PANOECONOMICUS, 2022, Vol. 69, Issue 2 (Special Issue), pp. 299-313
Received: 24 January 2022; Accepted: 25 March 2022.

UDC 336.748.4:330.101.541(497.11)
https://doi.org/10.2298/PAN2202299V
Original scientific paper

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Dragoslav Drag Avramović: Probing the Limits of Development and Stabilization Policy

Summary: Dragoslav Avramović was one of most accomplished economists in the area of applied development policy. He came from a small country with limited exposure to western economics, and made a stellar career at the World Bank and the Brandt Commission. His main achievements include: (i) A novel approach to external debt management based on dynamic assessment of indebtedness and borrowing capacity. It differed from standard debt-to-GDP ratio approach since it evaluated the efficiency and effectiveness of borrowed resources. (ii) Model for reducing volatility of commodity prices based on intervention fund (buffer stock) activated on either demand or supply side to prevent excessive price changes. (iii) Stabilizing record hyperinflation in his home country Serbia by introducing new currency, sound macro-monetary policy, and breaking inflationary expectations that reduced inflation and allowed price liberalization. He faced formidable political economy opposition to implementing debt management and commodity stabilization models, and structural reforms once the stabilization results were achieved.

Keywords: Development, External debt, Commodity prices, Macroeconomic stabilization.

JEL: O10.

Dragoslav Avramović graduated economics at the University of Belgrade, Department of Law since at the time the Deparrment of Economics has not been founded yet. After an academic specialization course at the London School of Economics he became one of the few economists with a good knowledge of western market economics and the essential concepts on which the non-market planned economy of Yugoslavia was based (particularly in the area of macroeconomic planning and development, monetary and fiscal policy).

Based on his own recollection (see Dragoslav Avramović 1996), Avramović started his professional career at the Central Bank of Yugoslavia at the end of WWII. At the time of breakup with the Soviet Bloc in early 1948 and ensuing economic sanctions, Avramović was already at the Ministry of Finance in charge of securing the necessary external financing and ensuring timely debt service payments. He led a team that prepared negotiations with foreign creditors (IMF, WB, US and several other Western states) to help resolve the external debt problem. He was also in charge of unblocking the assets of the Kingdom of Yugoslavia (including gold reserves).

Avramović played a notable role in negotiations with the World Bank (WB) team in 1949-50. The WB attached high importance to co-operation with Yugoslavia and President Eugene R. Black visited Yugoslavia at the very beginning of his mandate (1949-1963) to support the country's financial consolidation and economic reconstruction program after the War and, in particular, assist the country in overcoming the consequences of the economic blockade imposed by Stalin-controlled states.

From the very beginning, Avramović was entrusted with a leading role in preparing strategic documents dealing with the unblocking of financial assets and reprogramming of Yugoslavias debts, as well as finding the necessary sources of deficit financing under sustainable conditions.

1. Arriving at the World Bank in 1953

In recognition of his expertise and negotiating skills, Avramović was offered a two year professional assignment (mid-1953 to 1955) at the WB in Washington D. C. to learn from the inside how this new multilateral development bank works and to improve the quality of mutual co-operation. The aim was also to help SB economists better understand the economy of Yugoslavia and other socialist economies in Eastern Europe with which the WB expected co-operation in the future (Poland, Hungary, Czechoslovakia).

After two years of very successful assignment, he received an offer for a full-time position at the WB, thus becoming the first Yugoslav to hold a professional position in international financial institutions and the UN system.

Yugoslavia-World Bank relations: As stated in the aforementioned official interview Avramović (1996), the Bank program and analytic documents, as well as echoed in meetings with the Yugoslav economists at the WB, the Bank always treated the specifics of the Yugoslav socialist self-managed economy with due respect. At the beginning of the co-operation, this required a high degree of abstraction of elements of a rigid planning system and a focus on the sound issues of physical infrastructure, industrialisation and economic growth.

As the economy of Yugoslavia rapidly changed and evolved from a pure planning model towards market socialism and self-management in the 1960s-70s, the WB sought to understand, monitor and accomodate these changes as best as possible. The scope and quality of co-operation has steadily improved, including through serious analytic work and publications explaining the specifics of self-managed socialism at both the micro-enterprise and macroeconomic levels.

