



UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT



UNCTAD XIII Pre-Conference Event
Panel Discussion

**THINKING DEVELOPMENT:
THREE DECADES OF THE TRADE
AND DEVELOPMENT REPORT**

Geneva, 20 February 2012

ORIGINS AND EVOLVING IDEAS OF THE TDR

by

Rubens Ricupero
Former Secretary-General, UNCTAD



UNITED NATIONS
UNCTAD

UNCTAD XIII Pre-Conference Event

Panel Discussion:

Thinking Development: Three Decades of the Trade and Development Report

Palais des Nations, Geneva, February the 20th, 2012

Origins and Evolving Ideas of the TDR

Rubens Ricupero

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 overtake 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, 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 favorable external circumstances or to make up for unfavorable 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 favorable 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 analyze 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, 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 1998-99 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 light 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 *schadenfreud*, 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 Toyé, briefly, and their collaborators, Richard Kozul-Wright, Andrew Cornfold, Charles Gore, Detlef Koffe, Taffere Tesfachew, later Heiner Flassbeck, Alfredo Calcagno and many outstanding people working in other sectors of UNCTAD. 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 that struggle for more justice, equity and equality in the world economy!" Thank you!