ORIGINS AND EVOLVING IDEAS OF THE *TDR*

Introductory remarks

by

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Let me thank the organizers of this meeting for inviting me to the task of moderating this opening panel.

I will begin by putting this session's discussion of the origins and evolving ideas of the *Trade and Development Report* (TDR) into a general context, which I hope will provide the setting for the contributions of Rubens Ricupero and Yilmaz Akyüz. When you look back at 1980, which was when the idea of the *TDR* arose, you realize that it was a pretty tumultuous and uncertain economic and political time, and one with some interesting parallels to the current era: advanced economies were struggling to come to terms with economic shocks that had created stagflationary pressures; many may have forgotten, but it was the largest bailout in the history of the United States when in 1980 the Chrysler corporation was bailed out by the Carter administration in the United States; the price of gold hit historic highs in 1980; developing countries had been enjoying about a decade of extensive growth, which was much faster than that in the advanced countries. At the same time, global imbalances were taxing the international community over that period; the Brandt Commission launched its report in 1980 arguing that the international governance system needed a much greater representation for developing countries, a theme that continues to resonate; and of course the Cold War was still on and indeed heating up, as the Soviet Union had invaded Afghanistan the year before, and there were surrogate wars going on in Central America and in Southern Africa.

Against this backdrop of a fairly tumultuous economic and political time, a number of people in UNCTAD, particularly Gamani Corea, the then Secretary-General, and Gerry Arsenis, the Head of the Money and Finance Division at the time, felt that UNCTAD needed to have a regular voice to present its more integrated perspective on the trade and development challenge, which would go beyond the ad hoc sessional documents that it had already been producing on a regular basis. This feeling was present all the more because, at that time, the Bretton Woods Institutions themselves were moving away from their more traditional concerns towards a focus on the challenges facing developing countries. For example, the World Development Report had been launched by the World Bank in 1978.

The first TDR was published in 1981 and by the time Yilmaz Akyüz joined UNCTAD in 1984, the situation and probable further evolution of the global economy had become a little bit clearer. It was quite clear that the developed economies had turned to a much more austere approach to macroeconomic policymaking. This had a major impact on developing countries which were in the throes of a very serious debt crisis which had began in 1982. Therefore, it is not surprising that the first few *TDRs* would focus on the issues of debt and finance. In doing so, UNCTAD could draw on a long and established tradition of working on these issues that goes back to the first conference in 1964. Indeed, it is sometimes forgotten that the links between trade and finance were hard wired into

UNCTAD's original mandate and had been a major focus of research and analysis since then. In some sense, by focusing on debt and finance, UNCTAD and the *TDR* felt the pulse of globalization. Many of the people working on globalization at the time already realized that finance, rather than trade, was driving globalization. Indeed, the issues of financialization that Ambassador Maruping mentioned earlier were already taking shape and became the focus of the *TDR*. The *TDR* also underlined that globalization was not a naturally given process; rather, it was a policy driven process, with the policies of advanced countries very much setting the stage for the direction of the global economy. The interests of the advanced countries were very much shaping the global economy and did so to the detriment of many developing countries' growth performance; as a matter of fact, this period would later become known as "the lost decade of development". UNCTAD, and the *TDR* in particular, was swimming against the tide of some kind of simplistic market optimism, which was the overriding attitude of the international community, particularly the part based in Washington and Paris.

At the end of the decade, the crucial role of international finance became much more apparent and the shift towards a new development policy paradigm, often referred to as the "Washington Consensus", was further reinforced. I would argue that this process forced the *TDR* to maintain its emphasis on global issues, but also to look more carefully at the differences across developing countries which were becoming apparent. As a result, the *TDR* started to look more closely at differences across the developing world, including in terms of national development strategies and the way in which economic policymaking, now characterized by market fundamentalism, was affecting policymaking in the developing world.

I joined the *TDR* team in 1994 and Rubens Ricupero became Secretary-General of UNCTAD in 1995. These years saw the beginning of very profound research and analysis which have established the *TDR* as a serious and critical voice in development economics. I am sure that my colleagues will go through the kind of work that was done in that period but I feel that it is a remarkable body of work which looks at the links between trade and employment and analyses the East Asian development experience from a perspective that sharply differs from the interpretations of the World Bank that had come to dominate that debate.

