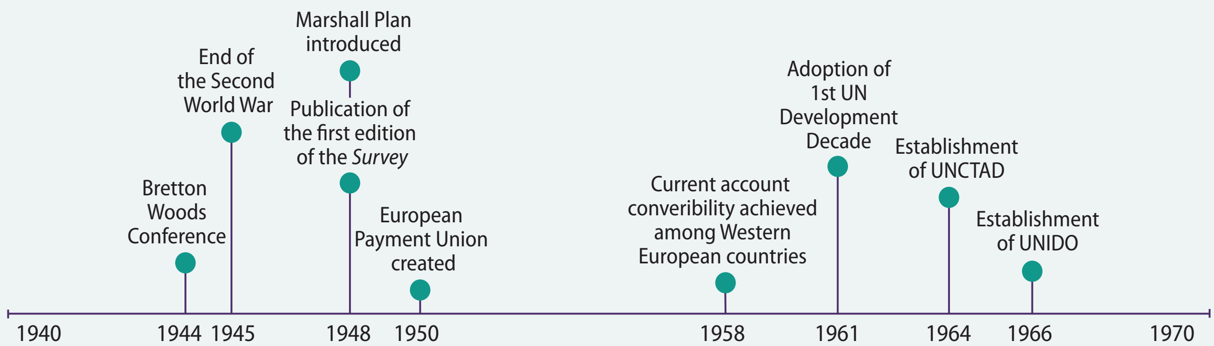
Chapter II

Post-war reconstruction and development in the Golden Age of Capitalism

Key messages

- The *World Economic and Social Survey* was an early proponent of development as a process of large-scale structural and institutional change for the promotion of high standards of living, full employment and social progress. Starting from the first edition, issued in January 1948, the *Survey* recognized the need for coordinated international action to accelerate economic growth, facilitate the cross-border flow of goods and services and support effective utilization of resources in the context of an expanding and integrated world economy.
- The expansion of international trade and a functioning payments system were recognized as two critical factors for development in the post-Second World War period. However, large fluctuations in commodity prices and, correspondingly, in foreign exchange earnings were a source of economic instability for many developing countries back then and this has continued to be the case right up to the present.
- In the 1950s, the flexibility that European countries were afforded in meeting their International Monetary Fund-related obligations enabled the successful creation of the multilateral international payments system. Six years after the initial commitment, most Western Europe countries had eliminated foreign exchange restrictions and established current account convertibility. A similar flexibility in debt negotiations was important for the facilitation of a rapid recovery in Europe in the post-Second World War period as well as in Latin America in the 1930s.
- International solidarity has played an important role in development and reconstruction. Western European countries received resources equivalent to 1 per cent of the gross national product of the United States of America in the period from 1948 to 1952 through the Marshall Plan. Generous financial support and flexibility in the enforcement of international commitments assisted in the recovery of financial stability and facilitated a more efficient allocation of resources and a more rapid liberalization of trade.
- The discussion on planned development in Part I of the 1964 edition of the *Survey* (p. 2) remains of great significance today. The *Survey* observed that "the acceleration of economic and social development requires a more long-sighted approach to policy formulation" and that policy decisions "have to contribute actively to bringing about the structural and institutional changes which underlie economic development". A key determinant of successful development outcomes is an improvement in the capacity of public administration which enables the synergies across the socioeconomic, environmental and institutional dimensions of development to be maximized.

Key events



Golden Age: a period during which something is very successful, especially in the past.

Oxford Advanced Learner's Dictionary, 8th edition (2010)

Introduction

While the Golden Age of Capitalism was a period of economic prosperity…

The present chapter examines the editions of the *Surveys*[1] published during what is identified as the "Golden Age of Capitalism", a period of economic prosperity extending from the end of the Second World War in 1945 to the early 1970s, when the Bretton Woods monetary system collapsed. The period marked the achievement of a high and sustained level of economic growth and high levels of (labour) productivity growth (particularly in Western Europe and East Asia) together with low unemployment. It was also associated with the emergence of new international institutions such as the International Monetary Fund (IMF) and the World Bank as part of the Bretton Woods monetary system, the United Nations Conference on Trade and Development (UNCTAD), the United Nations Industrial Development Organization (UNIDO) and the five Regional Commissions; the birth of many new nations as a result of decolonization; and the emergence of new mechanisms of international cooperation, such as the Marshall Plan for the reconstruction of Western Europe and in the 1960s, the strategy for the First United Nations Decade of Development.

…it was also a period during which development challenges arose that were similar to those we are facing today

The term "Golden Age" is used to describe a period in history remembered for its prosperity and happiness. A closer examination of such a period, however, often reveals hidden challenges. The Golden Age of Capitalism, the subject of this chapter, is no exception. For example, the period underwent business cycles, although they were certainly milder than those the global economy would come to experience in later decades. Some fundamental and structural problems of the post-war period also surfaced: a growing gap between industrialized and developing countries,[2] high population growth coupled with a low level of food production in developing countries, pervasive poverty and high income inequalities, high volatilities of commodity prices and a deterioration in the terms of trade of developing countries, and lack of financing for the economic development of developing countries. These problems are still part of the global landscape even though they are different in terms of their scope and depth.

The main themes taken up by the *Survey* have naturally varied from year to year, in response to the prominent economic issues discussed in the meetings of the General Assembly and the Economic and Social Council and the pressing issues confronting the

1 The *Survey* has taken on several names over the course of its history. In 1947, it was called the *Economic Report*; and from 1948 to 1954, the *World Economic Report.* In 1955, the publication was renamed the *World Economic Survey.*; and since 1994, it has been called the *World Economic and Social Survey*. The year 1999 marked the launching of a companion publication entitled *World Economic Situation and Prospects*, to present short-term economic estimates. In this chapter, all of them are referred to as the *Survey* (See appendix A.1 for the institutional history of the *Survey*.)

2 Countries that are now referred to as "developing" were, in the early years of the United Nations, called "underdeveloped" or "less developed". These terms were used, for example, in General Assembly resolution 1710 (XVI) of 19 December 1961, by which the Assembly designated the 1960s as the First United Nations Development Decade. The *Survey* began to employ the term "developing countries" in 1962 and, with time, it became far more common. The three terms have often been used interchangeably, however, even in the 1960s, and are used interchangeably here.

world economy. This chapter will discuss the economic and social issues of the period, with a particular focus on those that are still relevant today. The purpose is to reflect upon the lessons derived from history that may be applicable to the implementation of the 2030 Agenda for Sustainable Development.[3] It will emphasize the factors of international scope identified by the *Survey* as critical for development and the thinking on general economic development-related issues examined in the *Survey*.

Development challenges related to international trade and finance, and development cooperation, received dedicated attention in the *Survey*

Several issues and characteristics associated with international trade and finance, as observed by the *Survey* during the Golden Age, re-emerged in later decades, and continue to resurface today. For example, one of the major concerns of policymakers in the early post-war years was the critical role of trade in the recovery of the world economy. The *Survey*, which was unequivocal in its promotion of multilateralism and in its stand against protectionism, pointed out the importance of international coordination. In *World Economic Report 1953-54*, for instance, it was stated that "[t]he action of the government of one country may constitute an element disrupting the equilibrium of other countries in the absence of effective coordination" (p. 9). The *Survey* continued to advocate for what is now referred to as "common but differentiated responsibilities", a term that was elucidated as follows in the same report (p. 16):

> It is recognized that while no country is exempt from such responsibilities, not all countries are in similar position to undertake them. In general, countries with highest income levels and greatest mobility of resources are in the best position to accept such responsibilities, since they are in the best position to adjust themselves to changing conditions.

Highlighting the effectiveness of the form of aid administered by the Marshall Plan, the *Survey* promoted flexibility in the application of international rules and regulations. The *Survey's* examination of these issues yields invaluable lessons for the implementation of development policies within the context of a globalized economy.

Development economics*, a new branch of economics which emerged in the Golden Age, influenced the structure of the analytical framework employed by the *Survey

The structure of the analytical framework employed by the *Survey* during the period was influenced by a new branch of economics, called *development economics*, which was established during the Golden Age of Capitalism. Recessions in some developed countries during the period brought an end to the traditional division of labour between developed and less developed countries that had prevailed formerly.[4] The latter group of countries which had traditionally relied on industrial imports in exchange for exports of primary goods, looked for guidance in the "catching-up" process. Demand for such guidance increased as newly independent countries emerged through decolonization. Reflecting the orientation of this new branch of economics, the *Survey* placed emphasis on issues related to savings and investment, productivity growth and industrialization, and planning as a means of coordinating policies. The Prebisch-Singer hypothesis[5] also influenced the writing of the *Survey*. In this regard, *World Economic Report 1950-51* called for "some kind of international action designed to bring about an adequate international flow of capital to underdeveloped countries" (p. 11) and for new techniques through which to stabilize the

3 General Assembly resolution 70/1.

4 de Janvry and Sadoulet (2013), pp. 9-21.

5 The hypothesis predicts that the price of primary commodities will decline relative to the price of manufactured goods over the long run, causing the deterioration of the terms of trade of primary commodity-producing countries.

demand for (and thus the price of) primary commodities traded internationally. While most, if not all, of these ideas remain core elements of the Sustainable Development Goals, the language applied to the issues at stake evolved and has come to include such terms as "financing for development", "sustainable industrialization" and "integration of economic, social and environmental policies".

