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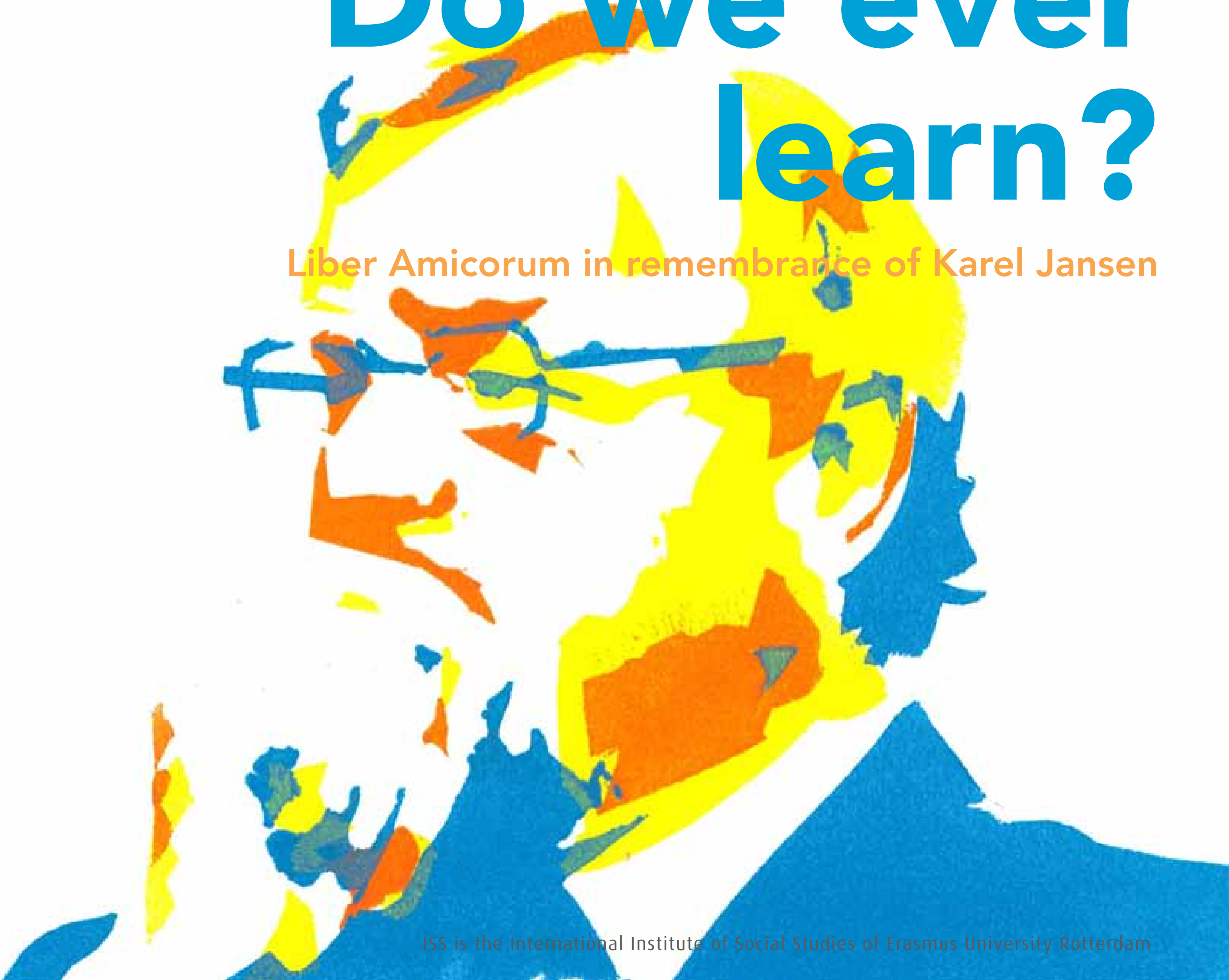
Do we ever learn?

Liber Amicorum in remembrance of Karel Jansen



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Karel Jansen

Do we ever learn?

Peter van Bergeijk and Annet van Geen (eds)

Contents

Introduction: Do we ever learn?

Peter A.G. van Bergeijk

This book is written in commemoration of Karel Jansen. It was originally planned as a *Liber Amicorum* for his retirement in 2011 to honour a valued and productive colleague, teacher and researcher. After Karel's sudden death the contributors decided to do just that and go on with the production of this volume of short essays. The essays in combination provide a good picture of the topics in which Karel was involved during his career at ISS that started in 1975.

We have organized the contributions of thirteen friends and colleagues that make up this volume into five sections that cover the scientific topics that have always interested Karel: money, the Asian NICS, the micro-macro paradox, global institutions, and financial crises. The five sections cluster essays that deal with a perspective that was characteristic of the scientific work of Karel. This chapter and the next chapter by Arjun Bedi provide an introduction and a more general overview.

As Arjun Bedi writes in Chapter 2, Karel joked that his last year at ISS ended on a high research note, as he was well aware that important publications would appear in 2011. It is true that the harvest was particularly good in 2011, but it is also true that Karel has had several periods of high scientific productivity with lasting impact. This is clear from the list of his publications that appears in the appendices. Karel not only managed to get published, he was also widely read and quoted. Importantly, Karel's publications have had a strong impact in the international scientific discourse. Table 1 lists the ten publications that have been quoted most often in the international literature. Also by modern bibliometric standards the cluster on the Thai miracle unambiguously should be labelled as a fundamental contribution. Another important scientific legacy consists of the supervision of seven PhDs. Many of these PhDs were embedded in Karel's research agenda that was also linked to his project and advisory work. Actually in many ways his approach to research provides a very concrete answer to some recent questions that ISS has been asking itself about the management of research and the development of research themes.[1] "Follow your instinct", "keep the bureaucrats in the dark", "manage your time efficiently" and "ignore distractions" would sum up the best practices that we all learned from his down to earth approach.

Money and development

Karel's approach was particularly effective in relation to the Money and Finance for Development Project to which Part I on Money alludes. The three contributors to Part I worked intensively with Karel on this project. Valpy FitzGerald

Table 1 Top 10 of most cited publications by Karel Jansen

	Title	Year	Cites
1	The macroeconomic effects of direct foreign investment: The case of Thailand	1995	65
2	External finance in Thailand's development: An interpretation of Thailand's growth boom	1997	43
3	External constraints on private investment decisions in developing countries	1994	31
4	Finance, growth and stability: financing economic development in Thailand, 1960-86	1990	24
5	Thailand: The making of a miracle?	2001	24
6	Thailand: The next NIC?	1991	24
7	International capital flows and economic adjustment in Thailand	1993	19
8	Agrarian Transition in Viet Nam. Sectoral activities programme	1998	14
9	Sustainability: Necessity for a prosperous society	2005	14
10	External finance, growth and adjustment: A computable general equilibrium model for Thailand	1993	14

Source: calculations with Publish and Perish software, accessed December 2011

sketches how Karel introduced modern monetary economics to ISS, organized a seminal international conference on the theme of finance and development and built a large team of bright and young students. Rob Vos argues the current case for capital controls, a topic that is in line with Karel's 1997 assessment that governments need to reregulate in order to face up to capital flow volatility. Luis Carlos Jemio, who worked on the project between 1988 and 1993 as a PhD student (supervised by Karel) and later as a post doc, shares observations on the extent and impact of financial volatility in developing countries, including his experience as Minister of Finance of Bolivia.

Vietnam and poverty reduction

Part II contains contibutions that deal with poverty reduction in Vietnam. The choice to focus on Vietnam is obvious since Karel stayed in Vietnam as Resident Advisor of the Vietnam-ISS project at the University of Economics in Ho Chi

Minh City. Max Spoor focuses on the possibility of inclusive growth, poverty reduction and income inequality, arguing that the Vietnam experience may provide interesting lessons for China, which faces the same challenges. Le Tan Nghiem and Arjun S. Bedi are more cautious: "It is quite possible and has indeed been recorded elsewhere, that similar policy changes in other contexts may have worsened poverty and inequality". Based on micro-data they argue that macro economic policies appear to be crucial for the success of risk diversification efforts at the household level.

It is micro and macro, stupid!

Part III discusses this micro-macro paradox in more detail. Syed Mansoob Murshed provides a perspective on methodology and the history of thought. His conclusion is clear: from the policy-oriented approach to which Karel adhered it would not make sense to neglect the perspective from either micro or macro economics. It is often jokingly asserted that policy needs one-handed economists in order to avoid the "on the one hand, on the other hand" indeterminacy that characterizes much academic work. But according to Karel's philosophy a one sided (micro *or* macro) economist could provide dangerously wrong advice. Veronica B. Bayangos deals with one of the topics in which the micro-macro paradox is evident (and which is also the subject of her 2011 article co-authored with Karel): remittances have a positive impact on economic well-being, but at the same time reduce macroeconomic competitiveness.

Global institutions under fire

Part IV offers tribute to Karel's critical stance on the global financial institutions and their analysis which all too often has been driven by mainstream considerations. Djalita Fialho discusses the topic of her PhD thesis (which Karel was supervising): the critical analysis of the stated reasons for the creation of the category of Least Developed Countries. (During the preparation of the dissertation design seminar Karel shared the memory that UNESCO, where he worked in the 1970s, suddenly introduced the LDC phenomenon in its official publications, an acronym that is now part and parcel of UN-speak.) Howard Nicholas meticulously criticizes IMF reports on Surinamese inflation that have difficulty grasping the relationship between money stock and inflation. Does IMF staff ignore macroeconomic evidence that does not fit in its vision of the world or is this a case of using different standards and measures for developed and developing countries?

Never waste a financial crisis

Part V deals with an evergreen that became topical again in 2008-2009. Karel foresaw the implications early on and in the November 2008 issue of *DevISSues* he wrote:

> Since the Asian crisis in 1997 I have been teaching about financial crises. My examples were developing countries like Mexico, Thailand, and Argentina. In my next course I will have to shift my focus as today arguably the biggest financial crisis ever is unfolding in the USA and Europe.

Geske Dijkstra discusses the Greek debt crisis. Clearly lessons from development economics are relevant for this EMU member country. Rolph van der Hoeven builds on one of Karel's last publications analysing the political economy impact on the labour market in the developing world. Peter van Bergeijk, dealing with trade finance, reflects on how the crisis was used in teaching at ISS.

Do we ever learn?

Karel Jansen was an unconventional critical economist. A scientist who built and spread substantial economic knowledge that is both fundamental in a scientific sense and fundamental for policy makers who operate at the interface of development and finance. Karel is described in this volume as a friend, mentor, teacher, advisor, the benevolent uncle, but most of all as someone with a positive attitude and a strong belief in the good of mankind. The title of this liber amoricum derives from his last publication, "Thailand from crisis to crisis: do we ever learn?". At the end of that chapter Karel answers his own question in the affirmative. Lessons are learned, institutions are created and private and public policies are adjusted. Crises will occur, argues Karel, but there is also an upside as they provide a learning experience. In the end, Karel believed, humanity learns. Humanity learns through critical science. Science as reflected in the contributions in this volume. Science that Karel liked.

Karel Jansen – No punches pulled

Arjun Singh Bedi

I interacted with Karel for the past twelve and a half years as a member of the Economics of Development Group at ISS. I also worked with him for the past decade or so on two teaching programmes in Vietnam, and in December 2010 I had the pleasure of meeting Karel and Carry, along with my family, in Ho Chi Minh City. We also worked on the same floor of the ISS building and went to the same bar after various economics research seminars.

Karel's research work focused on international finance and development and he was particularly concerned about the effects of macroeconomic policies, foreign direct investment and remittances on the stability of developing country economies. He ran an extremely successful research programme titled, 'Money, Finance and Development' for almost fifteen years. In part through this programme, Karel leaves behind a strong research legacy in the form of books and articles for which he will be remembered and quoted. For an academic there is probably no greater joy than being quoted and referenced by peers. His legacy also includes seven PhD students whom Karel promoted and supervised. These former students, and the body of work which Karel leaves behind, carry the imprint of his innovative thinking on macroeconomic issues.

For many years, Karel also served as an editor of the *Journal of Development Studies*, one of the best known and respected journals in our field. His latest paper (with a former PhD student, Veronica Bayangos) was on remittances as a source of external finance in the Philippines and was published in 2011 in *World Development* — a top ranked journal. On the day before he passed away he was in my office and was very pleased that he was ending his career on a high research note, with several papers and chapters slated for publication. We counted his research points together and joked that he could now apply for promotion.

An achievement that Karel was proud of was his work on the Vietnam-ISS Masters in Development Economics Programmes in Ho Chi Minh City and in Hanoi. The two MA programmes are still running and are shining examples of capacity building programmes that the ISS and the Netherlands can be proud of. In preparation for his retirement, in his last e-mail to colleagues in Vietnam and to me he wrote:

> I have been involved in the MDE from the first day, as have some of you, and I feel pleased and proud over what has been achieved. As you will remember during the first phase of the project, when the Dutch government was supporting the MDE, the sponsor's

> main concern was with sustainability: will the project survive once Dutch financial support falls away? The MDE has been exceptionally successful in this respect. Almost ten years after the end of Dutch support the MDE is as strong as ever. It is particularly gratifying to note that the project which initially needed strong external support is now carried out almost entirely by Vietnamese staff (Karel Jansen, e-mail, 23 April 2011).

He went on to state:

> I have enjoyed working with you on the MDE and although I stop working for the ISS the MDE will always remain in my heart and I will continue to follow its progress (Karel Jansen, e-mail, 23 April 2011).

These feelings were reciprocated and the director of the programme in Hanoi writes:

> We were deeply saddened to hear about Professor Karel Jansen passing away. Our lecturers, staff and students will never forget the nice memories of working with him, his kindness and wonderful smile (Mai Nguyen, e-mail, 3 May 2011).

