INTRODUCTION

The Global Financial Crisis

The Beginning of the End of the "Development" Agenda?

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BETWEEN THE COLLAPSE of Lehman Brothers in September 2008 and the September 2009 meeting of the G-20 heads of government in Pittsburgh, the global economic system could have been said to have gone through emotional and psychological states similar to those that follow a personal trauma: panic, denial, anger, and, at some point, adjustment to a new reality.

Three characteristics of the 2008–9 trauma make it memorable: it was truly global, bringing a decline in pre-crisis growth rates to virtually every country in the world; it began in and was blamed mostly on the United States, which for most of the previous 60 years was the acknowledged world economic champion on the grounds of its size, flexibility, and innovative and entrepreneurial strength. The United States and the mature democracies of Western Europe took the biggest hit—both in relative and absolute terms—than in most of the world's middle-income emerging market and low-income economies.

Nor is it only the trauma itself that was special, but the rapid and largely coordinated international response was also largely unprecedented: the emergence of the G-20, a new global club at the head of government level eclipsing the G-7 and including the rising emerging market economies of the developing world; a globally coordinated stimulus package with the G-20 at the steering wheel; and a new impetus for making the International

Monetary Fund (IMF), the World Bank, and the newly formed Financial Stability Board more representative and legitimate in a global economy suddenly and stunningly more interconnected and vulnerable.

The nature of the crisis itself and the response to it already seemed remarkable in the early spring of 2009, when my co-editor Francis Fukuyama and I asked the contributors of this book to reflect on its implications for ideas about and models of the growth and development process. Would the prevailing model of successful development based on free and open markets espoused under the general rubric of what is known as the Washington consensus survive in Asia, Africa, and Latin America? What effect would the crisis have on the economic policies the international financial institutions—where for decades the American or Anglo-Saxon model of capitalism had dominated—would support in emerging markets and other developing countries?

In this introductory essay, reflecting on the contributions of the authors to this volume, I discuss two themes. The first is the pre-crisis subtle shift in the prevailing model of capitalism in developing countries—away from orthodoxy or so-called market fundamentalism—that the crisis is likely to reinforce. On the one hand, globalization—that is the global integration of nation-based domestic economies through trade, investment, and capital flows and the movement of people and ideas—will proceed apace. Despite the risks the crisis illustrated of an integrated and interdependent global market, globalization is here to stay. That is so completely taken for granted by the authors in this book that the point itself is rarely mentioned and certainly not contested; instead the contributors focus largely on changes in domestic policies in response to the risks the global market poses. Similarly, market-driven capitalism will remain the economic model of choice at the domestic level in many countries. Though the American or Anglo-Saxon version of capitalism has fallen from the pedestal it occupied for much of the latter half of the twentieth century, the contributions in this volume reflect the expectation that the market model will continue to dominate domestic policymaking in the developing world.

On the other hand, there will be a shift—in mind-set and in practical form—from what might be called the "mostly free" market (hereafter free market) to a "more managed" market (hereafter managed market) version of capitalism. The free market model is based on the notion that though market failures exist, government interventions to address them may well make the situation worse. Regulation of financial or labor markets is likely to introduce distortions more costly than the problems market failures pose in the first place (Friedman 1968) and may even put at risk liberty and freedom of individuals in the political sphere (Hayek 1941). In the managed market version of capitalism (Stiglitz 1989; and generalized in World Bank

1993), market failures justify specific interventions by the state, but, when there is no market failure, the market is left to fluctuate with little or no intervention.

In developing countries, the flexibility and efficiency associated with the American free market model is likely to be traded away in favor of domestic policies and interventions meant to ensure greater resilience in the face of competitive pressures in a global economy and of globally inflicted traumas. That implies more state involvement in financial and labor markets, more emphasis on the role of the state in catalyzing innovation in production, and a new round of attention to the domestic social contract, with higher public spending on social insurance programs and on universal health and education programs. In some countries, it is likely to mean a new round of twenty-first-century "new" industrial policy in the developing world.

Whether the outcome of a shift to a managed market model will be welfare enhancing is not clear. It may depend in the long run on what developing country leaders conclude about governance. In a crisis-prone global system, is there a trade-off between rapid and effective implementation of policy—the China model—and the messier but more accountable and responsive arrangements of mature Western democracies?

