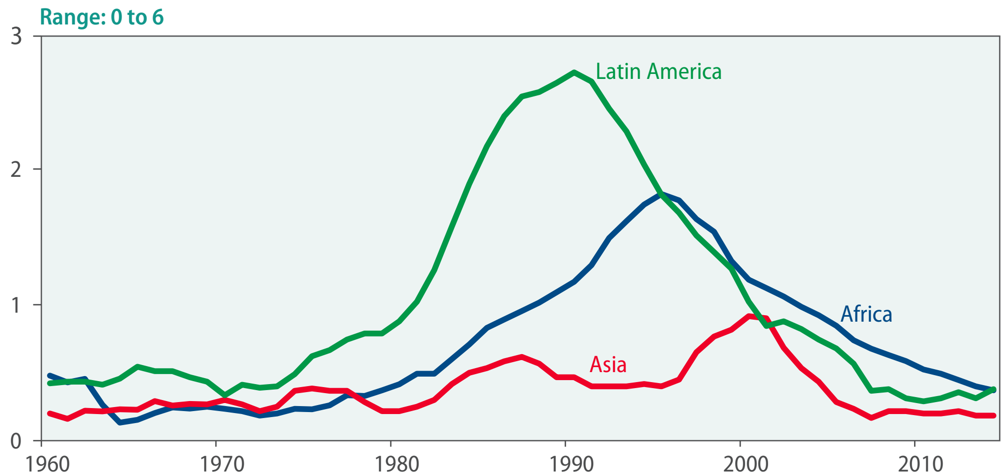
Low growth, high interest rates, declining terms of trade and protectionism were major factors leading to the sovereign debt crises of the 1980s

Partially as a result of tendencies in the world economy, including lower growth, higher interest rates, declining terms of trade for commodity exporters and protectionism, many developing countries found themselves experiencing balance-of-payments difficulties in the early 1980s. These external problems were exacerbated by ill-conceived domestic policies which gave rise to large fiscal deficits, high inflation rates and overreliance on borrowing from international banks in the attempt to maintain growth after the oil shocks. This contributed to high levels of debt accumulated in the public sector and set the stage for the sovereign debt crises of the 1980s.

What triggered the sovereign debt crises was the decision taken by the Federal Reserve Board of the United States in October 1979 to raise interest rates steeply. That decision came to be known as the "Volcker shock," bearing the name of the then Chairman of the Federal Reserve, Paul Volcker. It had a direct impact on debt service, since much of the external debt in developing countries had been contracted at floating interest rates. The difficulties were compounded by a sharp drop in non-oil commodity prices.

While circumstances varied from region to region and from country to country, in general, large current account deficits made it impossible to continue debt service. The developing country sovereign debt crisis is considered to have begun with the announcement by Mexico in August 1982 that it would not be able to continue debt service as scheduled, unless it received help through new loans or rescheduling. That announcement marked the beginning of a decade-long process which involved most of the Latin American countries, many African countries and some countries in Asia (see figure III.6).

Figure III.6
Tally of crises, Africa, Asia and Latin America, 1960–2010 (five-year averages)



Source: Reinhart and Rogoff (2009).
Note: Each country scored one point for a crisis in any of the following six areas: currency, inflation, stock market, domestic debt, external debt, banking; and was therefore given a score ranging from 0 to 6. The regional tally is a simple average of the scores for the countries of the region.

A summary of the negotiations on the debt issue for Latin America can be separated into three phases (Stallings, 2014):[4]

(a) The austerity phase, during which policies focused heavily on lowering fiscal deficits by cutting spending and/or raising taxes and other revenues. A complementary policy entailed a large devaluation, which, in principle, would shift production towards the export sector. Debtor Governments were then expected to have more resources available for debt service, although the contraction of their economies undermined this goal;

(b) The period covered by the so-called Baker Plan, which bears the name of the United States Secretary of the Treasury, James Baker. Baker aimed towards stimulating growth in the region rather than imposing austerity. Conditionality shifted to structural adjustment programmes, through which Governments would open up their economies to increased trade, privatize State-owned firms and seek foreign investment;

(c) The period of the so-called Brady Plan, named after Baker's successor, Nicolas F. Brady. The Brady Plan, announced in 1989, also aimed towards stimulating growth, and continued to insist on structural reforms, while opening the way towards debt reduction.

The debt crisis had ended, in practical terms, by the early 1990s, when debt relief was agreed and international investors returned to the region (Ocampo and others, 2014).

The sovereign debt crisis of the 1980s was responsible for a lost decade of development in Latin America and Africa

It is considered that, as a result of a slow and feeble international response, the sovereign debt crisis of the 1980s was the most traumatic event in Latin America's economic history, having been responsible for the region's lost decade of development. In sub-Saharan Africa, the recovery time was even more prolonged.

