

How Has the UN Faced up to Development Challenges?

Abstract

Contrary to what many believe these days, the UN has been, on many occasions and for many decades, ahead of the curve in the economic and social development field. It has lived up to important challenges, such as providing an international development framework and clarifying the terms of trade debate in the 1950s, coming up with an alternative development strategy during the 1970s, and putting environmental, population and gender questions on the map. True, during the 1980s the UN was on the defensive, as the initiative shifted to the World Bank and the IMF, not necessarily to the advantage of the developing countries. During the 1990s, however, the UN came back with a vengeance by launching the series of Human Development Reports and the Millennium Development Goals. The UN has been lagging behind in the tragic area of HIV/AIDS as well as in incorporating culture into the development equation.

Keywords: development, employment, income distribution, terms of trade, population, environment, gender

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Any history, institutional or intellectual, must stand on the shoulders of the past. It was, therefore, natural that the United Nations Intellectual History Project started out with a first publication that explored the extent to which the UN family of organisations has measured up to the task of global and regional challenges during the first 60 years of its life (Emmerij *et al.*, 2001). The United Nations was born in San Francisco in 1945, just as the most destructive war in recorded history was coming to an end. Rising from the ashes of destruction and despair came four powerful sets of ideas.

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- ▼ Peace – the idea that sovereign states could create an international organisation and procedures that would replace military aggression and war by negotiation and collective security.
- ▼ Independence – the idea that people in all countries had the right to be politically independent and make whatever national and international agreements that their citizens might choose.
- ▼ Development – the idea that all countries, long independent or newly so, could purposefully pursue policies of economic and social advancement, which over time would rapidly improve the welfare and living standards of their populations.
- ▼ Human rights – the boldest idea of all, namely that every individual in every country throughout the world shares an equal claim not only to such individual civil and political rights as life, liberty, and the pursuit of happiness, but also to a core of more collective economic and social freedoms.

The present article presents a certain number of highlights of this journey in the past. It is structured around the following problem areas:

- (1) The early development challenge
- (2) Patterns of development, income distribution and employment
- (3) UN world conferences and global challenges
- (4) The new social question
- (5) The socialist bloc's collapse.

1. The Early Development Challenge

When the UN turned to issues of economic and social development in the late 1940s one talked about 'underdeveloped countries' – although these countries often had rich and complex histories and cultures. They were economically poor rather than underdeveloped. Nor was economics as underdeveloped as it appeared at the time. Adam Smith had published *An Inquiry into the Nature and Causes of the Wealth of Nations* 170 years earlier (Smith, 1776, 1979). The 19th and early 20th centuries were full of pioneering works on the early experience of development in Europe. The works of Robert Malthus, David Ricardo, John Stuart Mill, Karl Marx, Friedrich List and Joseph Schumpeter were among the greatest, but there were many others (Jolly *et al.*, 2004: Chapter 2).

However, economics as taught in the 1940s was not about development, economic or otherwise. Microeconomics was the standard bill of fare. Paul Samuelson's *Economics* was then in the first

of many subsequent editions. It devoted fewer than three sentences to developing countries (Samuelson, several editions).

In contrast, the UN secretariat was a hothouse for ideas and early development economists. Hans Singer, an early recruit in the UN, commented during our oral history interview: ‘I had the feeling of being at the centre of things, very privileged to be there. After all, the UN was the home of mankind. It was then at the centre of international organisations, the Bank and the Fund were very much on the periphery in those days.’

An important perspective on this early development work can be obtained from three major UN publications published between 1949 and 1951. These were *National and International Measures for Full Employment* (1949), *Measures for the Economic Development of Under-Developed Countries* (1951), and *Measures for International Economic Stability* (1951). Each of these reports was drafted by a team of prominent economists from different parts of the world, with support from the UN secretariat. The economists included some of the best. Among them were two who were subsequently to win Nobel Prizes in economics, W. Arthur Lewis and Theodore W. Schultz.

These reports and their recommendations were ahead of their time, particularly in the international domain. Among the recommendations, the most striking were the following:

- (1) Establishing a new structural equilibrium in world trade within three to four years.
- (2) Measures by industrial countries to encourage capital flows to developing countries in order to encourage rapid growth of production and real incomes, so that the world economy as a whole could attain a steady rate and pattern of growth and permit needed structural adjustments without a contraction of world trade.
- (3) The need for underdeveloped countries to give priority to increasing their rates of saving and investment and to the transfer of labour from low-productivity rural areas to higher-productivity urban areas.¹
- (4) Lifting the institutional constraints on economic development, such as the high concentration of land ownership, discrimination within banking systems and other factors hindering the mobility of resources.

1 Abstract1 W. Arthur Lewis was a member of one of the commissions and his hand is clearly visible here.

- (5) Attacking short-run fluctuations in the prices and terms of trade of primary products through the negotiation of international commodity agreements.
- (6) The World Bank to secure a substantial increase in the flow of lending to developing countries in the event of recession.
- (7) More flexible arrangements by the International Monetary Fund (IMF), including being prepared in the event of recession promptly to overcome the temporary difficulties of its members.

These reports – produced around 1950! – display a bold confidence: They analyse and tackle the issues of instability within a clear global frame. They recognise how underdeveloped countries have an even greater stake in stability for their long-run development than industrial countries have, and they show how action for the underdeveloped countries could and should be combined with global action to avoid instability and recession.