The second theme is better framed as a question than a prediction. It is a theme that is implicit in many of the chapters though like the reality of globalization rarely explicit: Will the financial crisis, which is likely to be remembered as marking the end of Western economic dominance, be a trigger for a new twenty-first-century approach to collective action on global problems? It is widely remarked that America's unipolar moment has passed; the global financial crisis verified for any doubters the rise of China and the reality of a "multipolar" world—with the United States still a leading power but no longer able to manage global affairs alone or even with a few close allies. A decade hence, will the financial crisis be viewed as a watershed in attitudes and practices with respect to global economic governance? Will it trigger a meaningful increase in the influence of China, India, and Brazil at the International Monetary Fund and the World Bank? Will it mark the beginning of the development of a more robust multipolar "polity" to cope with and better exploit the global market system? Or will efforts at global collective action falter in the absence of a single dominant player? What better presages the future: the successful coordination of a global stimulus at the London G-20 summit in March 2009 or the near-failure of a United Nations–led negotiation of a climate agreement, rescued at the last minute in the form of an "accord" agreed among a handful of countries in Copenhagen in December of the same year?

Whether and how global collective action proceeds on key challenges—

coordinated regulation of the financial services industry, climate change management, international migration, and correction of the global imbalance problem that helped precipitate the crisis in the first place—will matter tremendously for most of today's developing countries. The fact of uncertainty itself—whether the global economy can be managed in the absence of a global government—is already affecting approaches to development, as several of the chapters in this volume amply illustrate. A future in which global collective action is effective implies ultimately that the very idea of a "development" agenda (and the implied asymmetry of power and influence between developed and developing countries) will yield to the idea of a shared "global" agenda—across nation-states that cooperate in their own interests and in the interest of shared global stability and prosperity.

The Crisis and Domestic Policy in Developing Countries

At the World Economic Forum in Davos, Switzerland, in January 2009, at the near height of the panic among the global private and public leaders, it was Prime Minister Vladimir Putin of Russia and Premier Wen Jiabao of China who were most adamant about allegiance to the capitalist model. By the beginning of 2010 it was the United States, Europe, and other advanced industrial economies that were suffering a loss of faith in the benefits of a mostly free market—as they contemplated enormous public debt, populist fervor for punishing the bankers, and the long-run implications for the balance between market and state of having intervened heavily in their own markets. Indeed in 2010 at Davos French President Nicolas Sarkozy, while acknowledging the value of markets, studded his speech with multiple pained allusions to the risks and costs of market-led globalization.

Even in the throes of the global panic—before the March 2009 London G-20 Summit—Russia and China, the former communist states, had made clear to their domestic and foreign investors that they had no intention of abandoning the capitalist model. The BRICS—shorthand for Brazil, Russia, China, and India—and other emerging markets, and the developing world as a group, saw the United States as perpetrator and epicenter of the crisis; why would they alter an approach that for them was producing not only rapid growth but a visible increase in their geopolitical influence? These four countries, after all, had "emerged" not only as economic but also as geopolitical powers during the latest round of globalization—the two decades since the end of the Cold War.

In chapter 3, which was written early in the crisis in April 2009, Arvind Subramanian makes the point that globalization and market capitalism were working for emerging markets; they could afford to be smug about what were seen as financial excesses—not fundamental to the capitalist

Table I.1. Estimates of percentage growth in GDP, constant prices

		IMF 2009 estimates	
Country	Year	*April 09*	*October 09*
Brazil	2009	–1.301	–0.662
	2010	2.165	3.464
China	2009	6.52	8.504
	2010	7.51	9.028
Indonesia	2009	2.495	3.99
	2010	3.5	4.752
India	2009	4.523	5.355
	2010	5.607	6.421
Russia	2009	–5.977	–7.545
	2010	0.5	1.535
Thailand	2009	–2.969	–3.456
	2010	1.039	3.708

Source: International Monetary Fund 2009.

model—in the United States. Liliana Rojas-Suarez points out in chapter 7 that most emerging market economies in Latin America are and will remain firmly wedded to the capitalist model. Despite their greater vulnerability—given their far greater dependence on foreign capital inflows compared with Asia—Brazil, and Peru, among others, were reasonably well prepared to weather the initial round of financial contagion from the north. They had learned from the financial crises they endured in the late 1990s the logic, given their low domestic savings rates and resulting dependence on external capital, of shoring up reserves and maintaining flexible exchange rates.

