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When Things Don't Fall Apart

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

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7 Financial Crisis, Financial Control

"It was as if the Vatican had given its blessing to birth control." So begins an article on the resurrection and growing respectability of capital controls at the IMF (*Economist* 2013). Indeed, one of the most surprising effects of the global crisis has been its profound impact on thinking and practice around what was until recently a forbidden policy instrument.

Capital Controls: A Brief History

In the immediate aftermath of World War II, the IMF fully embraced capital controls. For several decades following the war, capital controls were utilized almost universally around the globe. Capital controls were widely understood by academic economists, policymakers, and IMF officials as necessary tools of prudential financial management (Helleiner 1994; 2014a; Pérez Caldentey and Vernengo 2012). Controls were implemented to enhance macroeconomic policy autonomy, promote financial and currency stability, protect domestic industries from foreign control or competition, and ensure the provision of adequate credit to favored sectors at the right price (Epstein, Grabel, and Jomo K. S. 2004).

John Maynard Keynes and U.S. Treasury official Harry Dexter White are widely credited with incorporating capital controls as a central feature of the emerging Bretton Woods system. They advocated controls on both the sending and receiving ends, and emphasized the need for cooperation between capital source and recipient countries (see Crotty 1983; Helleiner 1994; Horsefield 1969, 31, 65; Steil 2013, 134, 150). Keynes stated that "control will be more difficult to work by unilateral action . . . if movements of capital cannot be controlled at both ends." In the same vein, White argued that "almost every country, at one time or another, exercises control over the inflow or outflow of investments, but without the co-operation of other

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countries such control is difficult, expensive and subject to considerable evasion" (quoted in Horsefield 1969, 31, 65). Keynes's plan granted greater autonomy to individual states over the method and degree of controls. White's plan placed cooperation among capital sending and recipient governments at center stage, with an obligation on the part of recipients of foreign capital to cooperate in blocking inflows when other governments made such requests (Steil 2013, 134, 150).

Before Keynes and White, Raúl Prebisch advocated capital controls in peripheral economies. Prebisch maintained that controls were essential to manage cyclical fluctuations and to shift the composition of capital inflows away from short-term and toward long-term finance. Under his direction, the Central Bank of Argentina in 1943 introduced controls to promote financial stability and sustain economic development (Pérez Caldentey and Vernengo 2016, 1728).

The Neoliberal Era and the Asian Crisis

The stagflation of the 1970s inaugurated a paradigm shift in the economics profession away from traditional Keynesian thought and toward the Chicago School view of the virtues of market mediation. By the early 1980s, the IMF was firmly in the grip of neoliberalism. In that intellectual milieu, capital controls were largely derided as a vestigial organ of wrongheaded, dirigiste economic meddling.[1] The case for liberalizing international capital flows in EMDEs was nested in a broader neoliberal embrace of financial liberalization. Liberalization involved the deregulation of domestic financial flows and institutions, promotion of financial innovation, "light touch" financial regulation, and inflation targeting by politically independent central banks.[2]

Rather than shaking the IMF from its neoliberal commitments, recurrent crises during the 1980s and 1990s had the effect of recommitting the institution to financial liberalization. The Asian crisis is emblematic in this regard. When Malaysia introduced outflow controls in 1998, the IMF viewed them as retrogressive, calling them a "step back" toward outdated, self-defeating policies (Adam and Kate 2010). The IMF was not alone in excoriating Malaysian leaders. 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). One commentator likened the country's outflow controls to a financial Roach Motel, observing that they "deeply frightened global investors" because "money can get in, but it can't get out" (Coy, Kripalani, and Clifford 1998, 37). Flagging the country's

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controls, Moody's, Standard and Poor's, and Fitch downgraded Malaysia's sovereign debt rating (Abdelal and Alfaro 2003).[3]

