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NEOLIBERAL FINANCE AND CRISIS IN THE DEVELOPING WORLD

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MEXICO: THE FIRST AND CERTAINLY NOT THE LAST FINANCIAL CRISIS OF THE 21ST CENTURY

The Mexican financial implosion of 1994-5 marked the beginning of a parade of financial crises throughout the developing world that today shows no signs of abating. From the Asian crises of 1997-8, to Russia and Brazil shortly thereafter, to Turkey in early 2001 and Argentina today, financial instability has swept through those developing countries that have embraced neoliberal financial reform. Former IMF Managing Director Michel Camdessus had it right when he dubbed the Mexican debacle the "first financial crisis of the twenty-first century." What he didn't understand was that the neoliberal financial regime that his institution had installed throughout the developing world induced the very turbulence that he lamented.

In the Mexican case, neoliberal economists tried to dismiss the crisis by claiming that it was an aberration stemming from the country's "exceptional features." Neoliberals cited economic mismanagement, corruption, and political instability as underlying causes of the Mexican crisis. A few years later, when many of the world's fastest growing economies in Asia collapsed, neoliberals again took refuge in exceptionalism in explaining the collapse of the very countries that they had earlier termed "miracle economies." In the Asian crisis countries, neoliberals discovered new—yet somehow deeply rooted—patterns of cronyism, unsustainable speculation and indebtedness, and misguided government intervention. In the Russian case, neoliberals identified rampant corruption, tax evasion and governmental mismanagement as factors behind that country's financial crisis. Neoliberals explained the Brazilian crisis as the outcome of the government's futile effort to fix the value of the currency and its uncertain commitment to neoliberal reform. Finally, neoliberals identified domestic political conflict, the failure to target corruption and pursue economic and political reform, and the mistaken effort to fix the exchange rate as key factors behind the Turkish financial crisis.

Neoliberals rely on the benefit of a conveniently short memory in accounting for the recurrent financial crises in developing countries. Economies that pre-crisis are favorites of the international financial community are uniformly recast post-crisis as tinderboxes with serious and glaring deficiencies.

Argentina is the latest site of neoliberal revisionism. For the last decade, neoliberals praised the economy's remarkable transformation. The centerpiece of the economy's reform was the creation in 1991 of a currency board, an institution charged with maintaining a fixed (one-to-one) rate of exchange between the peso and the US dollar, and with restricting any growth in the domestic money supply to the receipt of additional holdings of dollars. Currency board rules reinforced broader programs of neoliberal reform by stipulating that the domestic money supply could be increased only following improvements in the country's net export performance or its ability to attract private capital inflows (such as foreign loans and investments in the stock and bond market). Up until the country's recent financial implosion, neoliberals credited the strictures of the currency board with resolving the country's longstanding problems of high inflation, currency instability, and a lack of investor confidence and transparency in economic management. The IMF and its consultants frequently invoked the success of the Argentinian currency board in efforts to export the arrangement to other countries (and indeed, it was exported to Estonia, Bulgaria, Bosnia and Herzegovina, among other places).

The Argentinian currency board moved from savior to demon when it and the economy encountered difficulties too serious and too public for even the most ardent neoliberals to ignore. Neoliberals *now* claim that the currency board was unsustainable insofar as its linchpin was an exchange rate arrangement that tethered the country's economic fate to that of the US dollar. This strategy ultimately doomed Argentinian export performance as the peso appreciated along with the dollar. As Argentina moved toward crisis, neoliberals denounced the very same exchange rate arrangement that they had earlier celebrated. The country's accomplishments have been so radically reworked that the IMF suspended assistance to the country, citing the government's defiant stance toward its foreign creditors and its inability to curtail excessive expenditure. The Bush administration, too, rebuffed the government's calls for assistance, justifying the decision on grounds of what US Treasury Secretary Paul O'Neill asserts is the country's comfort with a perpetual state of chaos and economic collapse.[1]

The revisionist account of the Argentinian crisis—like that of the earlier crises in Mexico, Asia, Russia, Brazil and Turkey—is seriously misguided. These crises are not the product of exceptional features. Instead, the crises stem from the inherent contradictions of the neoliberal financial model. This regime renders developing countries vulnerable to financial instability and crisis, economic stagnation, and shifts power and resources to domestic and foreign financiers. We therefore have every reason to believe that the pattern of recurrent financial crisis in developing countries will repeat itself so long as the hegemony of the neoliberal financial regime stands unchallenged.