In sub-Saharan Africa, poverty did not fall below the level of 1981 until 2005, while gross domestic product (GDP) per capita and investment did not return to 1981 levels until 2006-2007. In Latin America, in terms of GDP per capita and gross fixed capital formation,

4 As the majority of countries labelled as "highly indebted" were in Latin America, reporting on the Latin American experience gives a reasonable idea of the overall problems of this period.

the region returned to 1980 levels only in 1994. In terms of poverty, the impact was even more protracted: The poverty rate climbed sharply, from 40.5 per cent in 1980 to 48.3 per cent in 1990, and would return to 1980 levels only in 2005. Thus, as regards poverty, the lost decade in both sub-Saharan Africa and Latin America was in fact a lost quarter century.

Critical reflections in the *Survey*

As early as the 1970s, the *Survey* was paying close attention to the forms and terms of foreign financing, in particular debt and investment, and their implications for indebted developing countries. In the mid-1970s, it had warned of the dangers of rapid growth in debt and argued that higher interest rates and shorter maturities than those of official lending implied a significant increase in the amounts required for interest and amortization payments in the period immediately ahead (*World Economic Survey, 1975*, p. 31). It concluded that this development underscored the importance not only of judicious debt management—by debtor and creditor alike—but also of more liberal trade and resource transfer policies on the part of developed countries, as envisaged under the International Development Strategy for the Third United Nations Development Decade (General Assembly resolution 35/56 of 5 December 1980, annex) and the Declaration and Programme of Action on the Establishment of a New International Economic Order (Assembly resolution 3201 (S-VI) of 1 May 1974 and Assembly resolution 3202 (S-VI) of 1 May 1974, respectively), which are discussed further below.

With respect to solutions to the sovereign debt crisis, while the Survey called repeatedly for dialogue on debt, significantly, it did not call for debt relief until this became the consensus view towards the end of the 1980s under the Brady Plan. The Survey highlighted the importance of coordination among developed countries, in particular to enable changes to be made in the regulations imposed on private banks. The efforts of the bank committees, which were formed to facilitate negotiations with individual debtor countries, constituted an example of coordination. However, those committees united banks and, informally, creditor Governments against debtor countries. Greater coordination among debtor countries, which was discussed many times but never implemented, could have ensured a more equal distribution of the costs incurred in the course of resolving the debt crisis.

Greater coordination among debtor countries could have ensured a more equal distribution of the costs of resolving the debt crises

A highly important focus of the recommendations in the *Survey* concerned investment. Investment was, of course, significant from two perspectives: On the supply side, it helped countries adjust to new international conditions; on the demand side, it stimulated economic growth and the creation of jobs. *World Economic Survey 1986* was where the greatest emphasis was placed on the subject, specifically in the lengthy chapter (VI), entitled "Capital formation and growth in the 1980s" (pp. 107-142). The *Survey* provided data showing that most developing countries, especially those facing major debt crises, substantially lowered their investment rates in the first half of the 1980s compared with the previous decade. In this regard, it warned that "[t]his dramatic decline in the level of investment in most debtor countries…ha(d) ominous implications for future growth and productive capacity, including capacity to export" (p. 118).

The *Survey* consistently encouraged foreign direct investment (FDI) in developing countries to help raise growth and employment and possibly enable technological progress; and highlighted policies designed to accomplish these goals, which often involved legal and institutional change (e.g., *World Economic Survey 1980-1981*, pp. 84-85). The strategies that the *Survey* noted with approval included providing investment guarantees and incentives, reducing risk and uncertainty, allowing for a higher share of foreign ownership in specific enterprises or sectors and joint ventures, promoting export processing zones, reducing red tape and speeding up investment allocations (p. 84). At the same time, the *Survey* continued to call for a code of conduct for transnational corporations (p. 83), consistent with the approaches under both the International Development Strategy for the Third United Nations Development Decade and the Declaration and Programme of Action on the Establishment of a New International Economic Order (see below for a further discussion).

During the 1980s, many developing countries became net exporters of financial resources

In the aftermath of the debt crises, the decline in new capital inflows and the increase in debt service meant that, during the 1980s, a number of developing countries became net exporters of financial resources. Consequently, in that decade, the *Survey* called attention to this "reverse flow" or "negative transfer" of financial resources. The problem was centred in Latin America where, from 1983 to 1989, net transfers to the rest of the world averaged $25 billion per year, compared with an inward transfer of nearly $13 billion in 1980-1981 (*World Economic Survey 1990,* p. 77).

While the *Survey* overall cautioned very early on about the dangers of developing countries' relying too heavily on short-term debt,[5] it nevertheless recognized the important role played by such debt in the recycling of the surpluses of the exporters of oil and manufactured goods. The fact, however, that the *Survey* did not call for debt write-offs until the United States Treasury took the lead in that regard is an interesting subject for reflection.