The ensuing eight months (writing in January 2010) have apparently vindicated those reactions in Asia and Latin America. Except in Eastern Europe (with its heavy reliance on capital inflows from its European western neighbors) and in Mexico (with its heavy reliance on the American market for its exports), the emerging markets were the first to recover and recovered not only sooner but also more robustly than expected. The IMF's upward revisions of its GDP growth estimates for 2009 and 2010 (made in early and late 2009) for many emerging economies are summarized in table I.1.

What are the implications for attitudes, ideas, and actual economic policy practices in developing countries? With the American version of capitalism in disrepute, both emerging market and low-income developing countries are likely to modify their approach to economic policy, and their modifications are likely to be tolerated and perhaps even applauded in the Washington institutions associated with the Washington consensus.

"Modification," not "reversal," is the appropriate word. The modifications will be neither dramatic nor universal across developing countries and will hardly represent a new capitalist "model." To some extent, modifications had already emerged as the norm prior to the crisis, as confidence grew within many developing countries benefiting from the pre-crisis boom that they could safely ignore "Washington" economic nostrums. Still in the next several years, modifications to the mainstream pre-crisis market model are likely to be more widely embraced and more deeply applied than they might have been without the crisis.

Modifications can be put into four categories:

1. The nail in the coffin of financial orthodoxy. The pre-crisis direction of avoiding premature opening of the capital account and of heavy reliance on regulatory and prudential "insurance" to gird economies against external financial shocks will be reinforced.
2. The vindication of progressive social and distributional policies as critical to reducing inequality and restoring social cohesion. A more European-style state approach to employment and social policy with greater attention to distributional measures.
3. New respect for "new" industrial policy. Greater admiration for and experiments with various forms of industrial policy—that is, engagement of the state as facilitator and coordinator, albeit in a twenty-first-century market-friendly manner, with an eye on the early success of the East Asian "tigers."
4. Increasing assertion, if not of the Chinese-style authoritarian state, then certainly of greater executive power and discretion in the implementation of economic policy, particularly in low-income countries, with an implicit nod to the impressive policy decision and implementation capability of China's top-down state system. For low-income countries, this could come at the risk of increasing tension with the traditional donors and the Washington institutions about any weakening of the rule of law and of the constraints on executive power associated with democracy and open political systems.

These four categories mirror to some extent the three capitalist models Mitchell Orenstein defines in chapter 1. However, they are also best seen in a particular light: the underlying rationale for them, post-crisis, is to increase the resilience of the economy and the protection of jobs and welfare in the face of external economic and other shocks. The global financial and economic crisis was a wake-up call—that periodic shocks and resulting uncertainty for individual countries are intrinsic to their integration into a globally integrated market. Vulnerability to poor policies and decisions elsewhere is a reality that emerging markets and low-income countries are

As the urgency of the crisis diminished and the domestic political costs of any particular action rose, collective action faltered. As before the crisis, for example, the global collective was unable to address effectively the global imbalances that had contributed to the crisis in the first place, with the United States fueling imports and its consumption and housing boom with fiscal deficits and loose monetary policy and the Chinese fueling its investment and export booms with an increasingly undervalued renminbi and limited spending on social programs at home. A year after the Lehman collapse, the IMF still had no political ability to impose any kind of discipline on the major creditor, China, or the major debtor, the United States. Collective action of any kind at the global level was completely stalled. Decisions by the two big economies continued to be driven by domestic political and short-run economic concerns and not by even a small dose of concern about the risks of the imbalances to global stability and thus to their own long-term interests.

The stimulus China so effectively implemented with the emphasis on investment not consumption was driven by the same domestic imperatives to sustain job creation and experts as its pre-crisis stance; meanwhile it halted the minimal appreciation of its currency it allowed before the crisis hit. In the United States, the accumulation of public debt and effect of quantitative easing on global interest rates was also perverse from the point of view of a global adjustment (though few would argue there was any alternative as there was and continues to be in China); in particular there was the risk that U.S. policy was creating conditions for a dangerous bubble in emerging markets, as people and institutions holding capital sought higher returns in those markets than they could get in the United States.

Similarly, there was no real progress in coordinating new financial sector rules that would minimize the excesses that contributed to the crisis and ensure that the industry could not exploit differences in standards across major markets. The overall outcome a year after the crisis was that the risk of periodic financial collapse had not been reduced, and the policies in response to the crisis were adding to the risk of a long period of sluggish growth in the industrialized countries—with, as Peter Heller rightly emphasizes in chapter 12, attendant increased risks to the developing countries that depend on external demand for jobs and income gains.