THE CONTRADICTIONS OF THE NEOLIBERAL FINANCIAL REGIME

During the last two decades, neoliberal economists have been pressing for radical reform of all sectors of developing economies. A centerpiece of the neoliberal agenda over this period is financial reform. Neoliberal financial reform entails promoting market over state mediation of internal and external financial flows. It also entails eliminating myriad avenues of state influence and control over financial markets. There are, however, some circumstances under which even neoliberals argue that "special institutional arrangements" are necessary to promote investor confidence and resolve particularly severe problems of price and currency instability. Currency boards are the most important example of a special institutional arrangement that neoliberals maintain is a necessary, though unfortunate, resolution to the intractable problem of financial mismanagement in some developing countries.

The neoliberal financial regime has been adopted in the vast majority of developing countries for reasons of both material interest and ideology. Certainly, powerful actors like the US government and the IMF have not hesitated to use material and political capital to press for neoliberalism. The momentum behind neoliberal financial reform is reinforced as well by the private capital flows that it generally induces. These inflows take the form of bank loans, foreign direct investment (FDI) by multinational corporations, and cross-border purchases of stocks and

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[1] In an interview cited in the *New York Times* [12/25/01:p.A9], O'Neill stated: "They've [Argentina] been off and on trouble for 70 years or more"…"They don't have any export industry to speak of at all. And they like it that way. Nobody forced them to be what they are."

[2] We focus here on portfolio investment because of its important role in recent financial crises. FDI also introduces serious (though different) problems to developing countries. There are many well known instances of foreign

other financial assets (something known as portfolio investment). Attracting private capital flows has become increasingly important to policymakers in developing countries since the 1980s because richer countries and multilateral institutions have largely turned away from foreign aid and concessional lending. Private bank lending has not filled the gap left by reductions in official assistance (though the former is hardly a substitute for the latter)—indeed, the volume of private bank lending to developing countries has been substantially curtailed during this same period. The financial community in both developing and richer countries has also actively promoted neoliberal financial reform. In addition to the obvious material rewards that accrue to proponents of this regime, its advocates are also driven by ideological considerations. Specifically, these involve an inaccurate reading of history that claims to demonstrate the failure of earlier development models from socialism to Keynesian state-led capitalism, and by powerful ideological shifts that reify markets (and the supposed discipline thereof) over governments.

The contradictions inherent in the neoliberal financial regime are by now apparent. These contradictions render developing countries prone to capital flight, currency and financial instability and crisis; induce economic stagnation; compromise autonomy; and aggravate the disparities in power and wealth that are an inherent feature of capitalist economies. We consider these problems in turn.

** Neoliberal financial reform renders countries vulnerable to capital flight*

A key objective of neoliberal financial reform is to make developing countries attractive sites for inflows of portfolio (and other types of) foreign investment. However, the experience of developing countries with foreign investment, especially portfolio investment, is far from positive.[2] Because portfolio investment flows are so easily reversible, they exacerbate macroeconomic instability. Large, sudden outflows of capital depress asset values, and beget a vicious cycle of additional flight and currency depreciation. Panicked investors sell their assets en masse to avoid the new capital losses brought about by anticipated future depreciations of currency or asset values. Events in Asia in 1997 (among other places) exemplify the way that a vicious cycle of investor flight, currency depreciation, and capital losses can culminate in a national financial crisis.

** Neoliberal financial reform induces currency instability and thereby destabilizes the economy*

Neoliberal financial reform induces currency instability in other ways as well. Neoliberalism both increases the role of market forces in the determination of currency values and makes it easier and more attractive for investors to enter or exit the country quickly in pursuit of short-term, speculative opportunities.

On the one hand, large, sudden inflows of capital, a chief goal of neoliberal reform, can put pressure on the domestic currency to appreciate. Currency appreciation compromises export performance by raising the price of domestically-produced goods to foreign consumers. On the other hand, significant depreciation of the domestic currency in the wake of capital flight devastates living standards by increasing the cost of imported goods (some of which, like medicine, are necessities). Inflationary pressures are aggravated by the wave of precautionary spending that is often induced by consumers' fears that additional depreciations are forthcoming.

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[2]We focus here on portfolio investment because of its important role in recent financial crises. FDI also introduces serious (though different) problems to developing countries. There are many well known instances of foreign corporations intervening in domestic political processes (such as the case of ITT in Chile during the Allende administration).

Moreover, depreciation raises the cost of servicing foreign debts insofar as the vast majority of these are repayable in hard currencies, such as the US dollar.