The co-operation culminated in the late 1970s, when the annual WB-IMF Annual meetings were held in Belgrade in September 1979 soon after Avramović completed his very successful career at the WB and moved on to UNCTAD and, later, the Brant Commission.

Dominant development paradigm during Avramović years at the WB: His entire 25-year long career at the World Bank took place before the emergence of the so-called Washington consensus in the early 1980s. The prevailing approach could be characterised as a hybrid paradigm of development which Gustav Ranis (2004) called the "early post-war consensus".

According to Ranis, the theoretical basis of this concept of development (e.g. Rosenstein-Rodan, Mandelbaum and Nurkse) rested on classical economic dualism, where excess labor in traditional agriculture is a constraint to growth and development. The transition of workers to the modern industry increases productivity and becomes a source of growth. Lewis has located the source of duality problems in the dual labour market with competitive wages in modern sectors, and agreed (above the limit) wages in agriculture. According to this theory, the transition of workers to industry continues as long as there is such a surplus of labor in agriculture.

As part of the early post-war paradigm of development, two conceptually very different sub-periods emerged in the way of understanding economic growth and development, industrialization, the role of the state and of international financial institutions.

In the first sub-period, covering the decades of the 1950s and 1960s, the emphasis was on easing the capital constraints by mobilizing savings (accumulation) needed for faster growth and new employment, while new technology and efficiency had a secondary role. In this regard, special significance was attached to the active role of the state, production investments, industrialisation and GDP growth. In addition to strong influence of Keynes, the theoretical basis of this approach was given by the pioneers of economic development – Rosenstein-Rodan, Nurkse, Hirschmann, Prebish, Singer, Myrdal and others (see Gerald M. Meier and Dudley Seers 1984).

Despite many similarities in attitudes about the importance of investment and the active role of the state, there was no agreement among them on how to drive economic growth, whether and how to protect infant industries, how to reduce (or remove) market failures, how to overcome structural problems and resolve policy co-ordination issues, etc.

Rosenstein Rodan, one of the most influential among them, placed special emphasis on launching industrial development through simultaneous investment efforts in a number of sectors of the processing industry (the so-called Big Push) that would simultaneously increase employment and production. This would simultaneously generate income and new aggregate demand and supplementary supply of goods on the market, i.e. achieve balanced growth. Rodan directly inspired the idea of forming the World Bank as a development bank and the essence of its development role. From his position as leading economic adviser, he has greatly influenced the way the Bank perceived development issues and conceptualize its lending interventions.

Rosenstein-Rodan had a particularly strong influence on the professional development of Avramović and his views on issues of industrialization, economic growth and development, the use of foreign sources of financing, and the economic role of the state. To a large extent it contributed to Avramović's conceptual framework, analysis and the strategy for managing public debt, which represents one of the key pillars of his professional career in the WB.

In the second sub-period (1970-1982), there was a noticeable shift of the focus from economic growth dynamics to issues of quality of development and reduction of inequality, which continued to be a major problem even in countries that recorded dynamic growth. During his long years as the President of the World Bank (1968-1981), McNamara, has set the fight against poverty as a new core development goal. The theoretical underpinning came from a new generation of economists led by Holis Chenery (1974), who advocated a redistribution of a portion of growth benefits to increase equality and reduce and/or eliminate poverty.

The redistribution with growth aimed primarily at taxing current income. A more radical proposal labeled "redistribution before growth" which sought to increase equality in the distribution of assets and development opportunities (in education opportunities and health care) were not acceptable at the level of multilateral financial institutions, although they yielded very good results in South Korea and Taiwan (see Irma Adelman 1978).

In parallel, this period is also characterized by development theories seeking active employment policies, rural development and agriculture which did not gain much theoretical or practical traction.

In the mid-1970s, the dependency theories received a prominent place among development theories with "non-equivalent exchange" as the main cause of inequality in incomes and the level of development. Despite many conceptual disagreements surrounding those theories, worsening terms of trade were a strong empirical proof of their claims. The declining efficiency and (in)stability issues of the markets for raw materials and volatile prices of primary products attracted considerable research and development-policy attention of Avramović (1964).