The *TDR* perspective, which emphasized the importance of industrialization in the development process and underlined the critical role of the developmental state to any sort of effective development strategy, was then used to revisit the African development challenge. This new line of research in UNCTAD questioned the foundations on which the structural adjustment type approach to development strategy had been based and that had damaged the continent over the previous decade and a half. Remarkable at the time, this line of research also emphasized the intimate link between finance and a pattern of worsening income inequality and growing instability; it did so particularly in the 1997 *TDR*, which anticipates current debates by at least a decade. This research also undertook seminal work on the links between income distribution and economic growth. Moreover, it seriously examined the role of global value chains in the developing process before other people started to look at the way in which value chains were affecting trade and development prospects. Indeed, it is quite a remarkable body of work which added very careful analysis of issues related to strategic policymaking to the earlier work on global governance and the global economic environment. Of course, there is always a danger for someone like myself to look at this through rose tinted glasses, but I do believe that it is a remarkable body of work and I hope that the two panellists of this session discuss it further.

When I look back on that period I remember not only the work but also an unbelievable lively, challenging and exciting professional experience, which I believe existed nowhere else in the UN system at that time. I had myself worked on a couple of other UN flagship publications in New York and in Geneva and none of them had the kind of intellectual vigor and commitment of the *TDR* team. This atmosphere was ultimately due to the people that formed that team, some of whom are on this podium, others are in the audience. But it is the people who are not here that I think deserve a special mention. Shahen Abrahamian, an important person in the process of creating the *TDR*, was certainly one of the reasons why I wanted to join the team; Shahen Abrahamian sadly died in 1995 at a tragically early age but had played an instrumental role in building the Report's tradition. So did Roger Lawrence who was head of the Division in UNCTAD when I joined the *TDR* team, as well as many others. I think that all of these people were committed to a certain approach to the development challenge, as well as to a certain approach to research which made this to be a particularly attractive and vibrant environment. It also was and continues to be, a resource-constrained environment. Yilmaz Akyüz used to say that we did not need big resources but big ideas. Nevertheless, facing serious resource constraints has always been a feature of research in the UN system. John Toye, in his book on the Intellectual History of UNCTAD, estimates that the *TDR* costs one-fifth of what it costs to produce the World Development Report. So all those who worry about value for money and results-based management may want to take a careful look at a comparison of what the *TDR* has achieved within its resource constraints compared with the reports of other organizations.

A further element that contributes to the environment in which an institution's flagship report is produced regards the difficult process of finding a balance between institutional coherence and analytical creativity and, indeed, the whole issue of establishing a line of research in the UN which combines a sense of institutional responsibility with pushing the boundaries. Again, John Toye talks about this very difficult issue in his book. Having assumed recently the role of clearance in UNCTAD, I begin to appreciate some of the problems that we used to complain about when we were on the delivery side of the *TDR*. Rubens Ricupero used the phrase "let a thousand flowers bloom" to describe the kind of environment that he wanted to see flourish in UNCTAD for research. My own suspicion is that a "thousand flowers bloom with Chinese characteristics" is a little different from a "thousand flowers bloom with Brazilian characteristics". But maybe you Rubens would like to talk on this issue a little bit. So, without further ado – and if I may thank these two gentlemen for my experience in UNCTAD with the *TDR* which I consider to be one of the best experiences I have had as a professional economist – let me hand the floor over to Rubens Ricupero.

Statement

by

Rubens Ricupero

Former Secretary-General of UNCTAD

Ninety four times did Pope John Paul II ask for forgiveness for the sins and crimes committed by Christians over two thousand years of History. Would it be too much to expect that some multilateral economic organizations admit their share of responsibility for the current financial crisis and ask forgiveness for the terrible advice they gave countries in recent years?

When Queen Elizabeth II visited the London School of Economics in November 2008 she candidly asked the question that was in everyone's mind: "Why did nobody see it coming?" After a few months of embarrassment, a group of eminent British economists sent a letter apologizing to the Queen. They wrote: "Your Majesty, the failure to foresee the timing, the extent and severity of the crisis and to head it off (…) was principally the failure of the collective imagination of many bright people (…) to understand the risks to the system as a whole".