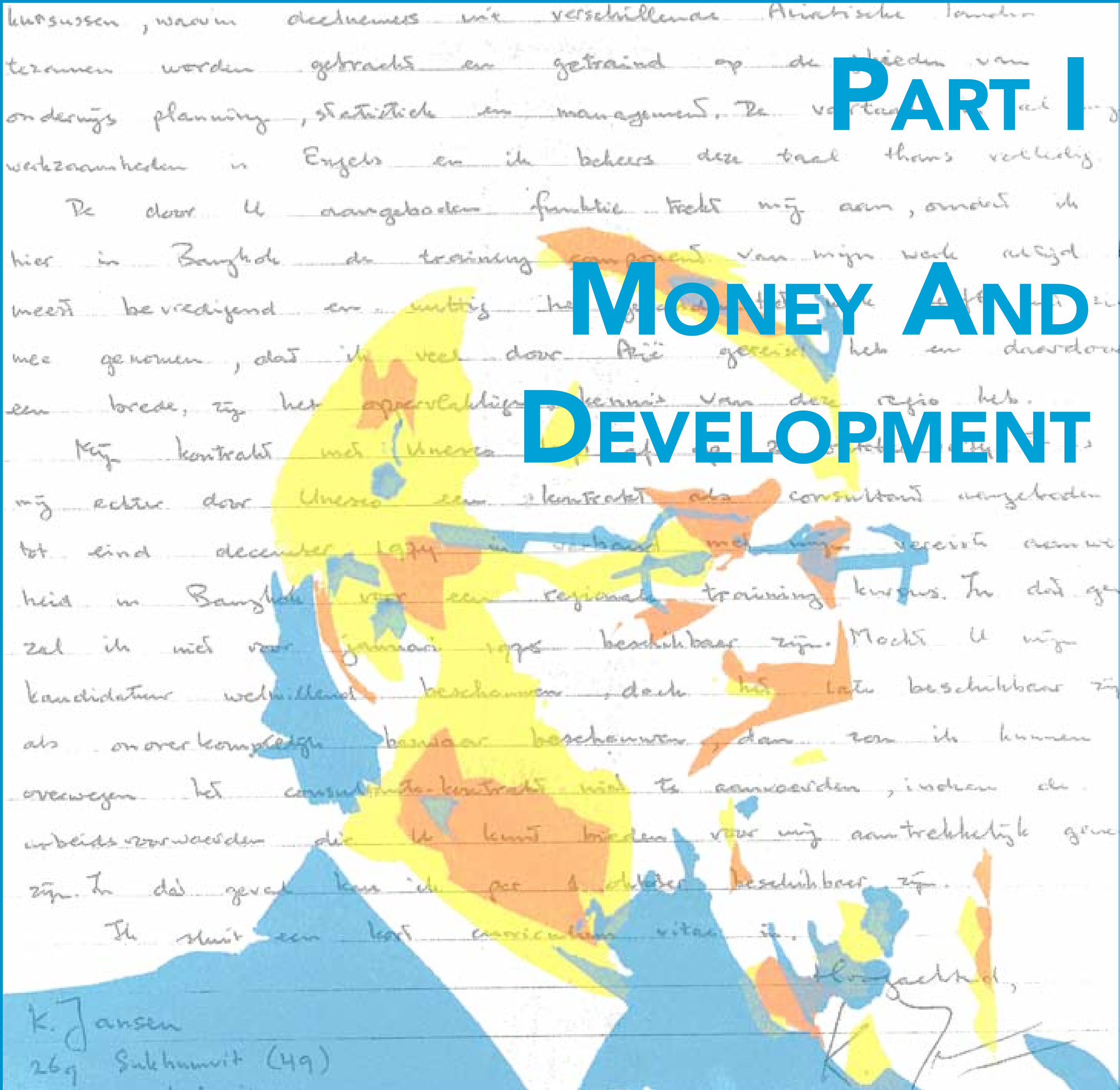
Karel served as chair of our staff group for six years. He took over at a time when the staff group was riven by internal conflict. His no-nonsense, 'I suffer no fools', even-handed and fair approach contributed to the creation of a cohesive group that enjoys a strong teaching and research profile. He had an eye for talent and successfully recruited new academics for the staff group.

On a personal note, I owe a special debt of gratitude to Karel; during his tenure as chair he evaluated my performance several times and was instrumental in the development of my career. I also succeeded him as chair of the staff group and when in doubt, which was often, I used to turn to him. He could always be counted upon for unusual, unexpected, sharp and insightful assessments. I shall miss this.

However, his management legacy will also live on as we did learn several tricks from him. For instance, 'ignore e-mails for a while and the problems will take care of themselves' or his advice, while developing projects, to 'keep the institute's bureaucracy in the dark as long as possible'.

Karel gave our group strength and I will remember him as 'our tough guy'. If we wanted something to be said clearly and without any doubt about our intentions, Karel provided the firepower.

Karel will be warmly remembered and respected for his long years of dedicated professional contribution to the ISS and to development studies, his insights as an economist and as a clear-thinking individual who pulled no punches.



Part I

Money And Development

Monetary economics and development

Valpy FitzGerald

I first met Karel at the 'old' Institute — the Wittebrug Hotel in Badhuisweg — and we began to work together in the early 1980s. It was Karel who introduced modern monetary economics to the ISS which then led to the Institute becoming an internationally recognized centre of expertise in development finance in the 1990s. In a real sense, therefore, I have always felt that I learned much more from him, than he did from me.

In the early 1980s, Karel invited to The Hague a series of eminent experts in the field of monetary economics, which at the time seemed quite foreign to development economics. Monetary economists considered developing countries to have fiscal rather than monetary economies; while development economists regarded monetary theory as irrelevant at best (inflation being the consequence of supply bottlenecks) and 'monetarists' as destructive of industrialization and poverty reduction, at worst.

Karel — rightly — felt otherwise. He believed that monetary theory could be adapted to the economic structures of poor and middle-income countries by careful analysis; and that many of the disequilibria that reduce growth and induce crises have monetary roots. This is now an accepted view, but then it was a novel one.

Having invited the eminent speakers (who included Robert Mundell) to his lecture series, he published their contributions in the book he edited in 1983, *Monetarism, Economic Crisis and the Third World* (London, Frank Cass). But Karel still had to finish his own doctoral dissertation in 1988 based on his fieldwork in Thailand. It was defended with great success and admiration on the part of his examiners (of whom I was one) and rapidly published in 1990 as *Finance, Growth and Stability in Thailand 1960–86* (Aldershot, Avebury). Even before finishing his thesis his reputation in the field was such that he was invited to the founding conference of the United Nations University World Institute of Development Economics Research (UNU/WIDER) in 1986 in Helsinki

In combination with his later study on the macroeconomics of external finance in 1997 — *External Finance in Thailand's Development* (Basingstoke, Macmillan) — he provided the most thorough and rigorous interpretation of the macroeconomics of the Thai 'economic miracle' available, texts which are still obligatory reading for all those in the field.

Convinced that similar detailed analysis of other developing economies would lead to important comparative findings and a distinct approach to the impact of external finance — development aid, private investment and bank lending —

on emerging market economies, Karel engaged in an enormously successful series of applications to research councils and the Dutch international cooperation agency in order to fund more research in this field at the ISS.

The result was the 'Money and Finance Project' which became a cornerstone of the Institute's economics reputation, and which allowed The Hague to gain a key position in Dutch development economics, previously dominated by Rotterdam, and from there an international standing. As well as two colleagues (Rob Vos and myself), Karel built a large team of bright young research assistants and a fleet of PhD students, all of whom he supported like a benevolent uncle.

The project provided a unique analysis — based on simulation models, econometric studies and applied theory — of the interaction between external finance in all its forms on the one hand, and domestic growth and income distribution on the other. A series of working papers, journal articles and even a dedicated book series with Macmillan, flowed from this project, which spanned three continents and a dozen countries. The culmination of this effort was Karel's edited

volume *External Finance and Adjustment: Failure and Success in the Developing World*, published by Macmillan in 1997.

Karel was also an outstandingly good teacher. He would patiently set out the building blocks of economics, making sure his students understood each one before moving on to the next, and gradually build up the edifice. In consequence, his students learnt not only rigorous monetary theory but also how to recognize its assumptions and limitations, and thus were able to adopt his analysis to their own country taking into account its structural characteristics. No wonder they were so devoted to him. And indeed, reading his prose you can almost hear him speaking.

The team went on to other things by the end of the 1990s — Rob Vos to Washington and New York and myself to Oxford. Karel also decided on a change of course, returning to his beloved Thailand and then to Viet Nam. Here he built up a high quality teaching programme, and eventually indigenous research capacity as well, in development economics.

In this last stage of his intellectual life, Karel left behind a generation of young Vietnamese development economists who revered him as an intellectual parent, and I am sure contributed to the outstanding economic success of Viet Nam. This was Karel's way of influencing policy: not through high level ministerial briefings, or IMF reports, but rather through the patient training of young economists.

In my opinion — and that of his close colleagues — Karel should have been recognized by the ISS with a full professorship for his contributions to teaching, research and capacity building. Certainly many lesser scholars have been so honoured. But those in academic authority did not see fit to do so — indeed there were even some signs of resentment at the academic success and policy influence of the Money & Finance Project. But it was not Karel's way to campaign in his own interest.

This lack of public recognition Karel accepted with resignation, as one would put up with bad weather or a delayed train. Perhaps, too, he understood that the respect of colleagues and students is what counts in the end.

However, it is as a warm human person that I most want to remember Karel. His smile and gentle sense of humour. His endless patience with the obstacles of official bureaucracy, with the endless demands of students and with the unreliability of colleagues. He always had time for a beer and gentle conversation to wind down after a difficult day.

Karel had a stoical attitude to life, and an ironic view of the world; but without a trace of cynicism or pessimism. He believed in the potential for good in human nature and the ability of sensible people to make the world a better place.

Karel was — and indeed remains — a friend in the deepest sense of the word. Someone you did not need to impress, nor needy of praise. He was always there for you when you needed help, but made few if any demands on others. His friendship was extended with equal generosity to eminent professors and struggling students.

We will all miss him, but he retains a place in our hearts.

Increasing policy space by adding instruments: The case for capital controls

Rob Vos

When Karel and I put together a volume on international finance and macroeconomic policy making in developing countries in the early 1990s,[2] we lived in an era where the mainstream policy view was to limit the number of both objectives and policy instruments for developing countries. Under the wings of the Washington Consensus, developing countries were advised to narrow macroeconomic policies to target stability (inflation, exchange rate, fiscal balance), often to the detriment of broader development objectives. The shift towards flexible exchange rates, financial deregulation and capital account opening, limited the range of policy instruments at the disposal of governments and exposed countries, especially middle-income countries, to volatile international financial markets. Among others, Karel wrote the fourth chapter of the volume we edited, on "External Finance, Investment and Growth", in which he outlined the macroeconomic policy challenges in managing different types of capital flows in developing countries, suggesting — against the grain of the time — that developing country governments should enhance their toolbox to face up to capital flow volatility, rather than stick to the single hammer approach preached by the Washington Consensus.

He was, as usual, ahead of his time. Recently, a renewed consensus has emerged on the need to re-regulate international capital movements. Also the IMF has recognized this need in recent policy papers presented to its executive board.[3] In the 1990s, the IMF had systematically recommended against the use of capital controls (even though it was in contravention of Article IV of the IMF Articles of Agreement). Now it sees capital controls can help countries better hedge against capital flow volatility under certain conditions. Indeed, in recent years several countries, including Brazil, Indonesia, Korea, and Thailand, introduced measures to contain surges and reversals in short-term capital movements.

Bubble, bubble, toil and trouble

After collapsing in 2008, international capital flows to developing and emerging economies increased again, stemming from the abundant liquidity from developed country central banks at close-to-zero interest rates, on the one hand, and the stronger economic recovery in developing countries, on the other. As in many previous episodes, instead of providing long-term productive investment, much of the inflows appear to be financing real estate and consumption, and there is some evidence that they are already leading to new bubbles in domestic markets. In mid-2011, there was a sudden reversal in capital flows as international investors pulled back money to reinvest in financial safe havens, such as the US dollar and the Swiss franc, amidst the turmoil caused by sovereign debt problems in the euro zone and the United States.

International capital flows in general and to developing countries in particular have exhibited boom and bust cycles over the past few decades, increasing during expansionary periods and falling during periods of economic slowdowns. Pro-cyclical capital flows — particularly short-term flows — played a role in most of the crises in the developing world since the 1980s. Contrary to the original expectation that capital market liberalization would increase long-term investment in poor countries, the majority of the inflows inflated finance bubbles, which burst when capital flows reversed following changed market perceptions of investors.

Volatile capital flows have also made traditional macroeconomic policy instruments less effective. In general, governments increase spending and lower interest rates in the face of an economic slowdown. However, open capital markets make these policies more difficult to implement. Central banks may be forced to raise interest rates to stop capital outflows during a crisis or economic slowdown, causing fiscal deficits to widen as the cost of borrowing increases, especially in countries where governments hold large amounts of short-term debt. There is a similar dynamic during booms. With more capital flowing in, interest rates fall, inflating the money supply. If monetary authorities respond by raising interest rates to combat the boom, they run the risk of attracting even more short-term speculative capital, further increasing the money supply and thus failing to take air out of the financial bubble. Moreover, the capital inflows put upward pressure on the exchange rate, making exports less competitive.