What a contrast with the global failures of the 1970s and 1980s! Fluctuations in the global economy returned with a vengeance, following the breakdown of the Bretton Woods system in 1971 and the oil price shocks of 1973 and 1979. More than 20 years after the publication of the three UN reports, UNCTAD would call for a common fund to support a range of commodity agreements, much as recommended two decades earlier. The instabilities and higher oil prices severely disrupted development in the weaker countries, setting up the debt overhangs and debt crises of the 1980s. No global approach was adopted and the Brandt Commission's recommendations for a global stimulus plan were ridiculed. Instead, the country-by-country approach to adjustment in each developing country became the norm, and most African and Latin American countries were obliged to carry the full burden of adjustment themselves, with far too little international support. Thus, the 1980s became the lost decade.

Let the moral not be oversimplified. Adjustment in the 1980s was in most cases certainly necessary – even though a more human form than was usually imposed by the heavy hand of the IMF and the World Bank. Larger and more flexible support was required in the form of foreign exchange and access to export markets freed from the risks of large commodity price fluctuations and declines. These were precisely what the 1949–50 UN reports had addressed. How different the situation of the third of the world's population living in poverty would have been today if the recommendations of the UN reports had been taken more seriously at the time – or rediscovered and implemented two decades later.

The conclusion must be that the UN, five years after its inception, was far ahead of the curve in facing the global economic development challenge of the post-war era. The UN was far more insightful than the World Bank, the IMF, and many economists of the time.²

2. Patterns of Development, Income Distribution and Employment

At the beginning of the 1950s the process of decolonisation proceeded apace, the Universal Declaration of Human Rights was agreed (in 1948), and – as we have just seen – the UN was well launched into development, having set a new international framework for action, more far-reaching and radical than many realised at the time or since. This framework for international development and support covered three priority areas: employment, development policies, and international trade and finance. The principle that each country must fashion its own development strategy according to its own objectives and situation was well established, but now with the recognition that major international assistance, both technical and financial, would also be necessary.

The significance of these early UN contributions was largely ignored at the beginning of the 1950s. The Korean War was raging. The drama of the Security Council and the UN's political debates and battles, then as now, monopolised the headlines. Moreover, the Marshall Plan, being handled outside the UN structure and the Bretton Woods institutions, meant that the big money of international assistance had become intentionally a North American–European issue instead of a global enterprise.

In spite of all this, the UN was involved, articulating the collective demands of the developing countries. At the beginning of the 1960s the formulation of a global framework in the form of the First Development Decade was a critical step (UN, 1962). This was followed by the establishment of UNCTAD in 1964, with its use of group negotiations and its focus on the requirement of external finance in developing countries to help break the cycle of poverty.

In reaction to the bittersweet record of the 1960s – better than expected economic growth but mounting problems of employment, population growth, resource scarcity and environmental pollution –

2 The reports were criticised by, among others, Peter Bauer (1953) and Herbert Frankel (1952).

the UN during the 1970s became the forum for several pioneering activities and debates. Employment creation and poverty reduction moved to centre stage. Work by the ILO was ground-breaking in this respect.

Towards the end of the 1960s astute observers noted mounting problems in the developing countries, in spite of high rates of economic growth. These included increased poverty, growing unemployment, grievous inequalities in income distribution, and a variety of deteriorating environmental indicators. Until the late 1960s, the mainstream economic view held – to paraphrase the Bible – that with economic growth everything else, including social advancement, would be added unto you. But this was not the case. High rates of economic growth were accompanied by worsening social and socioeconomic circumstances. Dudley Seers, who had worked for the UN in Latin America and Africa, emphasised the multidimensional character of the Development process (Seers, 1969: 3):

The questions to ask about a country's development are: What has been happening to poverty? What has been happening to inequality? What has been happening to unemployment? If all three of these have become less severe, then beyond doubt this has been a period of development of a country concerned. If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result 'development' even if per capita income doubled.

Economic development is unlike death and taxes, because nothing is inevitable. Not only is there no general Kuznets Curve over time in all developing countries, but outcomes are not predetermined (see, for example, Anand and Kanbur, 1981). They reflect political structures and resources – but also, and above all, political will and policy design. The same level of achievement in social development can be attained by countries at very different levels of income per capita (Sen, 1983). The UN system in the 1970s identified an economic and social development pattern that combined high rates of economic growth with employment creation and equitable income distribution.³

The ILO World Employment Programme (WEP) during the 1970s established a framework of ideas within which 'new' ingredients were fitted that amounted to a new development strategy.

3 The ILO World Employment Programme played an important role here, which led to action by the World Bank. See Chenery *et al.* (1974).

The most important of these ingredients (for more details, see Emmerij *et al.*: 2001: Chapter 3) were:

- (1) A clearer definition of the nature of employment and poverty problems in developing countries. The industrial countries' definition of unemployment is quite different from the *employment* problem in poor countries.
- (2) The identification and stimulation of the urban informal sector – a sector that was overlooked by government authorities.
- (3) The identification and stimulation of appropriate technologies by sector of economic activity within the context of proper macro policies and incentives.
- (4) The importance of education, not only as a consumption good, but as an investment in human beings, and the crucial necessity of building bridges between the world of school and the world of work.
- (5) The identification and stimulation of the virtuous circle between the creation of productive employment in hitherto low-productivity sectors, improvements in income distribution, consumption of labour-intensive, locally produced goods, and again creation of productive employment.
- (6) Emphasis on the necessary consistency between macro, sector and micro policies.