In short, any benign effect of the crisis in inspiring global collective action on global economic challenges, including development, seemed limited and short-lived one year later. Better representation of some advanced developing countries in the global economy club—the G-20—did not provoke a sea change in global governance or the ability of nations to cooperate on fundamental economic problems that affect prospects for growth and development worldwide. Perhaps it is not surprising that the new ideas about development provoked by the crisis and set out in this book focus more on domestic policy within developing countries than on the inadequacies in what might be called a still-incipient or fragile global "polity." Though the increasingly integrated and thus increasingly risk-prone global economy lives on, more than two years after the Lehman Brothers collapse, it was hard to see much progress in creation of a global polity that would enhance its benefits and minimize its risks.

Climate Change and Development

In other areas where there are more obvious and immediate trade-offs between short-term domestic interests and the long-run benefits of a more stable and sustainable global economy, there is even less reason for optimism. Consider climate change. Throughout 2009, nations struggled to negotiate a global climate treaty. The traditional post-WWII powers had to engage with and accommodate the demands of rising Asia and other emerging market economies to an unprecedented extent. They also had to grapple with the question of their financial responsibilities, in their own interests and in the interests of global prosperity, to developing countries for mitigation at home and for financing mitigation and adaptation abroad—at a time when their own fiscal problems were daunting given their exploding debt levels due to the crisis.

As it turns out, progress toward a climate change agreement was painfully slow during 2009; the global financial crisis was a constraint and a distraction, not an opportunity. The December 2009 accord agreed at Copenhagen was better than nothing but at its heart amounted to little more than the summing up of what individual countries, especially China and the United States, could manage politically at home.

Whether there will be more progress in 2010 and beyond (not only on climate but on terrorism, drug trafficking, pandemics, and other risks that compound the development challenge) increasingly depends on the stance of China, India, Brazil and other members of a newly named group of "advanced developing countries." On climate, China's stance is especially crucial. Pei in his chapter argues that China's response to the crisis was to adhere to "realism" with only modest signs of any move toward "international liberalism"; China still feels strategically vulnerable—for example in terms of access to raw materials—and is unlikely to assume any role in global stewardship anytime soon. A good example of its approach was its willingness to contribute to the financing of IMF crisis programs—but at a modest level and not with permanent funding—and its taking the position that additional contribution would be contingent on faster and more meaningful gains in its formal influence at the IMF.

Would a continuing failure of collective action to address climate change matter for development prospects around the world? Yes. The potential for unabated climate change to damage growth and destroy livelihoods in developing countries is huge; countries closer to the equator and more dependent on agriculture are particularly vulnerable (Cline 2007), and in general poorer people are less able to cope with the adjustments climate change will bring (Dasgupta, Laplante, Murray, and Wheeler 2009).[6]

The realities of climate change—including China's and other advanced developing countries own dramatically rising emissions due to their own rapid economic growth and population growth—and the mounting evidence of the high costs within China and other advanced developing countries—give them more incentives and more influence, as was evident in Copenhagen. These countries cannot afford to absent themselves from action, as their own contributions to greenhouse gas emissions assuming business-as-usual policy would alone be sufficient to put the planet at grave risk within a couple of decades (Wheeler and Ummel 2007). Nor can they insulate themselves from other global risks such as pandemics and nuclear proliferation. They are likely to insist in their own interests on more influence at major global institutions—and in the case of China, India, and Brazil, to see their own interests as increasingly aligned with sustaining stability and prosperity in the rest of the world.

Meanwhile, the United States and the Europeans may yet yield in their own interests to the pressure for more engagement of the advanced developing countries in the management of climate change initiatives, making climate the leading wedge of more fundamental institutional reforms. That is already the case with the shift from the G-8 to the G-20 as the key forum on global economic issues. At the institutional level, the new Climate Investment Funds are an example; these funds are housed at the World Bank and other multilateral banks and depend heavily still on contributions from the traditional donors. However their governance structure is already 50/50, in other words, 50 percent of votes are held by the developed and 50 percent by the developing world.

International Migration and Development

What does all this have to do with changes in ideas about development after the crisis? In a sense the crisis provided a wake-up call to the development community that the distinction between development issues and global issues is blurring. Already students of development were concerned with low-income fragile states because those states cannot be counted on to participate responsibly in dealing with cross-border problems. The crisis has driven home that the challenge to global collective action is bigger and more complicated. Emerging markets, especially China, may or may not take on global stewardship sooner or later. Even if they do, the traditional powers, especially the United States, may or may not be politically able to overcome their domestic problems sufficiently to cooperate even where their long-term prosperity depends on it.