The benefits that potentially accrue to countries from their participation in the global economy have depended increasingly on (a) the level of their economic activities in global trade and finance and (b) the nature of the international trading and monetary systems. Indeed, these factors have become critical in determining the benefits to be derived from the external environment not only economically, but in the social and environmental areas as well.

The core of the chapter encompasses an overview of the global economic trends that prevailed in the period from the end of the Second World War to the collapse of the Bretton Woods monetary system; an examination of the events that unfolded during the period, focusing on trade, finance and external assistance, with a view to providing valuable lessons which are relevant to current global policymaking; and a review of some of the issues considered in the *Survey* that are relevant to the situation of the developing countries. The final section sums up the legacy of the Golden Age in the context of the challenges to be faced in implementing a strategy for sustainable development.

Overview of the Golden Age of Capitalism: reconstruction, growth and stability

The years immediately following the Second World War were marked by an unprecedented speed of economic recovery from the most devastating conflict in the history of mankind, combined with an equally impressive strength and scale of international cooperation never before witnessed.

The post-war period witnessed an unprecedented speed of recovery from the devastation inflicted

In the immediate wake of the Second World War, living conditions in areas that had been theatres of war were horrendous. Several Governments ran budget deficits in an effort to rebuild both housing and industry and faced severe balance-of-payments complications in the process. In Western Europe and Japan, wartime price controls and rationing were maintained owing to high inflationary pressures and, in the case of Japan, until as late as 1948. The problem was similar in the centrally planned economies, which had to deal with, in addition to reconstruction, the impact of institutional changes as a result of the nationalization or partial collectivization of land. While rationing had been abolished in the Soviet Union by 1947, other countries maintained wartime controls—as late as 1953 in Czechoslovakia (now Czechia and Slovakia). China, immersed in a civil war which had begun before the end of the Second World War and ended in 1949, suffered hyperinflation until early 1950.

Nonetheless, the recovery in those post-war years was, to quote the introduction to *World Economic Survey 1955*, "truly impressive", in terms of both its speed and spread, as compared with the period following the First World War. The dire starting conditions in 1945 were compounded by the global economic "lethargy" of the 1930s which had included the collapse of the gold standard and large private capital flows across countries. Indeed, from that point up to the early 1970s, the world witnessed the fastest period of economic growth ever. Contributing to the commencement of this Golden Age was a better handling of the emergency situation in countries ravaged by the Second World War, supported by large aid flows from the United Nations Relief and Rehabilitation Administration (UNRRA), the United States (through the Marshall Plan) and, albeit in lesser amounts, Canada.

The recovery was accompanied by profound changes in the world's economic structure

Various editions of the *Survey* published during this period recognized the profound changes in the structure of world economic activity, and included in-depth discussions of three main facets of reconstruction: production capacities, the trade system and international payments. Production recovered more rapidly after the Second World War than after the First: In Western Europe, it took only three years for production to return to pre-war levels and four years in the case of exports, compared with six years for both production and exports after the First World War (see table II.1). However, food consumption per capita in this region was restored to pre-war levels only in 1950. Globally, agriculture recovered more slowly than manufacturing and mining production, especially in the centrally planned economies where economic growth was also slow during the second half of the 1940s. While the process of reconstruction was fast overall, with world industrial production returning to its pre-war levels in 1947 (or 1948, if the United States is excluded), Germany and Japan recovered their pre-war levels of per capita gross domestic product (GDP) only in the mid-1950s, despite remarkable post-war growth. Countries whose production capacities were not affected by the war saw their production levels rise well above pre-war levels within two years after the war. These included the United States, Canada, the European countries that had remained neutral, Turkey, countries of the Middle East and Latin America and India. Some (notably in Latin America) benefited from increased demand for their products by belligerent nations, as trade restrictions were lifted in the post-war period. Conversely, Western Europe saw some of its markets for manufactures (e.g., textiles) shrink after the war, owing to import substitution.

Economic growth in developed countries was higher and more stable in the 1960s than in the 1950s

The growth of the global economy in the 1960s outpaced that of the 1950s, with more people positively affected by high economic growth. At the same time, there was continuing concern with regard to economic stability and internal and external imbalances within industrialized countries. The underdeveloped countries and areas became the focus of more attention than before within the United Nations development forums and in the *Survey*.

The average annual growth rate of GDP among developed market economies was 5.0 per cent for the period 1961-1970, while that of developing countries was 5.5 per cent for the same period (see table II.2). The net material product of centrally planned economies grew by 6.7 per cent per year on average.

Growth in the major industrialized countries became more stable in the 1960s as compared with the 1950s. Low levels of inflation pressure coexisted with low levels of unemployment. The United States experienced the highest level of unemployment among those countries, with an average of about 5 per cent during the period. For the other major industrialized countries, the rate of growth ranged between 1 and 3 per cent per year. As shown in *World Economic Survey, 1972* (table 11), the average annual rate of inflation among these groups of countries for the period 1961-1970 was 3.4 per cent, with Japan experiencing the highest rate (5.7 per cent). As in the 1950s, active fiscal and monetary policies played a key role in maintaining the momentum of high and steady growth. In Northern America, where business cycles were more pronounced than in other industrialized areas, fiscal policies stimulated consumer demand and supported business investment during the first half of the 1960s. In the latter half of the decade, the general fiscal and monetary policy stance in the industrialized countries became restrictive, the aim being to bring down accelerating inflation rates.

Developing countries also enjoyed robust growth during the 1960s, but disparities in growth of per capita income became noticeable

Developing countries were producing primary commodities predominantly and their growth was largely determined by the growth of exports of agricultural and mineral

Table II.1

Indices of mining and manufacturing production, selected countries, 1947, 1948 and 1949

1937 = 100

	1947	1948	1949		1947	1948	1949
Not affected by the war				**Centrally planned economies**			
United States of America	165	170	156	Czechoslovakia	83	99	107
Canada	162	169	171	German Democratic Republic	51	65	77
Ireland	117	128	139	Poland	106	146	177
Sweden	141	150	156	Union of Soviet Socialist Republics (USSR)	93	118	141
Less devastated by the war				**Latin America and Asia**			
France	85	100	110	Argentina	175	178	173
Italy	88	92	100	Chile	136	143	140
United Kingdom of Great Britain and Northern Ireland	98	110	118	Mexico	129	128	137
				India	102	114	111
Devastated by the war							
Austria	58	89	118				
Federal Republic of Germany	33	52	78				
Greece	66	70	82	**World**	121	135	140
Japan	28	40	53	Excluding the United States	96	115	131

Source: *World Economic Report 1949-50*, statistical appendix, table I.

Table II.2

Average annual growth rate of GDP and industrial and agricultural production, developed countries, centrally planned economies and developing countries, 1961–1970

Percentage

	Average annual rate of change
Gross domestic product (constant 1960 prices)	
World	5.4
Developed countries[a]	5.0
Centrally planned economies[b,c]	6.7
Developing countries[d]	5.5
Industrial production	
World	6.7
Developed countries[a]	5.8
Centrally planned economies[b,c]	8.3
Developing countries[d]	7.1
Agricultural production	
World	2.6
Developed countries[a]	2.5
Centrally planned economies[b,c]	3.0
Developing countries[d]	2.8

Source: *World Economic Survey, 1972*, table 1.

Note: Methods of estimation differ among the production components and among the country groups. For this reason and because of the problem of assigning weights to the country groups, the aggregated changes should be interpreted with due caution. The overall figure provide no more than a rough-and-ready indicator of the magnitude of year-to-year changes.

a Northern America; Northern, Southern and Western Europe; Australia; Japan; New Zealand; and South Africa.

b Eastern Europe and the (former) USSR.

c Data refer to net material product and are not strictly comparable with those of the other country groups.

d Latin America and the Caribbean; Africa (other than South Africa); and Asia (other than China, the Democratic People's Republic of Korea, Japan, Mongolia and Viet Nam).

products. The robust growth of developed countries during the 1960s induced strong demand for these products and helped increase commodity prices. In *World Economic Survey 1967 (*Part One, pp. 16-17), it was cautioned that the same period also found wider disparities in growth of per capita income between developed and developing countries, as well as among developing countries. Over the period 1955-1965, per capita output grew by $43 per year (at 1960 purchasing power) in developed countries, compared with a rise of $3 per year in the developing countries. By 1965, the average per capita income in the developed countries reached $1,725 per annum, as compared with a developing-country average of $157. Among the developing countries, there were large differences in economic performance, ranging from virtual stagnation (Democratic Republic of the Congo) to over 10 per cent growth per year (Liberia and Libya). Two thirds of the population of the developing countries lived in countries in which the average annual rise in per capita output during the period 1955-1965 was less than 2 per cent.

