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April 2013

WORKINGPAPER SERIES

Number 318

POLITICAL ECONOMY RESEARCH INSTITUTE

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DRAFT; April 1, 2013 version

THE REBRANDING OF CAPITAL CONTROLS IN AN ERA OF PRODUCTIVE INCOHERENCE

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Paper prepared for the annual conference of the International Studies Association San Francisco, 3-6 April 2013; panel on "Capital Controls and the Global Financial Crisis"

Abstract
The re-branding of capital controls has occurred against a broader backdrop of change and uncertainty. This state of affairs—which I have elsewhere termed "productive incoherence"--constitutes the broader environment in which thinking and practice on capital controls is now evolving. The present incoherence is, in my view, productive because it has widened the space around capital controls to a greater and more consistent degree than in the years that followed the East Asian crisis of 1997-98. How are we to account for this extraordinary ideational and policy evolution on capital controls during the current crisis? I examine five factors that, in my view, must appear in any comprehensive account of the evolving re-branding of capital controls during the current crisis. These include: (1) the rise of increasingly autonomous developing states, largely as a consequence of their successful responses to the Asian financial crisis; (2) the increasing self confidence and assertiveness of their policymakers in part as a consequence of their relative success in responding to the current crisis at a time when many advanced economies faltered badly; (3) a pragmatic adjustment by the IMF to an altered global economy in which its influence has been severely restricted; (4) the intensification of the need for capital controls by countries at the extremes—i.e., not just those that faced implosion and thereby threatened cross-national contagion, but also and far more importantly by those that fared "too well" during the current crisis; and (5) changes in the ideas of academic economists and among IMF staff. I conclude by exploring in passing important tensions that have emerged in conjunction with the re-branding of capital controls. Paramount in this regard are the efforts by IMF staff and some academic economists to "domesticate" the discussion and use of capital controls, in part by the implementation of (something akin to) a "code of conduct" to regulate and constrain capital account interventions.

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*I thank George DeMartino for comments on this draft and Alison Lowe for excellent research assistance.

1. INTRODUCTION

There's a political cartoon that I've had in mind these days when I think about the recent changes in the international political economy of capital controls. Picture a sailboat in stiff winds on rough seas.. The wind in the sails is labeled something like "Brazil, China, or the Global South." The boat is labeled "S.S. Capital Controls." The International Monetary Fund's (IMF) Managing Director Christine Lagarde is at the tiller, and she barks at her worry-stricken shipmate—"No, don't trim the sails!" But we also see that the ship is trailing its anchor, which is labeled "Neoliberalism."

I begin with this image because I think it captures well the conflicted practical and ideational processes surrounding capital controls during the current global financial crisis. Many extraordinary things have happened during the crisis, one of which is that capital controls have been successfully "re-branded" as a tool of prudential financial management, even within the corridors of the IMF. In this paper I examine the myriad factors that have enabled this re-branding. As with most rebranding exercises there is uncertainty about whether the framing will prove sufficiently sticky, especially in the context of tensions and countervailing impulses at the IMF and elsewhere around this effort.

The re-branding of capital controls has occurred against a broader backdrop of change and uncertainty. This involves unfolding transformations within the IMF; changes in its relationships to increasingly assertive governments in the global South; the appetite for innovations in financial architectures in the developing world; a reduction in the degree of hubris and monotheism in the economics profession; and the uncertain and lagging recovery in the US and Europe. This state of affairs—which I have elsewhere termed "productive incoherence"--constitutes the broader environment in which thinking and practice on capital controls is now evolving [see Grabel, 2011]. By productive incoherence I refer to the proliferation of responses to the crisis by national governments, groups of countries, multilateral institutions (particularly within many quarters of the IMF) and the economics profession that to date have not congealed into a consistent, singular approach to capital controls. The term productive incoherence is intended to signal the absence of a unified, consistent, universally applicable (new) view on capital controls. The present incoherence is, in my view, productive because it has widened the space around capital controls to a greater and more consistent degree than in the years that followed the East Asian crisis of 1997-98.[1]

How are we to account for this extraordinary ideational and policy evolution on capital controls during the current crisis? In what follows I will examine five factors that, in my view, must appear in any comprehensive account of the evolving re-branding of capital controls during the current crisis. These include: (1) the rise of increasingly autonomous developing states, largely as a consequence of their successful responses to the Asian financial crisis; (2) the increasing self confidence and assertiveness of their policymakers in

[1] See Best [2005] for discussion of the related issue of ambiguity in international monetary governance. She argues that the international political and economic stability of the postwar WWII era depended on a carefully maintained balance between coherence and ambiguity.

part as a consequence of their relative success in responding to the current crisis at a time when many advanced economies faltered badly; (3) a pragmatic adjustment by the IMF to an altered global economy in which its influence has been severely restricted; (4) the intensification of the need for capital controls by countries at the extremes—i.e., not just those that faced implosion and thereby threatened cross-national contagion, but also and far more importantly by those that fared "too well" during the current crisis; and (5) changes in the ideas of academic economists and among IMF staff. I will conclude by exploring in passing important tensions that have emerged in conjunction with the re-branding of capital controls. Paramount in this regard are the efforts by IMF staff and some academic economists to "domesticate" the discussion and use of capital controls, in part by the implementation of (something akin to) a "code of conduct" to regulate and constrain capital account interventions.

My discussion of the re-branding of capital controls highlights the complex interaction of economic realignments, tension, aperture and uncertainty in facilitating a powerful evolution in ideas about and the use of capital controls during the current crisis. My account of this evolution resonates with accounts of ideational and policy change within constructivist international political economy, including those that focus on the way that exogenous shocks create opportunities for new ideas to become sticky within a narrow window of time or incrementally [e.g. Best, 2003; Blyth, 2002; Moschella, 2010, 2012; Widmaier et al., 2007]; those that focus on the interaction of ideas and external interests in driving ideational change [e.g., Blyth, 2003; Kirshner, 2003; Moschella, 2010]; and those that focus on interests [e.g., Wade and Veneroso, 1998]. My account also resonates with constructivist work that traces the micro-processes by which norms and rules around capital controls have (or have not) changed. Here I refer to research that focuses on the role of and processes by which leaders of international organizations have sought to rewrite formal rules around capital account liberalization (as in Abdelal, 2007); research that focuses on informal processes of internal norm entrepreneurship by mid-range IMF staff (as in Chwieroth, 2010); research that focuses on the interaction between ideas and the larger political environment (as in Moschella, 2009); and work that highlights the pragmatism of actors in the IMF, who may abandon ideas around capital liberalization when they become less useful as during the current crisis, a process that is eased by the weakness of the theoretical and empirical case for liberalization (as in Nelson, 2012; see also Kirshner, 2003).

2. CAPITAL CONTROLS AND THE ASIAN CRISIS

The current crisis has achieved in a hurry something that Keynesian and other heterodox economists were unable to do for a quarter-century. As we will see below, it has provoked policymakers in many developing countries to deploy capital controls as a means to protect domestic economies from the financial instability, currency pressures, and trade dislocation associated with uncontrolled international capital flows. What is perhaps more surprising is that today's IMF has responded to these controls in a way that makes clear that they are necessary (though under particular circumstances), prudent and reasonable. The credit rating agencies no longer flinch when new controls are announced, and private investors continue to find the markets of many of the countries that utilize capital controls quite attractive.

This reception contrasts sharply with the IMF and investor condemnation that was provoked when Malaysia imposed stringent capital controls during the Asian crisis. At the time the IMF called these controls on capital outflows a "step back" [Bloomberg.com, May 6, 2010], and a representative article in the international business press stated that "foreign investors in Malaysia have been expropriated, and the Malaysians will bear the cost of their distrust for years" [cited in Kaplan and Rodrik 2001:11]. Flagging the country's capital controls, rating agencies Moody's, Standard and Poor's, and Fitch downgraded Malaysia's sovereign debt rating [Abdelal and Alfaro, 2003]. More recently, capital controls in Thailand were reversed by the Central Bank within a few days after their implementation in December 2006 (following a coup) after they triggered massive capital flight [Bloomberg.com, May 6, 2010].

During the neo-liberal era of the last several decades views on capital controls by IMF staff and in the economics profession shifted dramatically away from tolerance.[2] The reception that greeted Malaysia's capital controls during the Asian crisis was unremarkable inasmuch as it was consistent with the view of neo-liberal economists and policymakers at the time. Indeed, up until the Asian crisis the IMF was poised to modify Article 6 of its Articles of Agreement to make the liberalization of all international private capital flows a central purpose of the Fund and to extend its jurisdiction to capital movements. But despite the neo-liberal tenor of the times, some developing countries nevertheless maintained capital controls—most notably, perhaps Chile and Malaysia, but also China, India, Colombia, and Thailand. And even during the neo-liberal era, staff in different areas of the IMF held divergent views on capital controls, though the general thrust of thinking and policy cohered in the direction of liberalization.

Then a subtle--though uneven and inconsistent--process of ideational change on capital controls began to occur in the years that followed the Asian crisis. In the wake of the crisis, IMF research staff started to change their views of capital controls—modestly and cautiously to be sure. In the post-Asian crisis context, the center of gravity at the Fund and in the academic wing of the economics profession shifted away from an unequivocal, fundamentalist opposition to any interference with the free flow of capital to a tentative, conditional acceptance of the macroeconomic utility of some types of capital controls. Permissible controls were those that were temporary, "market-friendly," focused on capital inflows, and were introduced only when the economy's fundamentals were mostly sound and the rest of the economy was liberalized [Prasad et al. 2003].

Academic literature on capital controls in the period that followed the Asian crisis reflected this gradually evolving view: as Gallagher [2010a] points out, cross-country empirical studies following the Asian crisis offered strong support for the macroeconomic

[2] The turn away from capital controls began at the IMF during the 1970s [see Chwieroth, 2010]. This was part of a broader intellectual transformation toward liberalism in the economics profession in the same period [see Blyth, 2002].

achievements of controls on inflows [see overviews in Magud and Reinhart, 2006; Epstein, Grabel and Jomo 2004; Chwieroth, 2010:ch.8]. [3] While evidence supporting the achievements of outflow controls remains more scant, research on Malaysia by Kaplan and Rodrik [2001] finds strongly in favor of the achievements of Malysia's controls on outflows. They find that compared to other countries in the region that had IMF programs during this period, Malaysian policies produced faster economic recovery, smaller declines in employment and real wages, and a more rapid turnaround in the stock market [on Malaysia, see also Magud and Reinhart, 2006; Magud, Reinhart and Rogoff, 2011].