The changing face of geopolitical power in the world, illustrated vividly by the crisis itself and its immediate aftermath, is bound to lead to a reframing of many development issues. Global problems and challenges will rise on the agenda, because they are more relevant than ever for developing countries' prospects for growth, and because some countries, while still poor, are economically big enough (and as Heller documents will be proportionally far bigger relative to industrialized countries by mid-century), are now systemically important and are play makers not just takers in the global system.

Michael Clemens' chapter 11 provides a stunning example of a development issue already being framed differently than it was several decades ago because of the deep structural changes in both industrialized and developing countries. He and other development economists were calling attention to the logic of greater migration from poor to rich countries before the crisis. The crisis provided a reminder that though the United States, Europe, Japan, and a few other industrialized countries still dominate the global economy, their decisions alone no longer guide its fate. Among other changes, they are going to be dependent on immigration to maintain any reasonable measure of economic growth and vitality at home as their populations age (and this will be true of China in another couple of decades). Accepting greater immigration will also be sensible as a measure to increase social and political stability in the Middle East, Africa, and other settings where rapid increases in the number of young people will require stupendous efforts by relatively weak governments to create jobs and provide urban services—emigration can provide a safety valve where that process does not proceed smoothly and can contribute mightily through the return of human and social capital (what is sometimes called *circular migration*) and the spread of common norms and ideas, as well as obviously through remittances. The logic of increased migration as the last liberalizing force for a more prosperous and equitable global economy—after trade in goods and services and capital flows—is inescapable. Whether any collective global measures to minimize its social costs and maximize its benefits in both sending and receiving countries will follow is not clear.

Changing Attitudes about Aid and the Aid System

Ideas about development aid were not discussed at the conference where the chapters in this book were first presented. In retrospect that is surprising, since perhaps a decade hence looking back it will be remarked that the financial crisis undid forever the idea of aid as a vehicle for the rich, who know how to grow their economies and transform their societies, to the poor who apparently (or so it was assumed) did not.

As with other issues, prior to the crisis development practitioners had been advocating a set of reforms of the aid system for at least two decades, focused heavily on better aligning assistance to low-income countries with those countries' own priorities, rather than with the own political, diplomatic, or commercial interests of donor nations. That reform was often expressed as "putting the country in the driver's seat." But for the most part the domestic politics of aid and bureaucratic constraints had largely frustrated good intentions, and the prevailing if implicit view was that the donors knew more about the programs and policies that would bring transformation and modernization to low-income countries than the countries' own leadership and citizens. Aid-recipient countries may have been in the driver's seat but they often had donor passengers grabbing the steering wheel or shouting instructions from the back seat.[7]

The crisis illustrated that the traditional donors might not be good drivers of their own cars. By the time of the crisis, some low-income countries were increasingly taking charge of the wheel anyway. Also foreign aid had become no longer a solely Western activity. China, India, and Brazil had become donors too and saw aid as one part of a larger set of relations in their own interests, including growing investment and trade ties with low-income Africa and Asia. And Korea, the host of the November 2010 G-20 summit, began wresting from the G-8 the development issue, bringing an emphasis on growth, investment, trade, and financial stability to the agenda, not just or mostly aid.

The effect of the crisis was to reinforce this democratization of the aid system and to reinforce the view that the traditional Western powers did not have all the answers anyway on how to develop. Perhaps looking back ten years hence, the crisis will mark the moment when the conception of aid for the two post–Cold War decades began to change—from aid as primarily charity (with a heavy focus since 2000 on aid as a key input to help poor countries achieve the Millennium Development Goals) to aid as one aspect of global public policy central to a safer and more prosperous global system (Severino and Ray 2009).

