

## **NEW IDEAS IN DEVELOPMENT AFTER THE FINANCIAL CRISIS**

The Bernard L. Schwartz Forum on Constructive Capitalism

And

The Center for Global Development

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Washington, DC

### **BACKGROUND**

The subprime crisis, the collapse of the American housing market, and the credit crisis leading to the collapse of all of Wall Street's independent investment banks in 2007-8 are likely to have a major impact on the way that people around the world think about development. For nearly three decades, the dominant ideas on economic growth called for ever-deepening liberalization of product, labor, and capital markets, deregulation, privatization of state-owned industries, and the like—something that came to be known as the Washington Consensus.

The free-market agenda has been under attack for some years now, particularly since the 1997-98 Asian financial crisis, which many observers blamed on premature and poorly managed capital account liberalization. In the United States, however, there was a nonchalance among many economists and sophisticated observers of financial markets about the emergence of a huge, unregulated shadow financial sector trading derivatives and other complex securities. In addition, while there was concern about the huge structural imbalances that built up between net savers and net consumers in the global economy, no single country or international institution was able to mitigate them. While the housing bubble and its collapse could be seen as normal if unfortunate features of a business cycle, the impact of the downturn was greatly magnified by the huge amounts of leverage taken on by unregulated financial institutions, with dire consequences not just for the US, but for the entire global economy. As a result, the credibility of Washington-based policymakers is at an all-time low.

### **CONFERENCE TOPIC**

Going forward, the question this conference will address is: What if any implications does the crisis have for existing development strategies, and how is it being interpreted in developing countries? The political pendulum is swinging back towards greater state interventionism, but the magnitude of the shift is highly uncertain. Will it be a modest and healthy reversal recognizing the critical role of the state in a world of imperfect and incomplete markets (that also easily generate inequalities), or a more severe reversal for developing countries in the direction of costly state intervention and populism? What new models are likely to emerge in the real world, given political and other imperatives? What ideas will become dominant?

There is both a national and international dimension to the question. Under the first rubric, the conference would address some of the following questions: Is the approach to growth reflected in the Spence Commission (that is, market-driven in general, but almost anything goes at the country level) likely to endure? Are alternative approaches like the “Beijing Consensus,” combining market openness with political authoritarianism, a coherent set of ideas, and if so, what does that approach represent? Do the Chinese themselves really believe that it is a development strategy of broad application? Other Asian countries like Japan and Malaysia have been long-time critics of various aspects of the Washington Consensus, but do they have alternative strategies that are sustainable into the future? Clearly, the kinds of policies that many of these countries have run in the past (i.e., undervalued exchange rates, industrial policy) are also very problematic as long-term approaches. Does the continental European model of managed capitalism deserve a second look? What new forms of populism are likely to emerge in the wake of the current crisis? Do developing countries, most of which had not deregulated to the extent of the U.S. and Europe, need to create more safeguards against imported volatility? Do we need to rethink not just financial market liberalization, but liberalization of labor markets and trade as well?

Under the second rubric concerning international cooperation, the conference might consider the following. To the extent that structural imbalances lay behind the crisis, what can be done about them? Do we need new international institutions to deal with this issue, or can we use existing mechanisms and institutions from the IMF to the Financial Stability Forum, Basel Committee, etc. more effectively? Do we want to shift the locus of macro coordination from the G-7 to the G-20, and if so, what needs to be done to make the latter more effective? To what extent does global coordination of macro and other policies, or its failure, permit or constrain developing countries’ own development strategies? Do the policies and programs of the IMF and the multilateral banks – whether with respect to trade, capital markets, even international migration – unduly constrain new development strategies in developing countries? Do we need to expand the IMF, and the banks, and if so, under what governance rules?

## **FORMAT, TIME, PLACE, AND PARTICIPANTS**

We are planning a one and a half day conference to be held on April 22-23 2009 at the Johns Hopkins School of Advanced International Studies in Washington, DC. Participants will include a select number of academics and policymakers who can think in broad terms about future trends in policy. It is very important to get serious non-American participation, since it is the (alleged or actual) failure of apparently American ideas that is the motive for this event in the first place. The conference proceedings will be published by Johns Hopkins University Press. The conference is being funded by the Bernard Schwartz Forum on Constructive Capitalism and sponsored jointly by the Center for Global Development.