The letter went on to recognize that the wizards, some of them Nobel Prize winners, who believed that their plans to protect the financial system were infallible, were guilty of "wishful thinking combined with hubris". The times before the crisis were characterized by a "psychology of denial".

I could not find a more precise description of the prevalent reception of issue after issue of the *TDR* by the mainstream economists in some multilateral institutions and in the press: a collective attitude of denial. It was not so much active hostility or political censorship although we also had a taste of both from time to time. It was a studied posturing of deliberate silence, of avoiding to acknowledge the very existence, not to say the possible interest, of a differing view.

The 1996 *TDR* was the first published under my official responsibility and I am proud that, in defiance of conventional rules, it was dedicated to the memory of Shahen Abrahamian, who had passed away a few months before and had been one of the major intellectual forces behind the Report.

One year before, Abrahamian should have felt vindicated during the discussion of the Mexican *tequila* crisis. If someone wants to get a taste of that not so nostalgic past, there is a vivid account in the internet by our dear friend Chakravarthi Raghavan under the heading of the Third World Network.

He tells as Carlos Fortin, Officer-in-Charge of UNCTAD at the time, remarked that in 1994, when the *TDR* had warned against the dangers surrounding global finance, the Wall Street Journal had derided the organization's economists as contemporary Rip Van Winkles coming from the backwoods of a far-way past. One year later, the same paper would run a story on the first page acknowledging that those same economists had been warning for years about the likelihood of the kind of crisis that overtook Mexico.

Over the three decades of its existence, the *TDR* covered a multitude of subjects and became a true encyclopedia of development thought. I will not attempt a comprehensive examination of its most interesting conclusions in areas that are closer to my experience such as the imbalances and shortcomings of the multilateral trading system, the rate of value added to manufacture exports as the definitive criterion of development, or the real nature of the successful development policies implemented by China and other Asian countries in contrast to the neoliberal travesty of such policies concocted by some organizations.

Nor will I concentrate on the domain that proved to be the most accurate anticipation of things to come: the systematic analysis of the dangers of too much and too early financial liberalization and deregulation; the enlightened proposition of a complete set of policy advice to deal in an effective and humane way with excessive indebtedness; and the promotion of sound policies to prevent and avoid financial and monetary crises.

What I rather want to highlight in the *TDR*'s arsenal of ideas is the overall perspective of development in its totality and complexity, of a whole greater than the sum of its parts, of its indivisible nature. The 1996 *TDR* was precisely devoted to the interaction of all factors indispensable to development: finance, exchange rates, investment, trade and technology.

This amounted to a lucid effort of never losing sight of the forest when looking at the individual trees. It unfolded into two basic approaches that came to singularize the *TDR*'s distinctiveness. The first was and is the insistence on the central importance of the external economic environment as a propitious or adverse condition for development that may at times prove determinant. In some ways the idea is an offshoot of Raul Prebisch's old theory of "center and periphery", "his wonderful terminology", as Professor Jagdish Bhagwati put it.

The second and complementary approach is that the quality of national policies does matter when trying to take advantage of favourable external circumstances or to make up for unfavourable contexts. Due to the very different particularities and stages of growth of developing countries, they should be allowed a reasonable degree of policy space to adopt measures and orientations most appropriate to their needs. For so doing a capable State machinery is indispensable to set the policy framework most conducive to development.

How amazing is it that a theoretical construction of such balance, clarity and comprehensiveness should be so often misunderstood and misconstrued! After all, the *TDR* and UNCTAD never attempted to impose conditionalities nor dictate prescriptions to countries, never pretended to define a consensus supposedly of universal value to all nations.

The opposite was true as people frequently complained that the Reports were not prescriptive enough, that they left too much freedom of choice in sorting out the existing alternatives, of inviting countries to face their own responsibilities.

If development had to be approached from a perspective of totality, a logical corollary that ensued was that interdependence should provide the cornerstone for the creation of a favourable external environment. Interdependence and its necessary consequence, multilateral cooperation, were then seen as the only paths that could ensure a healthy and balanced world economy.