Managing the capital account…

Countries have a range of policy instruments at their disposal to manage cross-border capital flows. Three categories of responses are usually distinguished: macroeconomic policies, macro-prudential measures and other forms of capital account management, including capital flow regulations. Capital account regulations should be an essential part of a broader counter-cyclical macro-prudential risk management of the domestic financial sector, and should not be viewed any differently than regulation of domestic risks. Such regulations — which include price and quantity regulations, including taxes, reserve requirements, minimum investment periods and quantitative limits on certain types of cross-border capital transactions — directly target capital flows, whereas macro-tools focus on overall economic variables and the domestic regulatory framework.

The present IMF position is that capital account regulations should be employed only when macroeconomic and prudential policy measures are not sufficient to counter the negative impact of capital inflows. However, the textbook response of dealing with capital inflows by letting foreign exchange rates appreciate and slashing fiscal spending is often inadequate and can have negative side effects. Letting the exchange rate strengthen can penalize export-oriented sectors, thus impacting growth and development, while fiscal cuts can be costly, and the slow speed of fiscal decision-making makes it an ineffective policy tool for dealing with short-term volatile capital inflows. Instead, adopting regulations at an early stage could help limit capital inflows before asset bubbles and other risks to the economy materialize.

Mainstream economists often also argue that, if they are to be instated, capital controls should be temporary. But there is a case to be made for permanent regimes, especially given the recurrent volatility in international capital movements. Since capital flows can change rapidly, policy makers may need to be able to react swiftly, which is easier in a permanent regime of capital-account regulation. Such a permanent regime could be adjusted to the country's circumstances. In this way, policies could be re-enacted quickly in a counter-cyclical fashion, and market actors would not be caught off-guard if capital-account regulations have to be reintroduced.

Measures should also be tailored (that is made forceful enough) to live up to the challenge. Brazil's recent experience provides a meaningful example. Brazil introduced a 2 per cent tax on fixed-income foreign investment in October 2009 and increased it a year later to 6 per cent. These measures did not prevent a strong surge in equity investments leading to a strong appreciation of the Brazilian real by 25 per cent and neither did it prevent a strong reversal from mid-2011 during the increased global risk aversion of the third quarter of 2011, when the real devalued by 16 per cent in a few weeks' time. Although policy makers might welcome the weaker currency, the implication is that the earlier capital-account regulations were not fully effective in reducing volatility. Policy makers in Brazil have acknowledged that

a 2 or 6 per cent tax is likely not sufficient to reduce inflows when local yields are still above 10 per cent.

… but may be more effective when coordinated internationally

Brazil's experience also makes clear that in an era of financial globalization, it is no longer possible for any individual country to fully manage cross-border risk by unilateral action. Multilateral cooperation on capital-account regulations could be an important element of the international financial system. In particular, there is some fear that the implementation of measures to manage capital flows in one country might divert more speculative flows to other countries. However, developing countries have argued that evidence of negative spillover effects is limited, and that multilateral coordination of capital-account regulations and rules would serve only to reduce countries' policy space. Bilateral and regional coordination might be an alternative to global rules. In addition, coordination would optimally include policy actions in the source countries to help reduce flows from the outset. To do so, however, would require reforms of the international financial architecture and domestic regulations.

The more, the merrier

Despite the continued global financial turmoil, progress towards the creation of a better regulated financial system remains slow. Karel did live to see the day that at least the need to enhance the macroeconomic policy toolbox was recognized. Mainstream economists erroneously live in a world of corner solutions entrenched in macroeconomic policy dilemmas and trilemmas. In an imperfect world of uncertainty and market volatility, there are no corner solutions and policy instruments tend to be only partially effective. So, defying Tinbergen's rule of one instrument for one policy target, it seems better to have as many tools as possible at our disposal. Karel's writings give lightning examples of how to choose among the available tools to serve both objectives of economic stability and broader development in different circumstances.

Money and finance for development during the 1980s and beyond

Luis Carlos Jemio[4]

I had the opportunity to work with Karel as part of the Money and Finance for Development (MFD) project, implemented at the ISS in the late 1980s and early 1990s. The MFD was an extremely interesting and highly relevant project. The hypotheses of the project were insightful and innovative: it was argued that different countries, depending on their structure and stage of development, have access to different types of foreign capital inflows, which in turn tend to transmit into the economy through essentially different transmission mechanisms and channels, causing different macroeconomic effects and triggering different adjustment mechanisms during the process.

For instance, Official Development Aid flows are received by governments of poor developing countries and are basically spent in infrastructure and social programmes, with significant effects on domestic absorption, domestic prices and exchange rate appreciation. More advanced developing economies, on the other hand, tend to be commercial borrowers, and thus have access to financial capital flows coming from private sources. These flows tend to be mediated through local financial systems, and thus increase domestic absorption by boosting domestic consumption and investment.

Foreign Direct Investment (FDI) flows to poor developing economies, by contrast, are controlled by large transnational corporations and are allocated to the production of commodities for export markets. FDI flows to more advanced developing countries are likely to be allocated to the manufacturing sector, from which production of goods and services are partly sold in domestic markets and partly exported.

Thus, countries tend to have access to determined capital flows, which in turn will have different transmission mechanisms and will bring about differentiated macroeconomic effects. In other words, the structure and development level of a country will determine *a priori* the type of financial flows it has access to and consequently the type of macroeconomic transmission mechanism it will experience in response to capital flows.

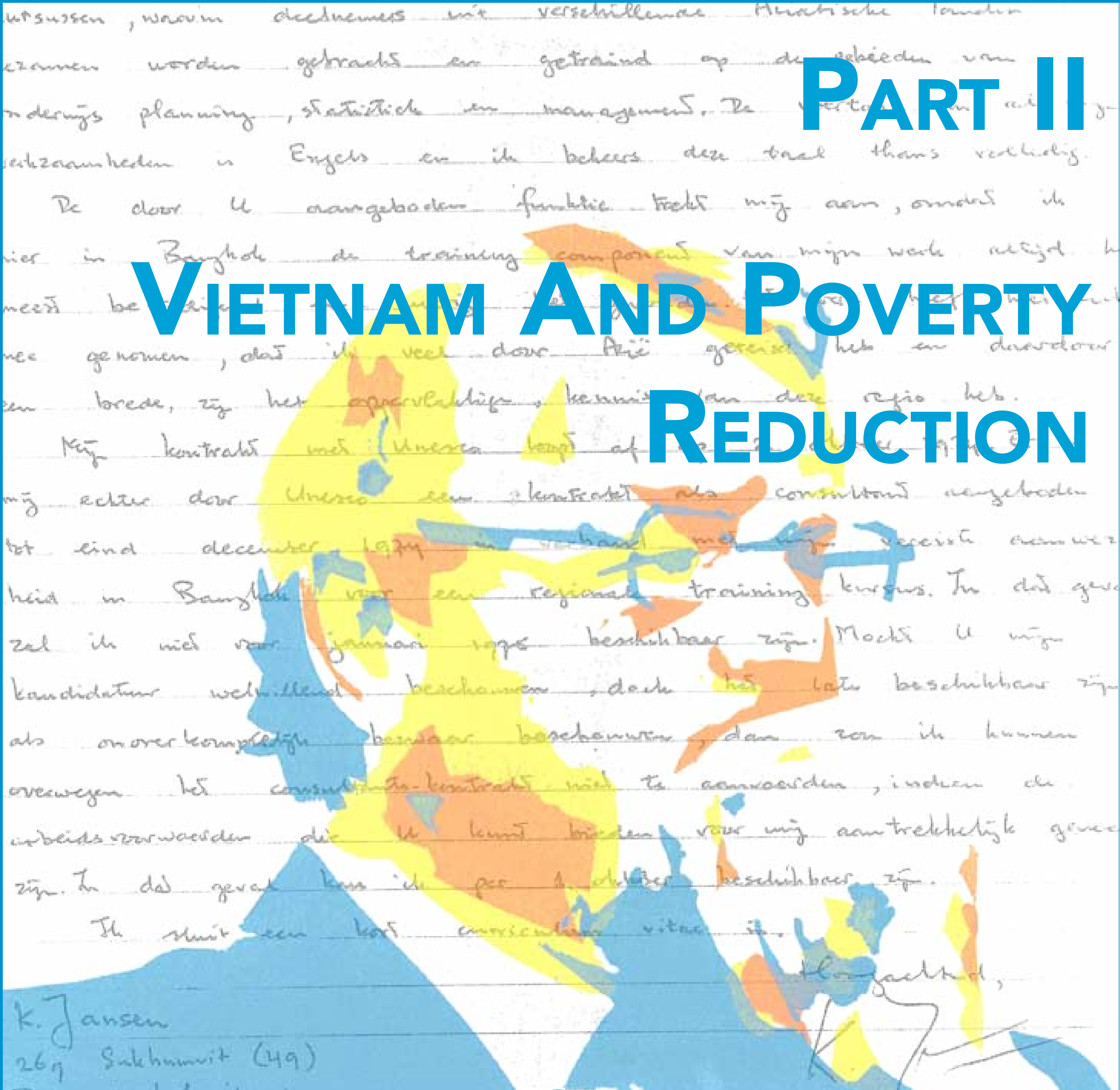
During my professional career, working as an economist, I have often came across the phenomenon of external financial volatility and its destabilizing macroeconomic effects on developing country economies. The concepts and theories I learned while I was working with Karel on the MFD project helped me to understand those effects in a more insightful and precise way. Latin America and Bolivia have been exposed to cycles of volatility in the world financial markets during the last two decades; each cycle has brought economic and social distress. I witnessed the effects of financial volatility in developing countries, both as a researcher as well as a policy maker, when I served as Minister of Finance of Bolivia. At the end of the 1990s, the financial crisis which started in Thailand and other Asian countries rapidly transmitted to other regions of the world, including Latin America, with devastating economic and social impacts. Adjustment to shocks proved to be extremely difficult and painful, due to the limited capacity countries had at that time to implement counter-cyclical policies. During the second half of the 2000s external conditions dramatically improved for Latin American economies as a result of high export commodity prices. However, the current economic prosperity does not ensure that the region will not be exposed to financial volatility again in the future.

I worked for the MFD project between 1988 and 1993, first as a PhD student testing some of the project's hypotheses for the Bolivian case; and second, as a researcher in charge of constructing Computational General Equilibrium models for the Philippine and Thai economies, which were utilized to test the project's hypotheses for those countries.

Apart from Karel, other members of the project team at that time were Valpy FitzGerald, Rob Vos, Joke Luttik, Fernando Tenjo and Edwin Croes, among others. Although Karel did not know too much about Latin America, he agreed to be my second supervisor during my PhD studies. I will always be grateful for the invaluable advice Karel gave me during the process of writing my PhD dissertation and during the period I worked as researcher for the ISS; I really enjoyed working with him and learned a lot from him during that period.

Part II

Vietnam And Poverty Reduction



Vietnam: Inclusive growth with poverty reduction?

Max Spoor[5]

Vietnam has shown a record of sustained high growth rates and spectacular poverty reduction over a period of three decades (1980–2010), comparable with China. In this short note it will be argued that this was primarily the result of the growth model that was chosen at the outset, one which used redistributive agrarian reform as its foundation, which led to an initial growth spurt stimulated by agricultural output growth, increased rural incomes and finally higher rural savings and purchasing power. Only later, in the 1990s, did industrialization take the lead, stimulated by foreign direct investment in special economic zones, and in industries of the main economic growth poles, Hanoi and Ho Chi Minh City. Because of Vietnam's initially broad-based economic growth model, poverty reduction was widespread, largely due to income growth among the rural poor, and much less the result of a possible macroeconomic trickle-down effect.

Growth was indeed spectacular, although it needs to be emphasized that Vietnam's economy started at a very low level, with high levels of poverty. However, there are few other cases in the recent history of development in which a country maintained such high growth rates over such a long period of time, only to be compared with China (and possibly South Korea from the 1960s onwards) (see Table 1).

Table 1: GDP Growth/Annum 1980-2010 in Vietnam and China

	1981-85	1986-90	1991-95	1996-00	2001-05	2005-10
China	10.8	7.9	12.3	8.6	10.0	11.2
Vietnam	7.0	4.8	8.2	7.0	7.5	7.3

Source: World Economic Outlook Database, IMF (April 2011)

Both China and Vietnam followed a comparable process of decollectivization in the early 1980s, in which land was contracted out, first to smaller groups or brigades, and shortly thereafter to households. In China this was known as the household responsibility system; in Vietnam it was known initially as the three-contract system. In Vietnam this reform caused an initial growth spurt of on average 7.0 per cent during the 1981–85 period. This was directly after a period in which growth had stagnated, and was possibly even negative, following the short-lived border war with China, a conflict waged over Vietnam's intervention in Pol Pot's Kampuchea (Cambodia). Food production was far from sufficient,

Table 2: Poverty Headcount Vietnam (1993-2008)

	1993	1998	2002	2004	2006	2008
$1.25 a day (PPP) (% of population)	64	50	40	24	21	13
$2 a day (PPP) (% of population)	86	78	69	53	48	38
National poverty line (% of population)	58	37	29	20	16	15
Rural poverty line (% of rural population)	66	45	36	25	20	19
Urban poverty line (% of urban population)	25	9	7	4	4	3

World Economic Outlook Database, IMF (April 2011)

and when food aid from China stopped in 1980 there were serious food shortages, in particular in Hanoi.[6] The agrarian reform that took place in the late 1970s/early 1980s caused the economy to grow rapidly, increased rural incomes and savings, but also restored food balances, laying the foundation for Vietnam to become a major rice exporter from the late 1980s onwards.