From the Washington Consensus to adjustment beyond austerity

While in earlier decades, the role of IMF and the World Bank had not been an active one with respect to devising policies for dealing with the economic problems of developing countries, in the 1980s, they emerged as the leaders in that regard. Indeed, it was argued by the United Nations development economist Richard Jolly (1991, p. 1809) that the influence of IMF and the World Bank on the policies adopted by the countries in sub-Saharan Africa and Latin America at that time "can hardly be exaggerated".

One of the functions of IMF is to intervene when a country experiences economic difficulties. In exchange for financial support, that country must agree to implement a package of policy reforms, which became known as IMF conditionality. In the 1980s, those packages began to include a range of structural conditionalities in policy areas such as privatization of State-owned enterprises, trade and financial liberalization and economic deregulation. These policy reforms came to be referred to collectively as the "Washington Consensus"—the term for a concept first elaborated by John Williamson (1990)—because they reflected the influence of three Washington, D.C.-based institutions, the United States Treasury, IMF and the World Bank.

Financial support to developing countries was made conditional on adopting a set of policies collectively known as the Washington Consensus

Initially, it was stabilization, liberalization and privatization reforms that were promoted under the Washington Consensus. Later, however, the Washington Consensus came to embrace a broader set of policies underpinned by a strong belief in unfettered markets and a reduced role for government. Indeed, the term Washington Consensus has come to be used as a synonym for market fundamentalism or neoliberalism. Unfortunately, the

5 Short-term debt has an original maturity of one year or less. Short-term lending is often more procyclical than longer-term lending and increases the vulnerability to debt crises.

Washington Consensus was not only narrow in terms of its objectives and restrictive in terms of the set of instruments it deployed, but also limited with regard to its vision of development processes. This led Joseph Stiglitz (2016, p. 2, footnote 7) to argue that "(i)ts worst practitioners seemed to believe that if countries only let markets work on their own, there would be development". Critics have argued that by following a narrow macroeconomics agenda, IMF conditionality in the 1980s resulted in extensive "collateral damage".

Countries with greater policy space followed a different policy direction…

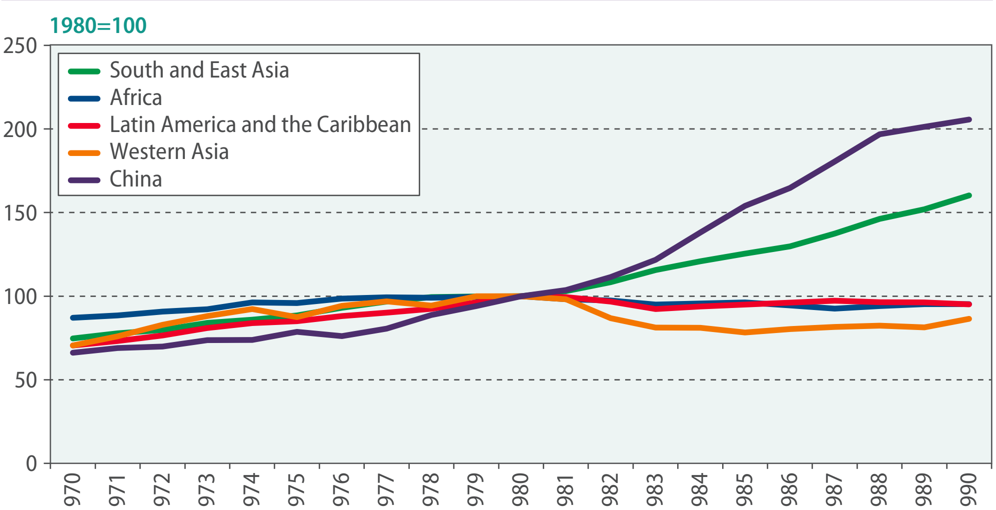
Since financial support from IMF and the World Bank was conditional on implementation of the above-mentioned policy recommendations, often as part of structural adjustment programmes, the Washington Consensus exerted its influence in particular on countries in debt distress in Latin America and Africa. That influence, however, was less prevalent in most parts of Asia where countries (especially in East Asia) benefited from a more flexible national policy space. Those countries chose to pursue a different policy direction than that marked out by the market-centred Washington Consensus—one where, in particular, a more prominent role was given to the State.

…thereby contributing to a "great divergence" in terms of economic performances

The difference in policy direction contributed to significant differences in economic performance, and a "great divergence" was manifested within the developing world. While Africa, Latin America and Western Asia witnessed significant stagnation in per capita income during the 1980s, countries of East Asia further accelerated their already fast economic growth (figure III.7).

As the impact of the Washington Consensus and the structural adjustment programmes became visible, there were debates on the nature and degree of the policy demands to be made upon recipient Governments in return for greater access to balance-of-payments support. It became apparent that the conditionality imposed by IMF on developing countries was often counterproductive. The debates also concerned the main reasons for the developing countries' fiscal deficit, in particular whether they were caused mainly by international problems or by inefficient domestic economic policies. Where one stood in this debate determined one's view of the balance between the financing of deficits and the adjustment of domestic policy needed to eradicate them.

