Citation for published version: Grabel, Ilene. "Finance, development and social economics in view of the global crisis." In *The Elgar Companion to Social Economics*, edited by John B. David and Wilfred Dolfsma, 566-90. 2nd ed., 2015, Cheltenham: Edward Elgar.
DOI: http://dx.doi.org/10.4337/9781783478545.00046

FINANCE, DEVELOPMENT AND SOCIAL ECONOMICS

IN VIEW OF THE GLOBAL CRISIS

May 2014

Ilene Grabel*
Professor of International Finance
Josef Korbel School of International Studies
University of Denver
Denver, CO 80208, USA
Phone: 303/871-2546; FAX: 303-871-2456; E-mail: igrabel@du.edu

Postal address through January 2015: 5614 Montview Blvd.; Denver, CO 80207; USA

* I thank George DeMartino and the book's editors for their useful suggestions.

Social economics entails a commitment to a range of inter-linked principles that make it particularly appropriate as a basis for thinking critically but also productively about development. Social economics is marked by a commitment to the value-ladeness of all economic inquiry, an ethical imperative to engage in ameliorative practice, appreciation of the embeddedness of the economy (and economic actors) in social relations and institutions, and to holistic theorizing. Now more than ever, these commitments are particularly vital as we seek to theorize and design policy interventions that can bring about basic economic justice in the developing world in the face of widening global inequality in wealth ownership, incomes, and meaningful opportunities. These long-standing problems have been made far more severe by the unfolding fallout of the global financial crisis on the world's poor. In this context it is critically important to recall that central to the social economics tradition is the imperative to study ways of strengthening the weak and assisting the poor (Dugger, 1977:300; DeMartino 2001), wherever they reside. The internationalism of this commitment to improving the circumstances of the poor flows directly from the foundational constructs of interconnectedness and holism, as well as from the understanding of economics as a fundamentally moral science directed to social improvement.

For many working within this tradition, social economics entails an understanding of economists qua activists and educators with an ethical obligation to help society understand its possible alternative paths (Waters 1990:102). This understanding of the profession, however, does not imply that the economist is an omniscient figure standing above other social actors, as is the case in the dominant mainstream (i.e., neoclassical) approach (Lutz 1999:105). The theoretical precepts and commitments of social economics enable those working within this tradition to shed light on contemporary debates concerning the spillover effects of policies in wealthy countries on conditions in developing countries and over the efficacy of policies adopted by developing countries. The work of Nobel Laureates Gunnar Myrdal and Amartya Sen and the work of Albert Hirschman stand as notable exemplars of social economic research in development. The work of John Kenneth Galbraith and Karl Polanyi, while not largely focused on poorer economies, also offers key theoretical and normative frames that are of immense use to development economists working in the social economics tradition.

The social economics principles and commitments described above bear with particular force on the matter of the connections between global finance and economic development. Over the past several decades, mainstream economic theorists and policy entrepreneurs have presented an unambiguous, simplistic account of the means by which financial flows can be put in service of development. The general contours of this prescription, which entails a rather steadfast commitment to "financial liberalization," are fairly well known. But this prescription has met with repeated failures across the developing world, and among the post-socialist transitional economies. As a consequence, the prescription has been amended repeatedly in order to account for these failures without sacrificing the economic science that founds the prescription, or its most central features. In this sense, the ideas and practice of mainstream economists have proven remarkably (even shockingly) resilient over time. Even the global financial crisis appears not to have dealt a serious blow to either the confidence or the hubris with which neoclassical economists advance the case for financial liberalization in the developing world. That said, it is notable that we do today find evidence of some change in the mainstream financial liberalization prescription as concerns the issue of whether international capital flows to the developing world should be subject to some type of regulation.

In this essay I plan to explore the contribution of social economics to the matter of finance and development. I will do this in several steps. First, I will present a fairly brief account of the mainstream neoclassical approach to finance and trace through its historical development since the early 1970s. In the next substantive section of the paper I will attempt to demonstrate that the failures of this approach stemmed from key weaknesses in the neoclassical approach. Among other things, I will argue that this approach fails to recognize the embeddedness of financial arrangements in broader political and social contexts, and that these contexts shape decisively the consequences that these arrangements have on economic outcomes. Moreover, I will argue that the refusal of this approach to recognize the interpenetration of the normative and the positive leaves it proponents in the grasp of ideological forces that they do not themselves recognize, which leaves them with no avenue but to reach repeatedly for ad hoc adjustments to the theory to which they adhere rather than look beyond its confines for alternative explanations of events and sources of policy prescription.

The paper then turns to a range of important heterodox contributions to the debate over finance and development that have emerged in the wake of the repeated and consequential failures of the financial liberalization prescription. I will focus in this section on contributions that in some way or other draw on themes (and presumptions) that are central to social economics. We will find that many of these contributions, coming as they do from the ranks of institutionalists, post-Keynesians, Marxists and other traditions that share something with social economics, emphasize the connections between economic and non-economic institutions and practices, and they foreground normative goals that reach far beyond (and often reject) the neoclassical commitment to efficiency. We will find in these accounts particular concern for those worst off, and the ways in which financial arrangements can either exacerbate or work to ameliorate economic inequality. We will also find a concern with the way in which liberalized financial systems in the developing world privilege the "political voice" (in the sense of Hirschman 1986) of some external actors and domestic rentiers over others, and consequently constrain national policy autonomy; a rejection of grand, homogenizing narratives that seek to resolve problems of financial development with a single "magic bullet" (Hirschman 1965, 1970); and broader concerns about fairness, "social balance," and the ways that the public interest can be served by the restraint of private power through appropriate regulatory policy (a theme that runs though the work of Galbraith, e.g., 1958, see Widmaier, 2014).

1. State of the Literature: The Evolution of the Financial Liberalization Ideal[1]

[1] This section draws heavily on Grabel, 1994, 1995, 1996a, 2000, 2003a, 2003b, 2007; Epstein and Grabel 2006; Chang and Grabel 2004/2014. See these works for further discussion and citations to relevant literature.

[2] Writing in finance and development certainly predates the 1970s, but serious study in this area only began

The neoclassical approach to finance and development has predominated in the academy and policy circles for several decades. During that time advocates of this approach have offered significant amendments to the initial theory and prescription. These are viewed simply as marking the natural evolution of a maturing science that only began to explore the connections between finance and development in a systematic way in the early 1970s.[2]

First Generation Financial Liberalization Theory: The McKinnon-Shaw Hypothesis

Following the publication of what became seminal works by Ronald McKinnon and Edward Shaw (published separately in 1973), neoclassical economists began to argue that active regulation of financial systems in accordance with a state's development goals was counterproductive. This regulation—which they notably termed "financial repression"—was the norm under import-substitution industrialization strategies from the end of WWII until the mid-to-late 1970s. Financial systems were dominated by banks whose decisions were influenced by governments (rather than by capital markets) and were characterized by some combination of controls on interest and foreign exchange rates and credit allocation, state imposition of non-interest bearing reserve requirements, restrictions on the presence of foreign financial institutions and investors, and controls over international private capital inflows and outflows.