Poverty reduction was equally spectacular. Unfortunately no reliable and comparable household data on poverty are known for Vietnam earlier than 1993, when the first Living Standards Measurement Survey was held, supported by the World Bank and UNDP. From the available LSMSs it is noted that urban poverty declined (taking the national poverty line as threshold) from 25 per cent in 1993 to only 3 per cent in 2008. Rural poverty fell from 66 per cent to 19 per cent over the same period. However, it is suggested here that during the 1980s rural poverty had already declined, in spite of the still very high level that was measured in the LSMS of 1993. The broad-based growth model that was founded in agricultural recovery and growth in the 1980s resulted in the rapid reduction of rural poverty, and in that sense the Vietnamese growth model was 'inclusive'.

However, inequality increased substantially, in particular during the 1990s. In Vietnam the Gini-coefficient for income inequality was estimated at 0.34 in 1992, growing rapidly to 0.42 in 2001 (see Spoor, 2007). Furthermore, substantial spatial and sectoral inequalities emerged, that were primarily caused by differences in access to social services, something which is not measured in the money-metric income inequality measure. Recent work on the Multidimensional Poverty Index, which appeared in the latest UNDP Global Human Development Report 2010, measuring the number of severe deprivations that people might suffer, confirms this. Growth since the mid-1990s and beyond has been based to a much greater extent on 'growth poles' and export industries, and therefore has become less inclusive than before. The social model of development, which had been quite egalitarian, has become much more exclusionary, in spite of Vietnam's spectacular poverty reduction record. This is definitely the most important challenge the Vietnamese government is confronting, and again is comparable with China, where 'building a social countryside' (meaning overcoming the growing rural–urban income and social services gap) has become a top priority.

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Risk-management in the Mekong river delta

Le Tan Nghiem and Arjun S. Bedi[7]

Poor rural households in developing countries are exposed to a variety of risks and Vietnam is no exception. While much has been written about the spectacular decline in poverty following the launch of the 1986 *Doi Moi* (renovation) policies especially in Vietnam's agricultural sector, far less is known about the manner in which rural households deal with risk and vulnerability. Income diversification, which may be thought of as a risk-management strategy designed to reduce ex-ante risk and help smooth incomes, has often been advocated as a useful approach. However, relatively little is known about the effect of economic policy changes required by Vietnam's renovation process on the income structure of rural households. This essay draws on Nghiem (2010) which in turn is based on a detailed analysis of micro-data covering the period 1993 to 2006 to provide an assessment of the trends and determinants of income diversification in Vietnam's most important agricultural region, the Mekong River Delta (MRD). After a brief review of the key policy changes the essay provides a sense of the main patterns in the income structure of households and the factors that drove these changes.

In the 1980s, Vietnam was one of the poorest countries in the world, characterized by economic stagnation and hunger. Commenting on the Vietnamese economy, Glewwe (2004) wrote that 'there was little indication that the Vietnamese had any hope of raising their level of welfare'. However, since the late 1980s, this picture has changed. Based on the national poverty line the poverty head count has fallen from 58 per cent in 1993 to 15 per cent in 2006. This dramatic achievement has been ascribed to the success of various policy reforms which aimed at replacing central planning with a socialist-oriented market economy and opening the economy to the rest of the world. In short, enterprises and households were allowed greater autonomy in producing and trading their products based on market principles. The private economic sector was legalized and price controls and export restrictions for most goods and services including agricultural commodities were removed by 1989. Agricultural land, which had been pooled for production in cooperatives, was allocated to rural households. A new land law in 1993 provided more security and tenure to those who had been allocated land.

The empirical evidence gleaned from our analysis of the five micro-data sets covering the period 1993 to 2006 shows that over time there has been a clear movement away from a reliance on riskier farming activities and towards more stable non-farming wage activities. In 1993, households allocated about 62 per cent of their time to farm self-employment while by 2006 this had shrunk to 46 per cent. At the same time, non-farming wage employment which accounted for about 7 per cent of household time in 1993 rose to 20 per cent by 2006. While households endowed with more educated labour as well as simply more labour regardless of education are more likely to make this transition, the movement occurred across all expenditure quintiles. The pattern suggests that while household capacity does play a role in influencing movement out of farming, the bulk of the change may be attributed to changes in the price and incentive structure facing all households.

Turning to poverty and consumption, during this time period households in the MRD experienced a doubling of consumption without an increase in inequality. In fact the Gini coefficient fell from 0.295 to 0.284 between 1993 and 2006. A consumption decomposition exercise shows that about 18 per cent of the increase in consumption may be attributed to increases in household capacity (more education, more workers) while the remainder may be attributed to non-household specific attributes. To emphasize, that is, about 80 per cent of the change in consumption is due to factors that are not particular to a household, but to factors that have altered the economic environment in which households operate. Of particular interest in terms of isolating an element of the change in the economic environment which may have played a role is the sharp effect that the increase in rice prices (due to removal of internal and external restrictions) between 1993 and 1998 had on increasing consumption.

The kind of structural policy changes that have occurred in Vietnam since 1986 are not unique to the country. While our analysis supports the idea that the changes have had positive effects these are by no means universal. It is quite possible and has indeed been recorded elsewhere, that similar policy changes in other contexts may have worsened poverty and inequality. Notwithstanding this cautionary note, our analysis shows that in the Mekong River Delta over the period 1993 to 2006 there has been a shift out of farming activities and a large increase in household consumption with no increase in inequality, and that the bulk of the changes may be attributed to the changes in the institutional environment facing households. The main insight offered by our analysis is that while at a microeconomic level households may adopt strategies to reduce their exposure to risk, macroeconomic policies which affect all households appear to play a more important role in helping households diversify their sources of income and potentially smooth their incomes.

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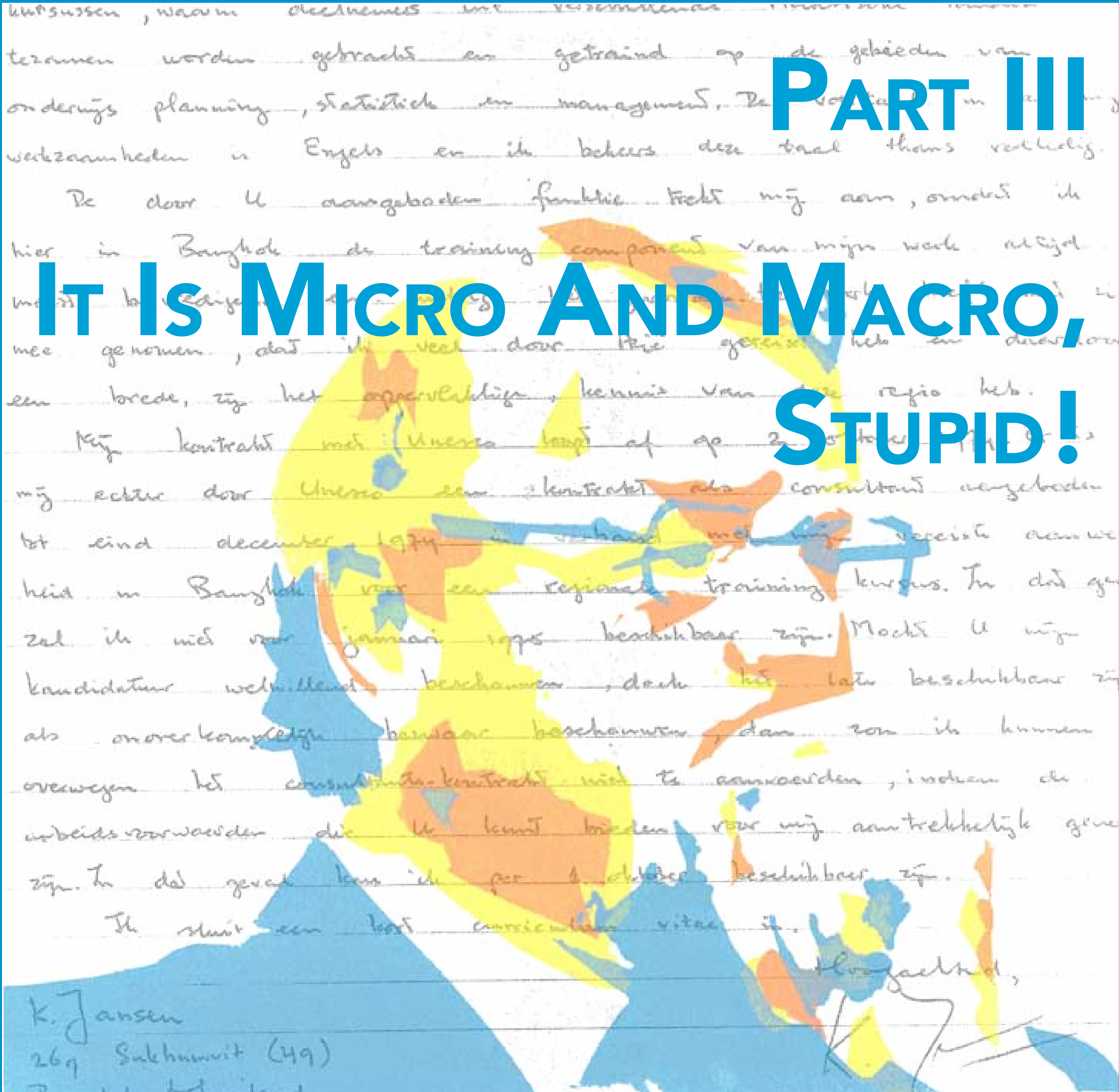
Part III

It Is Micro And Macro, Stupid!



Micro-macro divides and paradoxes

Syed Mansoob Murshed

Karel Jansen and I had frequent conversations about the nature of the differences between micro and macro economics. Karel was a staunch believer in the separate nature of these two broad divisions within the economics discipline. As a macroeconomist, he was someone with a pragmatist stance. In other words, he was neither a Monetarist, New Classicist, Keynesian nor neo-Keynesian. He could not be boxed into any of these categories, and was a policy-minded macroeconomist. For example in one of his papers on the Thai economy's responses to the financial crisis of 1997 (Jansen, 2001), he argued that too rigid an adherence to either exchange rate or inflation targeting without adopting a flexible and discretionary policy stance would be self-defeating. Events have borne out his wisdom.

In my discussions with Karel, I always argued that the older micro-macro distinctions were now obsolete because of the common theoretical techniques applied: the use of game theoretic models of strategic interaction and representative optimizing agent models were now common to both microeconomics and macroeconomics. Nor is it an entirely new development; the representative agent smoothing consumption in a growth model is an old idea harking back to Frank Ramsey (1928), for example. Perhaps the real differences between micro and macro lie in the differences in policy goals of the two fields. Macroeconomics is more concerned with stabilizing the aggregate economy; microeconomics looks at sectoral issues. Even then, there are overlaps when it comes to the determinants of growth, and the big questions connected with poverty and inequality.

Moreover, mainstream macroeconomics was until recently an area riddled with major ideological differences. These are still extant, but are less acute than they were up to the 1980s. Underpinning them was the notion of the neo-classical dichotomy. Money was a veil; all that monetary policy could do was determine the general price level in a simple quantity theory of money perspective. Output and employment were determined by tastes (private decisions with regard to saving and investment) and technology. Markets cleared in the Walrasian sense, and if not, market failure had to be addressed. These views were challenged by John Maynard Keynes during the great depression of the 1930s, and later by Keynesians. Central to their view was the fact that the economy was riddled with rigidities, therefore markets did not clear in the 'notional' sense, and the aggregate economy was characterized by generalized excess supply, and output could be increased when aggregate demand was raised. Their view was vindicated by the experience of the USA, UK, Australasia and Latin America during the Second World War. Secondly, and more importantly for the present, Keynesians regard money and its alternatives as financial and speculative as-sets, which can have deeply damaging consequences for the 'real' economy when things go wrong, as was the case after the global financial crisis of 2008.

As development economists, we are concerned with making the economic pie bigger via growth, so that the necessary means for redressing problems in the sphere of human development are created. Growth does require a stable macroeconomic background (low inflation, manageable fiscal and balance of payments deficits). Indeed, this is what Milton Friedman, in his famous Presidential address to the American Economics Association, asserted was the role of monetary policy (Friedman, 1968). Macro-policy instruments could not be utilized to lower unemployment beyond its natural (market clearing) rate in the long run, otherwise there would be accelerating inflation. Ergo, control inflation and remove market 'distortions'. This became the cornerstone of the 'Washington Consensus' advice to developing countries and economies in transition during the structural adjustment phase of the 1980s and 1990s, which academics in development studies institutes love to berate. Indeed, they did fail when accompanied by supply shocks and the absence of social safety nets, but particularly when there were major financial and currency crises, as was the case in East Asia (1997), Russia (1998) and Argentina (2001). It would appear that blind faith in market efficiency is a god that failed. But why did it? There are many explanations, but one argument emanating from the very same stable states that the failure of policies was due to malfunctioning institutions. Institutional fundamentalism replaced market fundamentalism (Rodrik, 2006).

The financial crisis of 2008, and the (great) recession that followed seemed to have restored faith in the efficacy of the Keynesian multiplier in policy makers' minds. And, fiscal stimuli seemed to have worked in dampening recession when state funds are not used to resuscitate ailing financial institutions, as the example of China suggests. Back in the 1970s James Tobin, when retorting at the monetarist mantra of Friedman, had argued that labour market characteristics, related to fairness, indicated an inflation-unemployment trade-off (Tobin, 1972). More recently George Akerlof and Robert Shiller (2009) introduced us to the notion of the confidence multiplier during especially severe recessions, which requires policy makers to run the extra mile to restore confidence.