Figure III.7
Trends in GDP per capita in selected developing regions, 1970–1990



Source: UN/DESA, based on data from the Statistics Division.

The international financial institutions argued that domestic policies, in particular import substitution industrialization, had played a central role in creating inefficiencies and distortions in developing countries, such as overvalued exchange rates, foreign exchange shortages and distorted domestic prices (Krueger, 1978). They therefore contended that the solution was trade and market liberalization and efforts to restructure the economy towards export promotion.

The United Nations voiced concerns over the social impact of the structural adjustment programmes led by IMF and the World Bank

Other organizations of the United Nations system entered the debate on the adjustment process in the 1980s, but with very different stances from those of IMF and the World Bank. Perhaps the United Nations publication that was most influential in expressing concerns about the social impact—especially the impact on children—of the structural adjustment programmes led by IMF and the World Bank was a two-volume study by the United Nations Children's Fund (UNICEF) entitled *Adjustment with a Human Face: Protecting the Vulnerable and Promoting Growth* (Cornia, Jolly and Stewart, 1987), which was issued in 1987-1988.

The study called for a broader approach, one that would ensure both protection of the vulnerable and the restoration of economic growth. Such an approach, which was called "adjustment with a human face", had the following six main policy components (Cornia, Jolly and Stewart, 1987, pp. 290-291):

(a) More expansionary macroeconomic policies aimed at sustaining output, investment and living standards;

(b) Meso policies, to complement the macropolicies and to fulfil the needs of the vulnerable;

(c) Sectoral policies aimed at promoting restructuring within the productive sector to strengthen employment and income generating activities;

(d) Improving the equity and efficiency of the social sector by restructuring public expenditure both between and within sectors;

(e) Compensatory programmes designed to protect basic health and nutrition of the low-income groups during the adjustment period;

(f) Monitoring of the human situation, in particular of living standards, health and nutrition, during the adjustment process.

The study had a profound impact on how international organizations thought about the adjustment process. It was acknowledged in *World Development Report 1990* (World Bank, 1990, p. 103) that as the decade of the 1980s continued, "it became clear that macroeconomic recovery and structural change were slow in coming", that "[e]vidence of declines in income and cutbacks in social services began to mount" and that "it was UNICEF that first brought the issue into the centre of the debate on the design and effectiveness of adjustment". The report also acknowledged that "[b]y the end of the decade, the issue had become important for all agencies". Along the same lines, the Managing Director of IMF, in an address to the Economic and Social Council on 4 July 1986, affirmed that "(a)djustment that pays attention to the health, nutritional and educational requirements of the most vulnerable groups is going to protect the human condition better than adjustment that ignores them" (de Larosière, 1986).

A series of international conferences helped to redirect the development discourse towards people-centred and rights-based development

In the 1990s, the United Nations tried to regain its intellectual leadership of the development discourse by organizing a series of international conferences and summits at which the commitment to people-centred and rights-based development was affirmed. The principles underlying this renewed commitment of the United Nations to international development were in sharp contrast to the economic orthodoxy imposed by the Washington Consensus. The World Conference on Education for All, held in Jomtien, Thailand, from 5 to 9 March 1990, and the World Summit for Children, held in New York on 29 and 30 September 1990, were the first global conferences to be organized. As the issues to be considered at those conferences were deemed less controversial, it was believed that the chances were therefore better for arriving at a consensus on relevant global goals.

The sudden collapse of the Soviet Union in 1991 raised hopes for a peace dividend and an end to traditional divisions within the United Nations, and generated momentum for the organization of several other summits and international conferences, including on environment, nutrition, human rights, population, women, human settlements and food security (see appendix A.4). Notable among them were the United Nations Conference on Environment and Development, held in Rio de Janeiro from 3 to 14 June 1992; the World Summit for Social Development, held in Copenhagen from 6 to 12 March 1995; and the Fourth World Conference on Women, held in Beijing from 4 to 15 September 1995. Within an aspirational context of education, health and food security for all, these conferences and summits resulted in the adoption of an array of internationally agreed development goals, including the Millennium Development Goals (which will be discussed further in chap. IV), under what came to be known as the United Nations development agenda (United Nations, 2007).

Critical reflections in the *Survey*

The *Survey* argued consistently and strenuously for IMF conditionality to be modified so as "to enable countries to sustain substantially larger deficits for periods long enough to permit structural adjustment without sacrificing economic growth" (*World Economic Survey 1980-1981*, pp. 63-64). Thus, while applauding the 1979 change in IMF guidelines, which acknowledged the need for longer-term financing so as "to alleviate the effect of corrective measures on real incomes and to contribute to a distribution of the burden of adjustment within the economy that is socially and politically more acceptable" (IMF, 1979, p. 63), the *Survey* maintained that this did not go far enough.