While the centrally planned economies continued to enjoy high economic growth of nearly 7 per cent per annum during the 1960s, this figure nevertheless signified a deceleration when compared with the average of 10 per cent in the 1950s, reflecting slower growth in agricultural production. Still, industrial production continued to be robust throughout the decade. It should be noted that the creation of the Council for Mutual Economic Assistance in 1949 led to stronger economic linkages among member countries.[6]

Key developments in the international economy

The implementation of the Marshall Plan and the creation of the Bretton Woods monetary system were two epoch-making events of the Golden Age

The Golden Age of Capitalism has been characterized by unprecedented growth of international trade, in tandem with the impressive growth of the global economy as described in the previous section. The period also saw the creation of a multilateral international payments system, known as the Bretton Woods monetary system, and a United States initiative to aid Europe, known as the Marshall Plan (officially called the European Recovery Program). The negotiators shared common views on the importance of full employment and a liberal multilateral payments system which led to the creation of IMF. The flexible attitude of that institution towards member countries resulted in the successful implementation of current account convertibility[7] by the end of the 1950s. The large-scale impact exerted by the Marshall Plan in Western Europe attests to the importance of well-targeted international assistance for the recovery of productive capacity and stable economic growth. The implementation of the Marshall Plan remains significant in its exemplification of a positive experience of development cooperation, which can serve as a guide for the successful implementation of the Sustainable Development Goals. On the other hand, the high volatility of commodity prices and the declining prices of primary products (relative to manufactured goods) during that period remain unresolved issues today.

6 The six original members of the Council for Mutual Economic Assistance were Bulgaria, Czechoslovakia, Hungary, Poland, Romania and the Soviet Union. The final session of the Council was held in June 1991 and led to an agreement to disband within 90 days of the session.

7 Under current account convertibility, which is sometimes called Bretton Woods convertibility, individuals are allowed to engage freely in current account transactions without being subject to exchange controls, and the monetary authorities of each country are free to buy and sell foreign exchange to keep the parity fixed. The United States is free to buy and sell gold to maintain the fixed price of $35 per ounce. See Bordo (1993).

Trade

Global trade increased sharply during the Golden Age, but East-West trade plummeted

The Golden Age saw an unprecedented growth of international trade. Trade volume outpaced output in the late 1940s, a phenomenon that continued into the 1950s and the 1960s, with the major exception of East-West trade, which remained significantly below pre-war levels. Trade liberalization entered a new phase with the launching of the Kennedy Round of multilateral trade negotiations in 1964, at which participating countries agreed to cut tariffs by up to 40 per cent on many items. Tariff levels, although still significantly high by today's standards, became less of a barrier to imports to developed countries; however, other forms of trade restrictions (known as non-tariff barriers) emerged.

Imports and exports reflected disparate production capacities, as discussed in the early *Surveys*. The United States emerged from the war years a more powerful and self-sufficient nation, reducing the ratio of its imports to gross national income (GNI) from 5.1 per cent in 1929 to 3.2 per cent in 1948. In the post-war years, it was the major investing nation, mainly in oil.

The impressive growth of global trade since the late 1940s had one major exception: trade between the Eastern and Western trade blocs, which remained significantly below pre-war levels. On the other hand, trade *within* each bloc continued to grow strongly. *World Economic Survey 1962* noted that trade of the developed market economies, as well as of the centrally planned economies, became increasingly concentrated within their own group. This was attested by the fact that, as noted in Part I of *World Economic Survey 1963* (p. 10), intra-group trade flows accounted for 62 per cent of world exports in 1962, as against 54 per cent in 1950. Industrialized economies led the increase in the share of trade, accompanied by a rising share of centrally planned economies, while underdeveloped countries saw, instead, a decrease in their share, except in Western Asia, which benefited from the petroleum industry. The changes in the structure of world trade reflected the changes in the structure of world production. Primary goods played a central role, even among industrialized economies. In fact, an impressive commodity boom occurred in 1950, associated with the outbreak of the Korean War. However, the biggest boom occurred in manufacturing trade (which had collapsed in the 1930s) within both the Eastern and Western trade blocs.

The volume of trade from the late 1940s grew faster despite the fact that the trade protecting barriers initially remained in place following the global depression and the war. In *World Economic Survey 1955*, it was noted "that trade ha[d] been held back much less than might have been expected by the various limitations and controls prevalent throughout most of the world" (p. 84) and postulated that the prevailing trade restrictions in the post-war era had affected the commodity composition and regional distribution of trade, rather than its total volume.

The shortage of dollars in the post-war years naturally incentivized exports to the dollar area, supporting a recovery of production in countries outside that area. However, a myriad of bilateral payments agreements inherited from the 1930s failed to support trade properly. A major step towards a multilateral system of international payments came with the creation of the European Payments Union in 1950, which used United States funds under the Marshall Plan to settle intra-European balances. Trade liberalization was stimulated, as disbursement of the funds required not only the dismantling of intra-European trade restrictions, coupled with greater coordination of national recovery plans, but also agreement on the part of recipient countries regarding how to allocate payments

(Braga de Macedo and Eichengreen, 2001). Among the centrally planned economies, a system of payments supported financially by the Soviet Union had a similar effect.

In the early 1960s, the *Survey* was already concerned with the emergence of a structural trade imbalance between developing and developed countries...

In Part I of *World Economic Survey 1962*, structural imbalance of trade between developing and industrial countries was predicted for the future. It was noted that, by 1960, the developed countries had increased their already large share in total world trade from three fifths to two thirds (p. 3) and that significant increases were also recorded by the group of centrally planned economies, whose share in the total rose from 8 to 12 per cent (p. 3 and table 1.3). In that *Survey*, it was also noted that the most significant development in world trade in the period from 1950 to 1960 was the decline of exports from the underdeveloped countries as a share of total world exports and as a share of intra-trade among underdeveloped countries themselves. At the same time, both developed countries and centrally planned economies increased their intra-area trade quite sharply.

...largely explained by slow growth of export volume from developing countries and the deterioration in the terms of trade

Exports from developing countries lagged behind those of advanced countries between the late 1950s and early 1960s, owing to slower growth of export volume and the deterioration in the terms of trade. In Part I of *World Economic Survey 1962*, it was therefore cautioned that the failure of the developing countries to participate in the expansion of world trade posed a threat to their economic development. In Part I of *World Economic Survey 1963*, it was recognized that foreign trade is critical for the economic development of the developing countries because production for exports constitutes a preponderant part of their economic activity.

International trade may not provide developing countries with the external resources needed for development if their major exports continue to be primary products

A critical issue identified during the Golden Age—one with relevance today—is the importance of swings in commodity prices. As pointed out in *World Economic Survey 1956*, the demand of industrialized countries for primary goods does not increase at the same rate as their increase in income, leading to the increasing difficulties of developing countries in balancing their external accounts. This creates, in the words of that *Survey*, "an inescapable dilemma—whether to accept a rate of growth consistent with external equilibrium in the full knowledge that that rate is likely to involve a widening of the gap between their levels of living and those of the industrial economies; or whether to seek to promote a more rapid rate of growth, running the risk of persistent disequilibrium in their economic relations with other countries" (p. 137). Put succinctly, "[i]nternational trade may not provide the underdeveloped countries with the external resources they require" (*World Economic Survey 1958*, p. 8) if their major exports continue to be primary products. Some of the reasons for the slow growth of demand for primary goods in industrialized countries were connected with:

(a) Increasing weight of the United States in industrial production at the global level and its reduced requirements for imported primary commodities (since it was producing a larger share of its own needs);

(b) A change in the structure of consumption entailing a shift towards industries that required fewer raw materials;

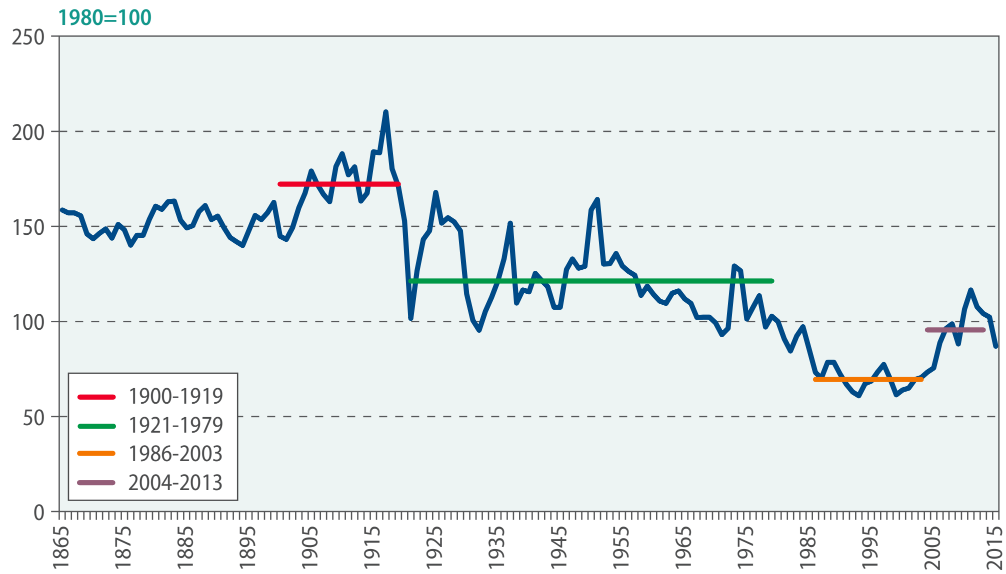
(c) Technological change which led to economies in the use of raw materials;

(d) Development of synthetic products (especially rubber and textile fibres);

(e) Food self-sufficiency policies in Western Europe and provision of price support to farmers in the United States.