It bears acknowledging that even during the neo-liberal era there were exceptions and unevenness in the IMF's treatment of both inflow and outflow controls by countries in crisis, as the IMF's internal watchdog, the Independent Evaluation Office (IEO), found in a 2005 study of the matter that covered the period of the Asian financial crisis to 2004 (and as Chwieroth [2010] explores). The 2005 IEO report [p. 48], finds that during the 1990s the IMF "displayed sympathy with some countries in the use of capital controls and...even suggested that market-based measures could be introduced as a prudential measure." The report finds that the IMF's support for capital controls increased after the Asian crisis, and that the IMF supported the use of capital controls in 7 of the 12 countries it assisted in the 1990s, and that in two of these countries (namely, Peru and Estonia) it advised policymakers to deploy capital controls as part of their overall reform recommendations. That said, the report acknowledges (correctly) that there was a lack of consistency in the IMF's advice on this matter during the post-Asian crisis period. Thus began the tepid, gradual and uneven practical and ideational process by which some types of capital controls came to be normalized conditionally by the IMF and by academic economists after the Asian crisis.

Although the seeds of an intellectual evolution had been planted in the post-Asian crisis context, there was push back in this period from stalwarts in the academic wing of the profession [e.g., Forbes 2005; Edwards 1999]. In addition, there was a curious disconnect between the research of IMF staff, on the one hand, and the creeping tolerance for capital controls by the institution's economists when they worked with particular countries, on the other (as the 2005 report by the IEO acknowledges) [IMF, 2005:48]. This disconnect might be explained by the relative autonomy of different departments at the IMF, a lack of leadership from the top on capital controls, and the internal entrepreneurship of mid-range IMF staff when working in different contexts [Chwieroth, 2010]. [4] It is important to keep in mind in this connection that like any complex organization, the IMF comprises diverse actors that may very well disagree among themselves about some fundamental matters pertaining to the institution's strategies.

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[3] There is also a voluminous empirical literature that questions the effects of capital account liberalization on various aspects of economic performance [BIS, 2009:section A; Kose et al., 2009].

[4] Chwieroth [2010] suggests that we should expect the process of change in a complex organization like the IMF to be messy and uneven. See also Abelal [2007] on the messy process of changing formal rules pursued by the leaders of multilateral organizations. As I argue throughout this paper, an uneven, messy process is an apt description of the ideational and policy transformation at the IMF and in the economics profession during the current crisis.

Hence, despite the modest intellectual progress on capital controls that began after the Asian crisis, capital controls remained an exceptional and generally contested measure that could achieve desirable outcomes only where state capacity was high and/or where investors were undeterred by controls because opportunities in the country were so attractive. These qualifications begin to change, however, during the current financial crisis, when circumstances coalesce so as to legitimate capital controls to a far greater and more consistent degree. Today, scarcely 15 years down the road, controls on both capital outflows and especially on inflows are not just tolerated but are in many cases understood as a central tool of prudent financial management. Both in academic and policy-making circles, capital controls have achieved a renewed legitimacy—begrudging legitimacy in some camps, to be sure, but legitimacy nonetheless.

The changes in thinking and practice on capital controls at the IMF at the present time represent an important reversal back in the direction of the post-war institution and toward aspects of Keynesian and Structuralist economic thought. As is well known, capital controls were the norm in developing and wealthy countries in the decades that followed WWII [Helleiner 1996]. In the first several decades of its existence, the IMF supported capital controls, a position that was consistent with and reflected the views of the economics profession (and notably, the views of John Maynard Keynes) and public figures (such as the US Treasury's Harry Dexter White) [Crotty, 1983; Helleiner 1996]. Keynes famously observed that "control of capital movements, both inward and outward, should be a permanent feature of the post-war system" [cited in Crotty, 1983:62]. And Keynes and White agreed that in order for capital controls to work properly that coordination between source and recipient countries was needed [Helleiner, 1998:38]. Support for capital controls came from other intellectual traditions as well. Raul Prebisch, the intellectual father of Structuralism (a central tradition in development economics), argued prior to Keynes that capital controls were an essential tool of counter-cyclical and exchange rate management [Perez and Vernengo, 2012; Gallagher, 2012b].

3. ENABLING CAPITAL CONTROLS DURING THE GLOBAL FINANCIAL CRISIS

A range of factors has facilitated the reemergence and legitimization of capital controls during the current crisis. For ease of exposition I will discuss them separately, though as will become clear I do not think of them as "independent variables" that can be summed up to give a full account. Instead, I see the factors as thoroughly interdependent and cumulative.

Emerging State Autonomy in the Developing World

Precisely because of the constraints on policy space that followed the East Asian crisis, the crisis created momentum around the idea that developing countries had to put in place strategies and institutions to protect against future encroachments on their autonomy and sovereignty. The explicit goal was to escape the IMF's orbit. To the extent possible, developing country policymakers sought to accomplish this aim by relying on a diverse array of strategies: the attraction of international private capital inflows; the establishment of swap arrangements among central banks; and most importantly, self-insuring against future crises through the over-accumulation of reserves.[5] The experience of the Asian crisis and IMF intervention in the region, in fact, had powerful behavioral effects on the reserve accumulation strategies of central banks and governments that extend well beyond the region. These behavioral changes in turn have given some policymakers the means to increase their relative policy autonomy. Policymakers in rapidly growing developing countries (such as Brazil, China, Turkey, South Korea, Argentina, South Africa, Russia) have amassed massive pools of foreign exchange reserves in order to enhance the prospects of financial stability and to self-insure against the possibility of future IMF conditionality.[6]

How extensive are the increases in foreign exchange reserves in the post-Asian crisis period? From 2000 to 2012 (third quarter), global foreign exchange reserves increased by 456%, from $1.9 trillion to $10.7 trillion.[7] Emerging and developing countries (with reserves of $7.1 trillion in the third quarter of 2012) accounted for 72.5% of the increase. Foreign exchange reserve holdings relative to GDP have also increased dramatically over the last three decades. In the 1980s, foreign exchange reserve holdings by developing countries were equal to about 5% of their GDP. This figure has doubled every decade since then, reaching around 25% of GDP by 2010 [Ghosh, Ostry, and Tsangarides, 2012:3]. These figures are in stark contrast to reserve holdings in OECD countries: in 2000 OECD countries held reserves of $1.3 trillion (5.1% of GDP). By the start of 2011 OECD reserves had grown to $3.4 trillion (8.1% of GDP) [Dadush and Stancil, 2011].

Reserve holdings are highly concentrated among regions in the developing world, and are also concentrated within particular developing countries. Over 90% of developing country reserves are held in the 20 largest holders (which now have enough reserves to cover over a year of imports or their short-term debt nearly five times over) [Dadush and Stancil, 2011]. Among developing countries the largest reserves as of 2010 were held by countries in what the IMF terms Developing Asia (with $3,658.4 billion in reserves, of which China held $2889.6 billion in reserves), the Middle East and North Africa (with reserves of $1,107.5 billion), Latin America and the Caribbean (with $651.4 billion in reserves, of which Brazil held $287.5 billion and Mexico $120.3 billion), and the Commonwealth of Independent States (with $566.8 billion in reserves, of which Russia held $456.2 billion).

The over-accumulation of reserves has been facilitated by a variety of circumstances: the boom in commodity prices; the ability of some countries to maintain current account surpluses by sustaining low production costs in consumer goods; the persistent appetite for imported energy, low-cost consumer goods, and capital goods in wealthy countries (itself a consequence of many factors, such as deindustrialization, energy policy, income inequality and wage compression in these countries); and the need to find an outlet for the vast pools of liquidity that were created during the recent long boom. Though this hoarding

[5] We might think of these strategies collectively as promoting resilience and even what Nassim Taleb [2012] refers to as "anti-fragility," or the ability to thrive in periods of instability.

[6] This is the precautionary or self-insurance motive for excess reserve accumulation. Moreover, over-accumulation of reserves facilitates export-led growth since states with sufficient reserves can sterilize capital inflows so as to maintain an undervalued exchange rate. This is often referred to as modern mercantilism [Ghosh, Ostry, Tsangarides, 2012].

[7] Reserve data from IMF, COFER (IMF, 2012a; unless otherwise noted).

of reserves enhances financial resilience and policy autonomy it nevertheless entails important opportunity costs for reserve holding countries (as Rodrik [2006] and Gallagher and Shrestha [2012] have argued).[8]

Data on official reserves do not provide a complete picture of the resources that enable some developing countries to enjoy an increase in policy autonomy. Developing countries with large reserves generally transfer a portion of their holdings to sovereign wealth funds to be managed separately (from official reserves) so as to maximize the returns on these assets. At the end of 2010 developing and emerging economy funds held the majority of sovereign wealth fund assets ($3.5 trillion of the $4.3 trillion held globally in such funds).[9] Oil-producing countries hold three quarters of all sovereign wealth fund assets, and $800 billion is held by funds in East Asia. As of March 2011, there were forty-one sovereign wealth funds maintained by developing and emerging economies.[10] Ten developing and emerging economy sovereign wealth funds held assets between $100 and $627 billion.

Generally sovereign wealth fund managers invest in longer-term, less liquid assets [Griffith-Jones and Ocampo, 2008].[11] Though the explicit function of sovereign wealth funds is not to promote financial stability, a speculative attack against a country's currency is less likely to occur when governments have signaled that reserves are so large as to justify cleaving off some of them to capitalize a sovereign wealth fund. In this way, the presence of large sovereign wealth fund assets may enhance policy autonomy by making it less likely that a country will experience an attack on its currency.