In the late 1970s and early 1980s, after three decades of absolute supremacy, the development paradigm based on early post-war consensus was slowly but surely beginning to lose credibility and support. The coming neoliberal tide, which will come to be known as the Washington consensus, was seen on empirical, theoretical and political front.

The empirical critique of the first development consensus highlighted the lack of good development results in the 1960-1970 period. The rapid economic growth achieved in many countries in Asia and Latin America was based in large part on the dynamic growth of the import substituting processing industries enabled by a high degree of extended protection. This model was not sustainable in the long-term as it produced fiscal and external deficits, and (in most countries) failed to reduce inequality and poverty, or permanently boost the export competitiveness.

The theoretical critique of the first development consensus came from a growing neoliberal tide that swept economic departments leading universities in the US and the UK since the early 1960s. It is worth noting that the neoclassical theory as a dominant paradigm and analytical tool in economics has never left the halls of leading universities. This new tide was all about the growing supremacy of the neoliberal school in the field of macroeconomic policy, emphasis given to free markets for goods and factors of production (both labor and capital), free foreign trade and the minimal economic role of the state.

Ha-Joon Chang (2003) defined neoliberalism as an academic attempt to recreate the economic conditions that gave rise to capitalism during late 19th and early 20th century. According to neoliberal view, the so called "Golden Age of Capitalism" was based on a stylized view of the world characterized by: unlimited entrepreneurship; completely flexible (and unregulated) labor markets; absolute macroeconomic stability (anchored in gold monetary standard); completely free foreign trade (i.e. free flows of goods and capital); and absence of (significant) state ownership and regulatory framework, strategy, and policy in industry and finance.

Of course, the reality was very different from this stylized and beautified picture. Despite positively biased presentations in the economic history accounts of the period, the fact is that international trade was not completely free. Many countries did not have customs protection either because their colonial status did not allow customs to be imposed without the consent of the metropolis or because free trade was imposed through unfavourable trade deals. Countries that could afford it had a fairly high degree of customs protection of industrial products. The famous USA example confirms this: USA had custom rates ranging from 45-55% in continuity from independence to the modern era. Alexander Hamilton, one of the founding fathers of USA and finance minister in the late 18th century, advocated high tariffs as a transparent form of protection of infant industries from competition in then much more developed England.

Regarding ownership, there were indeed very few examples of 100% state ownership of commercial enterprises, but the state had significant ownership of the land and other natural resources, infrastructure, real and financial assets. Furthermore, the state has actively used its assets to improve education and healthcare, provide infrastructure and create conditions for private sector commercial investment (crowd-in).

Entrepreneurial energy and people's enthusiasm and desire to participate in the second industrial revolution overcame all human and social reserves and justified desires and expectations (in the field of social security, occupational protection, etc.). The predatory and monopoly behaviour of companies was not controlled by either laws or traditional moral norms. The dark side of the liberal approach has faded from memory over time and became almost completely forgotten. In their new crusade, neoliberals selectively remembered only the conditions that contributed to the fastest economic growth in history, but forgot that this was happening in the context of the second industrial revolution that brought unprecedented progress in industrial development, productivity growth, urbanization and modernization on a global scale.

Hence, it is easy to explain why modern neoliberal reform programs argue for:

- Massive non-selective privatisation of businesses and banks;
- Radical deregulation;
- Total liberalization of foreign trade and capital flows;
- Sound macro-monetary and fiscal policies as the basis of the market revival of the entire world economy, including underdeveloped countries.

Political criticism of the post-war paradigm of development, however, was crucial. The unrealistic and radical concept of neoliberal reforms would not have been accepted in regulated states and international financial institutions if it had not come as an integral part of a strong political critique of the overly strong economic role of the state, high level of protectionism, and market controls. The turning point came with electoral victories of conservative parties in the US, UK and other countries.

Within just a few years, there was a massive change of staff in key economic ministries, research institutes and universities, aiming to promote unquestionably a new paradigm of development, and the rules of the future Washington consensus.