The differences between micro and macro analysis centre on the unit of analysis, the policy goal and above all the policy instrument. Paradoxes, however, remain. One example concerns aid effectiveness. In some macroeconomic studies aid appears to crowd out domestic resource mobilization. But project aid (and even programme aid) seems to be beneficial when it comes to sectors such as health and education. Another example is the effect of remittances (a subject Karel worked on in his last years). Remittances can cause harmful exchange rate appreciation that erodes competiveness, yet paradoxically at the same time lift millions of families out of poverty. Furthermore, growth in the presence of very high inequality is less poverty reducing. Karel would agree that in the final analysis, all's well that ends well; economic policy making has to be simultaneously watchful at both micro and macro levels.

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Remittances and competitiveness: Tracing the relationship through a unit labour cost analysis

Veronica B. Bayangos[8]

Introduction

Remittances have positive impacts on many economic indicators. The loss of competitiveness is, however, a drawback with possible long-term negative effects. Remittances often explain a relatively poor export performance and may, in the longer term, limit the diversification of the economy and productivity growth. It is therefore understandable that policy makers are looking for ways of mitigating this effect, but the basis for such actions are at times difficult to measure.

Most studies point to immediate and significant effects of surges in remittances on exchange rates. Another area which can be affected is the labour market: emigration and remittances may lead to Dutch disease effects in labour markets (Chami et al. 2003; Mishra 2006; Yabuuchi and Chauduri 2007; Yang 2008).[9] Wages tend to increase following increase in remittances. The rise in remittances tend to induce households to supply less labour or reduce work. Labour productivity may rise as emigration reduces unemployment (Fagerberg et al. 2004). These findings suggest that the relationship between changes in emigration and remittances could be significant. However, such relationships are often difficult to assess (Fagerberg et al. 2004). Research linking the literature on Dutch disease in remittances with labour market effects to assess the total impact of outmigration and remittances on competitiveness is therefore crucial.

In the Philippines, Bayangos and Jansen (2011) found that an increase in remittance inflows increased consumption, investment, labour productivity and economic growth. But it also leads to a change in the economic structure, in particular a decline in traded goods production and exports. An important contribution of this study is a careful but insightful analysis of the channels along which migration and remittances affect the competitiveness of the economy through the unit labour cost of exports.

Using labour unit cost as a coherent measure of competitiveness

We can bring together the various channels through which remittances affect competitiveness in the unit labour cost in equation 1.

$$ULC = \frac{wL}{VA/P} \cdot \frac{1}{e} = \frac{w}{a/P} \cdot \frac{1}{e} \qquad (1)$$

Unit labour cost (*ULC*) in US dollars is the product of the nominal wage rate (*w*) and the (inverse of) physical labour productivity (employment, *L*, over the volume of output, *VA*, deflated by the value added deflator, *P*), and the exchange rate, *e*, the number of local currency units per one dollar.

The growth of unit labour cost in equation 2 is then the sum of:

$$g_{ULC} = (g_w - g_a) + (g_P - g_e) \qquad (2)$$

where g_i is the growth rate of wages, labour productivity, prices and the exchange rate respectively.[10] This equation allows us to assess the relative importance of the various channels linking remittances to competitiveness. The first two terms ($g_w - g_a$) capture the change in labour cost: remittances increase wages and affect labour productivity.

The second term ($g_p - g_e$) captures the real exchange rate effect. The increase in prices reduces competitiveness and the change in the nominal exchange rate will add to this: a depreciation would compensate for the price increase but an appreciation would further erode competitiveness.

To determine the relevance of the unit labour cost framework, Bayangos and Jansen (2011) used estimates from a dynamic open macroeconometric model for the Philippines. The findings not only show some impact on the nominal and real exchange rate but also show that the labour market effects are highly significant. Emigration cuts into the labour force and the receipt of remittances further reduces labour supply. There is a strong effect on wages. The impact of the higher wages on competitiveness is mitigated by the increase in labour productivity. As the labour force falls and output rises there is a more intensive use of labour through a decline in unemployment and underemployment.[11] The results clearly show that it is important to include the labour market channel in the analysis of competitiveness. Other studies that exclusively focus on the Dutch disease channel thus miss an important additional element affecting a country's export performance.

Conclusion: policy implications for economic authorities

Remittances have many positive effects for the Philippines. There are, however, implications for the Philippine authorities. Tax policy could be used to soften the impact of rising wage costs but the scope for reducing income taxes is limited in the Philippines: personal income tax revenue accounts for only 1.5 per cent of GDP.

Monetary authorities may consider the exchange rate effects when setting the policy interest rate. The increase in remittances narrows the output gap and this pushes inflation up. The central bank may react by increasing the policy rate but the increase in interest rates may attract more remittances and other capital inflows that may result in a further appreciation of the nominal exchange rate.

An alternative strategy for the central bank would be to intervene in the market to buy up foreign exchange and so regulate excessive movements of the exchange rate. This would lead to an accumulation of international reserves and an expansion of the money supply. Usually central banks sterilize these money supply effects to control inflation but such an approach tends to be quite costly as the earnings on the international reserves are less than the cost of sterilization.

Standard macroeconomic policy may thus be rather limited in dealing with the competitiveness problem. There is a need for more structural policies to enhance productivity, including investment in infrastructure and education, reforms to increase competition on domestic markets, and export promotion and diversification.

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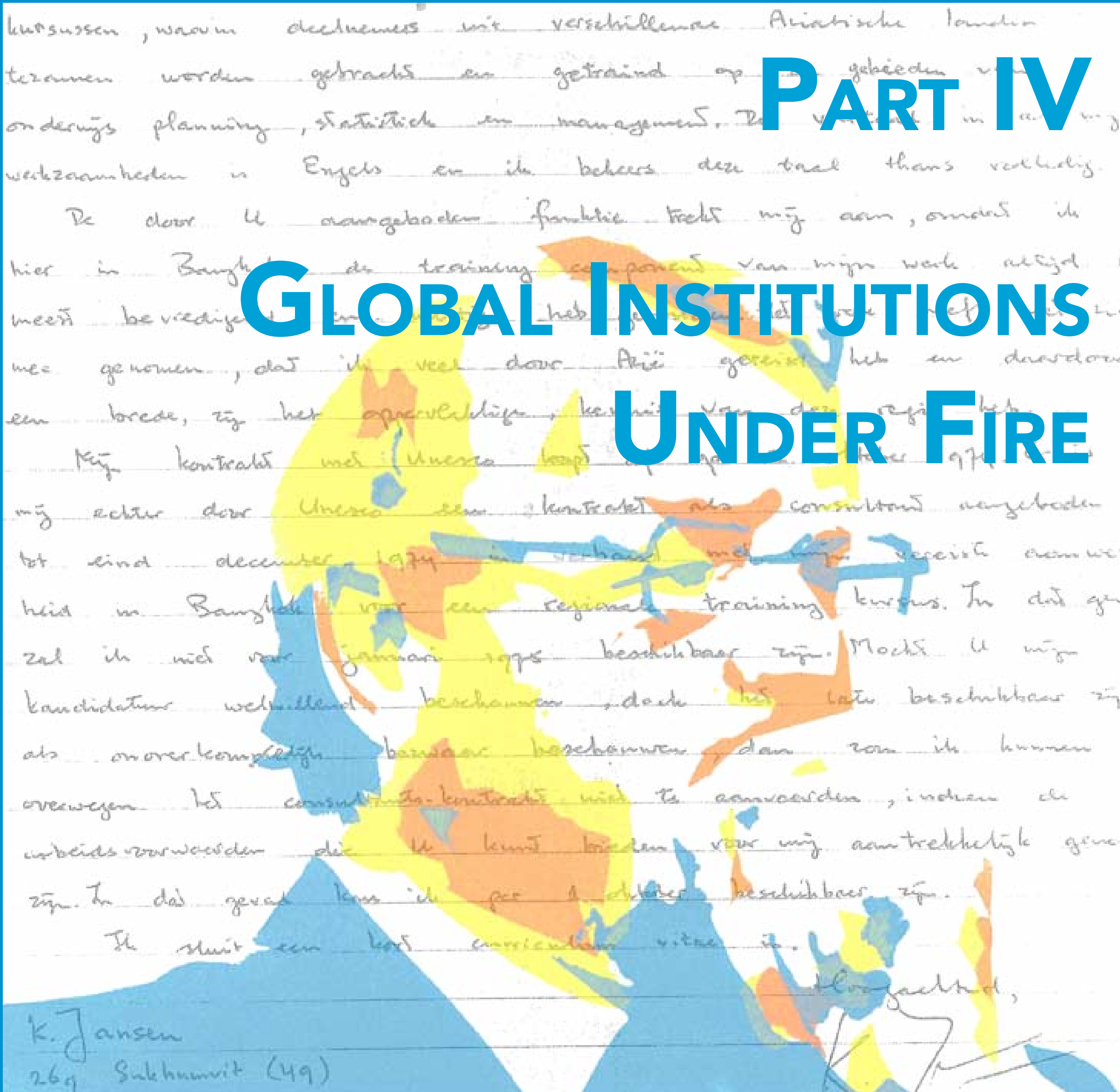
Part IV
Global Institutions Under Fire



The least developed country (LDC) category: Appeasing voices of discontent

Djalita Fialho

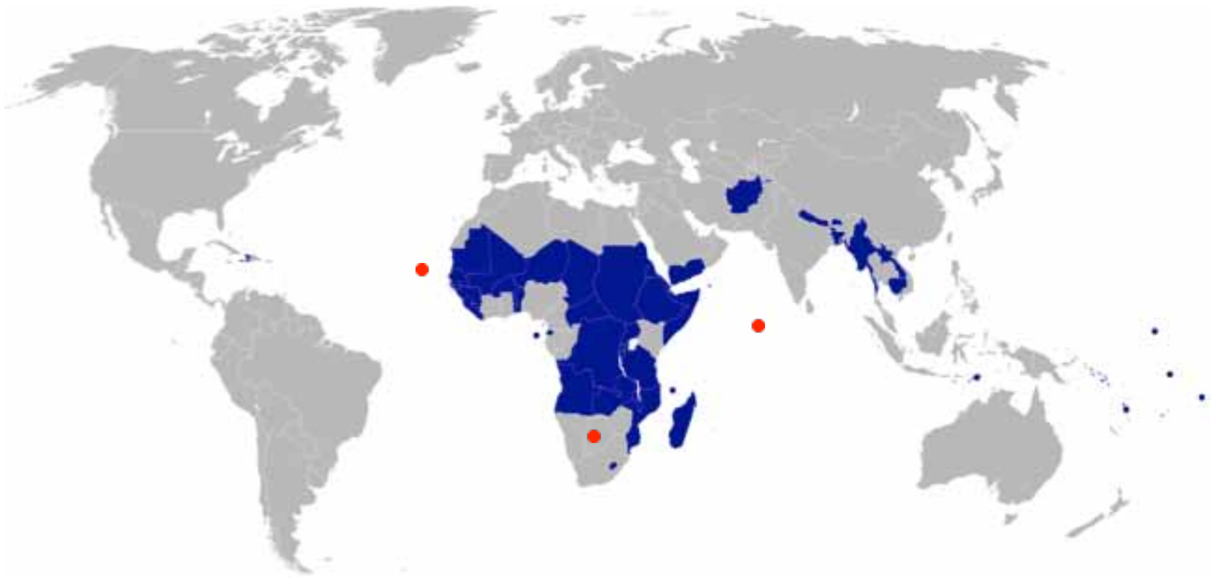
In May 2011 the international community, under the auspices of the UN, gathered for the fourth time in forty years to assess progress made by the least developed country (LDC) group. 'LDC' was proving a grim label, marking a stagnant and non-evolving category, whose membership has not declined for most of its lifespan. The main goals of the conference, which took place in Istanbul, were: '(a) to reverse the marginalization of LDCs…. and to help them catch up; (b) to support a pattern of accelerated and sustained economic growth…; and (c) to help LDCs graduate from LDC status' (UNCTAD, 2010: 83). To achieve this, the Istanbul Programme of Action was adopted. Like much of the literature on LDCs (for example, Guillaumont, 2009; UN, 2001; UNCDP, 2008; UNCTAD's LDC Reports 1984–2010), the Plan's focus on goodwill and technicalities impedes it from questioning and problematizing the assumptions underlying the LDC category.[12] The Istanbul outcome document fails to address political economy issues and, hence, cannot represent a true overhaul effort. It does not consider either the distribution of power or the costs and benefits borne by the actors involved (Cornia, 2011: 15).

The official narrative is that donors should provide these countries with special benefits, given their disadvantaged position in the world economy (UNCDP, 2008: v). This should enable them to 'catch up' and, as a result, ensure a more level playing field in the arena where countries engage with one another. Thus, a declining number of LDCs is the ultimate aim of the category. This has not been achieved. Today, forty years after the establishment of the category, only three countries have graduated from it,[13] representing a disappointing 6 per cent success rate.

From the initial twenty-five LDCs identified in 1971, the category grew to a total of fifty-one countries;[14] membership then fell to forty-eight, following the three graduation cases already mentioned. The group still comprises forty-eight countries, spanning three regions (see Table below), with Africa assuming the lead: thirty-three out of the forty-eight LDCs are African countries, representing 68.7 per cent of the total.

This essay provides a brief first attempt to hypothesize about the decision-making process that supported the creation of the LDC category, in an effort to: (i) understand the context

Fig. 1 Map of the current 48 LDCs in 2011. Red dots indicate the countries that have graduated from LDC status



source: www.wikipedia.org

in which the category was created; and (ii) position it within broader changes in political economy and the structure of capital, institutions and power.