In sum, considerable resources are available in both official reserves and sovereign wealth funds held by developing countries. Though these two pools of finance serve different roles, they both contribute to an environment wherein developing-country policymakers now have the material means to enjoy increasing policy autonomy relative to the IMF during the current crisis. Robust economic growth and commodity price inflation have contributed to policy autonomy by amplifying reserves.[12] In short, policymakers in a number of developing countries now have the ability to deploy capital controls without much worry about negative reactions by investors or the IMF. Indeed, capital controls have become necessary in some national contexts precisely because of the strong performance of some developing countries during the crisis (a matter to which we return below).

Reserve accumulation and the related growth in sovereign wealth fund assets also enable developing country policymakers to finance counter-cyclical macroeconomic policies that (like capital controls) were unavailable to them during previous crises. There is, in fact,

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[8] Many have claimed that excess reserve accumulation poses other problems as well—namely, it can contribute to global financial instability insofar as global imbalances contribute to fragility.

[9] Data in this paragraph from Griffith-Jones [2011:8-9].

[10] In 2011 the governments of India, Peru, Colombia, Panama, and Bolivia began to discuss launching sovereign wealth funds [Singh, October 31, 2011; ft.com, September 23, 2011].

[11] Though Norway's sovereign wealth fund is exceptional since it reportedly holds 40% of its assets in equities, which are quite liquid.

[12] This is likely to be sustained even as economic conditions deteriorate since the reserves now on hand appear to be more than ample.

evidence that sovereign wealth funds in some developing countries supported domestic banking systems by depositing assets in them and recapitalizing banks, while some also increased domestic stock purchases [Park and van der Hoorn, 2012].[13] The enabling effect of reserve and sovereign wealth accumulation is part of a broader, supportive set of economic conditions that collectively enhance policy space in many developing countries during the current crisis. These broader, supportive conditions include the reduction in external public sector debts; the development of domestic bond markets after the Asian crisis; healthy financial sector performance in some countries; and the counter-cyclical support offered by multilateral, and especially regional and sub-regional financial institutions and some national development banks [Ocampo et al., 2010].

Increasing Assertiveness of Developing Country Policymakers

A number of developing country policy makers have demonstrated an eagerness to take advantage of the increased autonomy they now enjoy. I explore here three "indicators" of increasing assertiveness: the use of counter-cyclical macroeconomic policies; innovation in financial architecture; and a new activism at the IMF. (A fourth indicator of a new assertiveness is the frequency and context in which capital controls have been deployed during the current crisis. We will treat this matter separately in the next section of the paper.)

Counter-cyclical macroeconomic policies
Those developing countries that have been able to maintain and even expand their autonomy during the crisis have used the resulting policy space to pursue a variety of counter-cyclical macroeconomic policies.[14] This marks a sea change in the behavior of developing country policymakers from the past, when macroeconomic policy during crises was strongly pro-cyclical.

When we look across the developing world we find diverse and uneven counter-cyclical macroeconomic policy responses to the crisis. Ocampo et al. [2010] is the most comprehensive survey of counter-cyclical policy responses to the crisis in the developing

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[13] Some developing country sovereign wealth funds also played a counter-cyclical role outside their borders. For example, some increased their exposure to euro area assets and participated in the European Financial Stability Fund's inaugural bond issue in 2011 [Park and van der Hoorn, 2012]. It is estimated that the sovereign wealth funds of China, Singapore, and several Middle Eastern countries provided around $80 billion in recapitalization to financial institutions in Europe and the US in late 2007 and early 2008 [BIS, 2009: 153; Campanella, 2012:20].

However, some decisions by sovereign wealth funds have been pro-cyclical and destabilizing [Drezner, 2008:118]. Some developing country sovereign wealth funds also lost a great deal of value because of overseas equity investments during the crisis [Campanella, 2012]. More broadly, there is debate in the literature on whether these funds should be seen as developmental and financially stabilizing. See Helleiner [2009] for discussion of how sovereign wealth funds may contribute to a growing financialization of the state.

[14] Some observers have rightly advocated for a more aggressive and consistent shift toward countercyclical policy [e.g. Ffrench-Davis, 2010].

world, and so we draw from this study in what follows.[15] They find that counter-cyclical policies tended to be more powerful in larger, less financially liberal economies (such as China, Brazil and India), and that monetary policy in most developing countries was expansionary. Monetary policy instruments were diverse, and involved the reduction of reserve requirements, the provision of credit to exporters and private firms, and an active role for public sector banks (especially in Brazil, China and India). The same study finds that fiscal policy responses were also counter-cyclical, though their magnitudes varied substantially. The most expansionary fiscal policies were in East Asia (indeed 7 out of 13 developing countries in the region had fiscal packages that were equal to more than 5% of GDP). South Asian countries also had strongly expansionary fiscal policies (despite the presence of high debts and deficits at the start of the crisis). Sub-Saharan African countries ran very active counter-cyclical fiscal policies (e.g., Kenya, Mauritius, South Africa, Tanzania, though Botswana is an exception). In Latin America, the picture was more mixed. Chile ran the clearest counter-cyclical fiscal policy; other countries in the region had more modest increases in public sector spending amounting to over 2% of GDP (e.g., Argentina, Costa Rica, Paraguay); while some countries reduced public spending (e.g., Bolivia, Dominican Republic). China deployed the most ambitious program of counter-cyclical support—in 2009 and 2010 it was equivalent to around 14% of the country's GDP.

As discussed previously, supportive economic conditions enabled many developing countries to pursue counter-cyclical policies (and, as we will see, capital controls) without fearing the reaction of investors and the IMF. In addition, the ideational climate, especially in the first few years of the crisis, was supportive of national policy responses that sought to protect developing countries from the crisis. Here I am referring to the outbreak of Keynesianism at the G-20 during 2008-2009. And even after the G-20 switched to an austerity message in 2010, expansionary monetary policies in the US and Japan through 2012 and early 2013 helped normalize counter-cyclical policies and capital controls in developing countries.[16]

Innovation in financial architectures

Another indicator of the increased appetite for autonomous action by developing country policymakers is given by the expansion of existing and the creation of new regional, sub-regional, bilateral and multilateral financial institutions and arrangements during the crisis. The Asian crisis had earlier turned attention in the region to the creation of an institution that could serve as a counterweight or an alternative to the IMF. In that context, Japan's Ministry of Finance proposed in the summer of 1997 the creation of an Asian Monetary Fund, an institution that would provide emergency financial support—*sans* the IMF's conditions--to countries in the region that were caught up in the crisis [see Kirshner, 2006; Grimes, 2009]. The proposal was eventually tabled in the wake of tensions between Japan and China. As with the Asian crisis, the current crisis has promoted interest in the creation of institutions that deliver liquidity support and which complement or (perhaps)

[15] See Kasekende, Brixova, and Ndikumana [2010] for extensive discussion of counter-cyclical monetary and fiscal policies in Africa; Barbosa [2010] on Brazil; and Reddy [2010] on India.

[16] The IMF's rhetorical attention to pro-poor spending during the crisis also enabled counter-cyclical policies [Grabel, 2012].

substitute for the IMF. The current crisis has also stimulated interest in the creation of alternative means for delivering trade and long-term (project) finance. These initiatives have been given life by the new economic environment in which many developing country policy makers find themselves. There are far too many of these initiatives to discuss comprehensively here (but see Grabel [2012] and Chin [2012]). In what follows I provide a few illustrative examples of these institutional innovations as suggestive evidence of the increasing assertiveness of developing country policymakers during the crisis.

Central banks of the Association of Southeast Asian Nations, plus China, Japan and South Korea, have expanded the scope of the Chiang Mai Initiative. This arrangement, now known as the Chiang Mai Initiative Multilateralisation (CMIM), is a regional reserve pooling arrangement. CMIM members have also been prompted by the crisis to make some progress on long-standing governance issues involving the CMIM's relationship to the IMF. Indeed, decisions taken in May 2012 (to double the size of the CMIM reserve pool to US$ 240 billion and to loosen its link to the IMF) underscore the way in which the global crisis is stimulating a broadening and deepening of regional financial liquidity support arrangements despite political and historical obstacles to doing so.[17]

The re-emergence of more populist governments in Latin America and the success of large commodity exporters in the region have stimulated growth of regional, sub-regional, bilateral, and unilateral initiatives. One such initiative is the Latin American Reserve Fund (FLAR). Like CMIM, FLAR is a regional reserve pooling arrangement; its capitalization and the modalities by which it provides financial support to distressed countries has broadened considerably during the current crisis. Another Latin American institution, the Latin American Development Bank, has taken on an increasingly active and important role in the region during the crisis. Latin America is also home to two new (and related) initiatives that bear mention--the Bank of the South and the Bolivarian Alliance for the Peoples of Our Americas. In 2012 the BRICS countries (namely, Brazil, Russia, India, China and South Africa) began discussions about the creation of a new development bank, a credit rating agency and a reserve pooling arrangement. Preliminary proposals for operationalizing these institutions and arrangements are to be discussed at the BRICS Summit in South Africa in March 2013. There are also a variety of bilateral initiatives among developing countries, especially involving currency swaps and mechanisms aimed at settling trade transactions without using the US dollar as the vehicle currency (e.g., between Brazil and Argentina, and more broadly among a group of twelve Latin American nations). During the current crisis national development banks (such as Brazil's National Bank for Economic and Social Development and China's Development Bank) have also become active lenders outside their borders and regions.

Collectively, the innovations that I have briefly surveyed here suggest that a significant group of developing country governments has been stimulated by the current crisis to push forward on architectural initiatives that express an increasing self-confidence and an appetite for increasing autonomy from the IMF and World Bank. Some of these institutions

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[17] See Grabel [2012]; see Grimes [2011] for a skeptical view, and Wade [2013] for a strongly dissenting view on the prospects of breaking the CMIM-IMF link.

will no doubt fail to achieve their promise. But taken together they represent a central part of the messy, uneven landscape of change that has emerged during the crisis. Moreover, it is conceivable that innovations in IMF views and practice on capital controls stem partly from attempts to protect the institution's franchise from perceived or actual competition from these institutional innovations.[18]

New roles, new pressures at the IMF

Finally, the increasing assertiveness of developing countries is given expression in the new role that they have taken on at the IMF during the current crisis. The IMF now finds itself dependent on raising new resources from vibrant developing countries. Developing countries have now twice been called upon to and have committed funds to the IMF. Most important about these new commitments is that they reflect the economic power of rapidly growing economies and the IMF's evolving relationships with some of its former clients. Indeed, at the same time that developing countries have begun to contribute substantial funds to the IMF they have become more outspoken in demands for overdue reform of the institution's formal governance.