In the view of McKinnon and Shaw and their theoretical descendants, active state involvement in the financial sector has a number of adverse consequences. The maintenance of artificially low interest rates encourages domestic savers to hold funds abroad, and encourages current consumption rather than saving in domestic financial institutions. This aggravates inflationary pressures. Moreover, low savings rates also suppress bank lending activity. Thus, financial repression retards domestic investment and impedes employment and economic growth. In this account, then, economic stagnation and poverty are linked rather directly back to financial policy regimes that are ostensibly designed to promote development.

Neoclassical economists extended the critique of financial repression beyond these macroeconomic matters. They maintain that active state involvement in finance fragments domestic financial markets, with only a small segment of politically-connected borrowers gaining access to scarce low-cost credit. Disenfranchised borrowers must resort to unregulated, "informal" lenders who often charge exorbitant interest rates, or otherwise have to manage in the face of unmet needs for capital. Entrepreneurship, employment-creation, and growth thereby suffer. These negative effects are disproportionately experienced by the poor as the burden of scarce credit hits them hardest since they rarely have access to alternative, lower-cost sources of credit, such as the finance available on international capital markets or from international banks.

In view of the above, neoclassical economists from McKinnon and Shaw onward argued that developing countries must "liberalize" their domestic financial systems. A

[2] Writing in finance and development certainly predates the 1970s, but serious study in this area only began in the early 1970s with the publication of McKinnon and Shaw's work.

liberalized financial system with a competitive capital market is seen to be central to the promotion of high levels of savings, investment, employment, productivity, foreign capital inflows, and growth. From this perspective, liberalized systems serve the interests of the poor and the disenfranchised (as well as other groups) by increasing access to capital with attendant benefits for employment, investment and growth.

Neoclassical economists maintain that domestic financial liberalization not only increases the level of investment, but also increases its efficiency by allocating funds across investment projects according to rate-of-return criteria and via what are seen as objective or "arms-length" practices. Domestic financial liberalization is seen to improve the overall efficiency of the financial system by eliminating the wasteful and corrupt practices that flourish under financial regulation, and by subjecting borrowers and firm managers to market discipline. Market discipline and a reduction in corruption are seen to improve the operating performance of financial institutions, and consequently enhance the prospects for financial stability.

In the neoclassical view, liberalization has other benefits. Not least, it encourages financial innovation, which reduces transactions costs while enhancing allocational efficiency. Investment and financial stability are promoted by new opportunities to diversify and disperse risk. By increasing the availability of finance, liberalization also eliminates the need for informal finance, and allows borrowers to utilize forms of finance that are most appropriate to their investment project.

Neoclassical economists see the finance provided through internationally integrated, liberal capital markets as preferable to bank loans because the former is understood to have a greater ability to disperse risk, is allocated according to efficiency and performance criteria, is cheaper than other forms of external finance (such as bank loans), and is highly liquid. The liquidity attribute is seen as especially desirable because it places firm managers under the threat of investor exit (or higher capital costs) if they under-perform. Internationally integrated capital markets are also seen to give the public and private sector access to capital and other resources (such as technology) that are not being generated domestically. Thus, neoclassical economists maintain that an increase in private capital inflows will inaugurate a virtuous cycle by increasing the nation's capital stock, productivity, investment, growth and employment. All of these benefits redound to the benefit of society as a whole. But the poor may benefit particularly because higher levels of investment increase employment, especially in the technologically-advanced firms that are financed by foreign investment. Sales of government bonds to foreign investors increase the resources available for public expenditure since these are rather scant thanks to problems with tax collection and the myriad demands on budgets.

Internationally integrated capital markets are also seen by neoclassical economists to increase efficiency and policy discipline. The need to attract private capital flows and the threat of capital flight are powerful incentives for the government and firms to maintain international standards for "good policy," macroeconomic performance, and corporate governance. Specifically, neoclassical economists maintain that governments seeking to attract international private capital flows are more likely to pursue anti-inflationary policies and anti-corruption measures because foreign investors value price stability, transparency, and the rule of law. The discipline that is enforced by financial integration is essential because of the commonly held view that public officials are inherently corrupt and/or incompetent (everywhere, but especially in developing countries). Note also that the poor are seen to benefit from stable prices and transparency since they are less able than the rich to hedge against inflation or extract benefits from corrupt regimes.

Out of the Laboratory and into the Real World

What became known as the McKinnon-Shaw hypothesis proved to be immediately and immensely influential, not least because of the rhetorical power attached to the concepts of "repression" and "liberalization." By the early 1980s, the financial systems of many developing countries had been abruptly and radically liberalized in "shock therapy" programs. Among the most ambitious and well studied efforts to operationalize the McKinnon-Shaw hypothesis were the Southern Cone countries of South America. Uruguay experimented with liberalization from 1973 to 1983, Chile from 1974/5 to 1983, and Argentina from 1976/7 to 1983. Implementation differed across countries with respect to the sequence of liberalization. For example, Chile liberalized trade prior to finance, while Uruguay liberalized in the reverse order. In each of these cases, however, full financial liberalization occurred swiftly, ranging from several months to less than two years. Rarely are social scientists afforded a laboratory in which to test their hypotheses in ways that call to mind Hirschman's (1965, 1970) characterization of such efforts in the long history of development economics. But in a space of ten years, McKinnon-Shaw witnessed several thorough practical tests of their ideas.

Within five years of their initial liberalization, countries in the Southern Cone experienced severe financial and macroeconomic difficulties. With soaring interest rates, waves of bank failures and other bankruptcies, extreme asset price volatility and extensive loan defaults, the real sector entered deep and prolonged recessions. Widespread loan defaults and bank distress necessitated massive bailouts of struggling financial institutions. Moreover, the assumed benefits of financial liberalization (e.g., increases in savings and investment, reductions in capital flight) failed to materialize.

Post Hoc Theoretical Revisionism in the Sequencing Argument

While these events seemed to call into question the liberalization prescription, neoclassical theorists remained committed to it. In what I have elsewhere termed "neoclassical revisionism," these theorists modified the original thesis to take account of what they now recognized as troublesome and previously overlooked attributes of developing economies (cf., McKinnon 1973 with 1989 and 1991). Through these post hoc theoretical extensions (including sequencing, credibility and coherence, all of which are examined below), the liberalization prescription was repeatedly rescued from empirical refutation.