The 1956 *Survey* did not explicitly refer to, but its analysis was clearly influenced by, the Prebisch-Singer hypothesis. In its simplest form, the hypothesis predicts, as noted above, that primary commodity prices tend to deteriorate relative to manufactured goods over the long run, with the result that growth dynamics of commodity producers are dependent on global demand trends and the effects of technological innovations. Ocampo and Parra-Lancourt (2010) show that commodity prices tend to follow long-run (30- to 40-year) cycles, with the mean of each price cycle having declined significantly over the course of the twentieth century (see figure II.1). This suggests, in support of the Prebisch-Singer hypothesis, a step-wise deterioration of the terms of trade of developing countries.

Figure II.1
Real commodity price index, 1865–2015



Sources: José Antonio Ocampo and Mariángela Parra-Lancourt (2010); and updates provided by the authors in March 2017.
Notes: a) Horizontal lines represent the mean price index of each price cycle.
b) Index deflated by Manufactured Unit Value.

Economic diversification is key for enabling developing countries to benefit from trade

The *Surveys* published in the 1950s and the 1960s argued that it was essential to make underdeveloped countries less dependent on fluctuations of earnings from a handful of primary products, which implied producing, and eventually exporting, the consumer goods and raw materials that they imported. This constituted an implicit call for industrialization. The dependence on export of primary goods was not aided by the volatility of their prices. With regard to the ability of exporting countries to manage the instability of commodity prices and the corresponding fluctuations in foreign exchange earnings, the *Survey* identified a clear need for international stabilization mechanisms connected to the underlying market realities, possibly applied commodity by commodity, and involving both consumer and producer interests. In fact, *World Economic Report 1950-51* called for "some kind of international action designed to bring about an adequate international flow of capital to underdeveloped countries" (p. 11) and for new mechanisms for stabilizing the demand for (and thus the price of) primary commodities traded internationally.

The establishment of UNCTAD in 1964, headed by Prebisch himself, led to an intensification of the debate on issues related to commodity prices at several intergovernmental conferences on commodities. Throughout the 1960s, and 1970s, several commodity agreements were achieved or renewed.[8] However, the absence of effective mechanisms

8 Examples include the first International Coffee Agreement of 1962; the International Sugar Agreement of 1968; and the first International Cocoa Agreement of 1972.

for managing commodity price fluctuations continues to characterize global cooperation today. Excessive price fluctuations affect poor consumers and small-scale farmers in terms of their disposable income, health and nutrition. How to smooth out price fluctuations and diversify economic activities and exports of commodity-dependent countries continues to be a major issue in the international development agenda.[9]

International finance

In the 1930s, the world economy did not have in place a multilateral system of payments but, instead, there had existed countless bilateral agreements, protectionist policies, and import and foreign exchange controls. As a result of the "dollar shortage" which resulted from the war, European countries and Japan continued to use import and foreign exchange controls extensively, particularly with regard to the United States, despite the massive support being received from that country through the Marshall Plan.

The post-war global economy was afflicted by an absence of a multilateral payments system, plus protectionist policies and exchange controls

Continuing imbalances characterized the immediate post-war years. When the United States was hit by its first post-war recession, countries had very limited reserves to manage—notably in the sterling area. In 1949, a major crisis in the level of reserves in the United Kingdom prompted the country to devalue its currency by 30.5 per cent (sterling per dollar). This was a major world economic event, given that the sterling area was the second-largest world currency area. In the early post-war years, reserve losses were massive around the world, a fact that strengthened even more the concentration of gold reserves in the United States and its dominance in the world payments system. Several Western countries (including France) followed the decision of the United Kingdom to impose controls on dollar imports. However, an increase in production of foodstuffs in Western Europe allowed for a reduction of European imports from the United States, which in turn allowed an improvement in the current account balance. The fact that reserves ultimately recovered in late 1949 helped reduce speculative capital flight. This reflected the importance of improved production capacities and an increase in food supplies rather than the importance of relative prices (exchange rates) for the restoration of payments balances. Not only is this issue of the utmost relevance nowadays, but it provides food for reflection, especially within the context of the least developed countries, which need to develop productive capacity so as to increase exports and revenue and thus balance their current account.[10]

Creation of the International Monetary Fund in 1945 had as its goal the reconstruction of the international payments system

The international community initiated the creation of a multilateral monetary system during the Second World War. Delegates representing 44 countries gathered at the United Nations Monetary and Financial Conference, held in Bretton Woods, New Hampshire, in July 1944, where they drafted Articles of Agreement for a proposed International Monetary Fund. It was the common views shared by the negotiators on the importance of full employment and a liberal multilateral payments system that led to the creation of the Fund, which became a formal entity in 1945 with 29 member countries, and having as its initial goal the reconstruction of the international payments system. The intention was to mandate each country to adopt a monetary policy that sustained its fixed exchange rate

9 See chap. II of *World Economic Situation and Prospects 2017* for the latest analysis of commodity prices.

10 A discussion of outstanding challenges for building productive capacity among least developed countries can be found in the recent work of the Committee for Development Policy (United Nations, Economic and Social Council, 2016 and 2017).

to gold (with a ± 1 per cent margin). The role of IMF was to support temporary payment imbalances.

The intention in creating a multilateral payments system was to avert the mistakes of the interwar period when wildly volatile exchange rates and the collapse of the short-lived gold exchange standard had led to the transmission of deflation internationally and a resort to devaluations, and trade and exchange restrictions, along with bilateralism (Bordo, 1993).

While some difficulties were encountered in building such a multilateral international payments system immediately after the Second World War, the creation of the European Payments Union in 1950 marked a major step towards its implementation. The Marshall Plan encouraged war-battered countries in Western Europe to shift away from bilateralism in trade towards a multilateral balancing of payments. This was the starting point for the rapid growth of trade which has been witnessed by the international community over the last 70 years (Wolf, 2017). However, throughout the first half of the 1950s and with the end of the Marshall Plan, countries faced several problems, including a dollar shortage in the United Kingdom which made it difficult to restore a stable system of multilateral payments; and the extensive use of the foreign exchange and import controls imposed during the previous three decades was still an issue. Because of these obstacles, most countries were unable to comply with their obligation under the IMF Articles of Agreement to dispense with foreign exchange restrictions and current account convertibility when the agreed transition period was over at the beginning of 1952 (*World Economic Report 1951-52*, p. 8; *World Economic Survey 1955*, pp. 74-86). Foreign exchange controls were maintained for a much longer period than had originally been envisioned (de Vries, 1987, chap. 1).

By 1958, current account convertibility had been adopted by most countries in Western Europe

By the end of the 1950s, however, most countries were in compliance with their obligations under the Articles of Agreement as world trade and international payments became more stable and less affected by recessions in the United States. Stable trade and payments were in turn supported by an increase in the production capacities of countries, improved intra-European trade, and the accumulation of foreign reserves in most countries (which prevented capital flight from Europe and actually relaxed controls on imports from the United States). Within this new context, the United States recession of 1957-1958 did not exert the strong effects of the first post-war United States recession, in 1949 (except on commodity producing countries), thereby allowing the liberalization of trade and payments to continue. By the end of the 1950s, the Bretton Woods regime seemed to be on solid ground since "[t]he devaluations of 1949, widespread and drastic as they were, did not bring about an end to the regime of fixed exchange rates", as noted approvingly in the *World Economic Survey 1957* (p. 24). In fact, according to that *Survey*, countries were seeking to avoid exchange rate depreciations. The flexibility shown by IMF, through which countries were granted sufficient time to comply with their obligations, was a determinant of the success in moving towards a gradual reduction of foreign exchange restrictions in Western Europe and the adoption of current account convertibility by most countries in 1958.

By 1964, however, the difficulties inherent in maintaining the system of fixed exchange rates had become evident. In the United States, the payments imbalance was being redressed very slowly, and the growing gravity of the crises in sterling had raised alarm. These factors "weakened the traditional resistance to change", as described in Part II of *World Economic Survey 1964* (p. 64). The *Survey* reported that in the United Kingdom and the United States, serious doubts had arisen as to whether the role of the reserve centre did not entail "an inordinately heavy constraint on domestic policies". In the surplus countries, on the other hand, the measures taken to support these currencies had been widely questioned. The combination of "a dangerously low level of reserves at the centre and growing uncertainty about the willingness of the surplus countries to accumulate reserve currencies" had placed a considerable strain on the monetary system. An alternative source had thus to be found, for as long as the world reserve was built largely on one or two national currencies, the monetary system would remain "inherently vulnerable to crises of confidence". Various alternatives were therefore discussed, including a return to the gold standard, flexible exchange rates, a world central bank, and measures to strengthen the system.

In 1964, the international monetary system experienced, yet again, a worsening of the payments situation of the reserve currency countries, the United Kingdom and the United States, which led to a massive currency attack on both currencies and a run on gold. The United Kingdom was forced to devalue the sterling by 14.3 per cent in November 1967 and the eight countries of the gold pool[11]—established in 1961 to maintain a gold price of $35 per ounce—suspended the supply of gold to the market several months later. The crisis spurred the international monetary reforms of the 1970s.