Conclusion

The global financial crisis provided a dramatic illustration of the risks of the global market. For developing countries it underlined their vulnerability not only to natural disasters and terms of trade shocks but also to a sudden economic collapse of the advanced industrial economies. The crisis will not induce developing countries to give up the opportunities for growth the global market provides; after all globalization and market capitalism were working well for them before the crisis and they recovered more quickly than the rich countries did from it. Adherence to the market and to capitalism will endure. But there will be a subtle shift to an increased role for the state in managing markets, with greater recourse to policies and mechanisms to minimize vulnerability and ensure robustness, even at the cost of maximum efficiency and flexibility. That will be obvious in the case of slower opening of capital accounts, but it will also affect labor and social policies and it could inspire—despite the risks, especially where governance is weak—increased interest in Asian-style "new" (rule-based) industrial policy. Traditional Western ideas about good politics may also lose their grip. The crisis and its aftermath may be seen in the developing world as an illustration of the apparent benefits of resorting in the manner of China to executive discretion in the interests of an effective state that can act quickly and effectively—in contrast to the checks and balances that delay and complicate policy implementation in typical consolidated democracies. In that sense, the traditional Western idea about political progress (my co-editor's "end of history") will no longer go unquestioned in the developing world.

The crisis may also mark an important watershed in whether and how the international community manages global challenges to its common welfare. In the new multipolar world, there is less likelihood of the kind of change wrought after World War II, when, with the United States the unrivaled lead in the Western world, came the creation of the United Nations, the World Bank, the International Monetary Fund, and what became the World Trade Organization. The current crisis will be remembered as marking the end of Western economic dominance. With the creation of the G-20 replacing the G-8, China and other emerging markets now sit at the table of global collective action. Will that finally trigger meaningful reform at the IMF, and real engagement of China and other emerging markets in decision making there and at the World Bank? Will it confound or advance the negotiation of a climate change treaty and a more sensible approach to maximizing the benefits of international migration for all countries and peoples? Will it mark the end of the twentieth-century understanding of aid? Will the low-income countries get a seat at the table too, and if so when? With new issues arising on the global development agenda, do we have an international system of institutions, rules, and habits in place to address the resulting challenges? As we pick up the pieces after the global financial crisis, there are new issues—changing power shifts, demography, and continuing financial and other risks in a global system—and the answer is far from clear.

Will we look back on the crisis as the beginning of the end of "development" as an idea in itself—as the development agenda ultimately merges in this century into a global agenda for cooperation across nations in the interests of a more just, sustainable, and equally shared prosperity? Well, probably not. But I hope readers will read this book with that question in mind.

Notes

I thank Frank Fukuyama, Seth Colby, Lawrence MacDonald, Moises Naim, and the authors of the essays in this book, especially Michael Clemens, Peter Heller and Mitchell Orenstein for their excellent comments on an earlier version of this introduction.

1. On February 19, 2010, the International Monetary Fund published a policy note on capital controls. Taxes and other restrictions on capital inflows, the IMF's economists wrote, can be helpful, and they constitute a "legitimate part" of policymakers' toolkit. Dani Rodrik wrote on his blog that this publication marked "the end of an era in finance." Available at http://rodrik.typepad.com/dani_rodriks_weblog/2010/03/the-end-of-an-era-in-finance.html
2. In his thoughtful comments on a draft of this chapter, Mitchell Orenstein suggested there is a change afoot about the objectives of development with the target of high growth rates no longer as widely shared. This was to some extent the case before the crisis, as the Millennium Development Goals agreed by more than 150 heads of state in 2000 would suggest, and see Sen (1999). However, I would say that developing country political leaders are still heavily focused on growth itself as the means to all the other good things that "development" implies.
3. At the conference, Tanzanian Central Bank Governor Benno Ndulu noted the potential benefits of development banks, and suggested the kinds of rules and constraints on their programs and policies, such as that would prevent the abuses that made them an economic liability in many developing countries in the 1970s and 1980s.
4. On the market failure due to risks that early adopters face, and the resulting logic of state interventions to encourage innovation, see Hausmann and Rodrik (2003).
5. On the popular understanding of the Washington consensus, and on the debate about its actual implementation, results and shortcomings, see Birdsall, de la Torre, and Valencia (forthcoming).

6. China's exchange rate policy is another example. A year after the financial crisis hit, in the absence of a rule-based arrangement on exchange rate management, or at least of prior agreed guidelines on good behavior as a basis for naming and shaming (in principle an IMF role; in fact a sign of the IMF's inability to discipline powerful members), protectionist pressures were rising in the United States, and wrangling between the two countries was creating a greater risk of disruptions to trade and investment flows around the world. To the extent the Chinese renminbi was undervalued in early 2010, it was undermining the competitiveness not only of the United States, but of many developing countries in Africa and Latin America whose rates were floating, as Subramanian (2010) among others argued.
7. For a discussion of the fundamental dilemma of making aid transfers from outside effective for development, and a summary of reform efforts and their limited traction, see Birdsall and Savedoff 2010.

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