The first of these new commitments by developing countries came about at the April 2009 G-20 meeting. For the first time in the institution's history, several developing countries committed to purchase the IMF's first issuance of its own bonds: China committed to purchase $50 billion while Brazil, Russia, South Korea and India each committed to purchase $10 billion. Thus, $90 billion of the $500 billion in new resources for IMF lending came from countries that have traditionally not played an important role in Fund governance, and which never committed funds to recapitalize the institution.

As the Eurozone crisis continued to unfold, IMF Managing Director Lagarde began in late 2011 to call again on developing countries to step forward with a second tranche of commitments to the institution (while also seeking new resources from wealthy countries). Among developing countries Brazil's government was initially most receptive. However, Brazil's President Rousseff refused to announce the dollar amount of the country's new contribution until she was apprised of plans for IMF governance reform and until a later BRICS-wide conversation on the matter could take place. Never one to miss a chance to note historical ironies, Brazil's Finance Minister Mantega quipped during Lagarde's 2011 visit: "[i]t's a great satisfaction to us that this time the IMF did not come to Brazil to bring money like in the past but to ask us to lend money to developed nations" [ft.com, December 2, 2011]. New funding commitments from developing countries were announced in June 2012 when BRICS leaders met informally on the eve of the G-20 Leaders' Summit in Mexico. China committed $43 billion; Brazil, Russia and India each committed $10 billion, while

[18] There is some anecdotal evidence that the Fund is beginning to face competition from other institutions, even its sister institution the World Bank. For instance, Wade [2010:fn10] points out that the IMF is losing new business to the World Bank outside of the European rescues. And he notes that even in Europe, Turkey broke off negotiations with the Fund in early March 2010 because of the severity of its conditions. A few weeks later the country negotiated a $1.3 billion loan with the Bank.

South Africa pledged $2 billion. This meant that the BRICS countries pledged $75 billion of the $456 billion in new funding for the IMF to come from G-20 countries.[19]

The contributions by the BRICS countries were pointedly conditioned on IMF governance reform. Brazil's Mantega stated the BRICS position quite clearly when he said that the promise of additional funding was tied to "an understanding that the reforms of the Fund's quotas, which will result in a greater voting power for emerging countries, will be implemented according to the timetable agreed by the G20 in 2010" [ft.com, June 19, 2012]. As of this writing, the US has not yet ratified the very modest 2010 agreement on IMF governance reform, and the matter remains stalled at the IMF (and at the World Bank) [see Wade, 2013, on the Bank]. This perhaps makes it more likely that the BRICS countries will continue to explore the development of their own financial arrangements and institutions, which in turn increases the possibility that the IMF may face some competition in the coming years.

A Chastened IMF

The IMF emerged from the Asian crisis a greatly weakened institution. Indeed, prior to the current global financial crisis, demand for the institution's resources was at an historic low. From 2003 to 2007, the Fund's loan portfolio shrunk dramatically: from $105 billion to less than $10 billion, while just two countries, Turkey and Pakistan, owed most of the $10 billion [Weisbrot et al., 2009a]. After the loans associated with the Asian crisis were repaid, the scope of the Fund's loan portfolio contracted dramatically since those countries that could afford to do so deliberately turned away from the institution. This trend radically curtailed the geography of the IMF's influence.

The dramatic decline in the IMF's loan portfolio after the Asian crisis indicates the degree to which these escapist strategies proved to be successful. Even in the context of the current crisis, countries did their best to stay clear of IMF oversight. Indeed, South Korea would have been a good candidate for a new type of (precautionary) Flexible Credit Line with the Fund. But it did not apply for the credit line, presumably because of its prior experience and to avoid the stigma of being one of the IMF's clients again [Wade, 2010:fn10]. Instead, it negotiated a reserve swap with the US Federal Reserve.

The current crisis has rescued the IMF from its growing irrelevance by re-establishing its central place as first responder to financial distress. This re-empowerment has come about for a number of reasons. Even with reduced staffing the Fund still holds a monopoly position when it comes to experience in responding to financial distress in poorer countries. Moreover, the IMF's rescue was facilitated by G-20 and Eurozone leaders' decisions during the crisis [Lütz and Kranke, 2013]. Representatives at the April 2009 meeting of the G-20 gave the IMF pride of place in crisis response efforts. The message was not lost on the Fund's former Managing Director, Strauss-Kahn who, at the meeting's end

[19] The BRICS countries committed the new funds (via bilateral loan agreements) with the understanding that they are only to be drawn upon after the IMF's existing resources are substantially utilized. This condition makes the use of these new resources highly unlikely in practice [Chowla, 2012].

said: “Today is the proof that the IMF is back!” [Landler and Sanger, 2009]. The meeting not only restored the IMF’s mandate but also yielded massive new funding commitments to the institution. Representatives committed $1.1 trillion in funds to combat the financial crisis, with $750 billion of that amount to be delivered through the IMF. The crisis has reinvigorated not only the IMF, but also other multilateral financial institutions (such as the World Bank and the Inter-American Development Bank).

As previously discussed, during the crisis developing countries emerged as lenders to the IMF on two occasions. And even after a group of developing countries agreed to recapitalize the IMF in the spring of 2012, the IMF’s Lagarde was still highlighting the fact that other developing countries were economically strong enough to offer support. Indeed, during a visit to Colombia in December 2012 Lagarde noted “that [the country] is in a situation where it can offer support to the [IMF], which has not happened in the past” [Colombia Reports, December 10, 2012].

In sum, then, the IMF has experienced conflicting developments. It has discovered new vitality as a first-responder to economic distress while at the same time facing a substantially diminished territory over which it can dictate economic policy. The newly resurrected institution faces a dramatically altered landscape. It no longer enjoys wall-to-wall influence across the developing world. The geography of its influence is now significantly curtailed as a consequence of the rise of relatively autonomous and increasingly assertive states in the developing world. The Fund may also be facing potential competition from evolving and nascent financial arrangements in the developing world. The institution’s staff today faces the challenges of restoring and protecting its franchise in an environment where many former client states are able to walk on their own. Hence, the IMF appears to be forced to negotiate to retain the influence that it was able to take for granted not so long ago. We see this negotiation not least in the domain of capital controls, where the IMF now often finds itself responding after the fact to policy decisions implemented unilaterally by assertive developing country governments and central banks. Relatedly, even where it retains substantial authority its economists are responding to the current crisis in some ways that diverge from their recent past practice. We turn to these matters in what follows.

The Crisis, Winners and Losers

The current crisis is marked by many firsts, such as developing country support to the IMF. Another departure from the old script is that some developing countries have emerged as winners during the crisis. Many of the countries that have put capital controls in place faced not the usual developing country problems of capital flight and attendant currency collapse. Rather, they faced “too much of a good thing”—namely, asset bubbles, inflationary pressures and currency appreciations induced by large international private capital inflows. The use of capital controls by winning economies (some of which are also lending to the IMF), may well figure into their acceptance by the IMF and international investment community. As each country deploys capital controls with no ill effects on investor sentiment and no finger wagging by the IMF, it becomes easier for policymakers elsewhere to deploy the controls they deem appropriate. And they are doing so with the consequent effect of destigmatizing this instrument.

Capital controls in losing economies
Some countries have used capital controls during the current crisis for the more usual reasons of protecting against currency collapse and/or severe financial turbulence. In these cases, the IMF tolerated controls on outflows, and in the case of Iceland encouraged expanding their coverage. Iceland's policymakers put outflow controls in place to slow the implosion of the economy before signing a stand-by arrangement (SBA) with the IMF in October 2008. The country faced the prospects of disorderly deleveraging and the damaging effects of unwinding the carry trade because of large non-resident krona holdings [IMF, 2012b]. The SBA with the Fund made a very strong case for the maintenance and extension of outflow controls as means to restore financial stability and to protect the krona from collapse.

Not surprisingly, given the IMF's long-held allergy to capital controls, the institution's staff was questioned repeatedly in news conferences on Iceland on what seemed to be an abrupt about face. Fund staff repeatedly said that the outflow controls were crucial to prevent a free fall of the currency, that they were explicitly temporary, and that it was a priority of the Fund to end all restrictions as soon as possible. These temporary outflow controls have turned out to have quite a long life span—indeed the central bank is not planning to phase out the 2008 controls until 2015 in view of the severe risks that the economy still confronts. Iceland's use of outflow controls continues to receive praise from many quarters—e.g. the IMF's Mission Chief in the country stated that "capital controls as part of an overall strategy worked very, very well" [WSJ, 5/21/12]; the Deputy Director of the IMF's European Department said they provided "breathing room" for the country to figure out "how to deal with the enormous challenges…ahead" [Thomsen, 2011]; the Deputy Managing Director of the Fund stated that "unconventional measures [as in Iceland] must not be shied away from when needed" [IMF.org, October 2011]; and the rating agency, Fitch, praised the country's "unorthodox crisis policies" when it announced that it was raising its credit rating to investment grade in February 2012 [Bloomberg.com, August 27, 2012].[20]

The IMF's stance with respect to Iceland's outflow controls initially appeared anomalous. But it soon became clear that it marked a dramatic precedent and revealed a change in thinking about capital controls that was far more consistent than that observed in the 1990s. For example, the SBA with Latvia in December 2008 allowed for the maintenance of pre-existing restrictions arising from a partial deposit freeze at Parex, the largest domestic bank in the country [IMF, 2009c]. Soon thereafter, a Fund report acknowledged that Iceland, Indonesia, the Russian Federation, Argentina and Ukraine all put capital controls

[20] See Krugman [October 2011] and Wade and Sigurgeirsdottir [2012] on the broader lessons of Iceland's crisis-recovery strategy. They argue that Iceland broke the rules not just by using outflow controls, but also by failing to bail out the banks (and foreign depositors) and by expanding public spending. None of this is to imply that neo-liberals in Iceland are sanguine about the country's unorthodox response or the IMF's advice to the country (especially on capital controls) [e.g., Arnason and Danielsson, 2011].

on outflows in place to "stop the bleeding" related to the crisis [IMF, 2009a]. This report neither offers details on the nature of these controls nor commentary on their ultimate efficacy, something that further suggests that capital controls—even and most notably on outflows—are increasingly taken for granted by the Fund.[21]

Capital controls in winning economies

Policymakers in a far larger set of developing countries have deployed and adjusted capital controls to curb the fallout from their strong performance during the current crisis. Brazil is a particularly interesting case since the country's government (particularly Finance Minister Mantega) has been such a strong voice during the crisis on policy space for capital controls. The IMF's changing stance regarding Brazil's capital controls also provides a window on the evolution and continued equivocation in the views of Fund staff on capital controls.