Maintaining the dollar at a fixed peg of $35 per ounce proved increasingly difficult

The imbalance in the payments position of the United Kingdom and United States was not a new occurrence. The United Kingdom had experienced chronic payments difficulties in the post-war period and since the payments crisis in 1964, had most of the time remained in deficit. In 1967, imports by the United Kingdom rose while export expansion came to a halt. The imbalance was attributed partly to the hostilities in the Middle East and labour strikes in the country, but "the cumulative erosion of confidence in sterling raised serious questions about its strength" (*World Economic Survey 1967*, Part Two, p. 8). On the other hand, while the balance-of-payments deficit of the United States had been welcomed in the early post-war years (as the deficit helped European countries and Japan), dollar shortages had begun, by the late 1950s, to raise doubts about the impregnability of the dollar. Ultimately, the cumulative effect of prolonged deficits led to a decline in total reserve assets in the United States, from about $22.5 billion at the end of 1958 to about $13.8 billion in April 1968 (ibid., table 3). Under the circumstances, "a gold crisis became the logical counterpart of the crisis of the reserve currencies" (p. 8).

By 1968, it was perceived that the attempt to maintain the dollar at a fixed peg of $35 per ounce had gradually become unsustainable as gold poured out from the United States. The dollar shortage of the 1940s and 1950s became a dollar glut by the 1960s. On 15 March 1968, the London gold market was closed to combat the heavy demand for gold, while markets in other gold-pool countries remained open. The governors of the central banks of the gold-pool members decided that officially held gold should be used only for transfers among monetary authorities. The "two-tiered market system" that emerged after the agreement was reached created an opportunity for market participants to convert reserve currencies into gold and sell the gold in the private gold markets at higher rates. With accelerating inflation, the President of the United States temporarily suspended the direct convertibility of the United States dollar into gold.

World Economic Survey 1968 (Part Two) still remained positive, suggesting that there had been "no inhibiting overall shortage of reserves" (p. 45), despite their lower gold content. It also noted that the recently created IMF special drawing rights (SDRs), a new international reserve asset defined as equivalent to 0.888671 grams of gold (equivalent in

11 Belgium, France, Germany, Italy, the Netherlands, Switzerland, the United Kingdom and the United States.

turn to $1 at that time) and totalling an equivalent of $9.5 billion,[12] would supplement international liquidity and help prevent an "over-hasty resort to defensive measures… setting in motion a sequence of trade-destroying policies" (p. 45). The *Survey* conceded, though, that the SDR scheme would "leave the basic problems of intercountry imbalance more or less untouched".

While there was reluctance to tamper with the regime after 25 years of growth in world trade, at the same time, the 1960s amply demonstrated how countries could "get out of line" because of domestic price movements, despite "the necessity of maintaining reasonable internal balance, with incomes rising in line with productivity" (ibid.). By July 1969, the *Survey* had admitted that there was "a prospect of the most critical examination being made of the working of the international monetary system since the Bretton Woods Conference of 1944".

In 1971, the United States of America suspended the convertibility of the dollar into gold and in 1973, currencies began to float, marking the end of the Bretton Woods system

With inflation accelerating in the United States, on 15 August 1971, that country suspended the convertibility of the dollar into gold or other reserve assets. As observed in *World Economic Survey 1971* (p. 2), "[t]he international monetary crisis of 1971 signalled the transition from an old era to a new one". Gold was demonetized as an international reserve asset and the link between new gold production and other sources of gold and official reserves was cut.[13] In the following years, the United States monetary authorities pressured the monetary authorities of the other countries to refrain from converting their dollar holdings into gold; and the international monetary system switched, in effect, to a de facto dollar standard.[14]

An attempt to revive the fixed exchange rates eventually failed and by March 1973, the major currencies began to float against each other, marking the collapse of the Bretton Woods monetary system. The United States monetary expansion since the late 1960s had exacerbated worldwide inflation because its monetary authorities did not maintain the price stability of the dollar against gold. Under a fixed nominal exchange rate regime, rising prices in the United States led to a real appreciation of the dollar (and a real depreciation of other currencies against the dollar). As the IMF member countries were required to maintain nominal exchange rates fixed, the impact of a higher price level in the United States directly shifted global demand to other countries and put upward pressure on domestic prices. It should be noted that the 1967 *Survey*, already expressed doubt about the sustainability of the system by posing the question "whether a widening of the gap between the two prices [that is, the official price of gold fixed at $35 per ounce which was applied to transfers among monetary authorities, and a prevailing market price of gold when market participants converted reserve currencies into gold and sold the gold in private markets] might not endanger the system" (Part Two, p. 10).

The use of SDRs remains controverisal

Since the creation of SDRs in 1969, some countries have been interested in establishing a link between the new reserve assets and development finance. Since the SDRs are created with minimal costs incurred by IMF under the agreement of its member countries, these resources could be transferred to member countries also at minimal cost and used to finance

12 After the collapse of the Bretton Woods system, the special drawing right was redefined as a basket of currencies.

13 By the announcement of 15 August 1971, the convertibility of dollars to gold ended and gold lost its status of legal tender and reserve asset. This signified the demonetization of gold. See Bordo (1993), pp. 70-72.

14 On 1 January 1975, the official price of gold was abolished as a unit of account.

development projects.[15] At the time the SDRs were created, the General Assembly (see sect. II of Assembly resolution 3202 (S-VI) of 1 May 1974 on the Programme of Action on the Establishment of a New International Economic Order) called upon members of IMF to consider the possibility of establishing that link. Although most developed countries were against the idea, calling it "premature", the few of them that were more sympathetic maintained that such a link would be useful as a means of providing additional finance to developing countries. At present, the topic of linking the SDRs to development finance still reappears in the agenda of United Nations bodies from time to time (*World Economic and Social Survey 2012*).

The Bretton Woods system was the very first fully negotiated monetary system, although its life was relatively short. It should be remembered, however, that the creation of IMF was underpinned by the views held in common by the negotiators at the Bretton Woods Conference that there was a need for the creation of a multilateral payments system to support achievement of the objective of full employment in member countries—views that might in fact have prolonged the life of the system a little longer. As already noted, the flexibility shown by IMF in granting countries the time that they needed to comply with their obligations was a determinant of their eventual success in achieving current account convertibility in 1958. Though not examined in the *Survey*, another type of flexibility was also exercised by creditor countries in debt relief negotiations in the 1950s. For example, more than half of the obligations of the then Federal Republic of Germany ("West Germany"), including those that had been derived from reparations after the First World War, were written off. The United States also exercised flexibility after the Second World War in renegotiating the foreign debts of Latin America which had accumulated in the 1930s.

Marshall Plan

The Marshall Plan was the first post-war success story in international development cooperation: it assisted in the socioeconomic transformation of countries of Western Europe

The Marshall Plan (known officially as the European Recovery Program) was a United States initiative designed to assist countries in Western Europe in their post-war reconstruction efforts.[16] The Plan is considered to be an example of successful development cooperation through which international aid assisted in the socioeconomic transformation of countries in line with their own development strategy.

The Marshall Plan was in operation for four years, beginning in 1948. At its peak, United States aid, together with a similar type of aid to Japan, amounted to 40.5 per cent of United States exports in 1946-1949 (see table II.3). One of the greatest differences between the two post-war periods lay in the size of the support provided to countries, which in the post-Second World War period was massive. Government disbursements for the period 1919-1921, which amounted to 10.5 per cent of total exports, were negligible for the period 1922-1929. Aid under the Marshall Plan amounted to about 1 per cent of the gross national

15 Since the 1940s, there were several proposals regarding how the SDRs (and other reserve mediums) could be linked to development, including those of John Maynard Keynes, Maxwell Stamp and UNCTAD. See Park (1973); and, for more recent discussions, *World Economic and Social Survey 2005*.

16 For the political background of the Marshall Plan and the Bretton Woods monetary system, see Marglin (1990). The growing cost of the Korean War was a major factor behind the Plan's not being extended to 1953, its last year as originally scheduled.

Table II.3
Balance of payments, United States of America, 1919–1954

Annual average, millions of dollars					
Item	1919-1921	1922-1929	1930-1939	1946-1949	1950-1954
Export of goods and services	8 848.3	6 176.6	3 706.5	16 751.5	17 097.6
Import of goods and services	-5 345.0	-50 932.0	-3 139.5	-8 175.0	-13 242.2
Balance	3 503.3	-44 755.4	567.0	8 576.5	3 855.4
Private capital and remittances	-1 075.7	-1 315.9	48.9	-1 351.0	1 545.2
Government disbursements	-928.6	27.1	-5.1	-6 790.7	-4 433.8
Foreign capital and gold	-332.7	344.6	-905.7	-1 192.5	1 887.8
Errors and omissions	-1 166.3	-133.2	294.9	757.8	235.8

Source: UN/DESA, based on *World Economic Survey 1955*, table 30.

product (GNP) of the United States in each year of the period from 1948 to 1952.[17,18] The United States GNP in 1950 was slightly larger than the total GNP of Western European countries.[19] Thus, in the four years under consideration, Western European countries received more than 1 per cent of their total GNP in the form of external aid. Interestingly, the objectives of the Plan were the restoration of multilateralism, price stability and recovery of production capacity in receiving countries.[20] Indeed, the Marshall Plan offers a good example of how international support can assist the development of productive capacities in deficit countries to gain access to dynamic world markets.

As envisaged, the Marshall Plan helped restore production capacity in Western European countries, improved domestic price stability and helped realign their currencies in the immediate post-war period. It was in this context that assistance was provided in resolving the problems of widespread poverty and hunger that were left in the wake of the Second World War.