This is not to say that the *Survey* denied the need for developing countries to adjust domestic economic policy to meet the changing global economic conditions. On the contrary, it acknowledged the need for "adjustment" on the part of developing countries that had large and unsustainable fiscal and trade deficits. Already in *World Economic Survey, 1971*, the *Survey* had explicitly stated that "an international economic order, no matter how well conceived, cannot work if nations fail to manage their own affairs effectively", which would be all the more true if the new international economic order achieved "a degree of openness that implie[d] heightened competition among nations" (p. 11).

The *Survey* was concerned about the long-term implications of adjustment and its impact on vulnerable groups

The *Survey*'s main concern as the decade progressed was the long-term growth and the social implications of adjustment. *World Economic Survey 1989* defined economic adjustment as "the changes needed to place an economy on a sustained path of economic growth and development" (p. 152). In particular, the *Survey* was concerned about the impact of adjustment on vulnerable groups in society, which arose from the tendency of Governments to cut back on wages and social expenditures as well as public investment. For example, *World Economic Survey 1988* (p. 147) observed that adjustment measures "often involve substantial cuts in income and these cuts are not shared equally by the different classes of society", noting by way of illustration that with real wages having fallen by 20 per cent or more in many countries during the 1980s, social expenditures were often "the first to be slashed".

The 1989 *Survey* contended that there was "a new consensus on the need to see people as the principal resource and potential of a country and not as a burden" (p. 5). It noted, moreover, that the translation of this understanding into programmes and policies was only beginning, and that it put social issues "high on the agenda for development cooperation". The 1989 *Survey* also offered a critique of the "one-size-fits-all" approach adopted by adjustment programmes, arguing that the models on which the policy advice was based had been "technical economic abstractions, often devoid of the political and social considerations that shape actual policymaking in developing, as well as in developed, countries" (p. 157).[6]

The *Survey* argued for maintaining fiscal expenditures for social services, even in times of budgetary austerity

The *Survey* strongly recommended that countries should not cut back on expenditure on social services when trying to bring their budgets back towards balance. In the 1990 *Survey* (p. 157), it was observed that the objectives of adjustment are "to change economic structures so as to regain growth momentum", but that "its short-term effects can be very harsh". The challenge, then, was "to design policies to restore sustained growth without having to pay a high social cost". The policy mentioned most often was one of maintaining fiscal expenditure for education and health, even in times of budgetary austerity.

The 1989 *Survey* highlighted several requirements for the achievement of successful development and adjustment :

(a) On the domestic policy front, the two important requirements were (i) small (or reduced) fiscal deficit and (ii) price stability and positive, but not excessive, interest rates. On the question of reducing fiscal deficits, the *Survey* emphasized that this did not mean that "government expenditures must everywhere be curtailed, especially if cutbacks ha[d] already been instituted" but it did mean that "government revenues must rise to carry the overwhelming bulk of the cost of expenditures" (p. 152);

(b) On the international front, the requirement was adequate access to finance. The *Survey* argued that the only successful adjusters had such access, noting that "not a single developing country that experienced serious debt-servicing difficulties in the early 1980s and was adjusting by mid-decade ha[d] been able to recover sufficiently to restore the confidence of its international creditors and regain normal access to international finance". It further argued that "the key question was how to find the appropriate mix of policy reforms and how much international finance to supply in support of reform" (pp. 151-152).

Interestingly, the 1989 *Survey* also maintained that successful adjustment depended on having "a robust official sector that is able to provide necessary public services and build and maintain essential infrastructure" (p. 153). Moreover, there were several other actions the government needed to take, which included ensuring a clean environment, adequate education and public health services. Indeed, the government must provide an overall perspective on "the direction in which an economy is and should be going" (ibid.). These recommendations went against the grain of much of the international advice available at the time, in particular advice provided in accordance with the Washington Consensus.

6 See chap. II for a related discussion on this issue.

Three United Nations Development Decades overshadowed by economic crises

Tracking progress during the United Nations Development Decades was central to the mandate of the *Survey*, but given the unforeseen global economic and geopolitical shocks, the publication paid less attention than envisaged to issues related to income distribution, education, health, nutrition, housing and social welfare. Presented below is an overview of the achievements to which the International Development Strategies for the Second, Third and Fourth United Nations Development Decades aspired, as well as a review of the progress made and the impact of the contemporary global contexts on that progress (see appendix A.3).

The Second United Nations Development Decade and the New International Economic Order

By its resolution 2626 (XXV) of 24 October 1970, the General Assembly launched the Second United Nations Development Decade (1971-1980) starting from 1 January 1971. The launch was accompanied by the great enthusiasm generated by the achievements of the highly successful First United Nations Development Decade (1961-1970). By the end of the Decade (the 1960s), it was found that well over 60 countries had exceeded the minimum 5 per cent growth target and that during that Decade, the growth rate for developing countries as a group averaged 5.6 per cent. In the 1969-1970 *Survey*, it was noted that by 1968, nearly half of the developing countries had exceeded the minimum target growth rate and another 12 per cent of developing countries had been within 1 percentage point of achieving that target (p. 9).