In self-critical assessments of the original prescription, neoclassical economists (including McKinnon, 1989) concluded that sudden liberalization was not viable. A consensus emerged that a "second-best" strategy had to be found, one that was more attuned to the features of developing country economies. Neoclassical theorists began to incorporate new developments in macroeconomic theory--which focused on the uniqueness of financial markets--into their ex-post assessments of the early experiences with financial liberalization. For instance, neoclassical economists began to take seriously new theoretical work that argued that high real interest rates could exacerbate moral hazard and adverse selection in lending. By the mid-1980s, neoclassical theory also reflected the insight that financial markets were unique in their ability to adjust instantaneously to changes in sentiments, information, etc. Goods markets, on the other hand, adjusted sluggishly. Thus, given these differences, financial markets could not be reformed in the same manner and in the same instance as other markets. Instead, a broad-based program of economic reform had to be sequenced. Successful reform of the real sector came to be seen as a prerequisite for financial reform: firewalls--in the form of temporary financial repression--had to be maintained during the first stage of liberalization in order to insulate the economy from financial disruptions.

But this insight about divergent adjustment speeds produced another; namely, that different aspects of reform programs may work at cross-purposes. This conflict has been termed the "competition of instruments." For present purposes the most important competition of instruments relates to the "Dutch disease effect" whereby the real currency appreciation generated by the opening of the capital account undermines the competitiveness of domestic goods, causing a deterioration of the current account. The second-best liberalization strategy requires that trade liberalization occur in the context of an appropriate degree of temporary financial repression. During a transition period following trade liberalization, the capital account is to be managed through the retention of capital controls (especially limiting inflows). Finally, the capital account is to be opened only after domestic financial markets have been liberalized.

Advocates of sequencing generally find their case strengthened following financial crises, as these are seen as a consequence of premature external financial liberalization. Indeed, had the East Asian financial crisis of 1997-98 not intervened, the IMF was poised to modify Article 6 of its Articles of Agreement to make the liberalization of international private capital flows a central purpose of the Fund and to extend its jurisdiction to capital movements.

The Asian financial crisis did cause some neoclassical economists to step away from a blanket endorsement of external financial liberalization. Following the East Asian crisis, some studies, even by IMF staff, acknowledged that certain techniques to manage international capital flows can prevent undue financial volatility, *provided* that capital controls are temporary and that the rest of the economy is liberalized (Prasad, Rogoff, Wei, Kose, 2003; Kuczynski and Williamson, 2003). However, even in the more nuanced, cautious views held by some neoclassical economists in the post-Asian crisis context, there remained a strong commitment to the idea that liberalization is the *ultimate goal* for *all* developing countries—it is only a question of managing the timing appropriately.

Other neoclassical economists remained unconvinced by the arguments advanced in favor of sequencing. The rejection of sequencing stemmed from the view that this strategy introduced serious problems that threatened the entire reform enterprise (such as the possibility that it gives time for interest groups to mobilize to block liberalization). Those neoclassical economists who nevertheless continued to argue for sequencing tended to add several non-economic factors to the menu of prerequisites (e.g., governance and institutions, the rule of law, and property rights), insights that continue to inflect neoclassical development theory today.

Revisionism Redux: The Credibility and Coherence Arguments

The financial liberalization prescription was modified further in the mid- to late-1980s to take into account the policy environment in which liberalization is to occur. This new focus is manifested in discussions of the appropriate macroeconomic conditions for liberalization. Of particular importance is the determination whether the liberalization program is credible (see Grabel, 2000 on credibility). At issue are the perceptions of the economic actors in the affected economy concerning the viability of the proposed policies. An inconsistent liberalization program is one that the public believes is likely to be reversed. Such policies are likely to be sabotaged, as the public engages in behavior (e.g., capital flight) that undermines the success of the program.

How could economic policy be developed in this new, complex environment, in which the success of policy depends critically on agents' perceptions of its viability? There seemed to be two choices: one could shade policy toward existing popular sentiments; or, one could implement "correct" policy, one that respected the principles of neoclassical theory. The former option was ruled out of court on the simple grounds that incorrect policy could not possibly retain credibility in the wake of the disruptions that would inevitably attend it. The latter, on the other hand, would induce credibility as it proved itself uniquely capable of promoting development, even if it were unpopular in the short run. Hence, a correctly-specified policy would impel rational agents to act "properly," at once achieving growth and the credibility necessary to sustain itself. On this account, financial liberalization could only be credibly implemented in an economy in which budget deficits are closed, inflation is tamed, and in which exchange rates reflect fundamentals (McKinnon, 1991:ch.3).

In the years immediately prior to the global financial crisis, neoclassical economists and members of the policy community introduced another adjustment to their case for financial liberalization in the developing world. This involved the role of policy coherence in explaining the success or failure of liberalization programs (see Grabel, 2007 on coherence). The intuition behind the concept of policy coherence is simple: any individual economic policy (such as financial liberalization) will only yield beneficial outcomes if it is nested in a broader policy environment that is consistent or coherent with its objectives. From this perspective, then, previous efforts to liberalize finance failed to promote growth because of inconsistencies between financial and other economic and social policies. Discussions of policy coherence pointed neoclassical theory back toward McKinnon and Shaw’s early work insofar as they provided a theoretical justification for across-the-board and abrupt liberalization in developing economies.

The disappointing experiences with financial liberalization in the developing world over the last several decades has done little to shake the confidence of many economists in the soundness of their totalizing vision. The periodic theoretical amendments to the neoclassical approach have, if anything, strengthened the approach (in the eyes of its proponents) by giving the impression of deep theoretical modification in light empirical experience.

The early moments of the global crisis initially appeared to offer a fundamental challenge to the staunchest defenders of financial liberalization since the crisis originated in the US' financial system, a system that epitomized the neoclassical ideal. But the "Keynesian moment" that the crisis initially inaugurated proved to be fleeting. From the vantage point of several years into the crisis, neoclassical economics appears largely unchanged (Farrell and Quiggen 2012; Mirowski 2010). The only significant and apparently "sticky" change that the global crisis has induced concerns the matter of capital controls in developing countries. Capital controls appear to have been legitimized as a policy tool during the global crisis, in part—and I emphasize here, only in part—because the ideas of neoclassical economists on this instrument have changed, albeit unevenly and with apparent discomfort (see Grabel 2011, 2014, for extensive discussion of capital controls and the global crisis). However, the tepid legitimation of a policy instrument that was for so long associated with misguided Keynesian or dirigiste approaches sits rather uneasily within the broader corpus of neoclassical theory. Indeed, the theoretical adjustment imparts to present-day economic theory a notable incoherence that is unsettling to minds that are trained to construct and impose unified, internally consistent economic models on the world (see Grabel 2011).

2. Social Economic Responses: Main Issues and Policy Implications

What many neoclassical theorists view as a simple and altogether desirable evolution of financial liberalization theory, social economists (and those working within other heterodox traditions) recognize as something else: as a series of desperate theoretical adjustments designed to prevent the disconfirmation and even collapse of the financial liberalization agenda. The effect of these adjustments is to repress—to block the realization that would otherwise emerge that the financial liberalization mission was flawed from the start and has by now proven its deficiencies beyond the academy in the real world of development practice (let alone in wealthy countries as the global financial crisis reveals quite plainly).