Under the Marshall Plan, 1 per cent of United States GNP was disbursed each year from 1948 to 1952, making a large contribution to the reconstruction of Europe

While it is difficult to determine the exact impact of the Marshall Plan on the reconstruction of Western Europe, there is no doubt that international solidarity played an important role in supporting economic recovery in the region.[21] Aid to Europe, together with abolition of occupational controls in the defeated Axis countries, was directed towards rebuilding productive and export capacity in receiving countries and widening the market for American products (Glyn and others, 1990). Further, the creation of the European Payments Union ushered in a new era of multilateral trade in which there was improved resource allocation and production efficiency across Western Europe.

17 Glyn and others (1990), p. 67.

18 In 2015, the member countries of the Organization for Economic Cooperation and Development (OECD) accounted for about 64 per cent of world gross product. If the target of 0.7 per cent of GNP for official development assistance (ODA) to developing countries is achieved, about 0.45 per cent of global income will have been transferred to developing countries.

19 About 4 per cent larger, according to Maddison (2001), table A1-b. GDP is measured in 1990 international dollars.

20 Glyn and others (1990), p. 69.

21 See, for example, De Long and Eichengreen (1991); and Wolf (2017).

The generous financial support, equivalent to 1 per cent of United States GNP, in the period 1948-1952, helped the region recover financial stability and facilitated a more efficient allocation of resources and faster trade liberalization. These facets of the Marshall Plan provide the international community with important lessons as guidance on achieving development cooperation in support of national efforts towards sustainable development.

Development of the less developed countries

Development economics was born to provide countries with the theoretical framework and practical guidelines for planning and implementing catching-up strategies

The Golden Age of Capitalism witnessed the birth and flourishing of a new discipline known as *development economics*. The recessions in European countries during the period upset the division of labour that had prevailed between them and less developed countries or areas, including their colonies (de Janvry and Sadoulet, 2013). Developing countries imported industrial goods in exchange for exports of their primary commodities. Upon the disruption of these trade patterns, developing countries looked for guidance in the catching-up process.[22] Demand for guidance on development policies increased as newly independent countries emerged from decolonization. Recognizing the need for new trade relationships among countries, the 1956 *Survey* affirmed, in fact, that what was necessary was "a continuing reorientation of the international division of labour to reduce the excessive dependence of underdeveloped countries upon imports in relation to the world's dependence upon their exports" (p. 13).

Development economics provided countries with the theoretical framework and practical guidelines for planning and implementing catching-up strategies, including for agricultural development, industrialization, economic planning, and securing development finance from both domestic and external sources, among many other areas of activity. The successes and failures of the different national strategies implemented by less developed countries were the basis for thoughtful reflection within the domain of development economics; and analysis of those successes and failures contributed to the refinement of existing theories and guidelines and the generation of new ideas and practical guidance. Not only did development economics greatly influence the themes, approaches and policy recommendations advocated by the *Survey* during the period, but its impact on the debate on sustainable development in the United Nations continues to be felt even today.[23]

During the First United Nations Development Decade, progress towards self-sustaining socioeconomic development would be accelerated, with international support

The other notable event in the Golden Age was the designation by the General Assembly, in its resolution 1710 (XVI) of 19 December 1961, of the 1960s as the First United Nations Development Decade. Within the context of the strategy for the Decade as the first of the United Nations-led development processes, the Assembly called upon all Member States to intensify support for measures required to accelerate progress towards self-sustaining socioeconomic growth and social advancement in developing countries.

Under the strategy for the First United Nations Development Decade, the international community was unified, for the first time, through their call for collective actions to support the development of less developed countries. Within the context of the Decade, the *Survey* contributed policy analysis and critical reviews of global economic trends.

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22 At the time, development efforts of countries were associated with catching up with the level of industrialization and the living standards of more advanced countries.

23 Appendix A.2 lists the major contributors to the publication in its early period and their contributions to economic thinking in general and to development economics in particular.

A brief overview of the line of development thinking laid out in the *Survey* during the Golden Age

Concern for development issues at the United Nations increased over time as the voice of developing countries gained strength. The subject of stable economic growth and the long-term development challenges of developing countries were considered more frequently and with greater depth in United Nations deliberations and in the *Survey*. There were growing demands from some Member States, namely, Argentina, China, Egypt, India and Mexico, that the United Nations take action to support development efforts, even as early as the late 1940s, when the major focus of the Organization was on reconstruction rather than long-term growth or development. In 1947, the Economic and Employment Commission[24] under the Economic and Social Council, took up the issue and stated that "[t]he concern of the United Nations with the problems of economic development of underdeveloped areas stems from its basic purpose to 'promote social progress and better standards of life in larger freedom' (Charter of the United Nations, Preamble)".[25]

World Economic Report 1949-50, which focused its attention on the lag in development of the underdeveloped countries when compared with the rest of the world, stated that "[t]he economic development of the underdeveloped countries remains the most important single long-run economic problem confronting the world" (p. 10). *World Economic Report 1951-52* listed "the relatively slow advance of underdeveloped countries" (p. 11) among the most pressing matters of concern for the United Nations, while *World Economic Survey 1955* lamented that "the problem of mass poverty in a large part of the world remains as stubborn as ever" (p. 3).

In the 1950s, social progress in developing countries was not sufficient to close the income gap with developed countries

Looking back on the first decade after the Second World War, the 1955 *Survey* concluded that advances had been made in the underdeveloped economies in many different fields such as education, health, transport and communications, energy use, new industries, exports and, most importantly, in the "evolution of a social climate favourable to economic development" in which Governments saw themselves and were seen as "engines for the promotion of economic and social welfare" (p. 3). However, growth of per capita income had remained below that of industrialized countries and the group of underdeveloped economies faced many critical challenges, including: (a) a foreign exchange and a savings gap; (b) insufficient food supplies; and (c) the volatility of commodity prices and the limited opportunities created through the sale of these goods.

The concern with development in the 1950s arose in response to two different challenges: the development of centrally planned economies and the cold war, and national development in the South. As newly independent countries became more numerous, the development of those countries was recognized as a major challenge and often given high priority in the United Nations agenda. During the early history of the United Nations, colonialism prevailed in Africa. In 1960, however, 18 countries became independent; between 1961 and 1965, 10 more became independent; and in the course of the rest of the decade, 5 other countries achieved independence.

24 The Economic and Employment Commission was established by the Economic and Social Council in its resolution 6 (I) of 16 February 1946.

25 In this regard, see the reports of the Economic and Employment Commission on its first session (E/255), held from 20 January to 5 February 1947, and its second session (E/445), held from 2 to 17 June 1947.

In the late 1950s, the *Survey* began considering development within a broader context and in this regard stated that "[t]he problem of economic development is not merely one of inducing marginal shifts in the allocation of resources among existing branches of economic activity; it is rather one of introducing large-scale fundamental changes into the economic structure" (*World Economic Survey 1959,* p. 7). That is, development was considered "the structural transformation of the economy". The *Survey* also pointed out that "'[d]evelopment' is no predestined path along which all countries must go: it is a diverse and uncertain process reflecting the culture and preferences of people as well as the resources at their disposal and an ever-changing technology" (*World Economic Survey, 1969-1970*, p. 1). The *Survey* emphasized that in today's world, there are no "one-size-fits-all" blueprints.

In the 1960s, the Survey promoted the concept of development as structural transformation

Through its recognition of the nature of development, the *Survey* identified several critical elements for sustained growth and long-term development, in both the domestic and external spheres. Among the domestic challenges considered by the *Survey* were savings and investment gaps, industrialization as a means of speeding up economic development, economic planning as a coordination tool (not to be confused with the tools associated with the centrally planned economies) and the need for statistical indicators to measure development progress.

Domestic savings and investment for development and the supplementary role of external resource transfers

During the 1950s and 1960s, the *Survey* placed great emphasis on savings and investment as prime determinants of growth and long-term development, which reflected the theory predominating in macroeconomics and development economics at that time.

Savings and investment were recognized as prime determinants of growth and development

World Economic Survey 1960, for example, emphasized that most of domestic investment should be financed by domestic savings, but that a higher level of investment could be attained by increasing support for innovation both through the use of fiscal incentives for stimulating saving and through the channelling of higher public revenue into investment. Government budgets were considered to play a critical role in financing development and Governments could transfer resources from income or consumption into well-conceived investment projects. In light of this, the *Survey* urged Member States to improve public administration and to raise the quantity and quality of public service provisioning, as strengthening the public administration was essential to improving the quality of their services related to effective tax collection and public investment for development.

External resources, particularly official flows, were important in supplementing domestic savings

World Economic Survey 1965 (Part I), on the other hand, noted that if growth rates were to be accelerated, more resources would have to be devoted to investment. The same volume pointed out that the high incidence of poverty was the common principal obstacle to increasing savings for developing countries. Even in some developing countries where domestic savings increased, it had taken almost 10 years to raise the average of the domestic savings rate by about 1 per cent of total production.