The changes were particularly abrupt and obvious in the WB and the IMF. After Chennery's ten-year tenure (1972-1982), Anne Krueger was appointed as the leading economist and vice president for the economy (during 1982-1986 period). She was an excellent theoretical economist, a sharp and argumentative critic of protectionism, state intervention and rent-seeking behavior that they generate, but also the hardest, uncompromising supporter of the entire neoliberal reform package. Over the next fifteen years, top economists of extremely neoliberal orientation took turns at the helm of the WB: Stanley Fischer, Lawrence Summers and Michael Bruno[1].

Overnight, the majority of leading researchers and almost all senior and middle management in the research area of the WB were changed. The entire sector dealing with industrial strategy and policy issues was abolished, and the sectors that provided member states with assistance in defining national development strategies and public investment programs, where Avramović spent his entire career, have been drastically reduced and phased out over time. During a very short period, the development paradigm has been aligned with the new neoliberal principles advocated by Washington consensus.

In the operational work of the WB, project financing has begun to lose importance, with growing share of program loans aimed at supporting structural reforms, primarily by strengthening market institutions, liberalising foreign trade, markets and prices, and withdrawing the state from economic activities that can be provided more efficiently by the private sector.

This changed orientation was largely justified on normative grounds and came as a response to the aforementioned deteriorations in empirical growth performance and lack of good development results. The WB was expected to use its professional reputation and the significant credit potential of program/policy loans to initiate reforms that would reduce the share of state ownership in developing countries at a reasonable pace, strengthen their market orientation, reduce the level of protectionism and abolish the state's counterproductive interventions in the economy.

In practice, however, the desire to implement overnight major changes in all mentioned dimensions of reform prevailed. Structural adjustment loans (SAL) in tandem with the IMF stand-by arrangements were used not only to introduce (often long overdue) sound monetary and fiscal policies and achieve macro stabilization, but also to impose tough (and at times unrealistic) conditionality in the areas of privatisation, foreign trade and price liberalization.

This unnecessarily created pressures and led to massive and often chaotic, unexplained and unregulated privatisations, and deregulation measures done in haste and without elementary empirical and policy analysis of alternative implementation patterns and the likely effects of the proposed measures. The neoliberal expectations that the "Ten Commandments" imposed by the Washington Consensus would make a Copernicus shift and generate an instant rebirth of efficient markets the economies of

[1] Stanley Fischer 1988-1990, Lawrence Summers 1991-1993, Michael Bruno 1993-1996. It is interesting to note that equivalent staff changes with clear neoliberal bias happened later with the appointment of their chief economists (Jacob Frenkel 1987-1991, Michael Mussa 1991-2001, Kenneth Rogoff 2001-2003), or deputy managing directors (Stanley Fischer 1994-2001 and Anne Krueger 2001-2006).

developing countries were an ideological illusion that was deeply at odds with the decades development practice and the political economy of reform.

In the late 1990s, it became abundantly clear that market reforms yielded good results only in the presence of good market institutions. Building market institutions requires considerable capacity (expertise), commitment, and time. Recognizing country-specific economic, political and social constraints to institutional reforms and sustainable growth have always been a prerequisite of a successful approach to addressing multidimensional development issues.

In short, most of Avramović's career at the World Bank took place within the framework defined by the first post-war consensus, albeit the early signs of the coming neoliberal tides significantly reduced the economic and political space for proposals that focused on improving the stability of the global markets for primary products and for development aid and debt sustainability in general.

Hence, this is the context in which Avramović's proposals for diversified approach to external debt management and stabilization of the global primary product markets should be read.

2. External Debt Management Model

A strong orientation on investment as the basis of economic growth in the presence of low domestic accumulation (savings) predictably generated the need for foreign sources of financing. Given the growth dynamics of foreign i.e. borrowing, it was only a matter of time before external indebtedness became a major problem, and its resolution the number one international priority. Building on the idea of Robert Garner, one of the World Bank's most influential vice presidents during the first period, Avramović devoted most of his research engagement towards resolving the problem of external debt. Unlike many who approached the growing debt problem mechanically, based on simple parameters such as the share of external debt in GDP or the share of the cost of servicing external debt in the balance of payments, Avramović developed a comprehensive set of criteria to evaluate a country's real ability to borrow and service external debt.