With notable exceptions, IMF staff and the economics profession remained largely intolerant of capital controls through the early twenty-first century. During the long neoliberal period, one had to look to the work of the Keynesian minority within the academic wing of the economics profession and to the world's heretical finance ministries for forceful, consistent support of the management of international capital flows.[4]

Ultimately, however, neither the IMF nor the economics profession could remain impervious to recurrent crises associated with financial liberalization or to EMDE practices that flouted the neoliberal prescription. In the late 1990s, just prior to the Asian crisis, the IMF was poised to enshrine capital flow liberalization in its Articles of Agreement (as discussed in chapter 3). The Asian crisis derailed that effort. Moreover, despite the neoliberal tenor of the times, some countries (such as China, Chile, and Colombia) stubbornly maintained controls, with notable success. Partly in response, the Asian crisis precipitated the beginning of a begrudging reevaluation of capital controls. Indeed, what now appears as the "new normal" (Grabel 2011) regarding controls resulted from a gradual process of legitimation that began slowly and unevenly after the Asian crisis (Abdelal 2007; Chwieroth 2010; Moschella 2009).

Early cracks in the neoliberal consensus following the Asian crisis appeared in the work of prominent neoclassical economists, such as Jagdish Bhagwati (1998) and Martin Feldstein (1998), who criticized the way in which powerful interest groups and the IMF used the crisis to press for capital account liberalization. They were soon joined by other leading mainstream economists, such as Maurice Obstfeld and Paul Krugman (Obstfeld 1998; Krugman 1998), who came to recognize the risks associated with unrestrained capital flows. Academic literature following the Asian crisis gradually reflected this evolving view. Notably, cross-country empirical studies offered strong support for the macroeconomic achievements of inflow controls (Chwieroth 2010, chap. 8; Epstein, Grabel, and Jomo K. S. 2004; Magud and Reinhart 2006). Evidence supporting the achievements of outflow controls was far less abundant, but nontrivial, as discussed in Epstein, Grabel, and Jomo K. S. (2004) and Epstein (2012). Research on Malaysia by Kaplan and Rodrik (2001), for instance, is strongly favorable regarding the achievements of Malaysia's outflow controls.[5]

IMF research economists began to adjust their views on capital controls in the context of this academic ferment. Early adjustments in IMF thinking were subtle, uneven, and inconsistent. Nonetheless, in the period following

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the Asian crisis, the center of gravity at the Fund shifted away from an unequivocal, fundamentalist opposition to any interference with the free flow of capital to a tentative, conditional acceptance of temporary, "market-friendly" inflow controls (Prasad et al. 2003).

As expected, the new pragmatism encountered pushback from many leading economists (e.g., Edwards 1999; Forbes 2005). The profession was clearly unwilling to shed its commitment to capital flow liberalization, and the new thinking failed to generate anything like a new consensus. Instead, the late 1990s and the years since have been marked by halting steps away from the orthodoxy on capital flow liberalization. The resulting unevenness is apparent in the work of the IMF itself during and following the Asian crisis, as illuminated in a 2005 study by the IEO of IMF practices from the Asian crisis to 2004 (IEO 2005). The IEO (2005, 48) acknowledges a discernible disconnect between IMF research on the one hand, which at best featured ambivalence toward capital controls, and the creeping tolerance for controls by the institution's economists when they worked with particular countries on the other.[6] The relative autonomy of different departments at the IMF, a lack of univocal leadership from the top, and the internal entrepreneurship of midrange staff when working in different contexts help to account for IMF inconsistency during the period (Chwieroth 2010; 2014).

Adding to the emerging confusion surrounding capital controls, policymakers from different parts of the world crafted competing etiologies of the Asian crisis. As discussed in chapter 3, those from the United States emphasized crony capitalism and overregulated banking systems, the solution for which was increased financial liberalization. In contrast, Asian and European analysis targeted radical financial deregulation (Wade 1998–1999). The divergent diagnoses generated conflict over the financial liberalization ideal and contending perspectives on the need for and nature of desirable reforms to global financial governance.