Recent experience demonstrates that the risk of currency collapse is by no means prevented by efforts to fix the value of the currency at a particular rate or within a predetermined range. Argentina is but the most recent developing country that was forced to abandon a fixed exchange rate under the pressure of massive capital flight. The capital flight that triggered the earlier financial crises in Asia, Brazil and Mexico also forced authorities in these countries to abandon efforts to fix the value of their currency.

**Neoliberal financial reform induces financial fragility and crisis by creating a speculation- rather than a production-led economy*

Neoliberal financial reform increases the opportunities for investors to secure project financing (more easily and/or more cheaply) and to trade assets. In nearly all cases, neoliberal financial reform has induced a speculative bubble in commercial real estate and land development, stock prices, etc., and an environment wherein over-lending, over-borrowing, and over-investing is the norm. In this type of environment, "productive" activities (like manufacturing or infrastructure projects) simply cannot compete because they rarely offer the opportunity for massive capital gain that is associated with speculative projects. To the extent that productive activities are nevertheless undertaken, they often take on the characteristics of speculative activities. For example, instead of producing energy, a utility company might become involved in trading energy futures. Even productive activities become risky and volatile in a neoliberal environment because these activities are financed by short-term loans or highly reversible flows of capital on stock markets. These financing strategies exacerbate the susceptibility of businesses to changes in interest rates or investor whims.

Speculation-led economies have high levels of ambient risk and fragility. Over-extended investors and borrowers are extremely vulnerable to reversals of capital inflows, to changes in the cost of finance, to depreciations of the domestic currency, and to changes in demand conditions in the markets for which their products are being produced. The collapse of a speculative bubble often leads economies down the path to financial crisis. The crises that followed the collapse of bubbles in Russia, Indonesia, Malaysia and Mexico exemplify the path from bubble to financial crisis.

By increasing the potential for currency volatility, capital flight and speculation in developing countries, neoliberal financial reform greatly enhances the likelihood of financial crisis. It is therefore unsurprising (though no less regrettable) that financial crisis has all but become the norm in the developing world in the era of neoliberal financial reform.

**Neoliberal financial reform aggravates stagnation and inequality*

Neoliberal financial reform heightens the stagnationist tendencies and inequalities in wealth and power that are an inherent feature of developing (and, indeed, all capitalist) economies. This is the case for several reasons. First, by increasing ambient risk in the economy, neoliberal financial reform discourages the kinds of productive economic activities that are central to employment and long-term income and economic growth in developing countries. Second, by creating a miniscule class of extremely rich financiers, neoliberal financial reform widens existing disparities in income, wealth and political power within developing countries. Third, neoliberal financial reform increases the mobility and hence the power of capital vis-à-vis labor. The bargaining power of labor is weakened in an environment where capital can relocate easily in search of an ever cheaper and more compliant workforce and a less regulated business environment. Fourth and finally, the majority of the population bears the devastating human costs of the recession, curtailment of government spending, and deterioration in living standards that inevitably follow the collapse of a speculative bubble and the attendant financial crisis. One can look at the situation of just about any developing country following neoliberal financial reform to find evidence of stagnation in the productive sector and a widening of political and economic inequality.

**Neoliberal financial reform increases the vulnerability of countries to "contagion effects"*

Neoliberal financial reform effaces many of the economic boundaries that separate national economies. By increasing the linkages among national economies, neoliberal financial reform also increases the possibility that one country will fall victim to financial and macroeconomic instability that originates elsewhere. Insofar as investors tend (inappropriately) to view developing countries in an undifferentiated fashion, they often exit all or most of them when they perceive problems in one country. This "guilt by association" or contagion effect contributed to rather serious difficulties in Brazil following Mexico's financial crisis, and in Russia and again Brazil following the crisis in Asia (with the latter itself constituting a case of contagion from Thailand to the Philippines, Malaysia, South Korea, and Indonesia).

**Neoliberal financial reform obstructs progressive policies*

Policymakers in developing countries have always faced constraints on their ability to pursue independent economic and social policies. Neoliberal financial reform exacerbates this problem. The potential for capital flight (which is made possible by the removal of controls on capital movements) powerfully inhibits progressive economic and social policy. The fear of capital flight often prevents governments from even considering policies that might signal investors that the country is anything less than a pro-business, anti-inflationary haven. Thus, increased expenditures on social welfare, restrictions on investor freedoms and enhanced rights for labor unions are precluded once governments set about the task of attracting foreign investment at all costs.