That *Survey*, noting also that direct private investment and bond issuance by public authorities had proved inadequate, recognized the important role that official external resources could play in supplementing domestic investment. However, the "tying" of aid, which was a common practice of Governments in industrialized countries, became a critical issue, as strict control over the source or physical nature of the assets transferred to developing countries posed utilization problems for the recipient countries. In addition, the *Survey* warned of the rapid rise among developing countries of outstanding external debt derived from the balances and accrued interest accumulated through these resource transfers. As a result of that rise of external debt, the relative contribution of external resources to domestic investment in the recipient countries contracted sharply. It is interesting to observe that a sign of the burden imposed by external debt on development of recipient countries had already emerged in the middle of the Golden Age.

Planning for development

Attesting to the recognition of the importance of long-term economic development, enthusiasm for long-term projections and economic planning increased. The enthusiasm was due partly to the achievement of independence by many African countries and the launching of the Alliance for Progress in Latin America; and also to the influence of the advances achieved by academics in the 1950s with respect to the building of quantitative models for long-run economic growth. Since the late 1950s, many developing countries had been encouraged, by national and multilateral agencies concerned with international development assistance, to introduce medium- or long-term plans for assessing growth paths which would guide policy decisions. In many countries, development and planning "were almost synonymous in the 1950s and 1960s".[26]

Planning became an important development tool for policy coordination

In its resolution 1708 (XVI) of 19 December 1961, entitled "Planning for economic development", the General Assembly invited the Secretary-General to prepare a special chapter on questions of development planning in a forthcoming issue of the *World Economic Survey* (sect. III, para. 3). Pursuant to that invitation, Part I of *World Economic Survey 1964* was focused on planned development.[27] In that edition of the *Survey*, it is stated that "the acceleration of economic and social development requires a more long-sighted approach to policy formulation" and that "it has come to be understood that current policy decisions can no longer be made simply in response to the circumstances of the moment but have to contribute actively to bringing about the structural and institutional changes which underlie economic development" (p. 2). The *Survey* affirmed that the core contribution that economic planning can make to economic development lies in the coordination of policies, rather than in their selection or adoption (p. 117). Ultimately, planning is merely a means of coordinating policies so as to ensure that the available resources at hand are utilized effectively and efficiently. It was argued that markets in many developing countries were undeveloped and rudimentary, making markets poor mechanisms for reflecting the "true" opportunity costs of the society. The price system was thus regarded as less reliable and less effective for addressing the development problems of those countries.

As in other editions of the *Survey* published during the 1960s, the 1964 *Survey* identified the supply of domestic savings and the supply of key goods and services as two of the three pivotal scarcities that developing countries confronted with respect to increasing economic growth, the other being the supply of human resources.[28] It was cautioned that, in some countries, the limited supply of trained manpower or the low administrative capacity of Governments had restricted the volume of other resources which could be effectively utilized for expanding investment and output. In this context, a larger development programme could not be undertaken without a considerable loss in the efficiency of resource utilization. The 1964 *Survey* also pointed out that many developing countries had focused

26 Rahman (2002), p. 58.

27 Not to be confused with central planning.

28 Power and transport shortages were listed as other scarcities.

only limited attention on the issue of human resources, inasmuch as efforts to consider this issue were of quite recent origin in those countries.

The *Survey* reviewed methods for planning formulation, implementation and organization, and analysed at great length the interrelationship between national plans and international policies. This reflected both developments following the proclamation of the First United Nations Development Decade and the recognition of accelerated economic and social progress among developing countries as a matter of international responsibility. The *Survey* stated that the role of the developed countries was to offer commercial and foreign aid policies conducive to high and sustainable rates of economic growth and stressed that, at their present stage of development, developing countries could not hope to achieve such economic growth without international assistance.

During the First United Nations Development Decade, the Survey identified the important role of developed countries in supporting the efforts of the developing ones

In Part One of *World Economic Survey 1967*, practical solutions were proposed for dealing with challenges faced by many developing countries on their road to development—solutions that are still relevant today. These included designing a development strategy for increasing productivity and bringing about the structural changes required for continued expansion of output in the face of shortages of domestic savings and foreign exchange. It went on to observe that two kinds of difficulties frequently encountered by developing countries lie in the identification of (a) the principal obstacles (or bottlenecks) to economic growth in a manner that is operationally useful and (b) the mechanisms for dealing with, and, if necessary, for circumventing, particularly recalcitrant obstacles. This perspective is very much in line with the proposal put forward by Hausmann, Rodrik and Velasco (2005) for a practical guide to developing a framework for "growth diagnostics", that is, a strategy for identifying the most binding constraints on growth and defining the policy priorities needed to resolve them.

Other issues discussed in the *Survey* included practical guidelines on how to minimize the negative short-run impacts of adjustment during the course of development. For example, it recommended maximizing the use of available domestic resources, substituting the more plentiful for the scarcer raw material, using labour instead of mechanical equipment, and choosing technologies that were best related to the existing factor endowment. Because the formulation and implementation of development policies imposed a very heavy strain on government machinery, the 1967 *Survey* recommended instituting a plan administration that cut across the traditional departmental structure of the civil service which could improve coordination within the government. The plan administration would ensure that the functioning of the public services ran smoothly and, that the focus of operations was consistent with the larger development objectives of the country. This is an issue of great relevance today within the context of sustainable development and the need to achieve balance with respect to the economic, social and environmental dimensions.

Assessing the First United Nations Development Decade

The decade of the 1960s is often referred to as "aspirational" with regard to development. The desire to expand the transfer of resources from the developed to the developing countries was given historical global endorsement when, on 15 December 1960, the General Assembly adopted resolution 1522 (XV), in which it set a target of 1 per cent of the combined national incomes of the developed countries, to be transferred to developing countries to support their development efforts. On 19 December 1961, pursuant to the proposal launched in his address to the General Assembly by the President of the United

States, John Fitzgerald Kennedy, the Assembly, as noted above, adopted resolution 1710 (XVI) in which it designated the 1960s (1961-1970) as the decade of development (see appendix A.3). One of the targets to be achieved under the strategy for the First United Nations Development Decade was a minimum annual rate of growth of aggregate national income of 5 per cent for developing countries at the end of the Decade, as a measurable expression of the intentions of the international community (*World Economic Survey 1967*, Part One).

The goals under the First United Nations Development Decade were visionary at a time when many countries' memory of a drastic decline in their living standards, as a result of the devastation wrought by war, was still fresh; when many areas were colonies and their societies were oppressed; and when, more notably, the majority of the global population faced poverty, hunger, poor health and poor living conditions, and inadequate levels of education. As examined above, the *Survey* recognized that in the late 1940s, the economic development of the underdeveloped countries remained the world's most important long-term economic problem.

The strategy for the First United Nations Development Decade, together with the 1962 report of the Secretary-General entitled "United Nations Development Decade: proposals for action" (E/3613), offered up a new world view focused on the importance of supporting the development objectives of developing countries. The proclamation of the Decade signalled a new concern about the need to mobilize domestic and international resources for development. National resource mobilization was to be complemented by external resources derived from aid and trade, while there were concerns about the instability of the export earnings of developing countries, due to large-scale volatility of commodity prices. The First United Nations Development Decade turned out to be the first of a series of four (to be discussed in the following chapters). The motivations, thinking and practices underpinning the Development Decades constituted the foundation for a United Nations focus on development issues which led to the adoption of both the Millennium Development Goals and the Sustainable Development Goals.

Towards the Second United Nations Development Decade

In the late 1960s, the *Survey* had advocated for improved coherence across the political, social and economic dimensions of development

According to the 1968 *Survey* (Part One, p. 1), it may have seemed optimistic, in light of the historical record, when the General Assembly set the target of a minimum annual rate of growth of national income of 5 per cent to be attained by developing countries by the end of the 1960s. However, even if the 1960s had not yet come to a close, the 1968 *Survey* had already predicted that the actual performance of the developing regions might not fall far short of that initial objective. In the end, the average annual rate of GDP in developing countries turned out to be 5.5 per cent (table II.2).

Within the context of the preparatory work for the Second United Nations Development Decade (see chap. III), the 1968 *Survey* (Part One) pointed out the major development issues that had been identified during the Decade, contending that "if there is any criticism of general validity which can be levelled against post-war discussions of development, it is the compartmentalization of political, social and economic policies" (p. 1). It went on to argue that while social thinkers had long recognized the importance of political and social changes for economic growth, social and political policies had remained matters of separate consideration in discussions of economic measures directly related to the level and composition of output, investment and trade. The *Survey*'s concluding assertion that economic development is not accomplished within an unchanging governance and social structure—reflecting an early recognition of the need for political will and policy coherence as two fundamental factors supporting effective development—encapsulates an issue of continuing relevance today.

During this period, understanding of the nature and causes of development was broadened to encompass more than just pure economic growth. The 1968 *Survey* noted the "widespread agreement" that for broad-based economic development to be achieved, "policies to alter and improve social conditions [were] of fundamental importance" (Part One, p. 1). Thus, neither social nor economic measures should be regarded as separate actions directed towards separate ends. As an example, the 1968 *Survey* examined the interactions of three key issues which had emerged during the 1960s—the economic, social and institutional dimensions—namely, problems and policies relating to the prospective growth of population, employment and educational requirements; the increase in domestic and external resources; and policies for the acceleration of agricultural and industrial growth. All three issues were eventually reflected in the International Development Strategy for the Second United Nations Development Decade.