The WEP brought employment – and people and human needs – back to the centre of development policies. This was directly in line with the centrality of employment in the early days of the UN. But ILO–WEP work in the 1970s enriched and elaborated the earlier concept of employment and of policies to deal with it by relating both directly to the situations and needs of developing countries.

This led to a major rethinking of conventional development policies that were almost solely focused on achieving economic growth. By the middle of the 1970s, when the ILO was preparing the 1976 World Employment Conference – with the assistance of other UN agencies and the World Bank – the idea of a basic needs development strategy was born (ILO, 1976). Basic needs were defined in terms of food, housing, clothing and public services, such as education, health care and transport. Employment was both a means and an end, and participation in decision-making was included. The first task was to quantify basic needs for a target year – for instance 25 years in the future. In other words, what must national income in $t+25$ be if even the poorest 20 per cent of the population are to see

their basic needs met? Without going into the details of all the numbers and calculations, this quantification was feasible (Sheehan and Hopkins, 1979). Having quantified GDP for the target year, one could then calculate the annual rate of economic growth required between the base and the target years. This approach reversed conventional practice, which was to project a desirable annual rate of per capita economic growth into the future. The latter was a forward-rolling approach, while the basic needs approach achieved more precision by setting specific production targets and deriving the desirable rate of growth implied.

Not surprisingly, in most cases the required rate of economic growth to meet basic needs targets fully, within the time frame, was unrealistically high by historical standards – well over 8 per cent per year over 25 years. East Asia has subsequently achieved such rates as has China today, but in the mid-1970s the East Asian miracle lay ahead. And so, the only alternative way of achieving the targets in full was to work at two levels: the rate of economic growth *and* income distribution. Indeed, if a policy effort is made to improve income distribution, the overall rate of economic growth need not be so high. It was shown in *Employment, Growth and Basic Needs* that with ‘redistribution from growth’ – that is, marginal redistribution of future increases of income rather than redistribution of existing wealth – basic needs targets could be reached with an annual rate of growth of 6 per cent, still high but within reach.

By the end of the 1970s it looked as though a more appropriate development strategy had been designed that effectively combined economic growth, productive employment creation, and meeting the basic needs of the entire population. But there was a catch. So overwhelming were the positive responses from the industrial countries, and the World Bank, that the attitude of the developing world – committed to negotiating the New International Economic Order (NIEO) – switched abruptly from enthusiasm to skepticism. Indeed, their focus had been on *international* income redistribution, while basic needs approaches concentrated on *internal* income redistribution. Obviously, the two go hand in hand, but that was too simple-minded for the Manichean world of North–South confrontation.

Notwithstanding, by the end of the 1970s economic and social policies had been widely embraced that addressed two of the most important challenges of developing countries: productive employment creation and poverty reduction. But viewed from the distance of close to 30 years, the employment and basic needs strategies were weak on gender, the environment, and to a lesser extent interna-

tional dimensions. But historical context is important here, because these considerations only began to attract mass attention through the 1972 Stockholm conference and the 1975 Mexico City conference.

With the advent of the 1980s, economic and financial orthodoxy once again started to emphasise financial balance and low inflation over employment creation and income distribution. It took some time – and a lost decade – for policy-makers to realise once again that they should not be concerned solely with inflation, balance of payments, and GDP, but also with employment, individual incomes, income distribution, nutrition, food balances and human growth. The policies implemented during the 1980s and beyond may have been a necessary corrective to previous policies, but they totally overshoot the mark and in the end have been counter-productive.

3. The UN World Conferences and Global Challenges

From the vantage point of the beginning of the 21st century, it may be difficult to believe that in the 1960s environmental degradation, population growth, urbanisation and women's rights were being discussed but were not squarely on the international agenda. This changed during the 1970s. The United Nations system launched a series of global conferences on each of these challenges – and others. Public opinion was mobilised. Action was often weak, inadequate for the challenges identified. But the long-term dynamics had been fundamentally altered.

International conferences were of course nothing new, but in the 1970s the UN institutionalised the conference system as a transmission belt for ideas in order to respond to common, global concerns (Fomerand, 1996; UN, 1997). Thus, the major goals of these conferences were to raise awareness of common problems, to promote a change in the dominant attitudes toward them, and to stimulate the establishment of programmes of action to confront the challenges. The 1972 Stockholm Conference on the Human Environment was the first of the series and, from this perspective, a resounding success. Its worldwide publicity largely contributed to the inclusion of environmental concerns in national and international policy discussions.

During the 1990s, the UN system went back to this method and continued the series begun in the 1970s, but this time with the participation of heads of state and government rather than 'mere' ministers. Here we present a few examples of world conferences to

see whether the UN was ahead of the curve and succeeded in changing the policy discourse. The examples selected are the environment, population questions and gender issues.

Environment

Stockholm put environment firmly on the international agenda – a subject that has expanded to include development, sustainability and global resource management. Divisions between North and South were very much present in Sweden. Industrial countries were mainly preoccupied with the negative impact of industrialisation, such as air and water pollution, and depletion of non-renewable resources. By the beginning of the 1960s Rachel Carson's *Silent Spring* had revealed the effects of toxic chemicals in the world food chain; and later Paul Ehrlich's *The Population Bomb* had raised the spectre of developing countries' breeding themselves into irredeemable Malthusian misery (Carson, 1962; Ehrlich, 1968). On the other hand, developing countries viewed the rich countries' environmentalism as a threat to their development objectives. They stressed that most environmental problems resulted from past industrialisation of the now developed countries. Developing countries explicitly proclaimed that they had a right to economic development and that environmental concerns could not be used to limit this right.

