When Things Don't Fall Apart

Global Financial Governance and Developmental Finance in an Age of Productive Incoherence

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Preface

In January 2010, I presented a paper at a conference in Muttukadu, India. The event brought together heterodox development economists to discuss the implications of the unfolding global financial crisis across the global south and east. This was to be a friendly audience—like me, most speakers had spent much of their academic careers as resolute critics of the global neoliberal model, the neoclassical model that sustains it, and the Bretton Woods institutions (BWIs) that enforce it.

I took the opportunity to present what was then, admittedly, a somewhat underdeveloped understanding of events emerging haphazardly at the BWIs themselves and across the so-called developing world. I argued that there were signs of meaningful though entirely inchoate change in aspects of global financial governance and, more specifically, in some of the institutions, norms, and practices that bore on policy space for development. As exhibit A, I cited what, just a few years into the crisis, appeared as surprising changes around the use of capital controls. As exhibit B, I cited the emergence of what appeared to be discontinuities and inconsistencies inside the International Monetary Fund (IMF) and in its relationships with some of its former clients. I argued that the developments before us were inconsistent with each other—for instance, that for every step away from neoliberalism one could find evidence of a return to it—that these discontinuities and inconsistencies were limited in scope, ad hoc in their evolution, theoretically uninformed, and that some appeared to have greater rhetorical than practical force. But I argued that we should nevertheless pay attention to them. I suggested that we were witnessing cracks in the neoliberal edifice, even though no compelling alternative vision or locus of power had arisen to replace it. I speculated that we were entering a new period—indeed, a new kind of period, an interregnum, if you will—marked by incoherence and aperture in global financial governance.

Rather than treat emergent incoherence as debility, I argued that we should view it as productive. I proposed the concept of "productive incoherence,"[1] the organizing theme of this book, to convey the idea that the absence of an overarching, compelling theoretical narrative to drive policy and institutional innovation should be recognized as a virtue insofar as it permits the flourishing of experimentation and problem solving, learning by doing and from others, and pragmatic institutional and policy adjustment in the face of unending challenges and obstacles confronting developing economies. The neoliberal era was marked by severe ideational and practical constraints on experimentation, as states in the developing world were induced to pursue a singular, idealized economic model despite its repeated failures and despite their diverse institutions, histories, cultures, historical paths, capacities, and the preferences of politically weak domestic interest groups. In contrast, and in the context of what appeared to be the emerging productive incoherence of the global crisis, policymakers in *some* countries of the global south and east were now enjoying increased space to chart pragmatic innovations. And in the face of enduring epistemic insufficiencies, unscripted innovations and localized experimentation seemed to me a better and more autonomy-enhancing path.

Suffice it to say that I had misjudged my audience. The talk induced anger and dismissiveness among the other participants and audience. Speaker after speaker rose to tell me that my analysis was at best naïve and at worst obfuscating. Didn't I realize that fundamental transformation in the power, practices, and ideas associated with neoliberalism was impossible in the face of entrenched interests, doctrines, and the myriad and inescapable vulnerabilities of developing economies? Didn't I realize that the aperture and changes that I identified amounted to little more than window dressing as institutions like the IMF sought to insulate themselves from failure and protect a franchise that was being restored by the global crisis? Couldn't I see that the crisis was creating conditions that enabled the reproduction of global neoliberalism and that, in the absence of a fundamental, systemic global challenge to neoliberalism, the prospects for meaningful change or even meaningful aperture in global financial governance and policy space were nil?

The hostile reaction proved extraordinarily beneficial. It convinced me of the need to clarify, sharpen, and develop my central arguments and, most importantly, to think through the essential matter of how to understand economic, social, and political change. The exploration of change ultimately drew me to the work of Albert O. Hirschman, whose insights and voluminous oeuvre have proven to be both invaluable and excellent company in this journey. The continued unfolding of the crisis gave me ample opportunity to broaden my gaze across the landscape of financial governance. Over the next few years, I continued to follow closely and write about the IMF and capital controls. At the same time, I began to follow developments associated with informal financial governance networks. More importantly, I also became a close student of the proliferation and transformation of liquidity support and project-finance institutions based in the global south and east. An invitation by the United Nations Development Programme to write a background paper on this subject in conjunction with the 2013 Human Development Report (on the theme of the "Rise of the South") provided me with the opportunity to extend the empirical scope of my earlier work. Fortunately I have had several opportunities to speak with officials of many of these institutions and to attend meetings that have brought officials together, namely, meetings hosted by the Union of South American Nations (UNASUR) and the Argentine Ministry of Economic and Public Finance in 2012; the Global Economic Governance Initiative of the Frederic S. Pardee School of Global Studies at Boston University in 2016; and a meeting organized by the United Nations Conference on Trade and Development (UNCTAD), UNASUR, and the Technical Commission for the New International Financial Architecture of the Ministry of Foreign Affairs and Human Mobility of the government of Ecuador in 2016. In these encounters, too, I have been struck by the gap between the achievements and dynamism of these institutions and the emerging networks among them, and the skepticism of many academics and civil society actors about their significance. The predominant view is that these institutions do not mark a significant break in the old order, dominated as it is by the BWIs, United States, U.S. dollar, and the global financial elite. I have now been told many times that these institutions are trivial when compared with the material and social power of the central authorities and actors that have dominated global financial governance over the past several decades.