The subject of industrialization of less developed countries was in the agenda of the General Assembly and the Economic and Social Council during the 1950s, at a time when there was a persistent call by development economists (such as Hans Singer and Raúl Prebisch) for the industrialization of underdeveloped countries. The concern over export pessimism with regard to primary products, together with the industrialization experience of developed countries, was used to make a case for industrialization. Observing that there was "almost universal agreement that industrialization [had] a major role to play in the economic development of the underdeveloped countries" (p. 3) and emphasizing that newly independent countries were unlikely to rapidly expand their economic activities based solely on primary commodity exports, *World Economic Survey 1961* then provided a detailed discussion of the necessity of promoting industrialization. It justified large-scale planned industrialization in terms of complementarity among different industries (p. 55), while pointing out the advantages of international specialization, as well as the disadvantages of small domestic markets, a characteristic feature of many developing countries.

The *Survey* did admit that there were debates regarding the proper patterns of industrial development and stated that the advantages of international specialization, based on the relative abundance of labour, should be seen in its proper light as a dynamic process, in which development amounts to a process of transforming the prevailing demand and supply conditions. A call was made for diversification of the economic activity and export structure of developing countries. In this regard, the role of the State in development was widely recognized, specifically in mobilizing private investment for the development of infrastructure through the provision of public credit, tax exemptions for machinery and raw materials, and the attraction of foreign direct investment.

The *Survey* recognized the importance of increasing productivity in agriculture

The 1964 (Part I) and 1968 (Part One) editions of the *World Economic Survey* recognized that higher productivity in agriculture was the precondition for industrialization, and that strengthening the linkages between the agricultural and industrial sectors was important. This recognition by the *Survey* was based on the experience of Latin America and the Caribbean and, to some extent, Africa, where the lack of harmonization between industry and agriculture had become an obstacle to sustainable industrialization. Accordingly, adequate food supplies were perceived as being the major determinant of living standards and a very important factor in the development of a domestic market for manufactures, an idea attributable to Michał Kalecki, a prominent economist of that time and a contributor to the *Survey* (see appendix A.2). According to the 1957 *Survey*, the shortage of food supplies emerged within the broader context of underemployment of resources and insufficient production capacities (which created excess demand and inflationary pressures). Food shortages were the most worrying supply constraint, leading to unsustainable wage-price spirals, as was the case in Chile in the period 1940-1953.[29] Hence, implicit in the call for industrialization was the belief that devising "a proper production policy" (1957 *Survey*, p. 13) constituted the first step towards economic development.

On the basis of these considerations, certain goals were set under the International Development Strategy for the Second United Nations Development Decade (1971-1980), adopted by the General Assembly in its resolution 2626 (XXV) of 24 October 1970 (see appendix A.3). It was determined that achieving an average annual rate of growth in the gross product of the developing countries as a whole should be at least 6 per cent (para. 13), which implied an average annual expansion of 4 per cent in agricultural output and of 8 per cent in manufacturing output (para. 16 (a) and (b)). Through the 1980s, Member States continued to focus their discussion primarily on the speed of industrialization rather than on its pattern, and on the international context rather than on the domestic constraints that countries could face. In the early 1970s, industrialization was often discussed within the broader context of development. After being shelved as a priority in the 1990s, it is now one of the 17 Sustainable Development Goals.

Measuring progress in the developing countries

As will be demonstrated in the discussions in chapter III, the International Development Strategy for the Second United Nations Development Decade not only encompassed assistance for economic growth and development, but also included targets for social development in such spheres as health, education and employment.

The *Survey* advanced the importance of measuring development progress with robust statistical indicators

The 1969-1970 *Survey* examined the possibility of monitoring the process of economic and social development in ways that could be useful not only in assessing the nature of progress and the speed at which it is achieved, but also in evaluating the efficiency of policies. This constituted one of the early attempts by the United Nations system, including the International Labour Organization and the World Health Organization, to measure progress and policy outcomes with internationally agreed yardsticks, such as well-defined targets and indicators.

The *Survey* recommended that development indicators should distinguish between:

(a) Aspects of development that are directly reflected in human welfare and those that concern the economic mechanism through which persons seek to pursue their objectives;

(b) Current status of living conditions and actions that yield fruits only in the future such as changes in the economic capacity of countries to deliver goods and services.

At the international level, indicators call for selectivity: their application should be confined to the most significant and widespread aspects of socioeconomic progress.

29 In 1938, Chile had linked legislatively the minimum wage to the cost of living, which created wage-price and cost-price spirals, and added to inflationary pressures. According to the 1953-54 *Survey* (chap. 3), the inflation experienced in the period 1940-1953 was due to slow growth of food production and the rise in import prices (due to increasing international prices and exchange rate depreciation), both of which were linked to a higher real wage and high inflation.

The 1969-1970 *Survey* cautioned that, while new methods of measuring the course of development could be introduced in the long run, in the shorter run it was necessary and practical to prepare indicators "from the currently available supply of socioeconomic statistics" (p. 1). Within the context of the statistics that were available at the end of the 1960s, the *Survey* noted that the "aspects of socio-economic performance that appear to be most significant for international assessment include material output per person, adequacy of nutrition, infant mortality and life expectancy, literacy, availability (or lack) of gainful employment, internal price stability and domestic and foreign savings ratios" (p. 2).

It continually recommended that, for the purpose of measuring its progress, each country should select the series of indicators that it judged to be "most appropriate in the light of its own economic and social circumstances, its own ability to carry out the necessary measuring process, the characteristics of its own development plan and the detail with which it wishes to monitor the operation of specific policies" (pp. 1-2). These recommendations are still valid today.

Reflecting on the experience of the Golden Age of Capitalism

Development thinking in general and international cooperation in particular were built up from the foundations provided by the Golden Age of Capitalism. Development economics offered guidelines for less developed or newly independent countries to participate in the development process. The contribution of the Marshall Plan to the rebuilding of the economies of European countries and Japan after the Second World War and the successful outcomes of the First United Nations Development Decade during the 1960s were the kind of achievements to which policymakers and practitioners in the area of development of later generations aspired in their efforts to help the less developed countries help themselves. During this period, the *Survey* both responded to the debates on world economic problems and international development and provided States Members of the United Nations with policy recommendations. The formulation of the Sustainable Development Goals, which are the most comprehensive and ambitious set of development goals ever to have been adopted, attests to the inspirational impact of the traditions in development thinking and practice.

Development theory and practice during the Golden Age bequeathed important lessons which are applicable to the challenges of the present day

To a large extent, present-day development thinking and practices are a fruit of the legacy of the Golden Age of Capitalism. The current target of raising the level of ODA to developing countries to 0.7 per cent of the total GNI of the donor community can be traced back to the proposal, which achieved prominence in the 1960s, that 1 per cent of the national income of the developed countries be transferred to developing countries as aid. The Marshall Plan offered an early example of successful implementation of resource transfers to countries in need. The strategies for the First United Nations Development Decade in the 1960s and for the Second Decade in the 1970s were inspirational for decades to come to everyone engaged in development. At the time, and within the context of the preparatory work for the Second Development Decade, *Survey* analyses assessed the outcome of the First Decade in terms of achievement of its goals and targets and identified the major issues of development policy with which the international community was likely to be confronted in the coming decade. It criticized the compartmentalization of various policies across economic, social and governance issues and argued that the aims of an economic policy could not be accomplished within an unchanging governance and social structure.

Further, the *Surveys* of that period expanded the scope of the concept of development, including its features and the factors that generated it, beyond the economic sphere and in this regard recommended that policymakers include an integrated approach to dealing with the economic, social and institutional facets of development. Recognition of the need for a more integrated policy approach which emerged during the Golden Age of Capitalism played a crucial foundational role in the elaboration of the United Nations development agendas, and the influence of this recognition extended down to the formulation of the Sustainable Development Goals.

The aspirations associated with the First United Nations Development Decade were very much moulded by the emergence of a large number of new nation States as part of the process of decolonization. The economic prosperity achieved by the world economy, particularly by the economies of developed countries during the 1950s and 1960s, provided the enabling international environment needed to support the high aspirations inherent in development objectives.

The analyses and policy recommendations derived from the Golden Age are shedding light on current development challenges, including implementation of the Sustainable Development Goals

Yet, even during the Golden Age of Capitalism, countries faced high volatility of commodity prices, and in this regard, the *Surveys* identified a clear need for international stabilization mechanisms designed to manage volatility, an issue that remains relevant in the context of implementation and achievement of the Sustainable Development Goals. The Bretton Woods monetary system made a huge contribution to the growth and stability of international trade and the payments systems in the first quarter century immediately following the Second World War. The flexibility demonstrated by IMF, which enabled member countries to eliminate foreign exchange restrictions over a longer period of time, provides a valuable policy lesson that is highly relevant today.

During the Golden Age of Capitalism, industrialization was put forward as a means of facilitating the economic development of less developed countries, and the importance of longer-term economic planning was recognized as well. The *Survey* recommended the establishment of a plan administration within the Government to coordinate various economic, social and institutional policies at a higher level, so as to prevent the disruption of normal public services delivery by line ministries while at the same time keeping the focus on the overall objectives of development. It is clear, then, that the evolution of the 2030 Agenda for Sustainable Development, which covers a 15-year horizon, was guided by a deep-seated recognition of the need for a longer-term outlook and the importance of policy coordination across various line ministries.