Maurice Strong, the Secretary-General of the conference, had the insight to organise a meeting of what he called 'gurus' at Founex, Switzerland, in 1971, to articulate the interconnectedness of environment and development from a Third World perspective. This meeting – which brought together such 'gurus' as Jan Tinbergen, Hans Singer, Mahbub ul Haq, Ignacy Sachs and others – emphasised that environmental issues should become an integral part of development strategy (UN, 1972). Many of its conclusions, as well as the overall framing of the problem, were reiterated in Stockholm and in subsequent UN and other publications:

- ▼ environmental problems experienced in the developing world are fundamentally different from those in the developed one;
- ▼ developing countries could and should avoid the degradation that can accompany development;
- ▼ all countries have the sovereign right to determine their development strategies, and approaches must be tailored to country specificities;

- ▼ the concerns of the North should not have a negative impact on the economic development of the South; and
- ▼ the transfer of resources from the developed to the developing world is crucial to addressing the environment and development nexus of problems.

The Stockholm conference came up with two big ideas. The first was not to enforce on developing countries arbitrary limits to their economic growth, but to conceive and finance integrated approaches to ensure environmentally friendly development. The second was the relation between environment and development. Developing countries' top priorities were poverty reduction, housing, education and health to improve the well-being of their populations. The Stockholm Declaration stressed that in developing countries most environmental problems were caused by underdevelopment ('poverty is the biggest polluter of all', in the words of Indira Gandhi), the main theme from Founex.

One of the most visible impacts of ideas lies in the creation of institutional mechanisms to assure the pursuit of a new consensus. Following Stockholm, ministries of the environment were created so that the idea became embedded in governmental structures. Within the UN itself the United Nations Environment Programme (UNEP) was established. Rio in 1992 and Johannesburg in 2002 elaborated on Stockholm, but did not substantially change the results. The idea that had been so unusual at Founex and Stockholm has become common for decision-making at all levels. The World Bank has altered its lending policies to reflect concerns with sustainability (Wade, 1997). The glass is considerably less full than environmental activists would have liked, but undoubtedly it is fuller than it would have been without Stockholm.

Population

We had to wait until the 1960s for population problems to become more than an academic exercise. Many industrial countries, with the United States in the lead, were calling for targeted family planning initiatives. The UNFPA (United Nations Fund for Population Activities), later to be called the UN Population Fund, was set up towards the end of the 1960s.

The UN World Population Conference in Bucharest was convened in 1974 to address this global challenge. With echoes of Founex and Stockholm audible, the developing countries argued in

Bucharest for the problem of population growth to be addressed as an integral part of a comprehensive development strategy. As the head of the Indian delegation said, ‘Development is the best contraceptive’ (UN, 1974: 3).⁴ The debate in Bucharest reflected deep North–South frictions, and the conference produced a much debated and substantially redrafted World Population Plan of Action. The final version eliminated earlier references to fertility reduction targets and situated population growth squarely within the broader framework of economic and social development.

A follow-up conference was convened in Mexico City a decade later, by which time a dramatic shift had taken place in developing countries’ thinking. Developing countries now recognised the negative impact of population pressures on development. New policies were implemented, including well-publicised ones in both India and China. Many African countries began to emphasise measures to slow down some of the world’s fastest population growth rates. At the same time, and under pressure of anti-abortion and anti-family planning lobbies, the Reagan administration became much less supportive and withdrew finance for the International Planned Parenthood Federation and UN organisations that offered abortion information services. It was the world in reverse.

Mexico confirmed the role of development in lowering fertility, but also the effectiveness of family planning *per se*. It emphasised the need for women’s advancement, a theme that had been put forward in the same city a decade earlier at a world conference in 1975 (see below). The growing relationship between world conferences became clearer as the decades progressed.

Twenty years after Bucharest, developing countries had taken important steps in implementing new population policies. In 1974, only 27 countries had explicit population policies. In 1994, more than 100 countries had such policies, and most of the world’s governments provided support for family planning. Hence, the seeds of ideas sewn in the 1970s had taken root by the time of the third population conference, in Cairo. In 1974 the link to development had been controversial, but by 1994 everyone agreed on the linkage of reduced population levels with accelerated development.

The 1994 Cairo International Conference on Population and Development stressed women’s empowerment, interaction between population, development, and environment issues, as well as serv-

4 Country statement by Dr Karan Singh, Minister of Health and Family Planning, India, August 1974.

ices to meet women's reproductive health needs, including – but going beyond – family planning. The shift in emphasis is shown in the goals proposed for consideration by the Cairo conference, which were in three mutually reinforcing areas: reduction in child, infant and maternal mortality; universal completion of primary education, especially for girls; and universal access to family planning information and services. The language in the conference's programme of action about reproductive health and rights represents a breakthrough in its recognition of the basic right of couples and individuals to decide freely and responsibly the number, spacing and timing of their children, and to have the means to do so, as well as access to information.⁵

The Cairo conference led to a paradigmatic shift in the recognition that women's empowerment and access to reproductive health were central to demographic control and development – in short, gender became central to mainstream population debates. The need to improve the status of women, in particular their education, is the best strategy to cut birth rates. And so, the 20-year trajectory from Bucharest to Cairo could, to elaborate on the words of the Indian delegate cited earlier, be summarised as follows: Development plus education plus empowerment of women are the best contraceptives.