Stating some of the facts

During the 1960s and 1970s — the period of initial debate on creating the LDC category — an important change was taking place within UN membership: an increase in the number and voice of Third World countries and, consequently, the call for a New International Economic Order.[15] Before this, many developing countries were powerless colonies: during this period they gained independence and took more control over their development. They also gained the majority of votes in the UN, thereby making it less important, since hegemonic powers would no longer deal with an organization in which they did not control the majority. It was a period of optimism, where newly independent countries successfully strove for development (economic growth was quite positive, even in most of sub-Saharan Africa), often-

Africa	Asia and the Pacific	Latin America and the Caribbean
Angola	Afghanistan	Haiti
Benin	Bangladesh	
Burkina Faso	Bhutan	
Burundi	Cambodia	
Central African Republic	Kiribati	
Chad	Lao People's Democratic Republic	
Comoros	Myanmar	
Democratic Republic of the Congo	Nepal	
Djibouti	Samoa	
Equatorial Guinea	Solomon Islands	
Eritrea	Timor-Leste	
Ethiopia	Tuvalu	
Gambia	Vanuatu	
Guinea	Yemen	
Guinea-Bissau		
Lesotho		
Liberia		
Madagascar		
Malawi		
Mali		
Mauritania		
Mozambique		
Niger		
Rwanda		
São Tomé and Príncipe		
Senegal		
Sierra Leone		
Somalia		
Sudan		
Togo		
Uganda		
United Republic of Tanzania		
Zambia		

Source: United Nations

times supported by the conviction that rich countries owed them for the long period of colonial repression.

It is also during this period that the aid industry was consolidated and the creation of the LDC category can be seen as another example of international actions aimed at managing global development. This aim had gained cohesiveness with the creation of the UN in 1945 — today an umbrella organization for all things related to development, among other areas of intervention. Establishment of the LDC category took place during 'the golden age of "development planning" … during which the international community strove to project Keynesian liberalism from the domestic to the international arena' (Thérien, 2002: 239).

A host of new bodies and agencies was created in the 1960s and 1970s. The UN proclaimed the First and Second Development Decades (1961 and 1971, respectively), convened the first UN Conference on Trade and Development (UNCTAD) (1964), created the UN Development Programme (UNDP) (1965) and the UN Industrial Development Organization (UNIDO) (1967) and adopted the Declaration on the Establishment of a New International Economic Order (1974). The World Bank created the International Development Association (1960); the IMF established its compensatory financing facility (1963); Part IV of the GATT was integrated into this General Agreement (1965) (paving the way for the generalized system of preferences) and the joint IMF-World Bank Development Committee was established (1974) (Thérien, 2002: 239). These initiatives were framed according to the understanding that economic growth and development obeyed a rather mechanical and straightforward process, anchored in the conviction that foreign aid to poorer countries was sure to bear fruit.

Connected to this is the fact that dominant postwar development theories were 'ideologically linked to generalised capitalist interests … as well as to more particular US interests in maintaining its hegemonic global position in economic, political and military terms' (Brohman, 1995: 133). The link between modernization theory and US national interests, particularly towards the global expansion of capitalism and the promotion of a self-serving worldview, did not go unnoticed (ibid.) and should also be recognized in the LDC context.

In concluding … sort of

In the years that preceded the decision to create the LDC category, the idea of a homogeneous Third World, understood as the failed version of the ideal industrialized First

World, was very much present. This was the image that provided the most powerful set of assumptions about the poorest part of the world, believed to be in need of (industrialization-focused) development intervention. Third World economic problems were 'understood primarily as technical problems that [could] be overcome by the right mix of advice, investment, aid and liberal reform' (Berger, 1994: 270; see also Escobar, 1988; Ferguson, 1990, 1994; Payne, 2001, 2005).

The underlying principle of the LDC category seemed to fit into this line of reasoning, although it represented something of a step beyond the simplistic First/Third World dichotomy since, to some extent, it did de-homogenize the Third World by creating a sub-group within it. In addition, it also recognized (mostly in its narrative) some of the salient processes that perpetuate uneven development. Yet, other 'worlds' were left untouched, indicating that the prevailing international order remained essentially intact. Basically, this meant that the *status quo* was undisturbed, as was the global balance of power.

Establishing the LDC category did not significantly upset the interests of either the developed world or more advanced developing countries. In particular donors, by endorsing a narrative showcasing the altruistic prioritization of assistance to LDCs (without a legally-binding obligation to implement it; as reflected by the low number of graduations to date), simply appeased those who spoke out against the *status quo* — but without having to meaningfully change it or to relinquish power.

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The IMF explaining inflation in Suriname: A case of cognitive dissonance or plain old-fashioned duplicity?

Howard Nicholas

Introduction

In a recent article, Adam Kessler (2010) advanced the socio-psychological concept of cognitive dissonance for explaining the response of many academics, namely those he calls believers in *laissez faire*, to the recent global and financial crisis. According to Kessler: 'Cognitive dissonance theory predicts that when real-world events "disconform" deeply held beliefs this creates psychological discomfort in persons and they will respond by means of distortion and denial' (2010: 2). Whilst reading this article I was reminded of a similar phenomenon I observed with respect to IMF (and other orthodox) economists explaining inflation in Suriname, raising in my mind the question of whether the explanations represented cognitive dissonance or plain old-fashioned duplicity.

IMF economists explaining inflation in Suriname

It is generally accepted that over the last twenty years, i.e., since the economy was liberalized, Suriname has experienced two high inflation episodes; 1992–5 and 1999–2001. In the former period average inflation was 198% and in the latter 66%. The standard argument, advanced by successive IMF policy review missions to Suriname, is that inflation in general, and in these two periods in particular, was due to excessive money stock growth resulting from the monetization of fiscal excesses — printing money to fund the budget deficit. For example, in the early pages of the 2005 IMF country report one reads that:

> The volatility of fiscal revenues from the bauxite sector has contributed significantly to macroeconomic instability in Suriname. During the 1990s, the large movements of world aluminium prices caused

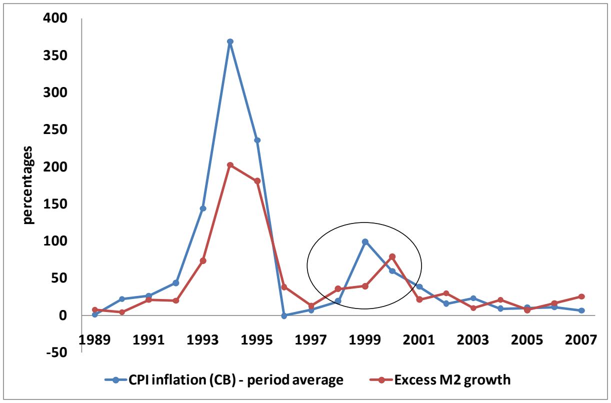
> similar swings in fiscal revenue and the overall fiscal balance. These were combined with pro-cyclical fiscal expenditure policy responses that accentuated the terms of trade volatility, and the ensuing shortfalls in financing were monetized. This, in turn, *caused* rapid price inflation and exchange rate depreciation (IMF, 2005:4 emphasis added).

To be clear, the argument here is that inflation in Suriname results from inflationary financing of the deficit. In another IMF country report some years later, Fritz-Krockow et al. (2009: 4) echoed this argument stating that: 'High rates of monetary expansion… were the main factor underlying the first near-hyperinflation episode in the early 1990s'; and 'The sharp fiscal deterioration in 1998–99 was the main cause of the second near-hyperinflation episode'.

When excess broad money stock (M2) growth is plotted against consumer price inflation it would indeed appear at first sight that this argument has merit (see Fig. 1).[16] However, close scrutiny of the chart, particularly the period 1999–2001, would seem to cast doubt on the implied causal

relationship between the two variables since, on a number of occasions, inflation appears to rise or fall before corresponding changes in excess money stock.

Fig. 1: Inflation and excess broad money stock (M2) changes in Suriname, 1989–2007

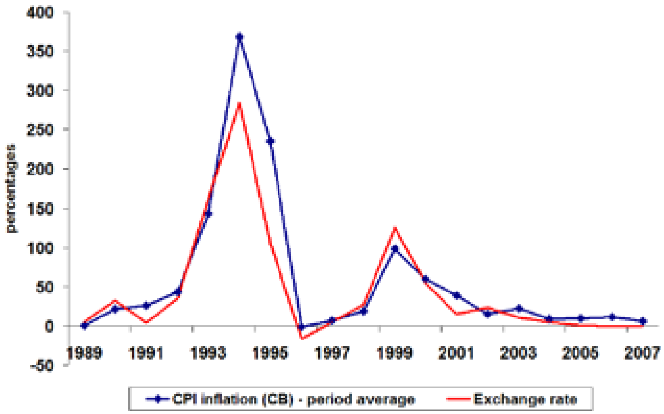


Source: IMF Suriname Country Reports, various years

The reality

If excess money stock is not driving inflation, what is? The answer is actually quite straightforward. It is import prices, and especially changes in the exchange rate. As Fig. 2 indicates, the co-movement of inflation and the exchange rate is exceedingly close. Changes in the exchange rate give rise to changes in import prices, and these in turn to changes in prices of domestically consumed products. This should not really be surprising given the small size of the Surinamese economy and its considerable openness. Moreover, to the extent that money stock changes accompany domestic price changes, it can only mean that the former are the result and not the cause of the latter.

Fig 2: Inflation and exchange rate movements in Suriname, 1989–2007



Source: IMF Suriname Country Reports, various years

Bizarrely, these relationships are also recognized by the authors of the IMF reports quoted above. In the 2005 IMF report, only a few pages after claiming that the primary cause of inflation in Suriname has been the fiscally induced excessive growth in broad money stock, it is stated that:

> In each episode of high inflation, broad money growth rose with a lag. An econometric analysis also suggests that the causality runs from exchange rate or inflation to money growth. This is consistent with a hypothesis that the monetary authorities accommodate inflation expectations that have already been reflected in the exchange rate and the price level (IMF, 2005: 13).

Similarly, the authors of the 2009 IMF report note a few pages after they too contend that inflation is caused by excess money growth, that:

> Expectations drive monetary policy transmission in Suriname, as inflation and exchange rate movements lead to [*sic*] changes in monetary aggregates. This can be explained by the fact that shocks to the terms of trade or to the level of government spending are known well before their effects on fiscal deficits and therefore are reflected in higher prices before they affect money growth (Fritz-Krockow et al., 2009: 12).

In other words, in both reports, while it is accepted that the empirical evidence shows money stock changes *following* changes in inflation, to keep with the faith, so to speak, it is claimed that individuals know that the authorities will accommodate currency depreciation and resulting higher domestic money prices so they bid up these prices whenever there is a depreciation of the currency. Apart from noting the absurdity of this presumption, it also implies that, for these authors, standard empirical tests of causality (e.g., Granger causality tests) are basically irrelevant when it comes to proving or disproving the orthodox (IMF) view of inflation. For them inflation is deemed to be caused by changes in money supply whether or not the latter precedes the former.

A case of cognitive dissonance or plain old-fashioned duplicity?

In the literature on inflation the preceding discussion can also be understood in terms of the debate over whether money stock change is exogenous or endogenous. Orthodox economists have long argued, and many continue to argue, that money stock changes are exogenous and the fundamental cause of inflation. Others, including a growing number of orthodox economists (bowing to the increasing volume of evidence) see money stock changes as mostly endogenous, with these changes largely accommodating inflationary impulses. The authors of the above mentioned IMF reports appear to be among those orthodox economists who refuse to accept the apparent implications of real world evidence in respect of money stock changes and inflation when it contradicts the analytical foundations of their policy recommendations. One could say, as Kessler's logic would have us argue, that this represents cognitive dissonance on the part of these economists. However, one could also argue that it is yet another example of the well-known and widely practised duplicity of the IMF and other multilateral financial organizations in their dealings with developing countries.

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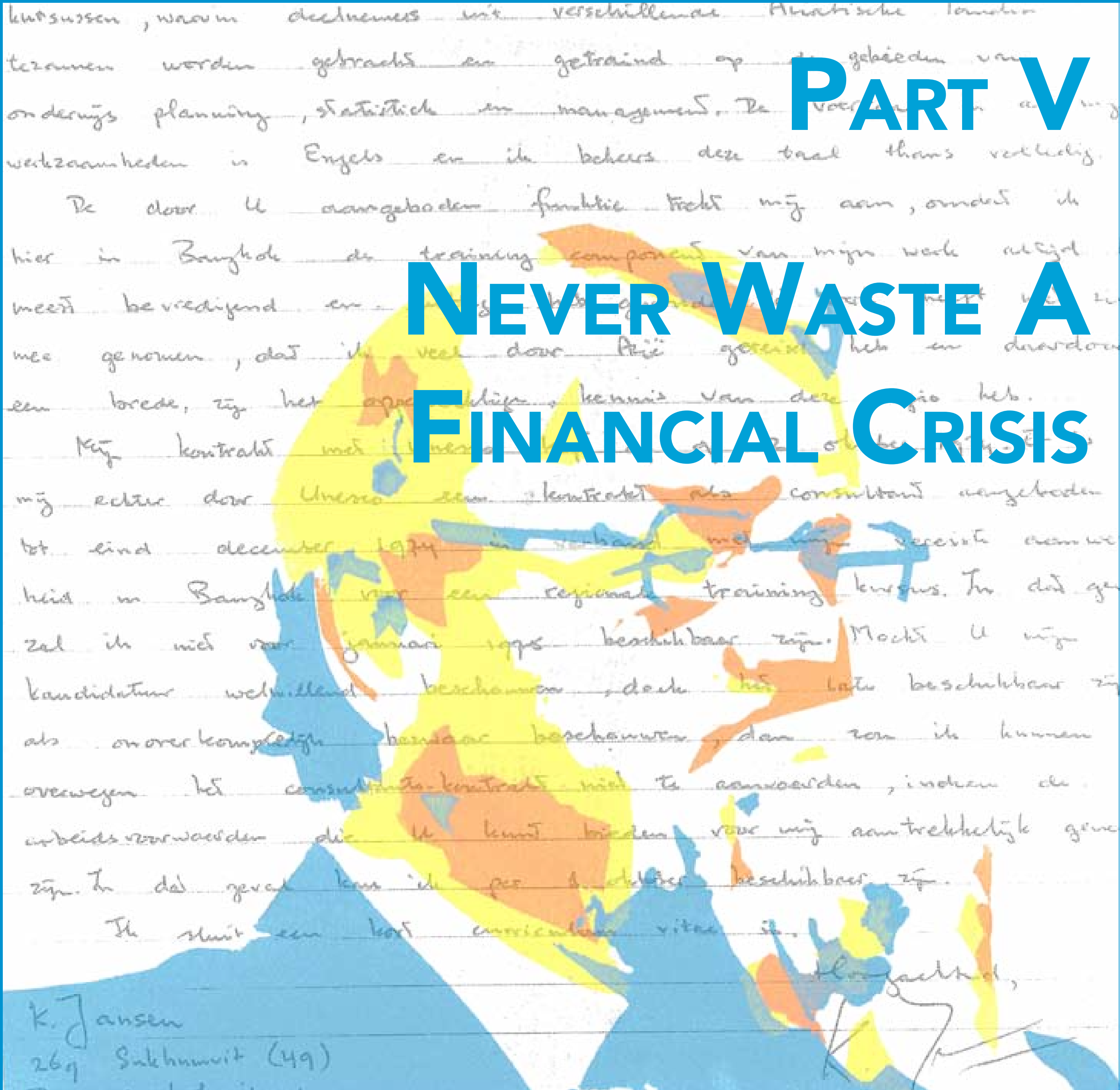
LỄ TRAO BẰNG KHOÁ 6 VÀ KHAI GIẢNG KHOÁ 10