In what follows, I subject the neoclassical case for financial liberalization in the developing world to critical scrutiny from the perspective of social economics and other heterodox traditions. To date, social economists have not studied financial liberalization in the developing world.[3] From the social economic perspective, I identify two important

[3] However, some social economists have examined broader matters that bear on the matter at hand—e.g., see Lutz (1999:ch.9), Thanawala (1996), Mobekk and Spyrou (2002), and Rider (1996) on liberalization, privatization and structural adjustment in the developing world; see Currie (2006) on financial crises, and Hayford and Milliaris (2010) on the global crisis, monetary policy, and financial innovation; see Zalewski (2010) on the securitization of lending and associated social distancing in banking; see Hayes (2013) on the

failings with the liberalization prescription. First, the frequent resort to revisionism lends an ideological character to the neoclassical case for liberalization. Second, liberalization's advocates fail to appreciate the importance of national specificities, path dependence and the embeddedness of actors and institutions (cf. Easterly 2014). This leads them to conclude that the failure of this prescription stems from improper implementation or bad luck rather than from the inappropriateness of the model itself and from the futility of efforts to graft it onto diverse national contexts. I will also show that other heterodox traditions, particularly post-Keynesian economics, identify additional failings with the neoclassical case that are resonant with the normative commitments of social economics.

Revisionism as Ideology

The refusal of the neoclassical approach to recognize the interpenetration of the normative and the positive leaves its proponents in the grasp of ideological forces that they do not themselves recognize, which leaves them with no avenue but to reach for ad hoc adjustments to the theory to which they adhere rather than look beyond its confines for alternative explanations of events and sources of policy prescription. For this reason, the neoclassical case for financial liberalization has been subject to several bouts of revisionism over the last several decades, without ever challenging the basic myth underlying all of this that liberalized finance is the ideal to which developing countries must aspire, no matter the cost.

It can always be asserted ex-post that the environment in which financial liberalization failed was not credible or that financial liberalization policy was not consistent (i.e., coherent) with other policies. This has been the neoclassical default in the face of failure, which is routinely explained away by the presence of all manner of distortions that characterize the economy, by political uncertainty, and by the public's lack of confidence in the capacity of policymakers.

Polanyi (1944) wrote precisely of this phenomenon when discussing the propensity of advocates of free markets (in general) to explain their failure as stemming from insufficient liberalization rather than from the failure of markets themselves:

> "Its apologists [i.e., defenders of market liberalization] are repeating in endless variations that but for the policies advocated by its critics, liberalism would have delivered the goods; that not the competitive system and the self-regulating market, but interference with that system and interventions with that market are responsible for our ills" (p. 143).

This strategy leaves the neoclassical argument for financial liberalization immune to any substantive empirical refutation. It is the impossibility of testing (and therefore rejecting) its central propositions, combined with its self understanding as the uniquely adequate and objective positive economic science, that imparts to this approach its ideological content.

---

statement on international financial and monetary system reform issued by the Vatican's Pontifical Council for Justice and Peace in 2011; and see DeMartino (2001) for a critique of the normative foundations of global neoliberalism.

The ideological content of the neoclassical case for financial liberalization emerges even more directly in the credibility argument. A proposition stating that credible policies are more likely to succeed is, on its face, innocuous. But upon closer examination we see that this proposition carries with it a particularly ideological and troubling claim about the unique truthfulness of the neoclassical case.

The credibility thesis can be reduced to a simple set of propositions: 1) An economic policy will garner credibility only to the degree that it is likely to survive; 2) An economic policy is likely to survive only to the degree that it attains its stated objectives; 3) An economic policy is likely to attain its stated objectives only to the degree that it reflects and operationalizes the true theory of market economies; 4) A policy reflects the true theory of market economies only to the degree that it is neoclassical. The exclusionary, dissent-suppressing maneuver that has been undertaken here is captured in propositions three and four. Non-neoclassical economic theories are ruled out of court on the grounds that they could not possibly meet the unforgiving "credibility" test, because they could not possibly be true. Hence, policy regimes founded upon non-neoclassical theories must collapse, with deleterious social and economic consequences.

The recent effort to incorporate coherence into examinations of policy regimes shares with the credibility literature a strong ideological content. In principle, the concept of coherence (like credibility) is empty of substantive content; that is, coherence does not in and of itself entail a commitment to any particular kind of policy regime. Hence, deployment of this concept can be entirely benign. But if the concept is intrinsically open-ended, in practice it has come to be understood by neoclassical economists and by the key multilateral institutions/organizations (namely, the International Monetary Fund, World Bank and World Trade Organization) in a way that biases policy prescription in a very particular direction. The concept of policy coherence has been invoked to legitimize ambitious and comprehensive liberalization schemes. It is used to validate the common, dangerous and incorrect view that neo-liberal policies represent the only viable path to development for all countries. Like credibility, then, it serves to close off consideration of any and all other paths to development.

That policy coherence must entail liberalization has been contradicted by historical and cross-country experience (see Chang 2002). Chang and Grabel (2004/2014) (and many other scholars) demonstrate that there exist multiple paths to development, and that high levels of economic growth that are feasible, sustainable and stable can be achieved via an array of heterogeneous strategies. While any one country's policies must exhibit a degree of internal coherence in order to succeed, the evidence is clear that the alternative policy regimes need not cohere around liberalization.

Embeddedness, Resilience, Path Dependence and the Failure of Financial Liberalization

From the perspective of social economics, there are a number of related factors that help to explain the failures of financial liberalization in the developing world. The neoclassical approach refuses the idea that financial arrangements and financial actors are embedded in a constellation of historically-contingent political and social relationships that may enable development along all sorts of non-neoliberal paths. This view explains why neoclassical economists approach the task of financial reform as if it merely involves grafting the liberalized financial model that predominates in the USA and the UK onto the economies of the developing world. But the matter of financial reform is not nearly as uncomplicated as neoclassical theory suggests.

Social economics foregrounds the concepts of social embeddedness, institutional resilience/stickiness and path dependence as key attributes of all economies, and hence as critical factors that must be taken account of by those considering structural reform programs. These understandings suggest that any one program of financial reform cannot be expected to perform uniformly across diverse national contexts, and that any effort to transplant financial arrangements will be fraught with all manner of unintended and undesirable consequences. In particular, institutional stickiness helps to account for the fact that new market-oriented financial institutions tend to function eerily like their dirigiste predecessors following liberalization, and that old, dysfunctional behaviors (such as corruption) re-appear in new forms in a reformed environment. Finally, the recognition of specificity and embeddedness in social economics implies that a uniform set of financial arrangements could not possibly be viable, let alone suitable, for all countries at all times.

Heterodox Views[4]

Among heterodox traditions, post-Keynesians have been most directly engaged in discussions of financial liberalization in developing countries. On the most abstract theoretical level, these economists argue that liberalized markets are not efficient in the ways that neoclassical theory claims. These critics argue that there is no demonstrated empirical or historical relationship between a market-based allocation of capital and satisfaction of growth and social objectives. This is not surprising since the allocation of capital in market-based systems relies on private financial returns as the singular yardstick of investment success. The private financial return on an investment can be quite different from its social return, where the latter refers to the promotion of important social goals (such as poverty reduction, equality and economic security) not reducible to economic efficiency narrowly defined.