The post-financial crisis environment introduces additional constraints on policy autonomy. In this context, governments may try to reverse an investor exit by implementing particularly contractionary economic and social policies. This means that the restoration of investor confidence necessitates policy contraction at precisely the time of greatest social vulnerability. Recall that the Argentinian government attempted to restore the confidence of foreign investors by implementing painful expenditure reductions under its short-lived "zero deficit" law in July 2001. Moreover, assistance from the IMF is almost always accompanied by a mandated acceleration in the pace of neoliberal reform. In the Asian crisis countries, for example, the IMF demanded significant changes in economic and employment policy that punished the most vulnerable.

**Summing up*

The contradictions of the neoliberal financial model are deeply interrelated. For example, neoliberal financial reform creates both the environment and the opportunity for individuals, firms and governments to assume fragile financial postures (involving high levels of foreign debt, etc.) and to engage in capital flight at the first sign of trouble. In this context, the collapse of a speculative bubble and/or a currency depreciation can inaugurate a vicious cycle of investor flight, the collapse of asset prices, and further currency depreciation. These circumstances can reveal and aggravate the underlying weakness of a stagnant, speculation-led economy. This fragility can culminate in a financial crisis that is easily transmitted across national borders. In a crisis environment, governments may take steps that intensify dislocation, inequality and stagnation in efforts to reverse an investor exit and/or to satisfy the demands of the IMF and other representatives of the global financial community. These general dynamics capture the basic contours of all of the recent financial crises in developing countries. To the Argentinian experience, one should add the additional facts that (a.) the currency board destroyed all productive (especially export-oriented) activities in the country, sacrificing the economy at the altar of investor confidence, and (b.) that the government and the IMF failed to recognize that it is simply impossible to maintain a fixed exchange rate without also controlling international capital movements.

THE LESSONS OF THE ASIAN FINANCIAL CRISIS AND THE COUNTRIES THAT ESCAPED IT

I have argued that the recent crises in developing countries reflect fundamental contradictions in the neoliberal financial model. It is notable in this context that developing countries that have steered clear of this model have not suffered the kinds of financial crises that are all too common today. In the case of the countries involved in the Asian crisis, for example, the crisis hit first and hardest those countries that embraced some or all of the neoliberal financial prescriptions, while sparing those that maintained precisely the kinds of "market distortions" that neoliberals never tire of deriding.

Consider Thailand, the epicenter of the crisis. Along with other "younger Asian Tigers," Thailand experienced rapid economic growth during the 1980s. By the late-1980s and through the 1990s, Thailand embarked on a dramatic program of neoliberal financial reform. Chief reforms included interest rate and banking-sector deregulation, the removal of restrictions on the domestic operation of foreign banks, and the promotion of a modern deregulated stock market. Thailand also rescinded many controls on inward and outward international capital movements and, in 1990, reformed its currency by making it automatically convertible to every currency in the world. (The latter is called adopting "full currency convertibility.") But, like most other countries in the region, it retained a currency pegged to the US dollar.

During the late 1980s and into the 1990s, Thailand experienced dramatic inflows of foreign capital, including FDI, portfolio investment and private loans. In part, FDI inflows resulted from rising wage levels in the older Asian Tigers, as firms sought to relocate in search of lower labor costs. Especially abundant were relatively low-cost short-term loans made available by US and particularly Japanese lenders to Thai borrowers and banks. As a consequence of these inflows, Thailand enjoyed precipitous increases in commercial construction activity and real estate and financial equity values. These in turn spurred substantial increases in economic activity throughout the 1990s. Foreign investors and lenders were eager to get involved in the Thai economy because of the perceived strong growth prospects of the economy and the region.

The creation of a speculation-led economy in Thailand sowed the seeds of crisis. In 1995 the Thai real estate market began to collapse. Given the central role of the property market to the country's economy (and more importantly, to its banks), this development signaled increasing fragility and impending trouble. Then in early May 1997, the Bank of Japan indicated that it was going to raise interest rates in order to slow the depreciation of the yen. The anticipated rise in Japanese interest rates was problematic for Thailand's highly-leverage private sector. Investors panicked before it became clear that the interest rate increase was not going to materialize. At about the same time, the Thai government issued a report warning that economic growth was beginning to slow. Unhappily, these events coincided with a constitutional crisis. In the context of these adverse events, foreign investors began to sell the Thai currency and assets. Speculators began to bet against the ability of the Thai government to maintain the currency peg, and the government was forced to respond with defensive measures in foreign exchange markets.