In late October 2009, Brazil began to utilize capital controls (after a long period of liberalizing capital flows). It imposed capital controls via a tax on portfolio investment. The controls were self-described as modest, temporary and market-friendly; they were intended to slow the appreciation of the currency in the face of significant international capital inflows. Initially they involved a 2% tax on money entering the country to invest in equities and fixed-income investments, while leaving foreign direct investment (FDI) untaxed. Once it became clear that foreign investors were using purchases of American Depository Receipts issued by Brazilian corporations to avoid the tax, the country's Finance Ministry imposed a 1.5% tax on certain trades involving them.

The IMF's initial reaction to Brazil's controls on capital inflows was ever so mildly disapproving. A senior official said: "These kinds of taxes provide some room for maneuver, but it is not very much, so governments should not be tempted to postpone other more fundamental adjustments. Second it is very complex to implement those kinds of taxes, because they have to be applied to every possible financial instrument," adding that such taxes have proven to be "porous" over time in a number of countries. In response, John Williamson and Arvind Subramanian indicted the IMF for its doctrinaire and wrong-headed position on the Brazilian capital controls, taking the institution to task for squandering the opportunity to think reasonably about the types of measures that governments can use to manage surges in international private capital inflows [Subramanian and Williamson, 2009]. A week later the IMF's Strauss-Kahn reframed the message on Brazil's capital controls. The new message was, in a word, stunning: "I have no ideology on this"; capital controls are "not something that come from hell" [cited in Guha, 2009].

The Brazilian government continued to strengthen and indeed layer new types of controls over existing ones as it dealt with a high volume of inflows and as officials sought to close

[21] Ukraine's 2008 outflow controls introduced a five-day waiting period on non-resident conversion of local currency proceeds from investment transactions to foreign currency. A recent Fund report mentions in passing that the controls were not effective [IMF, 2012c:fn68], though the modest nature of the measure hardly tests the efficacy of outflow controls.

new channels of evasion. In 2010 the tax charged on foreign purchases of fixed-income bonds was tripled (from 2 to 6%). The controls taxed foreign equity purchases at a lower rate (i.e., the 2% rate in place since 2009), and FDI was not taxed at all. This is a particularly good example of fine tuning controls so that they affect the composition, rather than the level of foreign investment. (Indeed, numerous IMF reports, as well as those by scholars such as Gallagher 2011a, note the effect of Brazil's capital controls on the composition of capital inflows.[22]) In March 2011 Brazil imposed new capital controls, this time on foreign purchases of domestic farmland, and also increased to 6 percent a tax on repatriated funds raised abroad through international bond sales and new, renewed, renegotiated or transferred loans with a maturity of up to two years (the previous limit was up to 360 days). In August 2011, policymakers placed a 1% tax on bets against the US dollar in the futures market. Notably, in an August 2011 review of Brazil, IMF economists called the use of capital controls "appropriate" [Bloomberg.com, August 31, 2011].[23] In a similar vein, an IMF Article IV report on Bangladesh credits the effective closure of the country's capital account with its ability to avoid the global "flight to safety" in the early moments of the current crisis [IMF, 2010a].

Like Brazil, many other well performing developing countries have implemented and dynamically adjusted controls on outflows and especially on inflows during the crisis. Some have strengthened existing controls, while others continue to introduce new measures. For some countries (such as Argentina, Ecuador, Venezuela, China, and Taiwan) these measures are part of broader dirigiste or heterodox approaches to economic policy. For most other countries (e.g., Brazil, South Korea, Indonesia, Costa Rica, Uruguay, the Philippines, Peru, and Thailand), capital controls are part of a multi-pronged effort to respond to the challenges of the currency appreciations (and in some cases, inflationary pressures) associated with attracting too much foreign investment and global carry trade activity.

In December 2008 Ecuador implemented a number of measures governing inflows and outflows. In terms of outflows, it doubled the tax on currency outflows, established a monthly tax on the funds and investments that firms kept overseas, and also sought to discourage firms from transferring US dollar holdings abroad by granting tax reductions to firms that re-invest their profits domestically. In terms of inflow controls, the government established a reserve requirement tax (in the form of an unremunerated reserve requirement) [Tussie, 2010].[24] In October 2010, Argentina and Venezuela implemented controls on outflows: in Argentina they involve stricter limits on US dollar purchases; in

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[22] Gallagher [2011a] also finds that taxes on foreign investment in Brazil during 2009 and 2010 were associated with a lower level of currency appreciation, an eventual slowing of the currency's appreciation, and increased monetary policy space. These effects were particularly strong when the tax was increased to 6%.

[23] Curiously in the same month Canadian Prime Minister Harper used some of his time in the country inexplicably to lecture the government about the need to dismantle capital controls [Bloomberg.com, August 8, 2011]. His advice was ignored.

[24] As Tussie [2010] notes, what is particularly interesting about Ecuador's measures is that they demonstrate that even a dollarized country has more policy space than is usually understood.

Venezuela they involve new restrictions on access to foreign currency.[25] Argentina's capital controls were strengthened considerably on several occasions during 2011. In October 2011, all dollar purchases in Argentina had to be authorized by tax authorities, and the country's oil and gas companies were required to repatriate all export proceeds and convert them to pesos [ft.com, October 30, 2011]. Unlike the other capital controls implemented during the current crisis, the 2011 measures in Argentina did lead to a ratings downgrade (on oil and gas companies by Moody's). However, this may have as much to do with the capital controls as with the nationalization of a Spanish oil company and the government's on-going conflict with foreign investors and the IMF [Bloomberg.com, October 31, 2011].

Peru has been deploying a variety of inflow controls since early 2008. The country's reserve requirement tax was raised three times between June and August 2010 and again in May 2012 as the central bank sought to address currency appreciation (and inflation) pressures. The May 2012 measures included a 60% reserve ratio on overseas financing of all loans with a maturity of up to three years (compared to two years previously) and curbs on the use of a type of derivative [ft.com, May 1, 2012].[26] What is particularly interesting about Peru's measures is the way in which they are being branded by the central bank. The Central Bank President maintains that the country does not need capital controls despite the fact that the reserve requirement tax in place since 2008 is a capital control [Bloomberg.com, January 25, 2013]! It may be that the Central Bank is branding its inflow controls as something other than they are because the country's 2006 free trade agreement with the US makes it vulnerable to lawsuits by investors who believe themselves harmed by controls.

In August 2012, Uruguay began to utilize a reserve requirement tax of 40% on foreign investment in one type of short-term debt issued by the country's central bank [Reuters.com, August 16, 2012]. Currency pressures also caused Costa Rica to use capital controls for the first time in twenty years. The country began to use capital controls in September 2011 when it imposed a 15% reserve requirement tax on short-term foreign loans received by banks and other financial institutions [LatinDADD-BWP, 2011]. In January 2013, the country's President began to seek Congressional approval to raise the reserve requirement tax to 25%, while also seeking authorization to increase to 38% (from 8%) a levy on foreign investors who transfer profits from capital inflows out of the country. Taking a page perhaps from the rhetorical strategy of Brazil's President and Finance Minister, Costa Rica's President Chinchilla called capital inflows "weapons of mass destruction" [Bloomberg.com, January 24, 2013].

Numerous countries in Asia deployed new or strengthened existing capital controls during the crisis. Indeed, the Asian Development Bank gave its blessing to capital controls aimed at battling the risks of inflow surges in 2010 [Bloomberg.com, May 18, 2010]. In November 2009, Taiwan imposed new restrictions on inflows to reduce speculative pressures from

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[25] Argentina has not had a completely open capital account since its 2001 economic crisis (after which it began to pursue more heterodox economic policies).

[26] The Central Bank also intensified currency market interventions to address appreciation pressures.

overseas investors. The controls preclude foreign investors from placing funds in time deposits in Taiwan; at the end of 2010, controls on currency holdings were strengthened twice [Gallagher, 2011a]. In 2010, China added to its existing and largely quantitative controls on inflows and outflows (such as those that involve preventing foreign investors from investing in the country's money or derivatives markets, and an intricate approval process that is required before foreigners can trade stocks or bonds) [Gallagher, 2011a]. In June 2010, Indonesia announced what its officials termed a "quasi capital control" that governs short-term investment. This awkward term might suggest that some governments are still afraid of the stigma of capital controls, and so are either denying their existence (as in Peru) or doing all they can to label them so as to reduce the potential stigma. Indonesia's inflow controls seek to dampen speculation in the country via a one-month holding period for central bank money market securities, the introduction of longer maturity instruments, and new limits on the sales of central bank paper by investors and on the interest rate on funds deposited at the central bank.