Despite the claims of neoclassical economists, a market-based allocation of capital is not a magic cure for inefficiency, waste, and corruption. Liberalization frequently changes the form, but not the level, of corruption or inefficiency. The situation of Russia after financial liberalization exemplifies this point, but the country is by no means exceptional in this regard (on Russia, see Kotz 1997). For instance, research on Nigeria, South Korea, and South America describes quite persuasively the corruption that so often flourishes following financial liberalization (Crotty and Lee 2004; Lewis and Stein 1997). Thus, financial liberalization does not resolve the problems of corruption and the lack of transparency that frequently operate to the detriment of the poor.

Liberalized financial markets are at least as apt as governments to allocate capital in an inefficient, wasteful or developmentally unproductive manner. In many developing

[4] Discussion in this subsection draws heavily on work cited in fn1, especially Grabel (1995, 2003a, 2003b).

countries, market-based allocations of domestic capital and increased access to international flows following liberalization financed speculation in commercial real estate and the stock market, the creation of excess capacity in certain sectors, and allowed domestic banks and investors to take on positions of excessive leverage, often involving currency and locational mismatches that culminate in crises.

Neoclassical economists often herald the disciplining effects of capital markets, arguing that the threat of investor exit and corporate takeovers creates pressure to improve corporate governance. We know that the exit and takeover mechanisms are well developed in the markets of the USA and UK. But there is simply no evidence to support the case that these mechanisms have, on balance, been beneficial. Indeed, numerous studies find that the threat of investor exit shortens the time horizon of managers, and takeovers have increased concentration and induced job losses. The case that developing country firms and consumers benefit from enhancing possibilities for exit and takeover by liberalizing financial markets is therefore without merit.

There is a large body of empirical evidence demonstrating that domestic financial liberalization has unambiguously failed to deliver most of the rewards claimed by its proponents (see Grabel 2003b, and references therein). For instance, domestic savings have not responded positively to domestic financial liberalization. Moreover, the liberalization of domestic and international financial flows has not promoted long-term investment in the types of projects or sectors that are central to development and to the amelioration of social ills, such as unemployment, poverty, and inequality. Financial liberalization has created the climate, opportunity and incentives for investment in speculative activities and a focus on short-term financial as opposed to long-term developmental returns. Granted, the creation of a speculative bubble may temporarily result in an increase in investment and overall economic activity. But an unsustainable and financially fragile environment or what Grabel (1995) terms "speculation-led development" is hardly in the long-term interest of developing countries. Such an environment certainly does not improve the situation of the poor—indeed it worsens their conditions of life, as we will see.

One channel by which the speculation-led development induced by financial liberalization worsens the situation of the poor is by increasing income and wealth inequality and by aggravating existing disparities in political and economic power. This is because only a very small proportion of the population is situated to exploit the opportunities for speculative gain available in a liberalized financial environment. Speculation-led development often creates a small class of rentiers who maintain greater ties to financial markets abroad than to those in their own country, and it is also associated with a shift in political and economic power from non-financial to financial actors. In such an environment, the financial community and powerful external actors such as the IMF become the anointed arbiters of the "national interest" and the judges of precisely what constitutes sound, sustainable economic and social policies (Grabel 2003c). This means that macroeconomic policies that advance the interests of the financial community (such as those that promote low inflation, high interest rates, fiscal restraint, etc) are justified on the basis that they serve the broader public interest when this is simply not the case.

The range of acceptable policy options is further constrained by the threat or actuality of capital flight, itself made possible by the liberalization of international capital flows. This dynamic of "constrained policy autonomy" (Grabel 1996b) means that the political voice of rentiers and the IMF are empowered over those of other social actors (such as the poor and middle-class, export-oriented industrialists, and agricultural producers) in discussions of macroeconomic policy. In practice, this means that macroeconomic policies exhibit a restrictive bias that favors rentiers and the IMF. Research by Braunstein and Heintz (2006) shows that such policies have a negative effect on the poor and women.

The speculation-led development induced by financial liberalization also worsens the situation of the poor through its effect on financial fragility, and ultimately on the prevalence of currency, banking and generalized financial crises. There is now a large body of unambiguous empirical evidence that shows that the liberalization of domestic and international financial flows is strongly associated with banking, currency and financial crises (see Grabel 2003b, and references therein; Weller 2001). Since the Southern Cone crises of the mid-1970s, we have seen financial crises on the heels of liberalization in a great many developing countries, such as Russia, Nigeria, Jamaica, Korea, Thailand, Indonesia, Mexico, and Turkey.

Contrary to the neoclassical view, the increase in liquidity that is associated with liberalization and the creation of internationally-integrated capital markets increases the level of financial and economic volatility. In addition, the removal of restrictions on international private capital inflows and outflows introduces the possibility of unwelcome, large capital inflows that cause the domestic currency to appreciate (a phenomenon known as the "Dutch disease"), or alternatively of sudden, large capital outflows (i.e., capital flight) that place the domestic currency under pressure to depreciate. Capital flight often induces a vicious cycle of additional flight and currency depreciation, debt-service difficulties and reductions in stock (or other asset) values. In this manner, capital flight introduces or aggravates existing macroeconomic vulnerabilities and financial instability. These can culminate in a financial crisis, which as we have seen, impairs economic performance and living standards (particularly for the poor and the politically weak) and often provides a channel for increased external and rentier influence over domestic decision-making.

Paradoxically, the global financial crisis has highlighted the risks for some (especially large, growing) developing countries not of capital flight, but rather of economic success coupled with capital flow liberalization. On several occasions, countries such as Brazil, Malaysia, Indonesia, and South Korea served as attractive safe havens for investors exiting the low interest rate environment of the US and the Eurozone economies. Large capital inflows aggravated asset bubbles and inflationary pressures, while also inducing unwelcome currency appreciations.

Numerous recent cross-country and historical studies demonstrate conclusively that there is no reliable empirical relationship between the liberalization of international capital flows and performance in terms of inflation, growth or investment in developing countries (e.g., Eichengreen 2001). Moreover, studies also show that the liberalization of international capital flows is associated with increases in poverty and inequality, though the authors of these studies take care to point out that it is difficult to isolate the negative effects of financial liberalization from those associated with broader programs of economic liberalization (involving, for instance, the simultaneous adoption of trade and labor market liberalization). With this caveat it mind, it is worth noting that Weller and Hersh (2004) find that capital and current account liberalization hurt the poor in developing countries in the short run (see Epstein and Grabel 2006, for further discussion). The poor are harmed by international financial liberalization through a chain of related effects that have been established in several studies. Increased short-term international financial flows (especially portfolio flows) are often associated with a greater chance of financial crisis (Weller, 2001), especially in more liberalized environments (Demirgüc-Kunt and Detragiache 1999); financial crises have disproportionately negative consequences for a country's poor (Baldacci et al. 2002), not least through labor market effects (Eichengreen, et al. 1996); the poor are the first to lose under the fiscal contractions and the last to gain when crises subside and fiscal spending expands (Ravallion 2002); and austerity programs have had severe negative distributional effects on women and children in the developing world (Ortiz and Cummings 2013) and on public and mental health (Stucker and Basu 2013).