He argued that it is necessary to look not only at the share of debt in GDP, but also at the GDP growth generated by increased borrowing and other factors affecting the quality economic growth processes and macroeconomic management. Avramović's main thesis was that the short-term debt indicators (debt to GDP ratio and debt service burden relative to the balance of payments) are not that important if a country has a good longer term relationship between new borrowing and new growth. This was the light motif of three books on external debt management published by the WB and the basis of the external indebtedness monitoring methodology that Avramović and his team at the WB for the needs of UNCTAD and the OECD (DAC).

The crown of it all was the book Economic Growth and External Debt, in which practical criteria were developed to assess the level of indebtedness of individual countries as part of an economic growth model which also allowed the assessment of future debt service burden under alternative financial and other risk conditions. The model implemented in several countries (including India and Nigeria) allowed a reliable estimate of the level of indebtedness and the cost of servicing external debt which a specific country can realistically bear.

Avramović convincingly demonstrated that based on his model, it was clear that directing excess credit potential of commercial banks (so-called petro dollars in the mid 1970's) to Latin American countries at variable interest rates posed an unacceptably high risk. On that occasion, he came into direct conflict with the bank's very powerful and influential president, Robert McNamara, who was convinced that commercial banks knew what they were doing and that the WB had no reason to object. This confirmed the old saying that "the private sector is always right, except when it is not": As it turned out, deliberate or accidental increase in lending to Latin America against sound criteria advocated by Avramović debt model and created a debt problem. In the end, the taxpayers paid the cost. Similar mistakes were repeated in the years preceding the 2008-2009 during global financial crisis.

3. Primary Product Market Stabilization Model

The other area in which Avramović came into direct conflict with McNamara and the US establishment was related to issues of primary product markets (energy, commodities and raw materials in general). For years, the WB has been publishing price forecasts for key commodities based on interviews with managers of large corporations and analytical institutes that primarily reflected (often biased) expectations of western business centers. Furthermore, the coffee price crisis of the late 1950s showed that this methodology increases volatility and perpetuates the cyclical price movements of primary commodities. In order to remedy the situation, the WB entrusted Avramović with the task of investigating the dynamics of coffee prices (and other primary products) and analyzing the behaviour of the major producers that led to such volatile outcomes.

He empirically detected the existence of divergent interests of the world's major producers (in this case coffee) and postuled a theorem of their behaviour (in holding stock or selling surpluses) depending on the current situation and expectations. The model accurately predicted behavior that led to catastrophic price declines and the bankruptcy of producers with long-term consequences not only on income and well-being in producer countries, but also on stability in production and supply worldwide. In response to these risks, the study proposed the adoption of an international coffee treaty that would prevent the risks of such cyclical coffee price movements.

The study was very successful and received full US support leading to a formal proposal for a "coffee commodity agreement", albeit it stopped short not addressing similar problems related to other primary products. This study brought great professional recognition to Avramović and raised the WB rating as an active participant in the important field of primary products market.

That reputation was further strengthened a few years later by a similar analysis of the problem of cocoa beans production and markets in Nigeria, Ghana and other West African countries. Cocoa prices fell more than 75% in the early 1960s and put many producer countries at an impasse. The national and regional bodies responsible for the stability of primary markets (commodity boards) did not have enough financial resources for interventional purchases nor storage facilities needed to maintain stability at the real price level. Left to speculative games by big traders and intermediaries, the prices of cocoa beans have simply collapsed.

It was clear that similar problems await other markets of primary products (e.g. copper and other metals and minerals) and that the effects will not be limited to one country or region, but can have global consequences. An idea to prevent such adverse developments motivated a request by France and a group of African countries to ask the World Bank and the IMF to produce a more general study devoted to the problems of stabilising the prices of primary products globally.

As the head of the WB team, which the secondary participation of the IMF, Avramović (1996, p. 13) was the key author of the theoretical basis for stabilising the primary product markets advocated in this study. With some delay, the study results were fully incorporated into an analogue study conducted under UNCTAD.

It is important to note that the underlying findings of this study go to the heart of international economic relations in the area of primary products that have changed over time and abandoned some of the fundamental principles of the Bretonwood treaties. As argued by Keynes (John Maynard Keynes), at least three multilateral organisations were needed: one committed to international monetary stability (IMF), the other devoted to issues of post-war reconstruction and development (IBRD later expanded to WB), and the third devoted to issues of primary product market stability. It later added the idea of establishing an organisation to deal with international trade issues (WTO).