As the global crisis has evolved, events have moved in directions that substantially strengthen the productive incoherence thesis. Since 2010, I have explored provisionally in a series of papers aspects of the argument that now come together in this book in a more developed, theoretically grounded, and empirically substantiated form. Stated simply, I advance two claims in the book. The first claim is positive. The global crisis has occasioned meaningful though disconnected, ad hoc, and experimental discontinuities in several dimensions of global financial governance and developmental finance that are of particular salience to developing countries. The empirical story is not one of wall-to-wall change. Nontrivial continuities are also readily apparent, and these should not be dismissed. The second claim is normative. The conjunction of discontinuities and continuities is imparting incoherence to global financial governance and developmental finance, but this incoherence is productive for development. This insight can be understood most fully within the context of what I term a “Hirschmanian” mindset.

Why the resistance to accounts such as my own? The easy answer is that I am wrong. An alternative answer is that social scientists and civil society advocates share a narrow conception of change. In this view, meaningful change must be fundamental, abrupt, systemic, coordinated, and informed by a consistent and overarching theoretical framework that gives direction to and unifies all of the moving parts. Moreover, change must derive from a worldview that encompasses a comprehensive, complementary set of core beliefs, values, and a utopian vision. Absent these features, any changes that do occur are insignificant, inconsistent, unviable, and distracting. In the instant case, this view holds that the discontinuities that emerged after the East Asian financial crisis and then deepened during the global crisis lack the character of meaningful advancement. After all, the innovations lack every feature that we tend to associate with epochal change. Innovations have been local (or at best regional, and occasionally transregional), inconsistent, sometimes fleeting, and out of step with the major competing economic worldviews—be it liberalism, Keynesianism, statism, or any other model. Indeed, there seems to be no model at all.

Throughout the book, I reject this notion of change as romantic and otherwise mistaken. The vision presumes that we have sufficient knowledge of the policies, institutions, norms, and practices that promote just, stable, and sustainable development. But by now we should be skeptical of that claim. It would be far better to accept that we just don’t know enough and that, in that context, we are better off pursuing a course of action that is rich in experimentation, learning by doing, and ad hoc adjustment. This perspective leads us to recognize that in comparison with its neoliberal predecessor, the current period is marked by increasing policy space, room for unscripted innovations, and pragmatic adjustments not dictated by an overarching scheme of economic organization. Hence, the incoherence of the period is productive—holding within it the potential for the achievement of important economic and human development goals.

Productive incoherence is not without risks, and I explore these later in the book. Indeed, as of this writing, we look out at a world where incoherence and aperture appears everywhere. In some South American countries, neoliberals have replaced left-leaning populist governments. Some of the rising powers in the global south and east are stumbling, and all face a macroeconomic environment that is fraught with risk. At the same time, China is taking the lead in promoting a managed yet ambitious form of global financial (and broader economic) integration and is revitalizing the landscape of (what I term) developmental finance. Moreover, the financial governance architecture of the developing world is marked by increased density stemming from institutional innovation. Finally, there is a movement toward "deglobalization" propelled by the complementary forces of a backward-looking Trumpian agenda, British prime minister Theresa May's decision to pursue a "hard" (rather than a partial) "Brexit" from the European Union (EU), and the real possibility that neonationalist leaders in Europe will tally more wins at the ballot box in the coming years.

I must emphasize in this context that the argument advanced here about the virtues of the centrifugal tendencies in global financial governance now under way—which entail inter alia the emergence of national and regional loci of financial regulation and developmental finance—by no means represents a call for or support of deglobalization. The argument on offer concerns *transformations in the nature of international integration*, not a romanticized return to some idealized state of financial autarky or any regime that features neonationalist economic or political tendencies. The best outcome is that this interregnum of productive incoherence makes space for *reintegration* of a sort that provides developing countries with more room to maneuver than they enjoyed during the stultifying neoliberal era.