Cornia (2003) argues that of the six components of what he terms the "liberal package," liberalization of international private capital flows appears to have the strongest impact on widening within-country inequality. He finds that the next most important negative effects on the poor derive from domestic financial liberalization, followed by labor market deregulation and tax reform. Finally, Weisbrot et al. (2001) concludes that there is a strong *prima facie* case that structural and policy changes implemented during the last two decades, such as financial liberalization, are at least partly responsible for worsening growth and health and other social indicators.

Inequality among countries has also increased during liberalization, partly as a result of the concentration of international private capital flows.[5] The United Nations Development Programme (UNDP) finds that in 1960 the countries with the richest 20% of the world's population had aggregate income 30 times that of those countries with the poorest 20% of the world's population. By 1980, that ratio had risen to 45 to one; by 1989, it stood at 59 to one; by 1997, it rose to 70 to one (UNDP 2001, 1999). In the era of intensified commitment to liberalization, then, inequality between the richest and the poorest countries nearly doubled.

The theoretical insights and empirical findings summarized above have prompted heterodox economists to articulate a range of alternatives, many of which are deeply consistent with the premises and value commitments of social economics. The task now

[5] Data on international private capital flows show that despite the growth of portfolio and foreign direct investment (PI and FDI, respectively) flows to developing countries during the last two decades, their share of global private capital flows is still rather small and remains highly concentrated in a few large countries.

must be not to give the mainstream approach new life through some new theoretical amendment, but to find and advocate for genuine alternatives that promise human development of a sort that has been obstructed by financial liberalization.

3. Towards New Developmental Financial Architectures

Since the early 2000s and especially during the global crisis heterodox economists have begun to move beyond the task of explaining and documenting the failures of financial liberalization to thinking seriously about the nature of developmental financial regimes. The new work is wide ranging, and space constraints preclude anything more than a brief mention of this literature. The research is founded on the following four propositions. (1) There is no single, correct template for financial policy and financial structures in developing countries; (2) It is the task of national policymakers to design and implement those financial policies, institutions and arrangements that are consistent with human and economic development objectives, reflect the priorities of diverse social groups, and taking account the needs of the disenfranchised; (3) Policymakers also have the right to engage in policy and institutional experimentation; and (4) the rights and priorities of members of the financial community and external actors are no more important than those of other domestic social actors.

Heterodox economists have by now explored a diverse array of guiding principles, institutional structures, and financial policies that seek to harness the economic and human developmental potential of domestic and international financial flows. For the sake of illustration I highlight just a few relevant examples.[6]

Principles

The chief function of the financial sector in developing countries is to provide finance in adequate quantities and at appropriate prices for those investment projects that are central to sustainable, stable, and equitable human and economic development. Chang and Grabel (2004/2014) argue that all financial reforms should be evaluated against the extent to which they achieve this aim. Domestic financial reforms that improve the functioning of the financial system along other dimensions (such as liquidity, international integration, competition, innovation, etc.) should be seen as secondary to enhancing the financial system's primary developmental goal.

The most important way in which the financial system can serve economic and human development is through the provision of stable, relatively low-cost long-term finance, sometimes referred to as project finance. This type of finance is necessary to the success and viability of most projects that are central to economic development (e.g., investment in infrastructure, including "green" infrastructure; the promotion of infant industries; support for national firms and entrepreneurs, including those that come from disenfranchised social groups). In his research on the US financial system, Nobel Laureate James Tobin (1984) used the term functional efficiency to refer to the ability of

[6] I direct interested readers to the original sources for specific discussions of these principles, institutional arrangements, and policies (e.g., Chang and Grabel 2004/2014; Epstein and Grabel 2006; Epstein, Grabel and Jomo KS 2004; Grabel 2003a, 2003b, 2004, Grabel 2013, and references therein).

the financial system to provide finance for long-term investment. The concept of functional efficiency can be broadened to take account of other objectives that are consistent with the commitments of social economics (such as equity, sustainability, social inclusivity), and can be used as a heuristic against which any proposed financial reform in the developing world should be evaluated.

Another way in which one might think about the function of at least a segment of the financial system in developing countries is the extent to which it promotes what one might call "pro-poor economic growth." Epstein and Grabel (2006) argue that financial systems in developing countries should be restructured so as to support broader social and economic programs that are pro-poor (rather than hope, as does neoclassical theory with its decidedly unjust "trickle-down" approach, that reforms that target the wealthy will eventually redound to the benefit of the poor). Pro-poor economic growth would involve designing far-reaching programs of institutional and financial policy reform that are guided by a particular set of goals. In this view, the financial system should mobilize savings that can be used for productive investment; create and allocate credit at modest and stable real interest rates for poverty reduction, employment generation asset creation among the poor, including in agriculture and in small- and medium-sized enterprises and in housing; provide long-term credit for productivity-enhancing innovation and investment and provide financing for public investment; help to allocate risks to those who can most easily and efficiently bear those risks; contribute to the economy's stabilization by reducing vulnerability to financial crises, ensure counter-cyclical movements in finance, and by helping to maintain moderate rates of inflation; and aid the poor by providing basic financial and banking services.

Institutional structures

Developmentalist central banks can often play a central role in the achievement of pro-poor economic growth (see Epstein and Grabel 2006; Epstein 2009). Such banks must not restrict themselves to singular role of "inflation guardian" that has become an unfortunate global norm in the last few decades. Rather developmental central banks have operated and can operate under an array of domestically-determined charges that include the promotion of broader financial and economic stability, facilitation of the flow of funds to projects of the highest developmental and social priority (through, e.g., directed credit programs, variable asset-based reserve requirements), support of programs that forge linkages between informal and formal financial institutions that serve the needs of particular sectors or social groups, support of microfinance institutions, and the establishment of specialized lending institutions that can enhance the ability of the financial system to serve diverse constituencies (Epstein and Grabel, 2006).

Development banks have also played key roles in supporting economic and social development objectives in a variety of national, sub-regional, and regional contexts. The global crisis has induced a broadening of the mission, reach and operational objectives of existing institutions and arrangements and has stimulated discussion of the creation of new institutions and arrangements (for extensive discussion of these institutions during the global crisis, see Grabel 2013). Today, long-term project finance, liquidity support (especially during economic downturns, balance of payments crises, and even financial crises), trade promotion and, in some cases, official development assistance are increasingly integrated features of development bank activity. National development banks such as China's Development Bank and to some extent Brazil's National Bank of Economic and Social Development are also becoming more multilateral in their operations. Moreover and equally important, the crisis has spurred the creation of entirely new development banks, such as the development bank being designed by Brazil, Russia, India, China, and South Africa (i.e., the BRICS group). These initiatives have occurred at the same time that some developing country governments have expanded the scope of pre-existing currency reserve pooling arrangements and (counter-cyclical) liquidity support activities. Finally, it bears noting that the traditional distinction between project finance and liquidity support has been blurred during the current crisis. Project finance provided by development banks serves a counter-cyclical and hence developmental role during crises since at such moments long-term finance becomes scarce and expensive.