Part V

Never Waste A Financial Crisis



Perspectives on the Greek debt crisis: Lessons from earlier debt crises

Geske Dijkstra[17]

Karel and I shared a concern with real economies, with how economies or countries are doing and how this can be explained. Karel studied the role of external finance in development extensively, and was also interested in debt crises. I was pleased to hear, a few years ago, that he had enjoyed reading my study of debt relief for the Dutch Policy and Operations Evaluation Department (IOB, 2003). I am sure Karel was also following the Greek crisis with great interest. In this contribution I would like to bring the two topics together. The aim is to shed some light on policy options for dealing with the Greek debt problems, using a political economy perspective as well as insights from sovereign debt crises of developing countries.

Around the middle of 2010, policy makers began to recognize that Greece could no longer pay its public debt service. The European Commission, together with the IMF, decided to assemble a rescue package of €110 billion on the condition that Greece would implement an adjustment programme designed with and monitored by the IMF. About a year later, the Greek government announced that the country was still not able to finance its creditors. This led to a debate on the best course of action. One view holds that the EU should make additional financing available, but that Greece should then be forced to implement the adjustment programme agreed with the IMF, which includes spending cuts, pension and tax reforms, and privatizations. EU Ministers of Finance expressed concerns about the slow implementation of these policy conditions. According to another view, however, the IMF programme, even if implemented, will not solve the crisis. The adjustment programme itself is so harsh and will affect economic growth so negatively that the country will not be able to pay its debt. New money will only postpone an unavoidable restructuring of the debt. A third opinion is that the EU should end its involvement in Greece and that the country should exit the euro zone.

This debate has a lot in common with the debate on debt relief to developing countries at the end of the 1990s. There is an economic aspect to this debate, revolving around the question of whether the countries concerned have a (temporary) liquidity problem or a solvency problem. But perhaps more importantly, the debate is political. It is about power and interests: interests of European/Western governments, interests of banks and other financial institutions, of the European Central Bank (ECB) and the IMF, and of the government and the people of debtor countries. For this reason, international political economy theories provide helpful perspectives on the debate.

Following Steinwand and Stone (2008), three perspectives can be distinguished: functionalist, structuralist and public choice. Functionalists are in favour of international cooperation and see the IMF as an institution that reduces transaction costs in that cooperation. By assessing the capacity and willingness to pay of countries with debt problems, and by designing and monitoring an adjustment programme, the IMF reduces search, bargaining and enforcement costs. For this reason, an IMF programme has always been a condition for debt rescheduling. European governments wanted the IMF to be involved in Greece as well.

But functionalists also highlight unintended and negative effects of international cooperation, in this case, for example, possible moral hazard of the debtor. Once a debt rescheduling or loan package is in place, the incentives to implement it may be reduced. This current concern about Greece has also been voiced by academic authors on the Heavily Indebted Poor Countries (HIPCs) at the end of the 1990s. According to Easterly (2002), debt relief to the HIPCs did not solve the debt problem because these countries continued to implement bad policies. Empirical studies show that at least until around 2000, debt relief had mostly gone to countries with bad governance (Depetris Chauvin and Kraay, 2006; Neumayer, 2002). This means that, at least during the 1980s and 1990s, the IMF was relatively ineffective as monitor of adjustment policies.

The structuralist view emphasizes the role of power and powerful states in international decisions. In this view, dealing with debt problems reflects the interests of the creditors and of capital, and not the interests of the people in the affected countries. It is argued that the burden of the current adjustment programme in Greece falls solely on the population, while Western governments are partly to blame for the Greek debt problems. For example, part of the debt problems stem from Western governments forcing Greece to purchase expensive products from their suppliers (see I. Beugel in *NRC*, 28 May 2011).

According to Daseking and Powell (1999), the combination of some debt rescheduling with new loans and grants in the 1990s served the interests of the creditor countries, because they did not have to allocate a large part of their aid budgets to debt cancellations. In addition, it can be argued that creditor countries benefited from maintaining large debt stocks in these countries as this would give them, via the IMF, continued leverage on policies — much more than if the debts of the poor countries had been cleared earlier. The IMF involvement furthered the interests of the business sector in the rich countries, for example by ensuring trade liberalization and capital account liberalization.

The public choice perspective focuses on rent seeking, principal–agent relationships and incentives. Applied to debt crises, this view stresses the interests of the IMF itself and of other International Financial Institutions (IFIs) in (maintaining) debt problems. For example, the recent crises have in common with previous debt crises that they allow the IMF to overcome its own existential crisis (Dreher, 2004; Vaubel, 1991). During the 1990s and the early 2000s, the IFIs continued lending to countries with unsustainable debts. As preferred creditors, they were always paid, which induced moral hazard. This perpetuated the debt problems and necessitated far-reaching and costly debt relief on multilateral debts (Dijkstra, 2008). The IMF was also relatively ineffective as monitor of debtor countries' policies, due to the fact that it had two incompatible roles: that of monitor and creditor. As creditor the IMF had an interest in new IMF programmes: they freed the way for new loans and grants from other creditors and donors, with which earlier IMF loans could be repaid (White and Dijkstra, 2003). In the Greek crisis, it has been argued that the ECB also combines these incompatible roles (see www.ft.com/greece, accessed 13 June 2011). The ECB is an important negotiator on behalf of the European countries but is also a creditor and as such has an interest in new loans.

Applying different political economy perspectives does not lead to a straightforward conclusion, but it does help to counter the seemingly dominant view that the adjustment burden should only be on Greece and the Greek population.

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Financial globalization and the current labour market crisis in developing countries

Rolph van der Hoeven

The current wave of globalization, starting around 1999–2000, has had profound effects on the labour market and on the employment situation of workers all over the world. These effects are in many cases accentuated by the current financial and economic crisis.

A major question is whether ongoing analyses on employment, inequality and globalization remain relevant in the context of the large financial and economic crisis. Such analyses do remain highly relevant, for at least two reasons. Firstly, several elements of the ongoing process of globalization, especially unfettered markets (including the labour market) and growing inequality (leading many households to indebt themselves in order maintain spending on basic needs) have given rise to the current crisis (van der Hoeven, 2010). Secondly, there is growing evidence that the employment, human and social effects of the financial and economic crises will last for some time, especially if no corrective action is taken. Many analysts foresee that the deceleration or decline in GDP growth will lead to rising unemployment that lasts much longer than the deceleration or decline in GDP itself (van der Hoeven and Luebker 2007, and Reinhardt and Rogoff, 2009).

There are thus powerful reasons to include policies for employment, income inequality and human development as combined priority issues in designing short-term and longer-term policies to deal with the crisis.

According to the dominant view during the current process of globalization, unfettered markets are judged sufficient to ensure economic efficiency. The implication of the Keynesian rigid-wage theory is very invidious but very pervasive: get rid of the rigid wages, and let labour markets be more 'flexible'. But imposing more wage flexibility can result in exacerbating the underlying problem of lack of aggregate demand. Stiglitz (2009) states the nature of the problem that we face today as follows: 'The people in the global economy have the same skills as before the crisis, and the machines and real resources are the same as before the crisis. The problem is that there is an organizational failure, a coordination failure, and a macroeconomic failure'.

The current recession/crisis affects developing countries more than previous crises did. World Bank (2010) argues that this recession is far more severe than earlier recessions. The decline in trade volumes and values, the substantial shrinking of foreign direct investment as well as a reversal in the fast-growing trend of increasing remittances, which some have labelled de-globalization, have all had substantial consequences for developing countries and especially for the poorer segments of the population. One could argue that such de-globalization might be beneficial for developing countries as it reverses the trend of increasing globalization. Indeed, the current crisis has led to somewhat greater influence in economic decision making for the larger developing countries, for example in the reborn G20 which is replacing the G7; but this is far from the level of change in global governance which will be necessary to avoid future crises. Furthermore the declines in trade, FDI and remittances were not the consequence of any agreed change in international policy attitudes towards globalization, but rather the result of a serious downturn in GDP in industrialized countries, accompanied by rising tendencies for protectionism and a deterioration of attitudes to foreign workers.

The position of labour in the current crisis is actually extremely worrying. Most workers did not profit from the bubble (as attested to, for example, by low employment elasticities, growing inequality and persistent informalization), but many workers are suffering the consequences of the bursting of the bubble (see ILO , 2010). And while business goes on as usual in financial institutions, including the highly skewed remuneration packages, this is not the case for many in the labour market. There has been a substantial increase

in the number of households in poverty as a consequence of the crisis caused by or combined with a lag in employment recovery after a financial crisis.

In short: current globalization has made labour more precarious, a trend which has been magnified by the current crisis. This picture is consistent with the policy reaction in many countries to the crisis, to the effect that governments have (rightly) acted as banker of last resort to avoid the collapse of the financial system, but that governments, despite stimulus plans, monetary easing and some labour market policies, have not really acted as employer of last resort.

It thus seems important to base policies favouring labour in the current context on two essential elements (van der Hoeven, 2010): first, introducing or strengthening those national and international policies which try to undo the trends of precariousness and increasing inequality as a consequence of (financial) globalization; second, in addition to the policies above, applying special policies to deal with the fallout of the current crisis, such as employment policy schemes, special labour market policies, cash transfers, etc.

The costs of these policies are often a fraction of the support the financial institutions and large industries have received recently. They can be financed initially as part of the current stimulus packages and, once the economy has picked up, from increased tax revenues or from reimbursements to the governments by bailed-out financial institutions.

It is even more important, however, to base policy interventions simultaneously on policies dealing with the structural problems which financial globalization has caused, and on policies assisting those who fall into poverty or experience poor working conditions as a consequence of the crisis; the current crisis is clearly the outcome of a longer trend of financial globalization, which, if not arrested in its current form, may well lead to a new crisis.

In his assessment of the situation in Thailand in his latest work, Karel Jansen was more than aware of all this. He concluded: 'Although the current Thai political conflict is highly complex, certainly one element in it is the confrontation between the "haves" and the "have-nots"' (Jansen, 2011, p.262).

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The dog that barked

Peter A.G. van Bergeijk[18]

In the very early phase of the 2008-09 world trade collapse, policy makers pointed directly to trade finance as a major channel for the transmission of the financial sector problems into the real economy, inducing significant reductions in import and export volumes all around the world. With hindsight, that assessment — wrong as it has proved to be — was to be expected. With credit in short supply and banks in serious trouble, trade finance was set to decline sharply as had happened in other financial crises. Moreover, after the experiences of the Asian and Dotcom crises, policy makers were keenly aware of the vulnerability of trade finance in times of crisis and, consequently, of imports and exports that to a large extent depend on trade finance.

One might say that international cooperation within the G20 and policy preparation at the WTO occurred in the slipstream of these earlier crises, as working groups of international experts were formed that had hands-on experience. Indeed, the networks of policy makers and the procedures for international cooperation and assessment by experts had their roots in the collapse of trade credit during these earlier periods and in the Working Group on Trade, Development and Finance. (One particularly relevant project was the Aid-for-Trade Initiative that aimed to reduce barriers to the integration of developing countries in the world economy and to deal with the shortage of trade finance and the lack of guarantee infrastructures for developing countries.) Policy makers at the international institutions were therefore well prepared to put together financial packages and arrangements that could supply public trade finance. But were the trade analysts in the international organizations right this time in their assessment of the cause? Or was this a case of policy analysts trying to promote a pre-cooked policy recipe and use the crisis as a valuable marketing instrument? Were politicians perhaps interested because trade finance is a way to help national exporting firms? Was this an area in which highly visible gestures were possible at small costs?

These are nagging questions, indeed, and they formed the very lively basis for teaching international financial reform in Karel Jansen's pet course at ISS: course 4312. Teaching topical issues such as the financial crisis takes a lot of energy and preparation, as lectures constantly have to be updated and changed, but it is also highly rewarding.