Ideas on establishing the IMF and IBRD/WB were immediately accepted. The idea of establishing a WTO has been delayed and the issues of foreign trade have been resolved through a general agreement on trade and tariffs (GATT). The biggest resistance came from a proposal to establish and finance an international organisation that would commit to stabilizing the primary products market. In the absence of such an international organization, producer countries would not be able to finance the required level of commodity stockpiles that would intervene to prevent major price fluctuations with catastrophic consequences for underdeveloped countries.

The real life experience has shown that the negative cycle (vicious circle – circulus vitiosus) can start either from a situation of too large or too small supply.

In the first case, under the conditions of a large supply, producers (i.e. countries with large participation in the world supply) do not have the option to temporarily withhold their sales since they need continuous income flow. This contributes to alredy high supply drives down market clearing prices and, consequently, triggers a wave of bankruptcies. Bankruptcies reduce the production capacity, which then leads to lower supply and enormous price increases. High prices trigger a wave of large investments in the production of a given commodity until large supply (or even hyperproduction) again leads to a drop in prices that started this vicious cycle.

In another case, the initial situation is characterized by inadequate supply. Limited or reduced supply could be due to natural factors (bad weather or some disasters) or caused by low supply elasticity in response to unexpectedly strong demand. Either way, this leads to higher prices, which can further be exacerbated by speculative demand. As in the previous case, the rest of the cycle goes through overinvestment, hyper-production and the ultimate collapse of prices and markets.

In both cases, timely interventions (through purchases of goods in case of excessive supply and sales goods from reserves in case of insufficient supply) maintain stability of the real price level and prevent negative consequences on production and income.

Interestingly, Avramović notes, developed countries have found a way to prevent undesirable price fluctuations in the domestic agricultural products market and, thus, prevent adverse impact on production, wages and employment, and maybe broader social problems. They were not ready to apply the same approach globally through international financial and development institutions as it might soften the free trade rules that gradually became the dominant position, a universal mantra without exception. In hindsight, that was an open announcement of an impending wave of neoliberalism.

It is obvious that developing countries did not have enough knowledge or funding for such interventions since, among other things, the relative size of export-oriented primary production represented a much higher share of their GDP and budget than the value of supported agricultural production in developed countries.

It should be noted that discussions about how to stabilise global primary product markets were neither simple nor fullly predictable. This is best seen in the example of the USA, where the Department of Agriculture was in favor of pragmatic solutions (with financial compensation) to reduce hyperproduction and price volatility. By contrast, the State Department insisted on free trade and did not accept commodity agreements as a way of stabilising key primary product markets.

McNamara – as WB president in the second sub-term – carried enormous political power from his ministerial days and had direct influence on White House decisions regarding important international issues. He did a lot to enhance the reputation and influence of the WB, and increase the bank's credit potential. However, he could not overcome the deep divisions within the administration and the obvious lack of support for the idea of a specialized international organization devoted to addressing issues of stabilization of the primary products market. Instead, they proposed that future specialized organizations (e.g. FAO for agriculture, UNIDO for industry, etc.) address those issues and that the WB continues to deal with primary product markets issues within its mandate.

This was the international political economy context effectively blocked progress in this important development area. As volatility in primary commodity markets continued, Avramović repeatedly raised the issues of stability that called for interventions. Studies of individual commodities and proposals for solutions have been done and frequently updated, but there have been no real breakthroughs. Primarily because of the permanent absence of consensus within the US administration. During the first sub-period, the impression was that WB presidents (Eugene Black and George Woods), did not have enough political clout to push through costly solutions that openly recognize market imperfections, and contradicted the principle of free trade and the interests of big business.

McNamara had the political power to break the long-standing deadlock, but in this case completely took the side of American business (as a former manager at Ford) and did not support the proposals of the World Bank i.e. Avramović who played a leading role in drafting them. Formally, business interests, ideological and political positions of large countries (especially the US) were never mentioned in this muted debate over the statute and nominal jurisdiction of the World Bank. According to the articles of agreement, the WB had a mandate to raise long-term funds on financial markets by leveraging the registered capital of member states, and use those funds to address development issues by investing in programs and projects in member states. Investment in intervention funds (buffer stocks) tasked to maintain the stability of commodity prices was deemed to be formally outside of the WB jurisdiction.