Thailand began to deploy capital controls in October 2010: authorities introduced a 15% withholding tax on capital gains and interest payments on foreign holdings of government and state-owned company bonds. In December 2012, officials in the Philippines announced limits on foreign currency forward positions by banks and restrictions on foreign deposits [Bloomberg.com, December 26, 2012]. South Korean officials also began to introduce controls on inflows in June 2010. Controls limit the amount of currency forward and derivatives trading in which financial institutions can engage, and limit the foreign currency loans extended by banks to local companies. Since October of 2010, regulators have audited lenders working with foreign currency derivatives. Since 2011 they have levied a tax of up to .2% on holdings of short-term foreign debt by domestic banks (with a lower tax levied against longer term debts), banned "naked" short selling, and reintroduced a tax on foreign investment in government bonds sold abroad [Reuters.com, July 25, 2011]. In another sign of changing sentiments by the rating agencies, Moody's recently recommended that South East Asian countries could use capital controls to temper the appreciation of their currencies [Maqtulis, February 22, 2013].

It must be noted that policymakers in Brazil, Korea and China have loosened or abandoned particular capital controls during 2011 and 2012 as their economies began to slowdown and investors turned back to US markets. For example, Brazil lowered a tax on foreign equity flows to 0% in December 2011 and loosened a requirement on the average maturity of overseas borrowing by domestic companies [Forbes.com, June 14, 2012]. In January 2011 China loosened some of its outflow controls (such as the requirement that the country's exporters turn over their US dollar profits to the government in exchange for yuan) [Gallagher, 2011a]; in June 2012 it reduced some barriers to foreign ownership of domestic stocks and bonds [ft.com, June 21, 2012].

Similar pressures, divergent responses

Not all policymakers responded to the pressures of large capital inflows with capital controls, of course. Indeed, Turkish, Chilean, Mexican and Colombian policymakers have publicly rejected capital controls. Instead they have increased their purchases of dollars and, in some instances, have used expansionary monetary policy to stem currency appreciation. These divergent responses to similar pressures reflect many factors, not least of which are differing internal political economies, the continued sway of neo-liberal ideas, the long shadow cast by the belief that central banks must signal their commitment to neo-liberal strategies, and perhaps also pride associated with the problem of an excessively strong currency in countries that have so long faced the opposite problem. There may also be skepticism about the efficacy of capital controls, especially since Brazil's currency (and that of other countries' as well) appeared almost unstoppable for several years despite the many measures taken.

One other factor that explains the decision not to deploy capital controls in some national contexts is the fact that some countries simply cannot do so because of the strictures of bi- or multilateral trade and investment treaties with the US [Gallagher, 2010a, 2011b, 2012a; Shadlen, 2005; Wade, 2003]. Writing about NAFTA in the 1990s, Mead [1992] was prescient on this matter. He argued that the agreement was more about importing external constraints into domestic policy and tying the hands of any future (populist) policymakers than about promoting free trade. This constraining agenda has been quite successful since then. Indeed, the majority of the US' 52 existing bi- and multilateral trade and investment treaties make capital controls an actionable offense or prohibit them entirely [Anderson, 2011]. The basic template for these treaties requires that all parties allow capital and all transfers related to an investment to move "freely and without delay." The template also subjects governments that violate this to special dispute settlement mechanisms that allow investors to sue a government that imposes controls on inflows or outflows after a "cooling off period" (of six months to one year) [Anderson, 2011]. Governments face other strictures on capital controls from the obligations to liberalize financial services under the General Agreement on Trade in Services of the WTO [Gallagher, 2012a]. There are also particular constraints on the ability to use capital controls in the European context. Article 63 of the Lisbon Treaty of the European Union (EU) enforces open capital accounts across the EU and requires that members not restrict capital transactions with other countries.[27]

Turning back to the developing world, Chile's refusal to use capital controls during the current crisis may then have more to do with its free trade agreement with the US than with its own internal political economy. After all, the country's central bank pioneered in the 1990s inflow controls of the sort that are being used today in many developing countries [Grabel, 2003b]. But the free trade agreement (that went into effect in 2004) exposes the country to lawsuits by investors who demonstrate that they are harmed by capital controls. Costa Rica may soon test the limits of its own policy space. The country's policymakers have recently introduced some capital controls. But it cannot go any further with them because of its bilateral trade and investment treaties [LatinDADD-BWP, 2011]. By contrast, Brazil is free to utilize an array of controls because it has not signed a trade or

[27] This has important implications for countries on the European periphery that have not been able to use capital controls during the current crisis. Such countries enjoy less policy space to use capital controls than do many developing countries. I thank Rawi Abdelal for this point. Other strictures on the ability to use controls may be found in the OECD's Code of Liberalisation of Capital Movements, which also requires capital account liberalization as a condition for accession to the organization (though there are some exceptions that allow for temporary suspensions of liberalization) [see Abdelal, 2007 on the EU and OECD; see Gallagher, 2012a on OECD exceptions].

an investment treaty with the US. Future research will take up the matter of why some countries' policymakers push up against the limits of their trade and investment agreements (as in Costa Rica), while others do not (e.g. Chile). Policymakers in some countries may resort to rebranding capital controls if they do not have the appetite to push the limits of their trade or investment agreements (as with Peru), or if they otherwise fear being branded anti-free market (and hence, Indonesia's "quasi capital controls").

Notwithstanding some important national exceptions, the current crisis is marked by a radical departure from the recent past. Since 2008 many developing countries have implemented capital controls without seeking permission from the IMF. For most of these countries, controls are a response to the costs of economic success (their safe haven status and carry trade activity). It is hard to imagine that capital controls could have been rebranded as legitimate policy tools (rather than desperate and regrettable measures) as quickly and deeply as has been the case had it not been for the divergent effects of the crisis across the globe, and the initiatives of many of the winners from the economic crisis to assert control over financial flows. Just as history is written by the victors, so may it be the case that the resuscitation, rebranding and re-legitimizing of a forbidden policy tool depends primarily on the practices and strategies of those countries whose economic success grants them the latitude and confidence, and the influence over other countries, to not just "cheat" in this policy domain but to tear up the rule book altogether.

In addition, the rebranding of capital controls may have been facilitated by the fact that the pressures of the carry trade caused central bankers in wealthy countries to reconsider their long-held opposition to currency interventions and even capital controls. For example, the Swiss National Bank (SNB) intervened quite aggressively to curb the appreciation of the Swiss franc on several occasions during the current crisis (e.g., when speculation on Greece's exit from the euro was particularly intense). At that time, the head of the SNB, Thomas Jordan, announced that the Bank was considering capital controls on foreign deposits [ft.com, May 27, 2012]. More surprisingly, a top Bundesbank official signaled a softening in its traditional opposition to capital controls by stating that "limited use of controls could sometimes be appropriate" in the context of growing currency tensions [Reuters.com, January 24, 2013].

Finally, it may also be the case that controls on capital outflows have been legitimized by widespread acknowledgement of their success in Iceland (as well as by their use elsewhere). Outflow controls may still be seen in a different light than inflow controls, but the current crisis seems to have catalyzed a degree of rethinking on this instrument as well. We find suggestive evidence of this in the evaluation of Iceland's program by the IMF and the credit rating agencies, and (as we will see below) in recent IMF research and Executive Board statements regarding the circumstances under which (temporary) outflow controls are warranted.

A New Pragmatism in the Economics Profession and at the IMF

I have suggested that changing world circumstances have placed the IMF in a position of having to adjust to policy innovations by countries that no longer are under its control.

Certainly a new pragmatism at the institution is apparent. But there is also a deeper transformation underway—one operating at the ideational level.

Today IMF staff economists and leading academic (neoclassical) economists have pulled back from full-bore advocacy of the neo-liberal development model, and have even taken steps toward elaborating a theoretical and empirical case for capital controls. The rapid succession of financial crises over the past two decades may be having the effect of encouraging those economists at the IMF who have long had reservations about the neo-liberal model to give voice to their concerns and to assert themselves more effectively and consistently, particularly now that views on capital controls by academic economists are evolving rather significantly. After all, economists at the Fund are not immune to the loss of confidence of many economists in the models, theories and policy tools that have long dominated professional practice. A recent statement by the IMF's Chief Economist, Olivier Blanchard, is instructive in this regard: "We have entered a brave new world. The economic crisis has put into question many of our beliefs. We have to accept the intellectual challenge" [Blanchard et al., 2012:225].

My arguments about ideational change complement those advanced by constructivists (as discussed briefly in the introduction to this paper). However, I do not intend in what follows to engage in process tracing. Instead, I intend to explore diverse forms of evidence of ideational change regarding capital controls in the economics profession and within many quarters of the IMF.

Neoclassical economics and capital controls

Two views on capital controls predominated among neoclassical academic economists during the neoliberal era. The first was a minority view, associated with libertarian thought, which derided controls as violations of investor rights. This was a principled rather than a consequentialist opposition, and as such did not allow for renegotiation based on new evidence. In contrast, the majority (consequentialist) view within neoclassical economics claimed that controls were imprudent and costly interventions in the market. In this view, controls raise the cost of capital (especially for small and medium-sized firms) and generate costly evasion strategies. On balance, then, controls were seen to induce economic inefficiency and distributional disparities in countries that could hardly afford them.

In the context of the current crisis the first view lost some of its appeal, even though its most ardent defenders have not given up the ghost. For instance, Nobel Laureate Michael Spence bemoaned the recent use of capital controls in many countries [Dobbs and Spence, 2011].[28] More importantly, within neoclassical thought a new pragmatism has set in. Today there is great emphasis on the negative externalities associated with highly liberalized international financial flows. Liberalized short-term capital flows are now recognized to induce ambient risk that can destabilize the economy and, in the developing world context, imperil development. Capital controls are now increasingly theorized as a second-best strategy (in an imperfect world) that can reduce risk and dampen economic instability.

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[28] And some neo-liberals have rebuked the IMF for its support of capital controls in Brazil and Iceland.

Hence, what were formerly recognized as unwarranted economic interventions into otherwise efficient capital markets have now been rebranded in a Pigouvian sense as prudential financial regulation.

There are two dimensions to the raft of new academic research being done on capital controls by prominent neoclassical economists. This work is not explicitly linked together by its authors, but it is nevertheless complementary.