Dealing with the world economy in its totality as a complex and interrelated system led the *TDR* to analyse development as an indivisible whole. On its part, this approach forced to the surface the need for coherence between the monetary and financial system, on the one side, and the commercial system, on the other. As we all know, this is a crucial question that lies at the very heart of the major macroeconomic imbalances between chronically surplus and deficit economies.

The destructive crisis that we are currently experiencing is a direct result of such staggering imbalances. Or better said, the crisis was the product of the ideological belief that the markets would self-correct the imbalances that they had created and the fatal alibi that ideology provided for the failure of multilateral cooperation in dealing with them.

Among all the *TDR*'s achievements, the one that stands out as a lesson of immediate and urgent usefulness is its contribution to the recent science of "crisiology", the branch of economics dealing with crisis.

Nowadays, this has been a flourishing academic field and entire sections of bookshops had to be devoted to the prolific production in the field. As a footnote to the tendency, allow me just to mention that even the very best in that crop are not immune from some odd conclusions. The interesting and exhaustive study by Rogoff and Reinhart, for instance, has a table where, on the basis of several historic criteria, it lists the countries that are about to graduate from the likelihood of default. Well, among the happy few, you will be pleasantly surprised to find Greece, of all places, and Portugal, which shows how perceptions can radically change in a matter of months or weeks!

I have not reread every line the *TDR* wrote on crises but I do hope that it has never ventured into such perilous exercises! Books and reports on financial crises have become so frequent now that they no longer attract much attention. In the early 1990s, however, after the fall of the Berlin Wall, the end of communism and the end of History, of *la pensée unique,* and triumphant globalization as an ideology, to foresee financial crises was seen as preposterous and deserving a full dressing from the Wall Street Journal.

When I arrived in Geneva on September, 1995, making fun of UNCTAD was a fashionable sport. A few days after I took office, the Observer column in the Financial Times welcomed me with a note translating our acronym as meaning Under No Condition Take Any Decision! Who at the time would dream that 15 years later the newborn institution across the corner announced as the end of UNCTAD would find itself in a not so dissimilar predicament!

Before the end of 1994, when the financial meltdown in Mexico reminded us that mortality was an inevitable destiny not only of civilizations but of globalization as well, there was a widespread belief that the Great Normalization had banned the possibility of real crisis, not the kind associated to the normal business cycle. That is the explanation to the indignant reaction to the first *TDR*'s prophecies about the dangers of too much short time capital inflows into developing economies.

Even after the *tequila* crisis vindicated the accuracy of the reasoning, the episode continued to be looked upon as no more than an additional consequence of the lack of discipline and the careless laxity of Southerner peoples, of those that would later be branded as belonging to "the Club Méditerranée" variety. A few weeks before the Thailand currency collapse announced the start of the 1997 Asian crisis, a front page title in the Financial Times summed up the IMF Spring Report of that year: "*The future of the world economy is rosy*, says the IMF".

That was in February or March. Months later, when the crisis was about to reach Singapore, during the IMF and World Bank Fall joint meeting that took place in Hong Kong (China), it is astonishing to remember that the IMF was still trying to sell an amendment to The Articles of Agreement establishing the mandatory character of the full opening of the capital account of the balance of payments and the absolute interdiction of any capital control!

The 1998–1999 Russian and Brazilian crises were not sufficient either to dispel the notion that financial and monetary crises could only happen in the distant and barbaric periphery of the system, in the same way as challenges to democracy and capitalism were relegated to faraway and irrelevant countries such as Afghanistan in Fukuyama's famous essay on *The End of History.* You all know how that particular story ended and how the crisis finally struck at the very heart of the system. I am not going to retell a story that has already been told many times. My aim was just to call back to our minds what was the intellectual and psychological atmosphere that prevailed during most of the years of my personal experience with the *TDR* elaboration.