The promised political mandate given to the WB after abandoning the idea of a specialized organisation to deal with stability of commodity prices has never been operationally implemented. The problems of financing and transparent management of such funds required a new legal framework and an agreement between developed countries which required consensus that could not be reached.

Over time, the importance of this initiative has been downplayed and characterized as an attempt to put the blame for the growing development problems on exogenous factors (i.e. unstable primary product markets) and market imperfections in general (which require intervention) rather than internal structural imperfections in developing countries (inefficient state, unreformed institutions, and corruption). While the critique of inefficient state and the growing presence of corruption is fully justified, it does not diminish the importance of achieving more stable markets for primary products as a key factor of development.

Avramović (1996) stated that he regrets that the proposal to stabilise the primary products market was not accepted as it could have strengthened the reputation of the WB and provide a basis for tangible assistance in the preparation of development strategies in some important developing countries, prevent or substantially alleviate the later problems of worsening "terms of trade" and "excessive indebtedness" that African and Latin American countries continue to face.

4. Top Professional Results - Limited Recognition

After a very short and successful career in Yugoslavia (in the Central bank and the Ministry of Finance) Avramović found himself in the World Bank, then fairly new and prestigious development organization. Armed with knowledge, persistent work and an extraordinary talent for understanding complex economic problems, he quickly progressed through the then very sparse bureaucracy of the World Bank by accepting important and often quite complex professional challenges. He tried his hand at tasks that much more experienced top-notch professionals with education from leading US and UK universities were reluctant to take.

Inspired by Rosenstein-Rodan work and leadership, Avramović managed to grasp the essence of the finest issues of economic growth and development in countries with excess labor and underdeveloped non-agricultural economic activities. Unlike most economists in international financial institutions (IFI), he did not approach debt issues routinely based on a limited number of static parameters (such as debt to GDP ratio and share of debt service in the balance of payments), but dynamically and related to the efficiency and effectiveness of the use of borrowed resources.

In other words, even a very low level of indebtedness measured by debt to GDP ratio (say below the famous Maastricht criteria of 60%) can be unsustainable if the funds obtained by borrowing are not used efficiently in projects (with a yield that is higher than the interest rate), or effectively to achieve set development goals (say, timely completion and use of roads, bridges and railways, cheaper and safer transportation of passengers and goods etc.) which help sustain faster economic growth.

On the other extreme, we have countries that have borrowed a lot but have used these resources to complete priority infrastructure and increase production capacity that have contributed to high growth rates and provided ample resources to service external debt.

The debt management methodology proposed by Avramović is built on these principles. It evaluates country's ability to borrow and efficiently use additional resources to accelerate economic growth and address its development problems. This approach requires a much higher degree of expertise on both the IFI side and the member states' side (future debtors), and differentiated credit scores. Despite the very successful testing of the methodology in several countries, it was decided to retain the old classic static assessment of indebtedness and credit worthiness. Many years later we have seen the gradual introduction of dynamic elements of credit risk assessment and credit potential of individual countries, albeit not based on expert assessments by economists, but based (more or less mechanically) on the ratings countries have on international financial markets.

The essence of resistance in accepting original, practical and development-oriented solutions is solely in bureaucratic inertia, refusal of responsibility of professional staff and management, and the need for political structures to easily monitor the performance of the WB and the allocation of credit resources.

Another major professional proposal was to improve the stability of the primary products market. Avramović followed his unmistakable diagnostic instinct and proposed a system of general commodity agreements and intervention funds (buffer stocks) that would be activated on the supply or demand side to prevent excessive (or catastrophic) price volatility. With the exception of some individual goods (e.g. coffee) this idea has not been accepted for ideological, political and practical (business) reasons. Free market supporters felt that mass intervention funded by IFI funds would legitimize market criticism and affirm new state interventionism at international level.

Domestically, such interventions (e.g. in agriculture) are easily justified by a need to reach the necessary political and social compromise. Internationally, there have been no such excuses, which is why the initiative to stabilise primary product markets globally has never received support.