The Global Crisis: Rebranding Capital Controls

The global crisis occurred in the midst of the new aperture surrounding financial liberalization and transformed the landscape concerning the legitimacy of capital controls. Beginning in 2008, a large number of EMDEs and several countries on the European periphery implemented far-reaching, heterogeneous controls on capital inflows and outflows in response to diverse economic challenges. From an immediate precrisis vantage point, the range and creativity of the policy interventions across a significant swath of economies was audacious.

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The impact of the crisis and the new capital management initiatives on economic thinking and practice is nothing short of stunning. Today there is appreciation among economists and policymakers of the channels by which unrestrained capital flows and high levels of liquidity can undermine macroeconomic and trade performance through their effects on the exchange rate and asset markets. The Asian and global crises together provided ample cross-national evidence that large, footloose capital inflows aggravate financial fragility by fueling spectacular, unsustainable asset bubbles and excessive leveraging by households and firms, including financing strategies that involve severe locational mismatches. Equally important, large-scale reversals of capital flows severely test the limits of financial resilience and reserve adequacy. On the political side, the crises underscored the connection between large, unmanaged capital flows and the rise of interstate tensions over policy spillover effects. They also highlighted the political tensions aggravated by creditor-mandated adjustment programs built on the myth of economic recovery through fiscal restraint. That the global crisis originated with the implosion of the highly liberalized, liquid, and internationally open financial system in the United States severely damaged the case that neoclassical economists had made for several decades: that the U.S. brand of financial liberalization was the ideal to which all other countries should aspire (Kirshner 2014a).

Keynesian-inflected ideas about the legitimacy and necessity of managing international capital flows now infuse the work of a broad set of economists in academia and in the policy community. Notably, the IMF evolved significantly during the crisis despite continuing signs of discomfort (Chwieroth 2014; Gallagher 2014; Grabel 2011; 2015b; Moschella 2010; 2014). The new, pragmatic IMF view recognizes that capital controls are a "legitimate part of the policy toolkit," to borrow a now oft-cited phrase from IMF research on the subject during the crisis (e.g., Ostry et al. 2010; 2011). Greater tolerance is also reflected in the statements of officials associated with other multilateral institutions, important figures in the world of central banking, analysts at credit rating agencies, and the recent research of economists who one would not have associated with Keynesian thought.

The complex processes of change around capital controls during and since the crisis can most accurately be understood as experimental, messy, uneven, contested, and evolving (in a word, Hirschmanian). Capital controls have been thoroughly "rebranded."[7] Earlier efforts to rebrand controls failed to stick other than among the already-receptive Keynesian minority in economics. For instance, in 2003 and since, Ocampo (2003; 2010d)

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argued consistently for "capital account regulations," meaning a family of policies that includes capital controls. In 2004, Epstein, Grabel and Jomo K. S. (2004) advocated "capital management techniques" involving two complementary, overlapping types of financial policies—capital controls and those that enforce prudential management of domestic financial institutions. Prior to the global crisis, these contributions attracted little attention among mainstream economists or practitioners. In contrast, the IMF today refers to capital controls matter-of-factly as "capital flow management" techniques (IMF 2011d; 2012f; Ostry et al. 2011). The new, innocuous term is suggestive of a neutral, technocratic approach to an instrument that had long been discredited as a policy mistake by backward countries.[8]

Rebranding has occurred against a broader backdrop of uncertainty and financial volatility; economic, political, and ideational aperture; and discontinuity in financial governance (Grabel 2011; 2017; Grabel and Gallagher 2015). The productive incoherence of this state of affairs is reflected in the proliferation of responses to the global crisis by national governments, multilateral institutions, credit rating agencies, and the economics profession that have not yet crystallized into a consistent vision or model.[9] In response to diverse economic challenges, we find a range of national experiments with capital controls and inconsistent practices by the IMF that are not adequately described by a simplistic narrative. This incoherence has widened EMDE policy space to a greater and more consistent degree than in the years following the Asian crisis (cf. Chwieroth 2015; Moschella 2014; Gallagher 2014).