Women in Development

Over a period of 20 years the UN convened four world conferences on women's issues. Between Mexico City in 1975 and Beijing in 1995 – via Nairobi and Copenhagen – this process changed the way in which women were perceived in the development struggle. Women have been more and more viewed as full and equal partners with men, with equal rights to resources and opportunities. In development thinking an analogous shift took place from an earlier belief that development served to advance women, to a new consensus that development was not possible without the full participation and empowerment of women. The 1995 *Human Development Report* argues that unless development is engendered, it is endangered: 'The new world order would thus put people – both women and men – clearly at the centre of all development processes. Only then can human development become fully en-

5 'Plenary POP/572, Press release, Final Meeting and 14 September 1994 Round Up Session of International Conference on Population and Development Concludes in Cairo 5–13 September'.

gendered' (UNDP, 1995: 10). The four conferences on women have generated remarkable cross-cutting coalitions from all classes and socio-economic groups from North and South, with an indisputable effect on changing awareness and policies for women in many countries.

In calling for the 1975 Mexico conference, the General Assembly identified three key objectives:

- ▼ full gender equality and the elimination of gender discrimination;
- ▼ the integration and full participation of women in development; and
- ▼ increased contribution by women in the strengthening of world peace.

By the end of the United Nations Decade for Women in 1985, 127 member states had reported the creation of some form of national machinery dealing with the promotion of women's advancement and participation in economic and social policy and development. Within the UN system, the Mexico conference led to the establishment of the International Research and Training Institute for the Advancement of Women (INSTRAW) and the United Nations Development Fund for Women (UNIFEM). A milestone was the adoption by the General Assembly of the Convention on the Elimination of all Forms of Discrimination against Women, in December 1979. This convention legally binds states and obligates them to report within one year of ratification, and subsequently every four years, on the steps taken to remove the obstacles they face in its implementation.

Momentum was maintained by convening the Copenhagen conference in 1980, at the midpoint of the women's decade. The Third UN World Conference on Women held in Nairobi in 1985 reviewed critically the achievements and shortcomings of the Decade for Women. UN data revealed that improvement in the status of women and efforts to reduce discrimination had benefited only a small minority of women, mainly in the North. But the Nairobi conference broke new ground in declaring all issues to be women's issues. It called for gender to be included in every sphere of human activity, from employment, health, education and social services to industry, science, communications and the environment. The UN Division for the Advancement of Women was established to monitor and implement the Forward Looking Strategies to the Year 2000,

adopted by the conference. Many referred to Nairobi as the birth of ‘global feminism’ and, indeed, the movement for gender equality had gained true global recognition across the globe.

The Fourth UN World Conference on Women took place in Beijing in 1995. The UN review showed that progress had been made in thinking, but that in practice there was still a long way to go (UN, 1995). The fundamental transformation in Beijing was the recognition of the need to shift the focus from women to the concept of gender, recognising that the structure of society, and all relations between men and women, had to be re-evaluated. This change represented a strong reaffirmation that women’s rights were human rights and that gender equality was an issue of universal concern. Beijing broke all records of attendance – 17,000, plus 30,000 NGO representatives; a total of 47,000 participants! The presence and influence of NGOs, one of the most active forces in the drive for gender equality, had increased dramatically since Mexico City in 1975. In Beijing, NGOs directly influenced the content of the action platform and would eventually hold their national leaders accountable for the commitment they had made to implement the programme.

In spite of the above efforts of the UN and progress made, there is still a long road ahead. Women still lag behind in virtually all aspects of life. Nonetheless, in most countries changes are occurring and many female leaders believe that the UN conferences and the UN itself have been part of the process of change.

4. The New Social Question

The 1980s ushered in a period of reaction against many of the ideas that had been put forward during the ‘creative 1970s’. The neo-liberal revolution of the early 1980s was less ‘neo’ and more old-hat market ideology of a bygone age. It grew out of four problem areas: the crisis of inflation and Keynesian policies in the North; the global recession, balance-of-payments problems, and debt crisis in the South; the growing internal contradictions of socialist economies; and the political triumph of Thatcher–Reaganism in the United Kingdom and the United States. The widespread acceptance of this financial and market-oriented orthodoxy was based less on clear evidence of its effectiveness – much was after all just re-emphasising the core of earlier and discarded liberal doctrine – but rather as a reaction against previous interventionist policies and their failures (Hirschman, 1981a: 384). A cynical vision of the state

as a mechanism for rent-seeking and self interest replaced the Keynesian and developmentalist visions in which the state was a legitimate and purposeful contributor to development (Lal, 1987; Krueger, 1990).

The new world-view gave high priority to the fight against inflation, and real interest rates rose sharply. This, combined with the monetarist policy implemented by the US Federal Reserve Board, led to a considerable appreciation of the US dollar. Concentration on budgetary and monetary discipline in the North and the accompanying recession resulted in a severe contraction of world demand and a further deterioration of the terms of trade for primary products. Indebted developing countries faced a deep financial crisis, the combined result of the strong dollar, high rates of interest, and the drop in their export prices and incomes. This situation sparked the international debt crisis – with Mexico refusing to service its debt in August 1982 – and the ‘lost decade’ in Latin America and Africa.