I began *When Things Don't Fall Apart* in 2013. As I write now (in February 2017), things still (fortunately) have not "fallen apart" for the developing world as they had in the 1980s and during the numerous crises of the neoliberal era. None of my arguments should be interpreted as suggesting that things won't fall apart—of course they always can. But the discontinuities that I explore throughout the book enhance the degree of resilience and provide opportunities to pursue multiple pathways when things inevitably do fall apart.

My friend Mark Blyth suggested the title of this book. He offered me insightful and characteristically pointed advice, for which I am most grateful. The book's title is a play on lines in the opening stanza of W. B. Yeats's 1919 poem "The Second Coming" ("Things fall apart; the centre cannot hold"). The poem was written in the aftermath of World War I, and it both reflects the anxieties of the period and anticipates the horrors that lay ahead. Novelist Chinua Achebe not only borrows these lines but also invokes the spirit of this poem in his 1958 novel *Things Fall Apart*, which focuses on upheavals caused by European colonization in Africa. Turning for a moment to personal matters, I note here that the title of my book came to have a particular resonance for me. I started, stopped, restarted, stopped, and then ultimately finished the book after things came dangerously close to falling apart completely—twice—owing to ultimately successful cardiac surgeries endured by my husband, George DeMartino. I will always be grateful to Drs. Daniel Lumian, John Carroll and his team, Simon Maltais, and Charanjit "Chet" Rihal for their collective brilliance and compassion.

Turning to more conventional debts, my thinking on matters that culminated in this book and my work on the book itself have benefited greatly from conversations and reflections offered by many friends and colleagues at various stages. Among the many (and at the risk of a failing memory), I thank Rawi Abdelal, Leslie Elliott Armijo, Philip Arestis, Diana Barrowclough, Günseli Berik, Albert Berry, Jacqueline Best, Patrick Bond, José Carlos Braga, Sasha Breger Bush, Miriam Campanella, Ben Clift, Eugenia Correa, Jim Crotty, Roy Culpeper, Christine Desan, David Ellerman, Sakiko Fukada-Parr, Jamie Galbraith, Randall Germain, Jayati Ghosh, Alicia Girón, Fred Gonzaga Jayme Jr., Stephany Griffith-Jones, Bill Grimes, James Heintz, Gerald Helleiner, Micheline Ishay, Jomo K. S., Alex Kentikelenis, David Kotz, Bill Kring, Noemi Levy, Wesley Marshall, David Martin, Arturo O'Connell, Isabel Ortiz, Matthew Paterson, Kari Polanyi Levitt, Chiara Piovani, Elizabeth Ramey, Martin Rhodes, Luis Rosero, Malcolm Sawyer, Mario Seccareccia, Rogério Studart, Matias Vernengo, Yongzhong Wang, and Richard Kozul-Wright. Chris Brown and Jack Donnelly, both University of Denver colleagues, were extremely generous with their time. I thank Jack for discussions of international relations theory and also for serving as my personal "Geek Squad." I thank Chris for his willingness to respond to my numerous queries.

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Jerry Epstein took on the task of reading the final manuscript, and this was both invaluable and exceedingly generous.

My four years as a coeditor of the *Review of International Political Economy* taught me a great deal, particularly about the pleasures of Hirschmanian trespassing. In this connection, I thank my colleagues at the journal, especially Wes Widmaier. I am also grateful to unnamed officials of many of the institutions that I discuss in chapter 6. On publication matters, I benefited from the sage advice of Mark Blyth, Kevin Gallagher, Joe Jackson, Jonathan Kirshner, David Kotz, José Antonio Ocampo, Scott Parris, Bob Pollin, Jonathan Wight, and Rick Wolff. It was a pleasure to start this process at MIT Press with Jane McDonald and then to conclude it under Emily Taber's extraordinarily able and thoughtful direction. I am also grateful to Laura Keeler, Jim Mitchell, and others at MIT Press, Mikala Guyton at Westchester Publishing Services, and Hal Henglein for their attentive work on my behalf. I benefited from the financial support of a University of Denver Professional Research Opportunities for Faculty grant during the final push to complete the book.

My intellectual debts to George DeMartino are particularly deep, not least in the realm of epistemic and normative issues and what they imply for the hubris and ethics of social engineering. Those who know his work will see signs of his influence here. In the case of this book, a series of conversations with George at the outset of my research proved to be pivotal. He urged me to consider the potential of the inconsistent developments in global financial governance as an incubator for progressive reform. Those conversations led to the concept of productive incoherence and the turn to Hirschman that inform this book. For those intellectual insights—and for his persistent encouragement—I am terribly grateful.

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Finally, I dedicate this book to George, who has supported me throughout this process, and in all things. His intellect inspires and nourishes me; his commitment to do for others never ceases to amaze me; and there is simply no one who loves me better. I'm proud to be a member of the Gray Team.

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