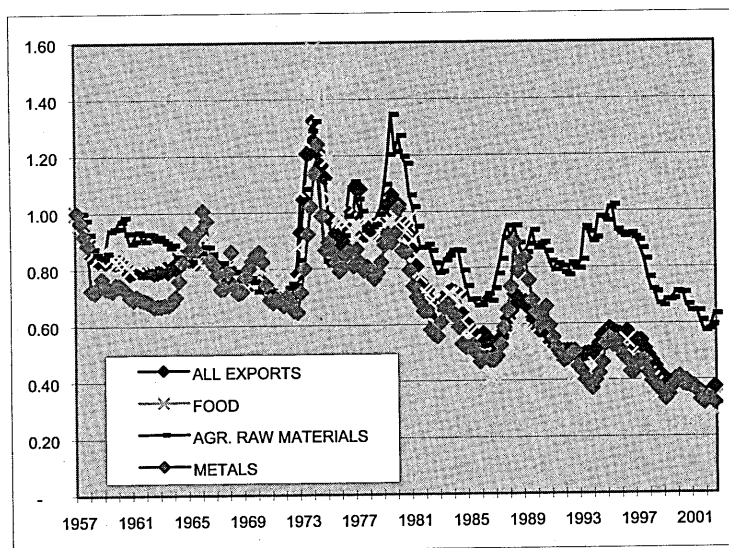


the newfound opportunities—and usually find willing lenders, no less impressed by the possible returns. Meanwhile, outsiders scramble to get their share of the new cornucopia of rent, by hook, by crook or sometimes even by force. A subsequent price collapse—the logical consequence where the initial increase did not reflect fundamental value—leaves mountains of unpayable debt, accounting irregularities as those responsible try to cover their mistakes, and ultimately ignominious and often disastrous failure.

Figure 2. Selected Commodity Price Indexes, Constant US dollars, 1957-2002:Q1 - 1957 = 1.00



Source: International Monetary Fund, International Financial Statistics, December 2002.

By the story above, the windfall of spiking commodity prices was the downfall of development. Consider, for example, William Easterly's description of Mexico's recent history: "Mexico enjoyed macroeconomic stability from 1950 to 1972, an era that earned the moniker 'stabilizing development'. The exchange rate of pesos for dollars staged fixed for all those years. Inflation was low. The coun-