Policies

Capital controls can maximize the net developmental benefits of international private capital flows by focusing on three objectives (per Grabel 2003b). First, a program of well-designed capital controls can promote financial stability, and thereby prevent the economic and social devastation that is associated with financial crises. Second, policies can promote desirable types of investment and financing arrangements. These include those that are long-term, stable and sustainable, and that create employment opportunities, improve living standards, promote income equality, technology transfer and learning-by-doing. At the same time such policies can discourage less desirable and risky types of investment/financing strategies such as those that involve derivative instruments, currency mis-match (in which loans taken on by domestic borrowers are repayable in foreign currency), and the financing of long-term projects with short-term finance which leaves projects susceptible to fluctuations in interest rates during the start up period and beyond. Finally, capital controls can enhance democracy and national policy autonomy by reducing the potential for speculators and various external actors to exercise undue influence (and even veto power) over domestic decision-making and/or control over national resources.[7]

Capital controls may take many forms. For instance, Grabel (2004) makes a case for a "trip wire-speed bump" regime. This would involve a system of graduated, transparent capital controls that are activated whenever information about the economy indicates that controls are necessary to prevent nascent macroeconomic fragilities from culminating in serious difficulties or even in a crisis. In this view, measures that reduce financial instability and the likelihood of crises can protect living standards and economic growth, while also protecting policy autonomy by making it less likely that external actors can trade influence over policy for financial assistance. Many heterodox (and even some mainstream) economists have written favorably of the types of capital inflow controls

[7] See Epstein, Grabel and Jomo KS (2004) for discussion of the extent and means by which financial arrangements in Chile, Colombia, Taiwan, India, China, Singapore and Malaysia achieved these three objectives during the 1990s.

utilized in both Chile and Colombia during much of the 1990s (e.g., Grabel 2003a; Prasad, Rogoff, Wei, and Kose 2003). Chilean-style capital controls, as they have come to be known, had the effect of lengthening the time horizons of foreign investors and of shifting the composition of international capital flows towards foreign direct investment and away from debt and portfolio investment. Many heterodox economists have also noted that Malaysia's use of far more stringent (though shorter-lived) capital controls following the East Asian crisis of 1997-98 (and also earlier, in 1994) demonstrates the positive role that capital controls can play in promoting financial stability and economic stabilization and in protecting policy autonomy. Other studies have argued that restrictions on currency convertibility and ceilings or surcharges on foreign debt levels can enhance financial stability and policy autonomy (see Grabel, 2003a). During the global crisis, many developing countries have deployed a variety of controls over capital inflows and outflows, and these have addressed (to varying degrees) a range of economic challenges (see Grabel, 2014).

Looking ahead

The foregoing has demonstrated that the neoclassical financial liberalization prescription has been marked by numerous false starts and is now at a dead end. As a consequence, the opportunity now exists for social economists to make substantial contributions to the important task of articulating theoretical and practical frameworks in which finance plays a truly developmental role that serves the broader public good. The progressive and feasible alternatives that come out of such a conversation must be founded on the ethical, holistic and normative commitments of the social economics tradition.

References

Baldacci, E., de Mello, L. and Inchauste, G. 2002. Financial Crisis, Poverty and Income Distribution, Paper presented at the IMF conference on Macroeconomic Policies and Poverty Reduction, Washington, DC, March 14-15, 2002.

Braunstein, Elissa and James Heintz. 2006. Gender bias and central bank policy: Employment and inflation reduction, PERI Working Paper **www.peri.umass.edu** .

Chang, Ha-Joon. 2002. *Kicking Away the Ladder*, London: Anthem.

Chang, Ha-Joon and Ilene Grabel. 2004/2014. *Reclaiming Development: An Alternative Economic Policy Manual*, London: Zed Books (US distributor: Palgrave Macmillan, NY).

Cornia, Giovanni Andrea. 2003. Globalization and the distribution of income between and within countries, in Ha-Joon Chang (ed.) *Rethinking Development Economics,* London: Anthem Press, pp.325-345.

Crotty James and Kang-kook Lee. 2004. From East Asian miracle to neoliberal mediocrity: The effects of liberalization and financial opening on the post-crisis Korean economy, unpublished paper, University of Massachusetts, Political Economy Research Institute, **www.peri.umass.edu**.

Currie, Carolyn. 2006. A new theory of financial regulation: Predicting, measuring and preventing financial crises, *Journal of socio-economics*, 35, pp. 48-71.

DeMartino, George. 2001. *Global Economy, Global Justice: Theoretical and Policy Alternatives to Neoliberalism*. London and NY: Routledge.

Demirgüc-Kunt, A. and E. Detragiache. 1999. Financial Liberalization and Financial Fragility, in B. Pleskovic and J. Stiglitz (eds.), *Annual World Bank Conference on Development Economics 1998*, Washington, DC: World Bank, pp. 303-331.

Dugger, William. 1977. Social economics: One perspective, *Review of social economy*, 35(3), pp. 299-310.

Easterly, William. 2014. A *The Tyranny of Experts: How the Fight Against Global Poverty Suppressed Individual Rights*. NY: Basic Books.

Eichengreen, Barry. 2001. Capital account liberalization: what do cross-country studies tell us? *World Bank Economic Review* 15, 3, pp. 341-365.

Eichengreen, Barry, Andrew Rose, and Charles Wyplosz. 1996. Exchange Rate Mayhem: The Antecedents and Aftermath of Speculative Attacks, *Economic Policy*, 21(21), pp. 249-312.

Epstein, Gerald. 2009. Epstein, Gerald. 2009. Post-war Experiences with Developmental Central Banks: The Good, the Bad, and the Hopeful. In G-24 Discussion Paper Series, No. 54, February, United Nations Conference on Trade and Economic Development, Geneva.

Epstein, Gerald and Ilene Grabel. 2006. Financial Policies for Pro-Poor Growth, study prepared for the United Nations Development Programme (UNDP), International Poverty Centre, Global Training Programme on Economic Policies for Growth, Employment and Poverty Reduction.

Epstein, Gerald, Ilene Grabel and Jomo KS. 2004 Capital management techniques in developing countries: An assessment of experiences from the 1990's and lessons for the future, *G24 Discussion Paper No. 27*, United Nations, NY and Geneva.

Farrell, Henry, and John Quiggin. 2012. Consensus, Dissensus and Economic Ideas: The Rise and Fall of Keynesianism During the Economic Crisis, unpublished paper.

Galbraith, John Kenneth. 1958. The Affluent Society. Boston, MA: Houghton-Mifflin.