The International Development Strategy for the Second United Nations Development Decade incorporated targets for employment, education and health and placed a strong emphasis on equity

Besides aggregate and per capita growth targets for developing countries, the International Development Strategy for the Second United Nations Development Decade contained targets for employment, education and health. There was also a strong emphasis on equity in development—among different socioeconomic groups, and between the North and the South, as well as between the present and future generations. There was greater awareness of the inequity between men and women, and of the problems associated with rapid urbanization, in particular rural-urban migration. The Strategy for the Second Development Decade also emphasized structural change, entailing a move from agriculture to industry and from traditional to non-traditional exports.

The International Development Strategy for the Second United Nations Development Decade was designed to promote "a more just and rational world economic and social order" (article 12) in which countries would cooperate to raise living standards and reduce global inequities. For the developing countries, the Strategy set a target of at least 6 per cent for the annual rate of growth of GDP and a target of about 3.5 per cent for per capita income, based on an assumed average annual increase of 2.5 per cent in the population of those countries (articles 13-15).

Universal primary school education was set as a goal, as were a substantial reduction in illiteracy, improvement in the quality of education at all levels, reorientation of programmes to serve development needs and, as appropriate, establishment and expansion of scientific and technological institutions (article 18 (b)). The Strategy also called for fostering the well-being of children, ensuring the full participation of youth in the development process and encouraging the full integration of women in the total development effort (article 18 (f) to (h)).

Also during the 1970s, on 1 May 1974, the General Assembly, by its resolutions 3201 (S-VI) and 3202 (S-VI), adopted, respectively, the Declaration and the Programme of Action on the Establishment of a New International Economic Order and called for greater cooperation and integration among countries and greater involvement of developing countries in decisions that affect them. Stressed in Assembly resolution 3201 (S-VI) was the line of continuity between the Declaration and the Strategy for the Second Development Decade: Accelerated implementation of obligations and commitments assumed within the framework of the Strategy would contribute significantly to fulfilment of the aims and objectives of the Declaration (article 5). Hence, commitments under the Declaration were not to be thought of as replacing those under the Strategy. Further, the Declaration reasserted the sovereign rights of developing countries, including the right to territorial integrity, to establish control over their natural resources and to adopt their own economic and social system (article 4).

The Declaration asserted that one of the main aims of reforming the international monetary system should be to promote the development of poorer countries and to increase the flow of resources to them (article 4 (l)); and called for an expanded flow of financial resources to developing countries on favourable terms and for "preferential and non-reciprocal treatment for developing countries" in all their dealings with developed countries (article 4 (n)).

The early 1970s were marked by global economic turmoil which completely overshadowed the Second United Nations Development Decade

The early 1970s were unfortunately marked by global economic turmoil which completely overshadowed the Second United Nations Development Decade (*World Economic Survey, 1974*, Part One, p. 1). Real growth rates in developing countries averaged 5.7 per cent per annum, a figure that was somewhat lower than the International Development Strategy target, but still respectable. The level of ODA from member countries of the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) reached only 0.35 per cent of GDP in 1981, up slightly from the 1971-1973 average of 0.33 per cent, but still only one half of the Strategy target of 0.7 per cent (Loxley, 1986, pp. 163-165). By the end of the 1970s, the *Survey* had concluded that "the prospects for early movement towards the objectives of the new International Development Strategy [had] been dimmed" (*World Economic Survey 1980-1981*, p. 2).

Along similar lines, while the New International Economic Order had significant support among developing countries and liberal academics and policymakers, it failed to gain traction as the larger advanced economies moved towards monetarist and neoliberal policies. The vision of multilateralism and long-term structural change, as embedded in the Declaration and Programme of Action on the Establishment of a New International Economic Order, was replaced by a focus on short-term economic management. At the International Meeting on Cooperation and Development (North-South Summit), held in Cancún, Mexico, on 22 and 23 October 1981, the President of the United States, Ronald Reagan, unilaterally declared the New International Economic Order to be dead.

The International Development Strategy for the Third United Nations Development Decade was a reaffirmation of the need for collective action for international development

The Third United Nations Development Decade

During a global economic slowdown and within a highly inflationary environment, the General Assembly, by its resolution 35/56 of 5 December 1980, proclaimed the Third United Nations Development Decade (1981-1990), starting on 1 January 1981, and adopted the International Development Strategy for the Decade, as contained in the annex to that resolution. However, according to the report of the Secretary-General on the review and appraisal of the Strategy (United Nations, General Assembly and Economic and Social Council, 1984), the adoption of the Strategy in the worsening global economic conditions "appeared as a salutary reaffirmation of the need for collective action to create an international environment distinctly more supportive of national development efforts" (p. 4, para. 1).