The 1980s were also marked by the increasing influence of the Bretton Woods institutions, which imposed structural adjustment programmes to suppress the alleged bias introduced by state intervention. The ‘new’ orthodoxy was neatly summed up as the ‘Washington Consensus’ by John Williamson. This ‘consensus’ represented the views of the most powerful financial countries and institutions rather than a global agreement. Williamson’s 10 prescriptions fell into two major areas of policy:

- (1) The establishment of a healthy base for growth through macroeconomic stabilisation and austerity programmes. This was seen as an important step on the road to the return of growth and prosperity. It included fiscal discipline to put an end to budget deficits, tight controls on public expenditure, and reliance on unified exchange rates in place of import controls and export subsidies.
- (2) The restructuring of the economy towards export- and market-oriented activities through liberalisation, deregulation, and privatisation. The objective was to strengthen the private sector as the main actor of growth and development through tax reform, liberalisation of trade and finance, privatisation, deregulation, and strengthening of property rights. Countries should also be opened up to direct foreign investment.

This was of course a recycled version of trickle-down economics, with growth given greater weight than income distribution and so-

cial objectives. The underlying hypothesis was that policy reforms designed to achieve efficiency and growth would also promote better living standards, especially for the poorest.⁶ The social costs of structural adjustment were inconvenient but temporary; in any case they were inevitable in order for countries to return to more rational and viable structures. And so, trickle-down economics that had been proven to be ineffective for fighting poverty in the medium term came back with a vengeance, brushing aside decades of research results. Cutting back on government expenditure meant cutting back on education and health, and often worsening poverty and income distribution. As the well-known Canadian economist Gerry Helleiner said: ‘The neo-liberal thrust was a reaction to previous over-reliance on the state, and the direction of the reaction was appropriate. But it was overdone. The legacy of the neo-liberal thrust of the 1980s will be close to zero. They moved things back in the right direction, but greatly overshot.’⁷

Why then, it could be asked, was there such unalloyed optimism about this set of economic and financial policies? The essential explanation reflects the choice of indicators by which success and failure are measured. The prescriptions emanating from conventional neo-liberalism are successful if the results are measured by such indicators as inflation, external balances, debt ratios and financial deficits. However, using criteria that capture such flesh-and-blood considerations as persistent poverty, unemployment, income distribution and global crime would lead observers to a different judgment. Thus, the policies of the 1980s have given rise to a ‘new social question’. This can be illustrated by the following eight propositions:

- (1) Globalisation is private-sector driven; regionalisation is public-sector driven. The public sector is running several laps behind the private sector.
- (2) Globalisation is sharpening the intensity of competition and competitiveness. But extreme competition diminishes diversity in a society and contributes to social exclusion. The more systems lose their variety in this way, the more they lose the capacity to renew themselves.
- (3) Societal restructuring has not kept pace with economic and technological restructuring. Labour markets, educational systems,

⁶ For illustrations see, for example, Corbo and Fisher (1987); Streeten (1987).

⁷ UNIHP Oral history interview with Professor G. Helleiner.

and pension and tax regimes have not changed in line with the dramatic economic and technological revolution.

- (4) The neo-liberal policies introduced in the 1980s have not solved the old, outstanding social problems of unemployment, poverty and unequal income distribution. In fact they have frequently intensified them. The employment situation, poverty and income distribution have deteriorated in many countries to unacceptable levels.
- (5) Thus, a new social question has arisen which has two components. The first is the intensification of the 'old' social problems, mentioned earlier. The second is the emergence of 'new' elements – including international criminality; growing urban dualism; new forms of international migration, very often linked to civil wars and lack of economic opportunity; and drugs, which itself has become a global industry. The reception that acts of terrorism get in so many countries and by so many people is no doubt linked to the perceived absence of any hope for the future.
- (6) The world has entered into a period of global wealth in the midst of increasing national and individual poverty. Almost half the world population survives on less than 2 dollars a day, and hundreds of millions are worse off today than they were 10 or even 20 years ago. The number of people living in absolute poverty continues to increase in many parts of the world. The slight decrease worldwide is due to the improving situation in India and China. Take these two huge countries out of the statistics, and the picture of the rest of the developing world is dismal. The combination of neo-liberalism and globalisation is creating global wealth while the income of many governments is on the decline at the very moment that they require additional resources to pay for the increased financial outlays necessitated by the new social question. The 'new' policies have given rise to a new distribution problem leading to social fragmentation and the loss of social cohesion.
- (7) Mega-cities, particularly in the South, have become Romes without an empire. They breed crime and waste resources. There has developed an urban question within the new social question that has many dimensions – including poverty, inadequate housing, health problems, unemployment, slums, crime, drugs, the phenomenon of street children, and poor quality of education. Common problems can be observed in urban conglomerates worldwide. The most important include growing inequalities,

spatial and social fragmentation, and informalisation, leading to the phenomenon of ‘cities divided against themselves’ (Matthew 12: 25).

- (8) There is no equivalent of social support at the global and regional levels, except in the case of the European Union. At the end of the 19th century a politician like Otto von Bismarck (hardly a progressive) understood that the power of markets had to be balanced by social measures. That was the beginning of the welfare state. The private sector became somewhat less free but more civilised. Today a countervailing power is required at the global level to redeem the economic responsibility of states and the social responsibility of the business community.

What has been the reaction of the United Nations in the face of this onslaught? Very timid in the 1980s, but becoming stronger later. In the 1990s the UN made three contributions to the rethinking of conventional, neo-liberal policies. The first was the series of summit conferences organised during the last decade of the 20th century, as a follow-up to the world conferences of the 1970s discussed above. The second was the series of *Human Development Reports* (UNDP, several years). And the third was warning against financial volatility, a volatility that resulted in the series of financial crises witnessed throughout the 1990s, ranging from the Tequila crisis in Mexico, via the Russian and Brazilian crises, to the East and South East Asian disaster in 1997. The latter had been predicted by UNCTAD in its 1997 *Trade and Development Report* when it argued that uncontrolled capital accounts would give rise to a crisis brought about by extreme volatility in financial flows (UNCTAD, 1997). This was clearly ahead of the reactions in the Washington-based financial institutions, which were still preaching the virtues of open capital accounts.