Grabel, Ilene. 1994. The political economy of theories of 'optimal' financial repression in the Third World," *Review of Radical Political Economics*, 26(3), pp. 47-55.

---. 1995. Speculation-led economic development: A post-Keynesian interpretation of financial liberalization in the Third World," *International Review of Applied Economics*, 9(2), pp. 127-149.

---. 1996a. Financial markets, the state and economic development: Controversies within theory and policy, *International Papers in Political Economy*, 3(1), pp. 1-42.

---. 1996b. Marketing the Third World: The contradictions of portfolio investment in the global Economy," *World Development*, 24(11), pp. 1761-1776.

---. 2000. The political economy of 'policy credibility': The new-classical macroeconomics and the remaking of emerging economies, *Cambridge Journal of Economics*, 24(1), pp. 1-19.

---. 2003a. Averting crisis: Assessing measures to manage financial integration in emerging economies, *Cambridge Journal of Economics*, 27(3), pp. 317-336.

---. 2003b. International private capital flows and developing countries, in Ha-Joon Chang (ed.), *Rethinking Development Economics*, London: Anthem Press, pp. 325-345.

---. 2003c. Ideology, power and the rise of independent monetary institutions in emerging economies, in Jonathan Kirshner (ed.), *Monetary Orders: Ambiguous Economics, Ubiquitous Politics*, Ithaca: Cornell University Press, pp. 25-52.

---. 2004. Trip wires and speed bumps: Managing financial risks and reducing the potential for financial crises in developing economies, *G-24 Discussion Paper No. 33*, United Nations, NY and Geneva.

---. 2007. Policy coherence or conformance? The new World Bank-IMF-WTO rhetoric on trade and investment in developing countries," *Review of Radical Political Economics* 39(3): 335-341.

-----. 2011. Not Your Grandfather's IMF: Global Crisis, 'Productive Incoherence' and Developmental Policy Space "*Cambridge Journal of Economics* 35 (5):805-830.

-----. 2013. Financial Architectures and Development: Resilience, Policy Space, and Human Development in the Global South. In United Nations Development Programme, Human Development Report Office, Occasional paper Human Development Report Office.

-----. 2014. The Rebranding of Capital Controls in an Era of Productive Incoherence. Review of International Political Economy. doi: DOI: 10.1080/09692290.2013.836677.

Hayford, Marc D. , and Anastasios G. Malliaris. 2010. Asset Prices and the Financial Crisis of 2009-2010: An Overview of Theories and Policies. *Forum for Social Economics* (39):279-286.

Hayes, M. G. 2013. The Vatican and the International Monetary System. *Review of Social Economy* 71 (3):390-398.

Hirschman, Albert O. 1986. *Rival Views of Market Society*. NY: Viking.

Hirschman, Albert O. 1965. Obstacles to Development: A Classification and a Quasi-Vanishing Act. *Economic Development and Cultural Change* 13 (4):385-393.

-----. 1970. The Search for Paradigms as a Hindrance to Understanding. *World Politics*, 22,(3): 329-343.

Kotz, David. 1997. *Revolution from Above*, London: Routledge.

Kuczynski, P.-P. and John Williamson, eds. 2003. *After the Washington Consensus*, Washington, DC: Institute for International Economics.

Lewis, P. and H. Stein. 1997. Shifting fortunes: The political economy of financial liberalization in Nigeria. *World Development*, 25(1), pp. 5-22.

Lutz, Mark. 1999. *Economics for the Common Good*. London/NY: Routledge.

McKinnon, Ronald. 1973. *Money and Capital in Economic Development*, Washington, DC: Brookings Institution.

----. 1989. Macroeconomic instability and moral hazard in banking in a liberalizing economy, in P. Brock, M. Connolly and C. Gonzalez-Vega (eds.) *Latin American Debt and Adjustment*, New York: Praeger, pp. 99-111.

----. 1991. *The Order of Economic Liberalization: Financial Control in the Transition to a Market Economy*, Baltimore: Johns Hopkins University.

Mobekk, Eirin and Spyros Spyrou. 2002. Re-evaluating IMF involvement in low-income countries: The case of Haiti. *International journal of social economics*, 29(7), pp. 527-537.

Ortiz, Isabel, and Matthew Cummins. 2013. Austerity Measures in Developing Countries: Public Expenditure Trends and the Risks to Children and Women. *Feminist Economics* 19(3):55-81.

Polayni, Karl. 1944. *The Great Transformation*. Boston: Beacon Press.

Mirowski, Philip. 2010. The Great Mortification: Economists' Responses to the Crisis of 2007- and Counting. *Hedgehog Review*, 12(3).

Prasad, Eswar, Kenneth Rogoff, Shang-Jin Wei and M. Ayhan Kose. 2003. *Effects of financial globalization on developing countries: Some empirical evidence*. http://www.imf.org/external/np/res/docs/2003/031703.htm.

Ravallion, M. 2002. Who is Protected? On the Incidence of Fiscal Adjustment, Paper presented at the IMF conference on Macroeconomic Policies and Poverty Reduction, Washington, DC, March 14-15, 2002.

Rider, Christine. 1996. Ethical policy making in the transition economies, in *Social Economics*, Edward O'Boyle, ed., London: Routledge, pp. 178-190.

Shaw, Edward. 1973. *Financial Deepening in Economic Development*, New York: Oxford University.

Stuckler, David, and Sanjay Basu. 2013. *The Body Economic: Why Austerity Kills*. London: Penguin.

Thanawala, Kishor. 1996. Solidarity and community in the world economy, in *Social Economics*, Edward O'Boyle, ed., London: Routledge pp. 75-89

Tobin, J. 1984. On the efficiency of the financial system. *Lloyds Bank Review*, 153, pp. 1-15

United Nations Development Program (UNDP). Various years. *Human Development Report*, Oxford: Oxford University Press.

Waters, William. 1990. Evolution of social economics in America, in *Social Economics: Retrospect and prospect*, Mark Lutz, ed., Boston/Dordrecht/London: Kluwer Academic Publishers, pp. 91-117.

Weisbrot, M., D. Baker, E. Kraev and J. Chen. 2001. The scorecard on globalization 1980-2000, Center for Economic Policy Research, September, www.cepr.net/globalization/scorecard_on_globalization.htm.

Weller, C. 2001. Financial crises after financial liberalisation: Exceptional circumstances or structural weakness? *Journal of Development Studies* 38(1), pp. 98-127.

Weller, C. and A. Hersh. 2004. The Long and short of it: Global liberalization, poverty and inequality, *Journal of Post Keynesian Economics*, 26(3), pp. 471-504.

Widmaier, Wesley. 2014. From Bretton Woods to the Global Financial Crisis: Popular Politics, Paradigmatic Debates, and the Construction of Crises. *Review of Social Economy* 72 (2):232-252.

Zalewski, David A. 2010. Securitization, Social Distance, and Financial Crises. *Forum for Social Economics* (39):287-294.