The first of these strands involves what are usually highly technical formal models using the tools of welfare economics [for a survey, see Korinek, 2011]. In this work, termed the "new welfare economics of capital controls," it is assumed that in an environment of uncertainty, imperfect information and volatility, unstable capital flows have negative externalities on recipient economies. Externalities are generated by capital flows because individual investors and borrowers do not know or find it advantageous to ignore the effects of their financial decisions on the aggregate level of financial stability or instability in a particular nation (for example, by ignoring systemic risk or the likelihood of firesales). Controls on capital inflows are therefore conceptualized as a type of Pigouvian tax that corrects for a market failure, rather than a cause of market distortions. Inflow controls induce borrowers to internalize the externalities of risky capital flows, and thereby promote macroeconomic stability and enhance welfare. In a related vein, Jeanne [2012] finds that it is optimal to impose a Pigouvian tax on debt inflows in a boom to reduce the risk and severity of the bust. He finds that Brazil's controls on inflows are consistent with the main features of the optimal prudential tax implied by this new welfarist theory. Furthermore, the optimal (prudential) tax should be what he terms "light touch," i.e., should fall on inflows, be counter-cyclical, and be differentiated by type of inflow (so that it is highest on those flows that are most dangerous, such as short-term or foreign currency debt). Brazil's controls fall into this category. Finally, he finds that there is theoretical support for the international coordination of capital account policies.

Variants on the Pigouvian argument bring reserve accumulation into the welfare analysis. For instance, Korinek [2012] argues that capital controls or reserve accumulation in one country leads to significant international spillover effects via lower world interest rates and greater flows to other countries. In this case, unilateral capital controls act as second best devices to correct an economic distortion. But if policymakers face an imperfect set of instruments (e.g., targeting problems or costly enforcement), then there is a role for multilateral coordination to mitigate the inefficiencies arising from such imperfections. Aizenman [2009] finds that a type of capital control can provide a subsidy to offset the costs of reserve accumulation in developing countries. He terms this a "Pigouvian tax-cum-reserve hoarding subsidy." In this model, a tax on external borrowing reduces the amount of reserves needed in developing countries at the same time as it finances reserve accumulation (via the very capital flows that expose the economy to the need to self insure in the first place).

A second strand of new research is empirical in nature and it now substantiates many of the theoretical claims of the welfarist approach. For example, Qureshi et al. [2011] study what they call prudential foreign currency-related measures, domestic prudential measures, and financial sector capital controls in 51 developing countries from 1995 to 2008. They find that both capital controls and foreign currency-related prudential measures are associated with a lower proportion of foreign currency lending in total domestic bank credit and a lower proportion of portfolio debt in total external liabilities. The study concludes that prudential and capital control policies in place during the boom have enhanced resilience during the bust of 2008. Even Forbes, a longstanding critic of capital controls, finds in new work [Forbes et al., 2011] that Brazilian taxes on foreign purchases of fixed-income assets between 2006-11 achieved one of its key goals of reducing the purchase of Brazilian bonds.[29] They find that controls had a blunt impact insofar as investors also cut their exposure to Brazilian equities even though the tax was assessed only on debt. Moreover, they also conclude that capital controls have what they view as negative spillover effects on investment in other countries as investors reduced their exposure to other economies that they deemed likely to follow the Brazilian example.

Another type of empirical work involves "meta analysis" of a large volume of existing empirical work. In their examination of policies that existed prior to the current crisis, Magud and Reinhart [2006] find that controls on inflows enhanced monetary policy independence, altered the composition of inflows, and reduced real exchange rate pressures (though evidence for the latter is less solid than for the first two findings). Their work also finds that inflow controls did not reduce the aggregate volume of net inflows. They find, finally, that outside of the Malaysian case (during the Asian crisis) there is little evidence for the success of outflow controls. It bears noting that in a larger meta analysis in 2011, Magud and Reinhart find the same results over a larger number of studies including some that focus on policies during the current crisis. Jeanne, Subramanian, and Williamson's [2012] meta analysis shows that free capital mobility seems to have little benefit in terms of long-run growth. In view of this finding, they conclude that the international community should not promote unrestricted free trade in financial assets, even in the long run. They tie this finding to research on the welfare economics of capital controls, and in doing so commend Brazil for the types of inflow controls it is using to curb the boom-bust cycle in capital flows. They argue further that the effective tax rate for market-based capital controls should not exceed 15%. They conclude by calling for the development of an international code of good practices under the auspices of the IMF, in coordination with the WTO, that would legitimize the use of capital controls while discouraging inappropriate uses so as to enable their optimal use and to prevent negative international spillovers. The coordination of controls, as we will see, has been a matter of great interest to the IMF in 2011 and 2012.

The IMF and capital controls

The changes in thinking on capital controls by academic economists are reflected in and reinforced by developments at three over-lapping levels of practice at the IMF: research,

[29] Gallagher [2011a] also finds that the capital controls in place from 2009-11 were relatively successful in Brazil (and Taiwan), and moderately successful in South Korea.

official statements by key officials, and policy recommendations by its staff.[30] Indeed, the ideas of economists at the Fund on capital controls have continued to evolve quite significantly and coherently during the crisis, a development that has contributed to the normalization of this instrument. By now, many reports by IMF research staff and statements by the institution's highest officials have documented that under certain (albeit restrictive conditions) capital controls are a legitimate part of the policy toolkit, and that they have had positive macroeconomic accomplishments in many countries.

Examples of the new research abound. An IMF report drafted early in the crisis states that the impact of the crisis on banking systems in low-income countries has been modest insofar as "(t)he existence of capital controls in several countries and structural factors have helped moderate the direct and indirect effects of the financial crisis" [IMF 2009b:9, fn9]. A joint report by the World Bank and Fund discusses capital controls in the same vein, and the brief discussion concludes cautiously that "nonetheless, capital controls might need to be imposed as a last resort to help mitigate a financial crisis or stabilize macroeconomic developments" [WB-IMF, 2009:65].

In February 2010 a team of IMF economists writing in a Staff Position Note [Ostry et al., 2010] reached far beyond the Fund's public statements or practice to date in regards to controls on inflows. In a thorough survey of econometric evidence, Ostry et al. [2010] commend controls on capital inflows for preventing crises and ultimately making crisis-induced recessions less likely and less severe, and for reducing financial fragility by lengthening the maturity structure of countries' external liabilities and improving the composition of capital inflows. These findings pertain to capital controls that were in place prior to and after the Asian crisis, as well as during the current crisis. The report also indicates that "such controls, moreover, can retain their potency even if investors devise strategies to bypass them….the cost of circumvention strategies acts as 'sand in the wheels'" (p. 5) The paper argues that "policymakers are again reconsidering the view that unfettered capital flows are a fundamentally benign phenomenon…even when flows are fundamentally sound…they may contribute to collateral damage…." This latter statement is illustrative of a Keynesian-inflected view that is now recurring within recent Fund research.

Other parts of Ostry et al. [2010] qualify this new acceptance of inflow controls, however. The report hedges in the expected ways—identifying the restrictive conditions under which capital controls can work (or be justified). But in comparison with earlier reports by the IMF the qualifications are just that---they are not offered as insuperable obstacles to the use of controls. And that, in itself, represents a major advance, as many observers have acknowledged. After Ostry et al. [2010] was released, prominent IMF watchers praised the Fund for finally embracing a sensible view of capital controls. For example, Ronald McKinnon stated "I am delighted that the IMF has recanted" [cited in Rappeport, 2010]; former IMF official, Eswar Prasad states that the paper represented a "marked change" in

[30] We should of course not presume that developments at these three levels necessarily unfold in a lock-step manner. What is remarkable about the current conjuncture, however, is the degree to which there have been parallel developments on all three levels as concerns capital controls.

the IMF's advice [cited in Wroughton, 2010], and Dani Rodrik stated that the "the stigma on capital controls [is] gone," and [Ostry et al. 2010] "is a stunning reversal – as close as an institution can come to recanting without saying, 'Sorry, we messed up'" [Rodrik, 2010]. Rodrik also noted that "[j]ust as John Maynard Keynes said in 1945—capital controls are now orthodox" [Thomas, 2010]. No less telling is the sharp rebuke to the empirical work in Ostry et al. [2010] by William Cline, which is illustrative of the discomfort that "true believers" in capital account liberalization have with what they see as the Fund's new troubling and wrong-headed embrace of capital controls [Cline, 2010].

Research from various quarters of the IMF continued to spill out of the institution through 2011 and 2012. These reports continue to cement the legitimacy of capital controls, making clear that they should be considered alongside taxes and other prudential measures, and that they have had positive macroeconomic accomplishments in many countries [IMF, 2011a, 2011c, IMF 2010b; Ostry et al., 2011, 2012; IMF, 2012c, 2012d].[31] This work culminated in a December 2012 report of the IMF Executive Board, which the IMF terms the "institutional view" [IMF, 2012c]. There is much in the IMF's 2012 institutional view report that is illustrative of the evolution of thinking and practice on capital controls at the IMF during the current crisis. For instance, the report makes clear that inflow surges and sudden exits of capital can induce financial instability; that countries should not consider the liberalization of international capital flows prematurely; that temporary inflow and even outflow controls may be warranted under certain circumstances (principally during moments of turbulence); that countries retain the right under Article VI to put controls in place; and there is a tepid acknowledgement that the IMF's new and more permissive stance on capital controls may conflict with and be subsumed under the standing strictures on such measures in trade and other agreements. Lost in this report is the "capital controls as last resort" language that appeared in many of the 2010 and 2011 reports, something that is suggestive of further evolution of the thinking by Fund staff.[32]

Despite the advances in the institutional view statement, there is also evidence of the IMF's continued effort to "domesticate" the use of controls. Toward this end, the report states that capital controls should be targeted, transparent and temporary, and should not discriminate against foreign investors. Moreover, the arguments in the report continue to be guided by the outdated view that capital flow liberalization is ultimately desirable,

[31] Even though they do not represent the official position of the Fund, Staff Position Notes (such as Ostry et al., 2011) are nevertheless authorized for distribution by the institution. Thus, they are important documents in tracking the evolution of thinking by the IMF. Indeed, the Ostry et al. [2011, 2012] studies were authorized by no less than Olivier Blanchard.