In preparing these comments, I read here and there some of the *TDR*'s texts about financial crises. I was impressed by their freshness, their analytical depth and their permanent validity. If they had read them, the Greeks would have understood the poignant dark humor of Professor Bhagwati's comment that, once you get caught by the trap of financial globalization, to get free from it is like to send a letter resigning from the Mafia…The *Onorata Società* does not take lightly this kind of thing as we *meridionali* well know…

If you sensed in my words a touch of irony and sarcasm you are probably right. I hope that I have not been guilty of the ugly sin of *schadenfreude,* what others would call the joy of the prophet or Cassandra's revenge. Many times has the *TDR* been accused of being Cassandra's voice. Of course people missed the main point: Cassandra, indeed, was right and had the Trojans listened to her, the Greeks would have been forced to withdraw and mankind would be deprived of a beautiful poem. Perhaps even the subsequent fate of the Greeks would spare them the current plight, who knows?

This long *recherche du temps perdu* leaves us with a bitter taste. If the *TDR* was so generally accurate, why is it that so few paid any attention to what it had to say? Should we be forced to admit that Chesterton was right, after all, when he wrote that *History teaches us that History teaches us nothing*? Should we attribute this lack of prevision to a "failure of the collective imagination of many bright people (…) to the combination of wishful thinking with hubris (…) to a psychology of denial"?

There is a little bit of truthfulness in each of these factors but I suspect that they do not capture the full truth. At least for the individuals in positions of power in politics and in finance – and they are often interchangeable – there is something more. It is a suspicious coincidence between their intellectual conclusions and their financial and career interests. In other words, there is an element of ideology, in Karl Mannheim's definition as a set of beliefs and values, supposedly scientific and objective but conveniently serving and concealing class and sectors interests.

From this category of people, who are again in power, or better, who have never lost their dominant positions in running the banks and the governments, the only kind of repentance we can expect is the one attributed to a famous American pop star pianist of the 1960s. After a particularly atrocious performance that brought him piles of money, asked how he felt about a crushing critical piece in the New York Times, he replied: "I cried out all the way to the bank"! If they feel any sort of conscience pain they will at best say: "Since the financial crisis started, each year we have been crying out all the way to cash our millionaire bonuses and stock options"!

I do not believe that in the *TDR* unit or in UNCTAD people were intrinsically morally superior to those lords of finance or that they were intellectually brighter. What they had was something quite different: an international public service ethics, a commitment to critical and independent thought, a desire to imitate the lessons left from giants such as Gunnar Myrdal and Raul Prebisch.

Like Don Raúl, they felt great respect for the theories from the North as those theories had much merit. But likewise him, they would examine them with critical spirit to see to what point they fitted structurally distinct conditions in the South. They were moved by a constant search for intellectual emancipation and they felt a passion for independence, integrity, the refusal to serve as tools of special economic interests or even the so-called "sacred egoism" of national interests. And happily enough, most of the time they found in the United Nations the institutional framework that offered them the minimum conditions to work without having to sell their souls.

I was fortunate that at the end of my public career I could benefit from the wisdom, the experience and the moral example of men such as Carlos Fortin, Roger Lawrence, Yilmaz Akyüz, Professor John Toye, briefly, and their collaborators, Richard Kozul-Wright, Andrew Cornford, Charles Gore, Detlef Kotte, Taffere Tesfachew, later Heiner Flassbeck, Alfredo Calcagno and many outstanding people working in other sectors of UNCTAD. I would like to make a special mention of the outstanding contribution made by Professor Jan A. Kregel over many years in relation to financial, monetary and other relevant issues covered by the *TDR*. I was delighted and encouraged to see that the Secretary-General, Dr. Supachai, has assured them of his unfailing support, guidance and trust, that the *TDR* has been able to keep its brightest promises, that the preparations for UNCTAD XIII have renewed and reinforced the best of UNCTAD's traditions.

I never had the knowledge or the talent to be really of any help to them. I am afraid that, on account of my diplomatic professional deformation, I may even at times been a nuisance to them in my tendency to tone down incisive moods of expression or too bold predictions of things to come. Thus it is appropriate that I too should ask forgiveness for my faults and shortcomings.