It is important to note that when we started teaching on the "2008-20?? Financial Crisis", there were actually no data available to check whether the idea of the trade finance collapse made any sense at all. In 2004 the Bank of International Settlement (BIS) had discontinued its trade finance series. Given that no real time data were available in early 2009, our assessment was that senior policy makers and senior analysts basically appear to have believed that a trade finance squeeze was taking place but that the evidence on which their convictions were based could only have been anecdotal — *at best*. Interestingly, two years later, in March 2011, IMF research started to play down the importance of trade finance as a cause of the world trade collapse (Niculcea et al., 2011).

That tactical withdrawal was still some way off in 2009, when the IMF was involved in several attempts to collect data from key financial institutions. Surveys during the early phase of the world trade collapse tried to estimate the deficiency of trade finance; the prognoses converged to a gap in the order of magnitude of a few hundred billion US dollars. This 'gap' provided a stimulus for policy proposals to restore the availability of trade finance. The April 2009 meeting of the G20 took action and announced additional trade financing. The G20 Trade Finance Expert Group estimated potential public support by August 2009 to the tune of $400 billion.

One key issue in course 4312 was that policy makers and analysts had got the causality completely wrong in 2008–09. Their analytic approach was a supply side analysis which claimed that a reduction in the availability of finance and credit due to the problems in the banking sector triggered the trade collapse. This argumentation completely ignored the demand side analysis, namely that a reduction in trade will reduce the demand for trade finance and credit.

We do not have data on actual volumes but the Sherlock Holmes of economics can still find the clues to solve this puzzle. He can, for example, take a look at the amount of trade-related inter-bank messages exchanged via the SWIFT system and see that trade started to decline before trade credit activity did. Holmes will also take note that the G20 Trade Finance Expert Group in its August 2009 report concluded that 'banks and buyers have utilised on aggregate approximately 63 per cent of the G20's commitment capacity in the first six months', and he will note that crowding out of private trade finance by official export credit agencies pushed up that percentage substantially — indeed supply seems to have exceeded demand. To this list of circumstantial evidence he will add the empirical puzzles in the literature: for instance, in the OECD global trade model that features a measure for financial tightness, forecasting errors *increase* when the forecasting horizon *decreases*. Equally puzzling is the fact that one of the key studies in the field 'The Collapse of International Trade During the 2008–2009 Crisis: In Search of a Smoking Gun' by Levchenko, Lewis and Tesar (2009), finds no evidence at the firm level that either exports or imports were reduced more strongly in sectors where trade credit is relatively important. Holmes will certainly be interested in the simulation results of this paper that suggest a counterintuitive increase of imports due to a marginally lower level of trade finance.

Elementary, dear Watson: 'It's the demand side, stupid!'

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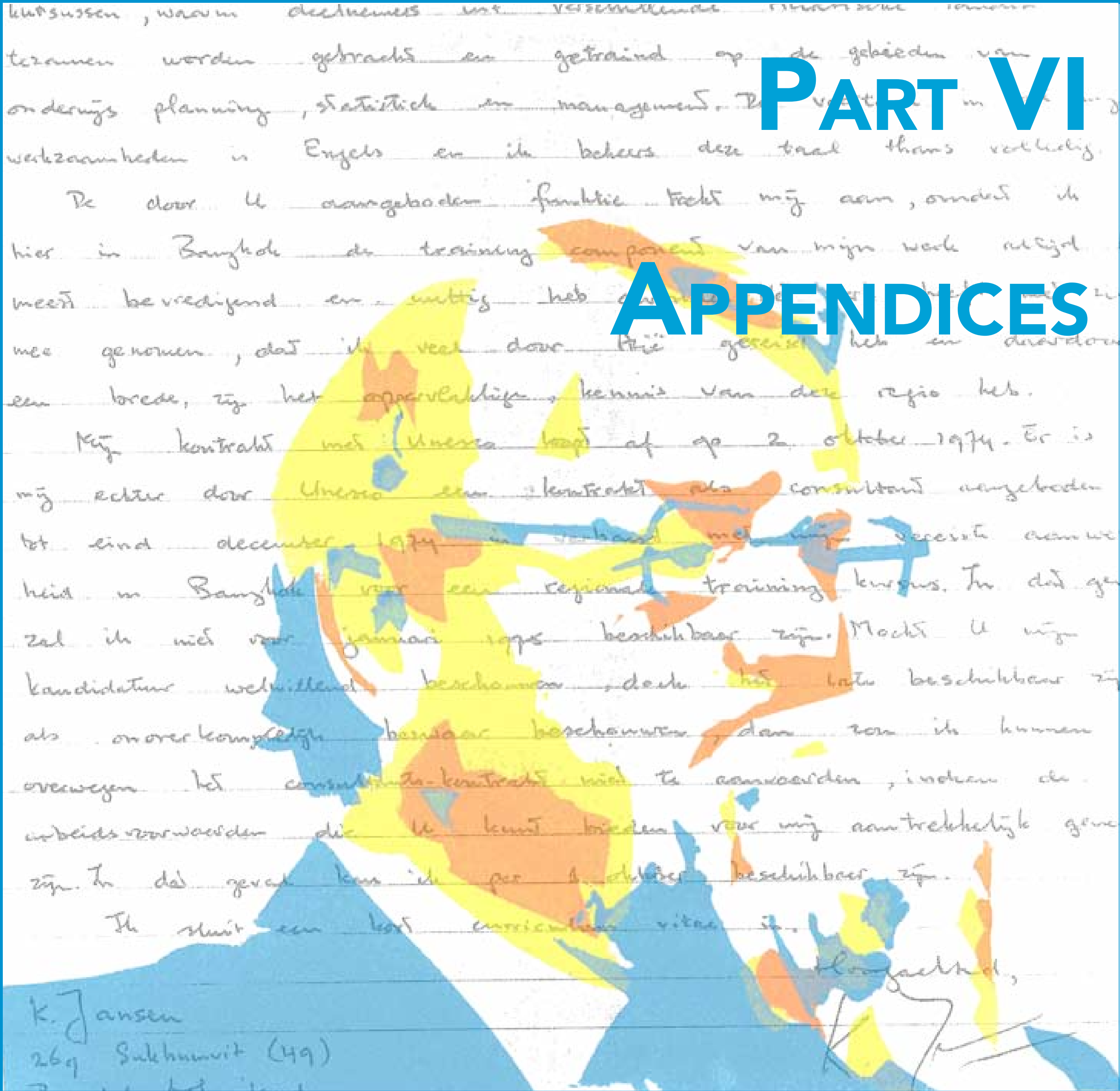
Part VI
Appendices



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Education

Drs (M.A.) Economics, Free University, Amsterdam (1971), specialisation: Statistical Analysis and Development Economics

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Career

1971-1974 Associate Expert in Educational Planning and Statistics at the UNESCO Regional Office For Education in Asia in Bangkok, Thailand. Since November 1973 Acting Statistician of the Office and as such in charge of the Statistical Section of the Regional Office.

1974: UNESCO consultant.

1975-2011 Institute of Social Studies, The Hague. First as Lecturer in Economics; since 1979 as Senior Lecturer and since 1987 as Associate Professor.

1999-2011 Visiting Professor at Faculty of Economics, Chulalongkorn University,Bangkok

Professional activities

Editor, *Journal of Development Studies* 1983-1989

Member editorial board *Internationale Spectator* 1990-1994

Member of CERES Research School

Deputy Chairman Institute Council (IC) 1976-1978 and Chairman IC 1979-1980 and 1985-1987

Member Executive Committee (EC) 1988-1990 (external projects and project policy)

Chair of the ISS Staff Group 1 on Sustainable Economic Development, 1999-2004

Coordinator of the Money, Finance and Development Research Programme 1981-1994

Resident advisor Vietnam-ISS project at the University of Economics in Ho Chi Minh City, Vietnam.

PhD supervision

Nguyen Van Phuc (Vietnam) *Entrepreneurship, Investment and Economic Growth. The Essential Role of the Entrepreneurial Environment* April 2, 1993

Fernando Tenjo Galarza (Colombia) *Corporate Finance Under Adjustment. Firm Behaviour, Private Sector and Economic Policy in Colombia 1970-90* December 8, 1995

Nguyen Manh Cuong (Vietnam) *Does Ownership Matter to Enterprise Performance? A Comparative Study of Private and State Enterprises in Vietnam's Textile-Garment Industry* May 24, 2004

Luis Carlos Jemio (Bolivia) *Micro- and Macro-Economic Adjustment in Bolivia, 1970-89: A Neostructuralist Analysis of External Shocks, Adjustment and Stabilization Policies* 26 October 2006

Le Thai Thuong Quan (Vietnam) *The Impact of FDI on Income Distribution in Vietnam, 1990 – 2000* 26 October 2006

Veronica Bayangos (Philippines) *Inflation Targeting and Exchange Rate Uncertainty* November 16, 2007

Djalita Nadine Fialho de Oliveira Ramos (Portugal) *Financing for Development in a Post-LDC Context: The Case of Cape Verde* (started 2010)

Teaching

Convenor Diploma Programme Development Administration, 1976/77

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MA programme in Economics of Development (ECD), since 1980: courses on macroeconomics, on stabilization policies and on financial aspects of development and on international finance.

University of Economics in Ho Chi Minh City, the National Economics University in Hanoi and Chulalongkorn and University in Bangkok: courses on Macroeconomic Theory, Macroeconomic Policy, Fiscal Policy, Monetary Policy, Finance and Development, International Finance, Development Economics, Development Theory, Southeast Asian Economies

Major consultancies

ADB (Vietnam)

DGIS/DPO/IO (Vietnam)

EEC (evaluation of their educational assistance: country report for Somalia)

ILO (Sri Lanka)

UNDP (Cambodia)

Unesco (Tanzania, Nepal and Zambia)

World Wildlife Fund (on structural adjustment and the environment and in Cambodia).

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Notes

1. ISS Self-Evaluation Report (2003-2010)

2. Karel Jansen and Rob Vos (1997) (eds) External Finance and Adjustment. Failure and Success in the Developing World, London: Macmillan.

3. See IMF (2011) "The Multilateral Aspects of Policies Affecting Capital Flows", Washington D.C.: International Monetary Fund(October 13) and Jonathan D. Ostry and others (2010) "Capital inflows: the role of controls", IMF Staff Position Note, SPN10/04, Washington D.C.: International Monetary Fund (February).

4. Luis Carlos Jemio obtained his MA in 1987 and his PhD in 1993, both from the ISS. Between 1992 and 1993 he worked in the Money and Finance for Development project at the ISS. He has served in different posts within the public administration of Bolivia, including as Minister of Finance between 2004 and 2005. He has also worked as international consultant for CAF, IDB, ECLAC, ILO, UNDP, World Bank and the EC.

5. This short essay was written in honour of Dr Karel Jansen, who dedicated a large part of his academic life to studying growth and development, in particular in countries such as Thailand and Vietnam. In the latter country he spent four years in Ho Chi Minh City, as ISS resident staff member in the Vietnam-Netherlands Master of Development Economics Programme, in cooperation with the National Economics University in Hanoi and the Ho Chi Minh University of Economics. Karel lectured and supervised hundreds of Vietnamese post-graduate students, who currently hold positions in universities, research institutions, ministries, banks, important NGOs, and private companies.

6. I was in Hanoi in 1980, and there were serious food shortages. Not only was the conflict with China significant, but the failed collectivization attempt of the South, after the re-unification in 1976, was also an important factor in explaining the disastrous food situation.

7. This essay is written to honour the memory of Dr Karel Jansen, mentor, teacher, advisor and friend. Karel taught the first author of this essay while he was pursuing a Masters in Development Economics at Ho Chi Minh University. He also served on the first author's doctoral thesis examination committee at ISS-EUR in 2010. The second author was introduced to Vietnam through the teaching programmes that Karel was instrumental in establishing in Vietnam.

8. Veronica B. Bayangos is Acting Deputy Director at the Center for Monetary and Financial Policy of the Bangko Sentral ng PIlipinas in Manila, Philippines. This essay draws largely from Bayangos, V. & K. Jansen, Remittances and Competitiveness: The Case of the Philippines, World Development (2011), doi:10.1016/j.worlddev.2011.04.019.

9. Emigration is the act of leaving one's country to reside/stay/work in another country.

10. The nominal exchange rate is defined as the number of local currency units per USD. Growth of the nominal exchange rate is thus a depreciation of the currency and a decline in appreciation.

11. In the literature it is suggested that migration and remittances may also induce an increase in investment in human capital — which could also increase productivity — but our model does not include these investments and so we have not been able to trace this effect.

12. That is, the belief that it actually groups together the countries most in need and the conviction that donors are exclusively moved by altruism.

13. Botswana (1994), Cape Verde (2007) and Maldives (2011).

14. This increase was partly the result of countries becoming independent in the 1970s, and partly the poor performance of other countries in the 1980s and 1990s, which pushed them into the LDC category.

15. NIEO was a set of demands presented by Third World countries in 1974. It envisaged restructuring the international economic system to improve the position of developing countries with respect to developed countries. The demands included increased control by developing countries over their own resources, promotion of industrialization, increase of development assistance and debt relief (http://www.encyclopedia.com/doc/1O48-NewInternationalEconmcrdr.html).

16. Excess broad money stock refers to the excess of broad money stock growth over and above real GDP growth of the economy.

17. I was Karel's colleague in Staff Group 1 at ISS between 1995 and 2000 (Karel worked in Vietnam during part of this period), and much longer in the wider Dutch community of development economists. He will be dearly missed, both for his academic contributions and as a person.

18. This essay is based on *On the Brink of Deglobalization*, a book that grew out of course 4312 'International Financial Reform' and benefitted greatly from detailed comments by Karel Jansen.

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