Ultimately, the government failed to ward off these pressures, and was forced to float the currency on July 2, 1997. In this context, the currency collapsed. With investors rushing for the exits, Thai equity and real estate values crumbled. By the summer of 1997, Thailand was in the throes of a full-blown economic crisis.

Not only did the crisis first emerge in a country that had pursued neoliberal financial reform, it also then spread primarily to other countries with similar financial regimes. The crisis reached the shores of the Philippines, Indonesia and Malaysia within days of the collapse of the Thai currency, and by August these countries all faced currency and asset market collapse. By November 1997, the crisis had even come to disrupt the economy of South Korea. Though each of these countries had achieved rapid economic growth under explicitly non-neoliberal policy regimes, by the late-1980s and especially through the 1990s each had begun to experiment with neoliberal financial reform. By then, all of these countries had begun to deregulate their banking sectors thereby allowing new kinds of unregulated financial institutions to emerge, had successfully promoted equity and bond markets that were increasingly open to international investors, had removed many controls on capital movements and currency convertibility, and had begun to allow domestic firms and banks to take on long- and short-term foreign loans. As in Thailand, these financial reforms inaugurated stock market and real estate bubbles and rapid economic growth. But within days, these bubbles were pierced. Those investors in a position to do so immediately liquidated their holdings in these countries, and sought safer havens abroad.

The Asian crisis ultimately spread to countries as distant as Russia and Brazil, both of which had pursued vigorous neoliberal financial reform during the 1990s (and which, up until events in Asia, had been favorites of foreign investors). By mid-1990, the Brazilian currency was fully convertible, the country had abandoned its longstanding, successful regime of capital controls, and the financial sector had been deregulated. Similarly, the Russian currency was fully convertible, there were no controls on international capital flows, and the domestic financial system operated with nary an enforced regulation.

But not all developing countries, and not even all Asian countries, were equally affected. China, Singapore, Taiwan, Hong Kong, Chile and India all managed to escape the contagion effects of the Asian crisis. Of these, Singapore and Hong Kong share many of the neoliberal features of the crisis economies. In the wake of the crisis, each faced speculation against its currency, but was able to defend its currency due to massive foreign exchange holdings. Unlike the crisis economies, Singapore and Hong Kong were characterized by a relatively low level of international debt.[3] Notably, in late August 1998 Hong Kong resorted to explicitly non-neoliberal measures to prevent crisis, including direct government purchases of equity shares, and the curtailment of short-selling and all futures contracts. Malaysia also responded to the crisis by pursuing distinctly non-neoliberal measures beginning in late August 1998. At the time, the government imposed rather severe controls on finance. These measures included fixing the value of the domestic currency, closing the secondary market in equities, prohibiting non-residents from selling local equities held for less than one year, and curbing severely the convertibility, international transfer and trade in the currency. In contrast, Singapore responded to the crisis by deepening its neoliberal regime (by further liberalizing its financial system) while cutting wages in order to dissuade investors from flight.

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[3]Like Singapore and Hong Kong, Taiwan and China also have very large foreign currency reserves and low levels of foreign debt. In the cases of Taiwan and China, however, the authorities never had to draw on their reserves in order to protect their currency. This is because speculators were precluded from launching an attack on their currencies because of the tight controls over finance that were in place prior to the crisis.

For their part, China, Taiwan, India and Chile all retained substantial state control over their domestic and international financial systems. For example, the Chinese currency is not convertible for capital account transactions, access to futures markets for foreign exchange is severely restricted, the participation of foreigners in Chinese equity markets is tightly limited, and its banks remain mostly state-owned. Chinese residents also face substantial obstacles to capital expatriation. The Chinese and Taiwanese governments responded to the crisis by tightening existing restrictions and introducing new controls over finance. As the Asian crisis unfolded, the Chinese government announced new restrictions on foreign exchange transactions involving more than $100,000, introduced new measures making it more difficult for domestic and international companies to move money into and out of the country, and introduced strict new penalties on Chinese companies that maintained illegal foreign currency deposits overseas. The Taiwanese authorities took steps to prevent illegal trading of funds managed by George Soros (because these funds were blamed for causing the local stock market to fall).