[32] As the IMF was developing its institutional view, the G-20 was developing a statement on capital controls. That position is articulated in a November 2011 statement, "G20 Coherent Conclusions for the Management of Capital Flows Drawing on Country Experiences," approved by the group's central bankers, finance ministers and national leaders. The G-20 statement goes further than does the IMF's institutional view--it takes an unambiguous, firm stand against "one size fits all" approaches to capital controls, rejects the idea of developing a set of conditions for the use of controls, and calls upon nations to develop their own approaches to their use. The IMF's institutional view report includes the G-20 document as an appendix and notes the importance of building on it (though at the same acknowledging that the G-20 document is the product of a "hard-won consensus" and is non-binding).

though the claims to this effect are more nuanced than in previous Fund statements on the subject (insofar as they reject the presumption that this is the right policy for all countries at all times). Tensions over these (and other) matters among members of the IMF's Executive Board were given an oblique airing in a Public Information Notice released by the Fund, and more directly in press accounts, many of which focused on criticisms of the report by Paulo Nogueira Batista, IMF Executive Director for Brazil and ten other countries [IMF, 2012e; Beattie, 2012]. That said, the fact that the IMF has shifted the discussion of capital controls away from straight economics and toward the legal and institutional conditions that are required for their success is further evidence that stubborn resistance to controls on economic grounds is now behind us (at least, for now).

The practical implications of these developments in Fund research is immense. In recent IMF reports, including those discussed above, capital controls are referred to matter-of-factly as "capital flow management" techniques [e.g., Ostry et al., 2011; IMF, 2011a, 2012c]. This rebranding of capital controls is highly significant. The new, entirely innocuous term is suggestive of a neutral, technocratic approach to a policy instrument that had long been discredited as a vestigial organ of wrong-headed, dirigistic economic meddling in otherwise efficient markets.[33]

Stepping away from research, public statements by current and former officials at the Bretton Woods institutions beginning in 2009 provide evidence of the rhetorical and policy normalization of capital controls. For example, the IMF's former First Deputy Managing Director, John Lipsky, in an address to the Japan Society in December 2009 stated that "[c]apital controls also represent an option for dealing with sudden surges in capital flows." In this address he makes clear that controls should be used when the surge in capital inflows is temporary (though we have to wonder when sudden surges would not be temporary?), and he emphasizes that the controls themselves should be temporary. Despite these caveats, he argues that "[a]bove all, we should be open-minded." After the Governor of the Bank of Thailand made a speech in the summer of 2010 embracing the rise of capital controls in Asia, the IMF's Strauss-Kahn stated that he was "sympathetic" to emerging countries embracing controls as a last resort to counter the role of foreign investors in inducing asset bubbles, but he also warned that "[y]ou have to be very pragmatic…long-term capital controls are certainly not a good thing…But short-term capital controls may be necessary in some cases: it is matter of balancing the costs of different options" [cited in Johnston, 2010]. He argued in July 2010 that "it is just fair that these [developing] countries would try to manage the inflows" as a last resort against a flood of investors pumping up inflation and asset values [cited in Oliver, 2010]. Strauss-Kahn reiterated the new mantra that capital controls are a legitimate part of the toolkit in a speech in Shanghai in October 2010 [Strauss-Kahn, 2010], while in the same month the director of the Fund's Western Hemispheric department made a case (unsuccessfully) for the utility of controls in Colombia owing to the rapid appreciation of its currency [Crowe, 2010]. The World Bank's

[33] Others have also sought to rebrand capital controls. In a paper before the current crisis, Epstein, Grabel and Jomo KS et al. 2004 refer to capital controls as one among many capital management techniques. Ocampo [2003, 2010] has long used the term capital account regulations to refer to a family of policies of which capital controls are one type.

former President Robert Zoellick had this to say of the reemergence of capital controls in Asia: "it's not a silver bullet but it doesn't surprise me that people are trying them and they may help at the margin" [cited in Gallagher, 2010b]. Another key Bank official, Hans Timmer, Director of its Development Prospects Group, also spoke of the legitimacy of controls on inflows in January 2011 remarks [Beattie, 2011].

Given the inertia at the IMF (and the unevenness of its position on capital controls in the years following the Asian crisis), its recent research, policy advice and statements coming from key officials mark by its standards a minor revolution.[34] Change at the Fund has been sometimes uneven, to be sure, with one step back for every two steps forward. Capital controls were often discussed as a last resort up until the Fund's definitive institutional view was released in late 2012. None of this should be surprising. We should expect that long-held ideas—especially those that have hardened to the level of ideologies and been codified in institutional practices—have very long half lives [Grabel 2003a]. The process of changing these ideas and practices is necessarily uneven and slow; moreover, progress will inevitably generate push back from within the institution and the economics profession itself. Hence we should expect to find continuing evidence of tension and equivocation in research by academic economists and in future IMF reports and practice that preclude a clear and decisive verdict on capital controls. To this point, however, recent welfarist arguments for capital controls have not been challenged.

4. Conclusion: Domesticating Capital Controls?

From late 2010 to the present the IMF has provided us with an interesting vantage point from which to observe the continuing tension within the institution on capital controls. In several reports, Fund staff note that the institution is seeking to develop standards for the appropriateness of different types of controls [IMF, 2010b, 2011c, 2011d, 2011e; Ostry et al., 2011, 2012]. This effort is reminiscent of the project to revise the IMF's Article 6 that was stalled by the Asian crisis. The discussion of developing standards for controls was also given life by the French government, which seemed eager to use its leadership of the G-20 and G-8 in early 2011 to give the Fund a role in coordinating capital controls via a code or mandate on the subject [Hollinger and Giles, 2011].[35] The issue has since fallen off the European agenda—perhaps because the G20 torch has passed from France, and perhaps because the continued Eurozone crisis necessarily dwarfed other initiatives.

But the fact that the IMF continues via its 2012 institutional view report to test the waters on the matter of organizing its views on capital controls is instructive—it at once suggests the further normalization of capital controls, and the IMFs desire to influence their use. Equally instructive is the fact that Brazil and numerous developing countries in the G-24 (a group of key developing countries that work through the Bank and the Fund) have unequivocally and quite publicly rejected any such role for the Fund [Wagsty, 2011; Reddy,

[34] But see Gabor [2012], who argues that the IMF's view on capital controls has changed far less than I suggest.
[35] This French interest is consistent with what Abdelal [2007] argues is a commitment to managing globalization through rules mediated by multilateral institutions.

2011; G-24, 2011]. Newly enjoying policy autonomy in this domain, these countries are not anxious to succumb to new IMF rules or sanctions that could tie their hands in the face of potentially destabilizing flows of hot money.

The ultimate outcome of this rethinking of capital controls by the IMF and the economics profession more broadly is uncertain, of course. It is possible that the neo-liberal worldview may re-establish itself, not least because its advocates have proven remarkably adept at "paradigm maintenance" over the last three decades as Wade [1996) has noted and as Polanyi [1944:143] suggested long ago. Mirowski [2010] and Hodgson [2009] are also strongly pessimistic about the economic profession's ability to learn from its mistakes. Others, such as Farrell and Quiggin [2012], see the state of confusion in the economics profession as reflective of an open-ended "dissensus" that is reflected in swings between Keynesian and austerity-directed responses to the crisis.

However, it seems unlikely to me that the pendulum will swing back in the direction of reifying capital liberalization. And in the end, whether the IMF's new openness on capital controls fades with the crisis may not matter in the end insofar as the institution has been rendered less relevant as it faces increasingly autonomous and assertive developing country members—some of which are now among its lenders.[36] In this environment of disruption, economic and institutional change, intellectual aperture and uncertainty we find a productive expansion of policy space for capital controls, something that may ultimately be seen as an important legacy of the current crisis. This change, messiness, and uncertainty exemplify the productive incoherence of the present environment [Grabel, 2012]. In a similar vein, Mittleman [2013] uses the term "global bricolage" to describe the current environment of shifting relations (especially among groupings of developing countries), institutional adaptation, and changing ideas, while also acknowledging the tension and uncertainty of the current environment. Helleiner [2010] relatedly speaks of the current moment as an interregnum.[37]

Just as liberalized capital accounts are associated with negative spillovers in the form of economic instability, capital controls in one country can certainly induce positive and negative spillovers abroad. For instance, one country's inflow restrictions can overvalue other countries' currency values, harming their export performance. And so it is not inappropriate that the IMF and economists drawing on the welfarist approach are raising the need for some type of regulatory regime or framework for coordinating capital controls. But we must be certain not to go back toward a simple-minded regime (such as the neoliberal regime) that dictates the same policies for all countries and which also places the responsibilities for policy spillovers on developing countries while giving wealthy countries a pass. These forms of policy coherence ought to be rejected along with the neoliberal form that it took for the better part of a quarter century.

[36] Another possibility is that the center of the battle over policy space has shifted from the IMF to legal arenas (in regards to existing treaties, codes, etc). This may be why the IMF's 2012 institutional view report on capital controls focuses not on economics but on legal matters.
[37] This contrasts with Wade [2013] who, while acknowledging some changes (such as some degree of cooperation among the BRICS countries on some issues), argues that there are far more important signs of continuity at the present time in terms of US and Western power.

It is, in my view, critical that efforts be made to maintain and expand the opportunity that has emerged in the crisis environment for national policymakers to experiment with capital controls and other measures. Hence, the pressing policy challenge today is to construct a regime that provides for substantial national policy autonomy while managing cross-border spillover effects [Rodrik, 2001]. This certainly suggests abandoning the strictures on policy space in bilateral, regional and multilateral agreements since many of these preclude capital controls. At the same time it is also critically important that if such a regime does involve some type of coordination, it must involve capital source and recipient countries (as Keynes and White acknowledged long ago), and a genuinely even-handed acknowledgement that monetary policies and capital controls have global spillover effects that are can be positive and negative. In this regard, the same factors that have contributed to the rebranding of capital controls as prudent capital flow management techniques—the diminished influence and pragmatic adjustment of the IMF in the context of rising autonomy and confidence of leading development states, coupled with increased open-mindedness and new research within economics—might also contribute to the construction of a viable, flexible and permissive capital controls regime that is consistent with the goals of managing economic instability, promoting economic development and maximizing policy space

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