FOREWORD

Seemingly suddenly, in August 2007 the US financial markets came to a sudden stop. Although the first signs of accumulated difficulties became visible in 2006 when house prices peaked, in March 2007 when debtors in the subprime mortgage market started to declare bankruptcy, and in July 2007 when big banks found that they could not sell originated loans, the credit crunch finally arrived in August 2007. The monetary authorities and mainstream economists were stunned. The crisis erupted in the subprime mortgage market and afterwards, as quick as lightning, it spread to other US financial markets and markets worldwide. The real economy and export demand collapsed around the globe. Due to the collapse of export demand in developed countries, developing countries faced severe export volume contraction and decline in the terms of trade, especially in the case of commodity exporting countries. Also, investments slumped due to the cessation of previously abundant capital inflows used to finance investment booms. The heightened risk aversion of investors gave rise to an excessive increase in risk premia, which spilled over into steep increases in interest rates charged on loans extended to developing countries' business entities. The world economy entered an era of Great Recession.

Today, after seven years of one of the most severe global economic crises since the Great Depression, its effects are still unfolding. European countries are struggling to face budget deficits and massive unemployment, while deflation is menacing. Growth and financial stability seem to be restored in the US, but the level of income inequality is reaching unprecedented heights. Eventually, the situations of emerging economies are diverse but remain unstable and fragile. Making a parallel with the 1930's is tempting, with the gloomy prospects of the political and human tragedies history has taught us economic crises may trigger. The modern context, regarding financial, economic, institutional, geopolitical and social aspects, is however singular and calls for renewed analyses.

Far from ensuring improvement in social conditions, the development policies implemented in emerging economies for decades, although subject to recurrent critics, have so far remained globally unchanged. They sometimes partially succeed in promoting growth. But growth itself does not prevent instability nor volatility and generates its own undesirable drawbacks and threats: inequalities, environmental changes, social protests, intolerance etc. These are among the consequences of “ideologically biased” economic policies, theoretically flawed, and failing to incorporate institutional, social and human objectives.

Understanding the characteristics and challenges of today’s capitalism, discussing the perspectives and implications of development policies for emerging economies, call for an open and large debate. Complementary theoretical, methodological and applied research contributions, as well as multidisciplinary approaches, are necessary. This LIMESplus special issue *Financial Instability and Economic Development in Emerging Markets: Controversies and Critical Issues*, aims to contribute to this debate.

The first part of the special issue is entitled *Financial instability: Old wine in an old bottle*. Papers in this part point to the failures of the traditional economic theories of crises and development, as well as their related policy implications and propose alternatives. The papers by Faruk Ülgen, Christine Sinapi and Ognjen Radonjić defend theoretical approaches anchored in Minsky’s Financial Instability Hypothesis (FIH). Faruk Ülgen highlights the conceptual weaknesses of liberalized finance and endorses a Minskyan institutional approach of endogenous instability. Christine Sinapi revisits the Washington consensus debate and disputes international institutions ability to learn from their own-though recognized-failures. She refutes their theoretical approach of institutional development and their (allegedly) renewed policies of development. She advocates, instead, for a Minskyan approach of institutions. Ognjen Radonjić identifies specific patterns of financial crises in emerging economies. He advocates for a renewed theoretical apparatus, based on the FIH and adjusted to emerging economies. Further on, Marc Pilkington in his paper puts forth paradigmatic failures of DSGE models and defends the need for a methodological change in the mainstream approach. Tanweer Ali and Eva Lebdušková analyze the austerity political discourse in the Czech Republic, which does not call into question the mainstream economic views.

Papers in the next part titled *Catching- up traps: Sand in the gears of economic development* focus on emerging countries, challenging the efficiency and success of their socio-economic development policies. Pritam Singh presents a critique of the traditional (Neo-classical, Keynesian and Neoliberal), Marxian and Green economic theories of development. He argues for an eco-socialist perspective as the most appropriated development perspective in the era of climate change and global warming. Noemi Levy Orlik disputes the economic and social efficiency of financialization and neo-mercantilist policies in Latin America, which she associates with failed growth and income inequality. Christine Ngoc Ngo analyses the results of the Foreign Direct Investment-based industrial policy in the Vietnamese motorcycle industry, from a rent seeking perspective. She sees these policies as largely unsuccessful. Dušan Mojić argues that the socio-economic challenges related to youth employment in the economic transition of Serbia have failed to be addressed.

As the world becomes more and more integrated and thus interdependent, need for penetrating analysis of controversial issues such as financial instability and economic development in emerging markets becomes more urgent. We hope that the nine papers in this issue of LIMESplus revealed a fresh perspective on economic problems faced by emerging markets in their everyday struggle to earn their place in the sun.

Ognjen Radonjić
Christine Sinapi