We had to await the final years of the 20th century to see the IMF and the World Bank asking questions. The reaction in the Bank was led by Joseph Stiglitz, its Senior Vice-President and chief economist. In January 1999 in Helsinki he gave the first lecture sponsored by WIDER (World Institute for Development Economics Research), and a few months later delivered UNCTAD’s ninth Raul Prebisch lecture. Significantly, Stiglitz spoke in two forums for UN ideas – WIDER being part of the United Nations University and UNCTAD of course part of the UN (Stiglitz, 1999). He acknowledged in no uncertain terms the failure of the Washington Consensus. It had focused too narrowly on economics while ignoring such

factors as the quality of life, health standards and education. It had also failed to involve the countries and people concerned.

At the beginning of the 21st century and after some two decades into the current orthodoxy of neo-liberal and globalisation policies, the ideas and concepts advocated by such organisations as UNCTAD, the UN Regional commissions, UNICEF, UNRISD and UNDP appear to be having an impact. Globalisation requires a human face if it is to address new threats to security – human and otherwise – and new social problems. Neo-liberal policies are not the only path towards globalisation. The search is on for an alternative route that benefits all people.

5. The Collapse of the Socialist Bloc

It is now more than 15 years ago that the Berlin Wall fell and that Central and Eastern Europe were freed of communism, but somehow it already seems like ancient history. But as in ancient history, only the stark images stand out – such as that of people destroying the Wall with their bare hands – while the subtleties of alternative policies for the transition period towards capitalism have been all but forgotten.

Advice given to the ‘transition countries’ 15 years ago was of two very different kinds. On the one hand there were the international financial institutions (the IMF, the World Bank and, later, the European Bank for Reconstruction and Development, EBRD), assisted by several vocal international consultants, which largely followed neo-liberal economic measures that had come back into vogue during the 1980s: free prices, remove subsidies, open up economies to international trade, free convertible currencies, privatise state-owned companies, issue an open invitation to foreign investment, close inefficient plants and retire redundant workers. It was urged that these reform packages – which went by various labels, including ‘big bang’, ‘one leap’, or ‘shock therapy’ – be adopted quickly and completely. It was recognised that such abrupt policy measures would involve costs – higher prices, unemployment, lost income, and more foreign debt and servicing. But, so it was argued, these costs would be short term and more than offset by longer-term benefits accruing from freer markets (Blanchard *et al.*, 1993; see also Sachs, 1993).

At the same time, other analysts insisted that a market economy was not a panacea for all economic ills. There would be a tortuous route towards the adoption both of a pluralistic democracy as

a system of government and of the free market as a system of economic management (Przeworski, 1991). Although the transition from a centrally planned to a market economy appeared, on the surface, to be composed mainly of practical problems of management, quite a few observers argued that this was not in fact the case. They believed that a complete and rapid transition was impossible and also undesirable (see, *inter alia*, Portes, ed., 1993; Dewatripont and Roland, 1992). There were neither pre-existing, appropriate, theoretical solutions nor models for the momentous changes under way. An institutional structure for the new approaches would need to be built, often as a first step. Gradualists emphasised the need for an original path of transition based on a country-specific sequencing of policy measures.

This more cautious school – a ‘crawl’ rather than a ‘leap in the dark’ – argued in favour of recognising the essential characteristics and internal weaknesses of Central and Eastern European economies. It also expressed doubt about continued public support for a reform process that would involve hardships of unknown magnitude and unpredictable duration. It warned leaders of the former communist countries to think twice about the wisdom of exposing their still fragile democracies to shock therapy that might amount to economic free fall. This school – which turned out to be the minority school – realised that the transition countries confronted a panoply of questions in moving from a centrally planned economy, in which the ownership of the means of production and the land are essentially concentrated in the hands of the state, to a market economy, in which the ownership of the means of production and the land are in private hands. What is the best means to privatise an economy? To whom does one sell the enterprises? With what money will people buy shares? Where can the new managers of privately owned companies be found when none has been trained for this type of activity and no one has actually exercised such skills in the past 50 to 75 years? What about competition? What is the most effective way to liberalise foreign trade? What types of management tools are available for a new market-economy-oriented government?

While the international financial institutions urged the big-bang method, the UN Economic Commission for Europe (ECE) was in favour of the more cautious approach. There were obvious political considerations behind the ‘big bang’ school. Its partisans argued that it was essential to make a clean break with the past and to take maximum advantage of the ‘window of opportunity’ created by the

euphoria following the Berlin Wall's collapse. Eastern European leaders (Leszek Balcerowicz, Vaclav Klaus), the international financial institutions, individual international advisors and also the German Chancellor argued that it was imperative to exploit an exceptional moment to reach a point of no return in the process of transition. Radical, systemic changes were possible during the time period when there was strong popular support for transformations. And, indeed, at the beginning of the transition, people strongly supported the shift to anti-egalitarian and pro-market policies because they thought this would give them access to opportunities with higher economic rewards. The shock therapists were particularly worried that a more gradual reform process would give time and opportunity to conservative forces to block or slow the transition and to restore vested interests.