In the International Development Strategy for the Third United Nations Development Decade, States Members of the United Nations acknowledged that in the extraordinary circumstances characterizing the decade of the 1970s, many of the goals and objectives of the Strategy for the Second Development Decade had remained largely unfulfilled (para. 3). They also noted that the international economy at the start of the Third United Nations Development Decade remained in a "state of structural disequilibrium" (para. 4).

However, the strategy conveyed the expectation that the global economic turmoil would not continue and deepen during the course of the 1980s. The Strategy aimed at promoting the economic and social development of developing countries, with a view to significantly reducing the existing disparities between developing and developed countries, eradicating poverty and ending dependency (para. 7). Hindsight suggests, however, that these ambitious efforts under the Strategy to accelerate the development of developing countries and establish a new international economic order were somewhat divorced from the existing reality.

The target of a minimum average annual rate of growth of GDP of 7 per cent was set for the developing countries, which would lead to an average annual rate of growth of about 4.5 per cent in per capita GDP, assuming that the average annual rate of population growth in those countries was to remain at 2.5 per cent (para. 21). It was asserted in the Strategy that hunger and malnutrition must be eliminated as soon as possible and certainly by the end of the twentieth century (para. 28). It was also determined that agricultural production in developing countries as a whole should expand at an average annual rate of at least 4 per cent so that the nutritional needs of populations could be met.

The growth rate of developing countries fell well short of the target, and the 1980s was a lost decade for development for many countries

However, given the difficulties experienced during the 1980s, overall growth in the developing countries fell well short of the targeted rate: the average annual rate of overall growth was 3 per cent and that of per capita growth was 1 per cent. The 1990 *Survey* assessed the decade of the 1980s in the following terms:

> For many developing countries, the 1980s have been viewed as a decade lost for development. Living conditions in Africa and Latin America and the Caribbean, and in parts of Asia, have deteriorated, and economic and social infrastructure has eroded (p. 8, box I.1).

The Fourth United Nations Development Decade

The International Development Strategy for the Fourth United Nations Development Decade aimed at ensuring that the 1990s would be a decade of improvement in the human condition

In the preamble to the International Development Strategy for the Fourth United Nations Development Decade (1991-2000), adopted by the General Assembly by its resolution 45/199 of 21 December 1990 and contained in the annex to that resolution, States Members of the United Nations recognized that the goals and objectives of the International Development Strategy for the Third United Nations Development Decade had been for the most part unattained (para. 2). It was clearly recognized that adverse and unanticipated developments in the world economy had wiped out the premises upon which the expectation of growth had been based.

The principal aim of the International Development Strategy for the Fourth Development Decade was to ensure that the 1990s would be a decade of accelerated development and a significant improvement in the human condition, as well as of a reduction in the gap between rich and poor countries. The Strategy also sought to enhance the participation of all men and women in economic and political life, protect cultural identities and assure to all the necessary means of survival (para. 13).

The Fourth Development Decade was unfortunately overshadowed by the sudden, unanticipated collapse of the Soviet Union, on 25 December 1991, and its aftermath, which dominated developments during the 1990s. Another shadow was cast by the tumultuous situation in Eastern Europe and the successor States of the former Soviet Union and by further financial crises—in Mexico in 1994-1995, the fast growing Asian economies in 1997-1998 and the Russian Federation in 1998.[7]

Reflecting on the experience of the time period

The analysis of the experience of the period from 1972 to the mid-1990s and the policy recommendations on issues related to development cooperation and international policy coordination, as presented in the *Survey*, still resonate in 2017. Today, as policymakers attempt to grapple with a global economic slowdown—a slowdown that, although its causes are different, shares a surprising number of characteristics with the slowdowns of the 1970s and 1980s. There are a number of important implications to be drawn from the experience of this period covered by the *Survey*—implications for the implementation of the 2030 Agenda for Sustainable Development[8] and other agreements, in particular the Addis Ababa Action Agenda of the Third International Conference on Financing for Development.[9]

The prolonged global economic turmoil could have been mitigated through more coherent and internationally coordinated policy action

In the early 1970s, the lack of international coordination meant that high inflation and monetary instability would become the norm in most developed countries throughout the 1970s and 1980s, with severe consequences for unemployment and other social indicators. Such a prolonged and painful adjustment process could have been averted through more coherent and internationally coordinated action on both monetary and fiscal policy. This highlights the importance of international economic policy coordination and coherence, and the application of a variety of policy measures designed to maintain economic stability and curtail the duration of economic crises.

The international monetary framework, which emerged after the collapse of the Bretton Woods system in the early 1970s, has proved to be volatile and prone to crises. The lack of a global mechanism for addressing global imbalances contributed to the high cost of adjustment in the 1970s and 1980s. This underlines the need to address the underlying causes of those imbalances, in particular the reliance on a single reserve currency, and to establish a coordination mechanism through which to confront global imbalances when they occur.