On the eve of the Asian crisis, India retained its longstanding restrictions on access to foreign currency markets by individuals and banks. Similarly, Chile maintained an array of powerful restrictions over finance (in an otherwise thoroughly neoliberal economy), including a uniquely structured tax on foreign borrowing and a requirement that portfolio investment inflows remain in the country for one year. These measures substantially insulated the Chilean economy from the fallout of the Asian and even the earlier crisis in Mexico. While other countries in Latin America were devastated by these events (due to the exit of investors from equity and government bond markets), Chile remained largely stable and only began to experience a significant reduction in private capital inflows in August 1998. Regrettably, the Chilean Central Bank eliminated its program of financial restrictions in several steps beginning in September 1998. The country now stands vulnerable to fallout from events in Argentina.

In sum, the Asian crisis originated in and spread across those developing countries that had most fully embraced the neoliberal financial agenda. Not every neoliberal regime suffered the crisis, of course, as the experiences of Hong Kong and Singapore indicate. But it is nevertheless true that the Asian crisis without exception spared those countries that had retained strong state direction of domestic and international financial institutions and flows.

Argentina is the latest country whose experience reveals the failures of the neoliberal financial model. With the blessings of the international financial community (including the IMF), the country deregulated its financial system, opened the economy to international capital flows, and placed critical aspects of economic management firmly in the hands of financiers via the currency board. Neoliberals now expend considerable effort in demonstrating that the economy's collapse stems from mismanagement and the unique problems introduced by the currency board. Honest analysis of the Argentinian situation, however, reveals it to be a case very much like its predecessors in the developing world. The best that could be said of the currency board is that it papered over (for a time) the contradictions of the neoliberal financial model.

LOOKING AHEAD

The pattern of recurrent financial crisis in developing countries will not be overcome until the failed neoliberal model is abandoned. The experiences of countries that have been devastated by crises—along with the counterexamples of those countries that have not been--provide ample evidence that neoliberal financial reform should be cast off as a legacy of a bankrupt ideological movement. Clearly, it will not be easy for developing countries to change course because of the powerful vested interests (both domestic and foreign) that have a stake in this regime.

Circumstances in a few countries give us cause for cautious optimism about the ability of governments to resist the pressures for neoliberal financial reform. The continued success of a few large developing countries, such as China and India (and Malaysia, to lesser extent), is instructive in this regard. These countries have registered impressive growth and financial stability and have maintained relative autonomy from international financiers and the IMF. It is therefore encouraging that governments and social movements in some developing countries are debating ways to build upon these achievements. Before Chile abandoned its highly successful financial controls, it too (and even earlier, South Korea) represented a sound alternative to the neoliberal financial model.

Though it is far too early to tell, it may be that the Chávez government in Venezuela and the new Duhalde (or some successor) government in Argentina advance effective challenges to the neoliberal financial regime. The current mobilization of the unemployed and the middle class in Argentina may ultimately push the government in a progressive direction. It may also be the case that the recent gestures toward renewed economic cooperation between long-time economic rivals, Brazil and Argentina, will culminate in a financial (and broader economic) model that challenges that put forth by neoliberals. But whether the reforms under consideration move Venezuela, Argentina and/or Brazil in a progressive direction remains uncertain at this time. It will also be interesting to see if—as early signs suggest—the rhetoric and outcome of the 2002 Presidential elections in Bolivia, Colombia, Ecuador and Brazil are influenced by the collapse of Argentina, one of the region's model economies.

Encouraging signs are also now coming from the new global social movements against neoliberal globalization and the IMF. The struggle against the hegemony of the neoliberal model can only be strengthened by the alliance emerging between the internal forces of resistance in developing countries and their counterparts in the North. In the post-Seattle, post-Prague, post-Genoa context, progressives in Northern, Southern and Eastern countries have argued forcefully that the neoliberal regime has induced an unacceptable deterioration in living standards and social life. The fact that the IMF is now so reviled by reactionaries in the US may ultimately mean that the institution has far less political and material capital to expend in promoting the neoliberal agenda.

Finally, it may be the case that the US and the IMF are starting to temper their advocacy for neoliberal reform in the wake of the tragic events of September 11. This may be due to the fact that the "interventionist energies" of the US and the IMF are directed towards other matters (like security), and because the post-mortem on these events might be heightening sensitivities to the social and human costs of the neoliberal agenda. Recall that the two decades that followed WWII were a time when developing countries were granted a good deal of policy autonomy by the US and the IMF, largely because they were occupied with Cold War concerns and with the reconstruction of Western Europe and Japan. Perhaps the conjunction of similar circumstances today, coupled with the Bush administration's isolationism, will create more space for governments and social movements to pursue economic models that promote living standards and human development, equality, and sustainable and stable economic development. Let us hope.