Instead of rushing, the ECE, in two remarkable and early documents (ECE, 1990; 1991), pointed out that the transition from a centrally planned to a decentralised market economy would be longer and more tortuous than the partisans of the shock therapy had imagined. In the light of subsequent events, it appears prescient. The ECE stressed the inevitable painful effects of transition on the population. It warned in no uncertain terms that without a greater consensus the prospects for sustained change were small. Many other observers posited that the dramatic social cost of shock therapy would produce disruptive social tensions (see, for example, Greskovits, 1998).

The ECE framework for the transition in Central and Eastern Europe focused on comprehensiveness (how much to change), speed (how to introduce change), and sequencing (what to change first). It stressed the importance of careful sequencing to take into account the degree of consensus and the technical and organisational capacities of the administrative structures to sustain reforms. The ECE underlined the contradictions between speed and comprehensiveness, which, in extreme form, could be mutually incompatible and erode the support of populations. It also suggested the need for a country-specific approach that differed greatly from the uniform transition mold applied by the big bangers.

The ECE survey presented a set of reforms to implement at the outset: property rights, macroeconomic stabilisation, price liberalisation, micro reforms at the enterprise level, the establishment of a commercial banking infrastructure, trade and foreign exchange liberalisation, creation of social safety nets, and labour market changes. Afterwards came reforms with lower priority, including current

account convertibility, the establishment of legal instruments and institutions, easier foreign investments and a more competitive environment. Finally, the ECE proposed changes that simply could not be addressed in the short term, including large-scale privatisation, the creation of an adequate regulatory environment and of capital markets, and reform of the pension system.

Shock therapy won the day. Everyone agreed that in the short term stabilisation and adjustment would lead to recession and social dislocations. The debate was about how long and how severe the recession and how disruptive the social dislocations would be (Kornai, 1994). The proponents of shock therapy asserted that the duration would be short and the costs bearable.

These forecasts turned out to be wrong. Both the economic recession and the social costs turned out to be deeper than anticipated. 'The results have been dismal,' summarises Bill Maynes, former editor of *Foreign Policy* and former US assistant secretary of state for international organisation affairs. 'Tens of millions of people are being pushed out of the Second World into the bottom of the Third' (Maynes, 2000: 68). There is now (15 years later) consensus among the one-leap school that the recession has been much deeper and longer than expected and that the transformation has not delivered the promised benefits. This dramatic divergence between expectations and reality has been at the heart of the turn-arounds in the political climate in many countries of the region. Indeed, and as the gradualists had cautioned, recycled communist parties have made electoral comebacks during the transition period.

Why did the ECE approach not prevail? Why was shock therapy more palatable? The answer does not lie in the quality of the UN analyses. The 1991 survey, *The Hard Road to the Market Economy*, was more thoughtful and on target than the conventional neo-liberal arguments were. At the official level, the lack of support had several causes. First, the ECE is a small part of the UN system, with no financial resources to back up its ideas. Second, Western governments were more focused on reducing deficits than in providing the financial support for the transition in the East. Third, many incoming officials in the transition countries were eager to distance themselves from the past, and those proposing shock therapy had resources.

Apparently the ECE was too far ahead of the curve. It cannot be proved that, if the gradualist approach had been adopted, the results would have been better. But looking at what has happened over the past 15 years, it is difficult to imagine that it could have been

worse. The UN most probably had the better ideas and the better strategy. But the resources were in favour of the other approach. Money versus ideas – the outcome was sadly predictable.

6. Concluding Remarks

This article began by setting out the four compelling ideas proclaimed at San Francisco 60 years ago and embodied in the UN Charter: peace, independence, development and human rights. In a surprising number of cases the UN has been ahead of the curve in terms of ideas.

In the early period, the UN insisted on the necessity of an *international development framework* in order to assist *national* economic and social policies. This was an idea ahead of its time, but the action taken – namely the Marshall Plan – took place outside the UN and was limited to the industrial world. Other ideas launched by the UN in those early days – and not explicitly dealt with in this article – relate to the secular downward trend in the terms of trade of the developing countries (the so-called Singer–Prebisch thesis) and the work on national accounts. These stories are recounted in two UNIHP volumes by Toye and Ward respectively (Toye and Toye, 2004; Ward, 2004).

The middle years – basically the 1970s – were creative, in that new ideas for development policies were launched (employment and basic needs-oriented development strategies). The UN also played an important role in influencing population policies and putting environmental and gender issues firmly on the map. It was less successful in channelling the debate on the New International Order (NIEO) to a productive middle ground. That was a pity because it can be considered the first important attempt to put international governance on the table.

The 1980s were a difficult decade for the UN. Attention shifted to the Bretton Woods institutions and neo-liberal economic and financial policies – a recycled version of trickle-down economics. The reaction of the UN was too timid and too late. We had to wait until the 1990s for a reaction in the shape of the Human Development reports and the UNCTAD Trade and Development reports. The Millennium Development Goals, launched in 2000, are part of this attempt by the UN to take the initiative again.

Good ideas do not always win out and being ahead of the curve can mean that your time has not come... This was illustrated by the story of the policies proposed for the transition economies in 1989–

90. To my mind the UN had the better ideas by proposing a gradual approach. But the ‘big bang’ won the day, for political and financial reasons.

The UN has done better in the economic and social development field than is sometimes thought. It has travelled a long and productive road with an occasional big bump, particularly during the 1980s. The road ahead looks bumpy too, but not more so than the one that the organisation has left behind.

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