Particularly strong resistance came from the US, primarily for ideological reasons (which stem from the early wave of neoliberalism that would flood the WB in the early 1980s). Practical reasons, based on what appears to be a biased perception of corporate interests, must not to be underestimated, especially with McNamara as president. This is another type of resistance to proposed improvements that combine ex-ante conceptual (ideological) reasons and perceived practical interests. What is significant is the absolute refusal of the parent management (or supervisory body – board or parliament) to seek and hear arguments for and against, before accepting or rejecting certain options (or solutions). For the last 40 years, we have increasingly witnessed growing ideological polarizations that eliminate medium or compromise solutions.

We must emphasise the position of Avramović, who presented strong and quite convincing argument that the world could have avoided or greatly reduced the damage arising from the predictable debt crisis and the unnecessarily large deterioration in terms of trade had his proposals been applied (in using dynamic debt management indictors and intervening to stabilize commodity prices). These proposals were already prepared, professionally established and tested to produce developmentally responsible solutions in the field of debt management and stabilisation of the primary product market. If accepted, the dynamics of economic growth and development in the world would be different, and the problems of inequality and poverty that we observe today would be far less.

The third area in which Avramović proved himself was macroeconomic stabilisation in his home country, the Federal Republic of Yugoslavia (FRY) in 1994. A devastating hyperinflation peaked in late 1993. Avramović came to the rescue. His advice (stabilisation program) was fully accepted, and he was given the post of the Central Bank (NBY) Governor. After the successful stabilisation of the dinar and the announcement of other structural economic reforms (including privatizations and fiscal consolidation) without which the new monetary stability could not be preserved. These proposals were not acceptable to Milošević regime. In the media and public discourse he was treated as opposition and his political approval rating slipped sharply. In 1996 he was forced to step down after a vote of no confidence in the FRY Parliament.

Although Belgrade greeted Avramović as a savior (and nicknamed him Grandpa Avram), for the most part, the political establishment has not embraced the concept market reforms. They reluctantly agreed to a monegtary stabilisation program out of necessity as hyperinflation threatened to destroy the economy and bring the country to a completely halt.

The moment the initial phase of monetary stabilisation apparently succeeded, the importance of "advice" and "advisers" began to fade quite rapidly. The announcement of the structural reforms needed to ensure lasting macroeconomic stability deepened the rift and Avramović went from adviser, ally to adversary. This was a drastic form of partial acceptance of only necessary solutions, followed by a complete disruption of co-operation and the absence of recognition for a fundamental contribution to monetary stabilisation.

But that shouldn't come as a surprise. A similar fate has been experienced by advisers in many earlier macroeconomic (monetary and fiscal) stabilisation and fiscal consolidation programs. The author of these lines, can confirm that from personal experience. After achieving internationally recognized results in fiscal consolidation and the revival of economic growth (expansionary austerity), I similarly faced declining political support for the continuation of substantive structural reforms without which the results of fiscal consolidation would not be sustainable in the long-term. Without these reforms, the initially agreed reform mandate was unilaterally reduced. What's more, the mandate substantially revised and deprived of the logical continuation to complete the institutions of a modern market democracy. This eroded the basis of further engagement. After four successful years in the government, instead of trying to extend the good results to reform the institutional framework, the quality of the governance system and the state itself, I was put in a position to step down and thus preserve personal and professional integrity.

As many cases in history confirm, advisers to political leaders (including macroeconomic advisers) have a limited political expiration date. They embrace hard and ungrateful work to offer "the common good" (new and better models of debt management, raw materials markets, macro-monetary or macro-fiscal stability as the basis for economic improvements in the long-term). As soon as their efforts and knowledge achieve a given result, the advisers become unnecessary, obsolete, and expendable. Even though they expect almost nothing in return but recognition, they can't get that either. This is a small attempt to honor Avramović for all he has done for the economic profession, and for the young economists from Serbia and Yugoslavia who for years have had open doors at the World Bank and all over the world owing to his professional reputation. And for millions of people in countries that have received better development strategies because of his knowledge, effort and diagnostic instinct in complex macroeconomic policy issues, growth and development.

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