The sheer scale of the crisis, the bold rhetoric around the need for new strategies to combat it, and the range of unorthodox policy responses pursued across the globe have provided broader validation for protective national policy responses in EMDEs.[10] The G-20's brief "Keynesian moment" in 2008–2009 opened space for experimentation with capital controls and countercyclical monetary and fiscal policy responses.[11] The IMF's rhetorical attention to pro-poor spending during the crisis also helped to legitimate countercyclical responses (Grabel 2011; 2013a). At the same time, expansionary monetary policies in the United States and other AEs contributed to the normalization of protective responses to the crisis in EMDEs. What the IMF's Lagarde (approvingly) termed the rise of "unconventional monetary policies" (i.e., negative interest rates) in a number of AEs provided cover for other unorthodox policies, such as capital controls.[12]

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Winners, Losers, Spillovers, and Capital Controls

During the 2009–2014 period, EMDEs received net capital inflows of US$2.2 trillion (Stiglitz and Rashid 2016a). As a consequence, many EMDEs were confronted with surges of liquidity, asset bubbles, inflationary pressures, and currency appreciations. That the market capitalizations of stock exchanges in Mumbai, Johannesburg, São Paulo, and Shanghai nearly tripled in the years that followed the global crisis is just one indicator of the fragility induced by these inflows (Stiglitz and Rashid 2016a).

Expansionary monetary policies in AEs exacerbated the flood of capital to EMDEs. Investors and speculators were able to engage in profitable carry trade, borrowing at low interest rates in AEs and then investing in EMDEs, which were characterized by higher interest rates during much of the global crisis.[13] In a departure from the old script, capital controls were necessitated by the side effects of the relative success with which many EMDEs navigated the global crisis and of their own good fortune when it came to commodity prices and economic growth. This success, coupled with economic weakness and low returns on assets in AEs, drove investors and speculators to EMDE markets. The use of capital controls by what we might think of as "winning economies" contributed significantly to the legitimation of this policy instrument in the eyes of policymakers, the IMF, the international investment community, and the neoclassical core of the economics profession. Despite relative EMDE success, precious little of the capital inflows went to fixed investment, and hence could not be said to benefit the real economy (Stiglitz and Rashid 2016b). In addition, capital inflows facilitated increases in EMDE dollar-denominated corporate debt. The BIS reports that the debt of nonfinancial corporations in EMDEs went from approximately US$9 trillion at year-end 2008 to over US$25 trillion by year-end 2015, and doubled as a percentage of GDP over the same period (cited in UNCTAD 2016, chap. 1).

The tide of capital flows has since turned. Net capital flows to EMDEs turned negative in the second quarter of 2014. Net outflows were about US$656 billion in 2015 and US$185 billion in the first quarter of 2016 (ibid.). These amounts are significant: the 2015 outflows alone amounted to more than 25% of the capital inflows that EMDEs had received during the previous six years (Stiglitz and Rashid 2016a). The Institute of International Finance (IIF, an industry group), which takes account of previously unrecorded capital flows captured by errors and omissions, reports much larger net outflows of US$735 billion in 2015 (IIF 2016). Although several large EMDEs experienced net outflows in 2015 (e.g., Korea, Russia, and South

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Africa), the bulk of the outflows (US$676 billion) came from China (ibid.).[14] China's net capital flow deficit for 2015 was equal to 4.5% of its GDP (UNCTAD 2016, chap.1). After moderating in the middle of 2016, capital outflows from China accelerated sharply. In the third quarter of 2016, net outflows of FDI reached US$31 billion (as Chinese firms engaged in overseas mergers and acquisitions) (Wildau 2016c). In the same period, US$176 billion in financial capital flows not linked to trade or FDI left China, the largest net outflows from the country since the fourth quarter of 2015 (ibid.). By comparison, net outflows from all East Asian economies during the Asian crisis in 1997 were just US$12 billion (Stiglitz and Rashid 2016a).