As I cannot share the glory of the *TDR* team, and of their colleagues in similar difficult pursuits, I can at least praise them for their accomplishments and thank them for the invaluable contribution they gave me and UNCTAD. And I conclude by saying from the bottom of my heart: "Long live the *Trade and Development Report*! Long live the United Nations Conference on Trade and Development! Long live the women and men in international organizations and elsewhere who struggle for more justice, equity and equality in the world economy!" Thank you!

Statement

by

Yılmaz Akyüz

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Former Director, Division on Globalization and Development Strategies, UNCTAD

I will give my personal reflections on research done in the *TDR* in the 1980s and 1990s, but I have closely followed what happened since that time. I joined UNCTAD in 1984 working in MFD (Money, Finance and Development Division, as it was called at the time), when the brilliant economist Shahen Abrahamian was coordinating the *TDR* with the director of the Division, Roger Lawrence. Roger was an excellent economist, with a very good understanding of international monetary and financial issues from the point of view of developing countries. I had also the privilege of working with Sidney Dell, who I think was one of the most prominent economists of the United Nations system. When Shahen died unexpectedly in 1995, I took over effectively the coordination of the research of the *TDR* until my retirement in 2003.

The intellectual backdrop of *TDR* research and its analytical basis goes back to Raúl Prebisch, the founding father of UNCTAD and its first Secretary-General, from 1964 to 1969. Prebisch had a deep influence on the thinking of the research team particularly in industrialization, trade and development issues (as part of larger post-war development thinking, underlying UNCTAD's concerns of the 60s and 70s). The team was also influenced by the Heterodox Keynesian tradition, not only in macroeconomics but also in finance (Minsky was mentioned in *TDR*s in the 1980s), accumulation, distribution and growth (Kalecki and Kaldor tradition). However, the *TDR* team never denied the importance of having a sound command of mainstream economics, its analyses and policy prescriptions, and there was never a wholesale rejection of such analyses or policy advice.

A second person who had a major influence for research in the *TDR* was Gunnar Myrdal, a brilliant Swedish economist, Nobel Prize winner in 1974 and Executive Secretary of the United Nations Economic Commission for Europe (UNECE) in the period 1947–1957. Myrdal wrote a piece on research in UNECE "The Research Work of the Secretariat of the Economic Commission for Europe" in *30 Economic Essays in Honour of Eric Lindahl*, Stockholm, 1956, which discussed some principles for both the Secretariat and the Governments that should govern research in international organizations:

1. **Independence**: The Secretariat should be a free and independent scientific agent, guided by established standards of profession, with the right to decide on its own initiative to undertake studies as well as responding to governments' requests. "Independent research" is reiterated by UNCTAD intergovernmental machinery on several occasions. Some major governments often wanted to keep secretariat out of certain key issues intrinsically linked to development, but the UNCTAD secretariat has guarded until today its independence jealously.

2. **Competence:** Earning and preserving independence presumes high competence. Indeed this was the single most important norm in selection of research staff, despite bureaucratic hurdles in the UN and resource constraints – the *TDR* has often been produced by a few people, a trickle of what goes in the reports of Bretton Woods Institutions (BWIs).

3. **Relevance and usefulness:** Academic, pure scientific, research should be left to universities and the

research in international organizations should have practical purpose, basically to improve policy making at the national and international level. This is needed for intergovernmental support.

The *TDR* was, has been and is always highly policy oriented, at national and international level, even though it was not giving blueprints for policy making. It was used by the developing countries mostly in international policy issues, to support their positions; although *TDR*'s position was not always the same as that of developing countries in international negotiations. But developing countries rarely used the *TDR* in their national policy issues. And advanced economies hardly used it any way. In retrospect, costly policy mistakes could have been avoided if governments had engaged in a constructive dialogue over policy options.

4. Scientific modesty: The Secretariat should welcome criticism, even the harshest one, on every point, but expect and receive respect for its scientific work. Major Group B countries rarely took the trouble to make a critical assessment of *TDR* research, but chose to ignore them.

5. Integrity: Do not steer clear of problems where political interest are powerful or avoid analytical inferences because they are politically awkward. *TDR* research rarely eschewed controversial issues because of political indications.