More responsible lending and borrowing play an important role in reducing the likelihood of a debt crisis

During the 1980s, countries in Latin America faced strong pressures to avoid default, which only exacerbated the cost and the duration of the sovereign debt crisis. Solutions such as those under the Brady Plan were provided relatively late in the process. While coordination among creditors towards guaranteeing debt repayment did exist, there could

7 See the related discussion on this issue in chap. IV.

8 General Assembly resolution 70/1 of 25 September 2015.

9 General Assembly resolution 69/313 of 27 July 2015, annex.

have been greater coordination among debtors, so as to enable a fairer distribution of the costs of debt crises. Further, it is important that more responsible lending and borrowing be promoted in order to reduce the likelihood of debt crises, and that a debt workout mechanism be in place to ensure a faster and fairer resolution of such crises. The importance of ensuring that debtors and creditors work together to prevent and resolve unsustainable debt situations is highlighted in both the 2030 Agenda for Sustainable Development (para. 69) and the Addis Ababa Action Agenda (para. 97).

Another fundamental lesson to be derived from Latin America's sovereign debt crisis is that focusing too narrowly on austerity and rapid budget adjustment entails high social and economic costs. Fiscal reform alone cannot resolve a debt crisis: austerity must constitute one component of a larger strategy—not the strategy itself.[10] The experience of Latin America also underlined the importance of economic growth for recovery. Countries capable of growth are more likely to pay their debts. On the other hand, the pressure to act in accord with the Washington Consensus contributed to a prolonged recession and a lost decade of development in that region. Debt relief for Latin America under the Brady Plan demonstrated the potential of a market-friendly default, which can reduce debt levels without excluding countries from international capital markets. The need to attain long-term debt sustainability through coordinated policies such as debt relief, debt restructuring and sound debt management is also recognized in the Addis Ababa Action Agenda (see sect. II.E).

Protecting social spending and productive investment plays an important role in minimizing the social cost incurred during processes of adjustment

Forcing Governments to cut back on social spending and infrastructure investment as part of the adjustment process can have long-term implications, as was the case in Latin America, where the economy took more than a decade to recover. Processes of adjustment and recovery from crisis require a broader and longer-term perspective. There should be more emphasis on long-term debt sustainability as well as an intertemporal perspective on budget deficits rather than a strict focus on short-term balancing of current budget deficits. In addition, there should be a move away from adjustment policies aimed at bringing economies into balance as fast as possible without sufficient consideration of the social cost, towards an adjustment process that minimizes that cost by protecting social spending and productive investment.

In the 1980s, the implementation of different development policies and strategies by the various developing regions contributed to a great divergence in economic performances. A new division between countries of East Asia and other developing countries emerged alongside the traditional division between oil exporters and importers. The success in this period of several developing countries, in particular in Asia, served to reinforce confidence in development narratives that were alternative to the one disseminated under the Washington Consensus. The bitter experience associated with the Washington Consensus also helped re-energize demonstrations of solidarity among developing countries, which had begun in the 1950s. This led to the emergence of South-South cooperation as a viable complement to long-standing North-South cooperation.

Experience with the lost decade illustrates the importance of country ownership in decision-making

The failure of the "one-size fits all" approach to development promoted by the Washington Consensus demonstrates the danger of adherence to a single prescriptive model for producing stable growth and development. The experience with the lost decade in Latin America and Africa attests to the potential long-term consequences of the imposition by international organizations of a specific development narrative upon countries, and high-

10 See the related discussion on this issue in chap. V.

lights the importance of the recognized principles of country ownership and home-grown national strategies for implementation of the 2030 Agenda for Sustainable Development (see, e.g., para. 66).

During the 1980s, countries with adequate national policy space for adopting alternative development strategies, especially in Asia, performed relatively well. The success of some subregions in Asia, in particular East Asia, in reducing poverty in this period highlights the potential importance of a developmental State whose role extends beyond the minimal role promoted by the Washington Consensus.[11] This also highlights the importance of maintaining national policy space for sustained, inclusive economic growth as well as for provision of more untied ODA and less stringent conditionality for financial support.

A stable global economic environment is crucial for upholding the commitment to ambitious development agendas, such as the 2030 Agenda for Sustainable Development

While the 2030 Agenda for Sustainable Development is accurately described as transformative, it should be remembered that the International Development Strategy for the Second United Nations Development Decade, adopted on 24 October 1970, was in its own way ambitious, with multidimensional targets for employment, education and health as well as a focus on inequality and structural transformation. However, the experience with the Strategy for the Second Decade, and, later, with the Strategies for the Third and Fourth United Nations Development Decades, demonstrates how easily the commitment to internationally agreed development goals can evaporate in times of economic difficulties. This highlights in turn the importance of a stable global economic environment for upholding the commitment to implementing ambitious development agendas, such as the 2030 Agenda for Sustainable Development, and the complementarity of national actions and a supportive international architecture for sustainable development, as highlighted in the Addis Ababa Action Agenda.

11 See the related discussion on this issue in chap. V.