6. Caution: Need to express findings with a certain reserve and to avoid formulations which might appear provocative. But if taken too far this could lead to work without perspective or significance. "Statesmanship in Research" calls for formulating findings with special care, but not engaging in intellectual compromise. On very few occasions researchers tempted to use strong language or top management appeared to be engaging in intellectual compromise, but in general Statesmanship in Research was secured. Staff was never obliged to advocate positions against its research findings and beliefs.

7. Government tolerance for scientific research: "Independence is possible only if governments accept that in scientific inquiry there can be no monopoly of truth and be prepared to see results contradicting their positions." Myrdal points out that post-war governments were generally willing to pay this price and the cold war helped enhance political tolerance. After the 1980s, notably after the collapse of the Berlin Wall, dominant powers have become increasingly intolerant to diversity of views regarding national and international economic issues and indeed wanted the Washington Consensus to become a global consensus. And I think this is still the case.

Looking at the content of *TDR* research in the 1980s and 1990s, as well as today, it has addressed a wide range of inseparable issues in development (industrialization, trade, debt, finance, macroeconomics, international production and transnational corporations); it made critical assessments of mainstream analysis and policy advice; it offered alternatives; it issued warnings of potential difficulties that could result from misguided policies. But ironically, the most important contributions of the *TDR*, in my view, were in *debt and finance*, where the *TDR* was and still is well ahead of the curve. The Division responsible was originally called Money, Finance and Development Division, later became Global Interdependence Division, then the Resources for Development Programme and now Globalization and Development Strategies Division. They have always dealt with international monetary and financial issues, among others, gave intellectual and substantive support to the Group of 24, participated in International Monetary and Financial Committee (formerly Interim Committee) and Development Committee of BWIs, carried over UNCTAD's (UN's) past successes in the introduction of Special Drawing Rights, debt relief and Compensatory Financial Facility.

The *TDR* started grappling with the Latin American debt problem soon after its inception in 1981, when Mexico defaulted in August 1982. This was a recurrent theme of the *TDR* during the 80s. The *TDR* differed from the mainstream not only in the analysis of the reasons for the crisis but more importantly in the analysis of debt sustainability in Latin America. It argued (1986/1987) that the Baker Plan of 1985 (concerted lending plus austerity) could not resolve it. In 1988, the *TDR* made a proposal based on simulations that at least 30 per cent of debt write-off was needed for Latin America to get back to growth. Major creditor governments did not pay attention to this proposal, but the Financial Times picked it up in its front page. A year later, the Baker Plan was replaced by the Brady Initiative which provided relief by over 30 per cent. But this came after many years of muddling through and with a high cost for the region in terms of development.

Staff working on debt issues at UNCTAD saw official debt of poor countries even less payable. In fact, guidelines for negotiations of bilateral debt of developing countries (DCs) had been set at UNCTAD in 1980 with Trade and Development Board Resolution 222. These were seen by Mr. Camdessus, the chairman of the Paris Club at the time, "as establishing the international legitimacy of the Paris Club within the international financial architecture." However, the Paris Club left out multilateral debt. The secretariat thinking was that policies in poor countries were often imposed by BWIs as part of the conditions attached to lending, but when they failed and debt became unpayable, the burden fell entirely on developing countries. Thus, starting in the early 1990s, *TDR* argued for multilateral debt relief (the most specific chapter in this matter appeared in *TDR* 1993). This was seen almost as heresy by major shareholders of BWIs. But then HIPC came in 1996. Even though it was imperfect and the *TDR* kept on criticising HIPC for being a creditor-driven process, the inadequacy of the relief and the conditionality pushing the kind of policies that had failed and made debt unpayable in the first place.

Right from the 1980s the *TDR* argued for replacing creditor-led, ad hoc and arbitrary debt workout mechanisms, both for official and commercial debt, with statutory mechanisms. The *TDR* was not the first to think or ask for it, but UNCTAD was the first international organization putting it in clear terms in *TDR* 1986:

> The lack of a well-articulated, impartial framework for resolving international debt problems creates a considerable danger … that international debtors will suffer the worst of both possible worlds: they may experience the financial and economic stigma of being judged *de facto* bankrupt, … At the same time, they are largely without the benefits of receiving the financial relief and financial reorganization that would accompany a *de jure* bankruptcy handled in a manner similar to chapter 11 of the United States Bankruptcy Code.

This was reiterated in *TDR* 1998 and 2001 after recurrent crises in developing countries.

Towards the end of the 1990s and the early 2000s, with growing unease of some OECD governments about the size of increased bailouts and the moral hazard problem, IMFC requested the IMF secretariat to prepare a proposal for a statutory Sovereign Debt Restructuring Mechanism (SDRM) in 2002. The IMF secretariat prepared a series of documents discussing various aspects of the problem, which originally contained several elements of *TDR* proposals. But none of the substantive IMF documents made any reference to them. SDRM was first diluted and then abandoned because of opposition from financial markets and the United States. Ironically none of the debtor developing countries that could benefit from a statutory framework supported it or asked for a revision, for fear that their access to market would be impaired. Now it is being rediscovered again in Europe, traumatized by the debt crisis in the periphery.

In the early 1990s, the *TDR* turned to capital flows and financial instability. In 1991, it argued that success of the Brady Plan plus Washington Consensus policies (and NAFTA for Mexico) could attract large amounts of capital to Latin America, and that could lead to balance of payments and financial fragility, and eventually to crises. Starting in 1991, there was a section in the *TDR* warning Mexico to impose controls over capital inflows, something that was discovered by the IMF twenty years later after the subprime crisis. An interesting summary of these warnings was prepared by UNCTAD's press officer at the time in *TDR* 1995 (pages 76–77). After Mexico in 1995, the *TDR* gave a warning that for Argentina the key question was not "if" but "when". This was followed by an analysis in *TDR* 1996 that some East Asian countries were heavily dependent on capital flows and highly vulnerable to financial crisis. These were not simple conjectures but conclusions from rigorous analyses in the tradition of Keynes and Minsky that mainstream discovered only after the subprime crisis, 15 years later.

While the *TDR* was doing all that work on debt and finance, the mainstream was actually occupied in fiction, renewing its faith in markets:

- When the crisis in Mexico happened in 1982, we were told that it was due to fiscal deficits. Capital flows and deficits associated with private savings gap would not lead to instability (Lawson Doctrine).
- Mexico in 1994/1995 was in fiscal balance; the crisis was said to be due to excessive private consumption. It would not have happen if capital flows had financed investment.

- Pre-1997 Asia had an investment boom financed largely by external capital, but the financial crisis was said to have resulted from corruption and inefficiencies associated with government interventions.

Other examples of early warning and unorthodox analyses from the *TDR* include:

- That unleashing of global market forces (globalization) would lead to rising instability and inequality. Tendencies towards increased inequality were detected in Asia already in 1997, the region that was benefiting most from globalization.
- That excessive and indiscriminate reliance on Foreign Direct Investment (FDI) would not bring catch-up industrialization (now a concern that some FDI-dependent South East Asian countries may be falling into a middle-income trap).
- That more exports do not necessarily mean more income and value-added (high import content of exports in high-tech parts in production networks and double-counting that other organizations working on trade are now discovering).
- That the Washington Consensus policies were deindustrializing Latin America (now widely recognized, at least in some countries in the region).
- From the beginning of the Uruguay Round negotiations, UNCTAD researchers in trade warned constantly that for the trading system to become viable, the development dimension of WTO had to be recognized. At the time, the approach of major countries to negotiations was still like a business negotiation. Since Doha, this has been recognized, even though in rhetorics

In concluding, I am not suggesting that the *TDR* was infallible; far from it. I can give you a number of examples when the *TDR* went off track (pessimism on Brazilian crisis, missing positive balance of payments and FDI implications of China's accession to WTO, etc.). The point is that we were engaged, like other institutions, in scientific research, asking similar questions and trying to come up with some answers that were different to what others were saying – in many areas, not necessarily in all areas. But these were ignored. And when dominant powers have little tolerance for diversity, trying to suppress or ignore dissident views even when they are proven right, you end up with big and costly mistakes and progress tends to be slow and erratic. I believe this is why yesterday's unbending advocates of liberalization and Washington Consensus both in the financial press and the academic community are now talking about "capitalism in crisis".