In this context, several EMDEs have abandoned or loosened inflow controls, and some have implemented new controls, particularly on outflows. The new controls have been introduced in response to the accelerating pace of outflows and the combined effects of slowing growth, falling commodity and asset prices, weakening currencies, and dramatic reserve reduction.[15] Stock markets in many EMDEs closed 2015 with double-digit losses, a reversal of the long boom in many markets during much of the global crisis (Akyüz 2016). The excess of cheap liquidity and asset bubbles have inevitably given way to sovereign and private debt overhangs, which are aggravated by the locational mismatch, which is made worse by the weakening of EMDE currencies.

The unsettled state of international financial markets, and the spillover effects of monetary policy in AEs, have also aggravated pressures and volatility in EMDEs. In 2013, the U.S. Federal Reserve began to discuss eventual "policy tapering," which refers to a gradual move away from the quantitative easing (QE) that constituted its policy stance during much of the global crisis. The talk of tapering spawned reversals of capital flows from EMDE markets, equity market losses, currency depreciations, and increases in bond yields. These trends incited what became known as the "taper tantrum" of May and June 2013. The decision by the Fed to begin actual tapering in December 2015 induced further disruption in EMDE markets, which was subsequently compounded by large capital outflows in late 2016 following the U.S. presidential election—what came to be termed the "Trump tantrum."[16] The flight of capital to U.S. markets was triggered by expectations that the new administration would increase infrastructure spending and reduce taxes on large firms and the wealthy. Fiscal expansion is widely seen as the harbinger of restrictive monetary policy aimed at containing inflation and growth pressures. In this context, the currencies of many EMDEs depreciated sharply against the dollar in anticipation of higher U.S. interest rates, increased debt-service costs borne by EMDE borrowers, and

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tightening credit market conditions worldwide. There is good reason to expect additional volatility in global financial markets in 2017 and beyond owing to uncertainty associated with the implementation of "Brexit" and to economic conflict and instability that may be fueled by nationalist governments and an erratic economic policy environment in the United States and several European nations. In this challenging environment, there is good reason to expect vicious macroeconomic cycles and capital flow volatility in EMDEs. The ability of EMDE policymakers to respond to the disturbances via strategic deployment and adjustment of capital controls will be severely tested.

We now consider a spectrum of experiences with capital controls during the global crisis and reflect on their significance and implications for developmental finance and financial governance.

"Too Much of a Good Thing"

Policymakers in a large set of EMDEs deployed capital controls to mitigate the financial fragility and vulnerabilities induced by the large capital inflows that they received during much of the global crisis. In several countries, controls were "dynamic," such that policymakers tightened, broadened, or layered new controls over existing measures as new sources of financial fragility and channels of evasion were identified and/or when existing measures proved inadequate to discourage undesirable financial activities (see Epstein, Grabel, and Jomo K. S. 2004). Controls were also removed as circumstances changed.

Brazil exemplifies the use of dynamic capital controls. Its case is interesting because the government (particularly former finance minister Mantega) staked out a strong position on policy space for controls throughout the crisis, and because the IMF's response to the country's controls reveals the evolution and equivocation in the views of Fund staff.[17]

In late October 2009, Brazil imposed a tax on inflows of portfolio investment. The controls were intended to slow the appreciation of the currency in the face of significant capital inflows. Brazil imposed a 2% tax on money entering the country to invest in equities and fixed-income investments and later a 1.5% tax on certain trades involving American Depository Receipts, while leaving FDI untaxed. The IMF's initial reaction to Brazil's inflow controls was 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,"

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adding that such taxes have proven "porous" over time in a number of countries. In response, Arvind Subramanian and John Williamson indicted the IMF for its doctrinaire and wrongheaded position, taking the institution to task for squandering the opportunity to think reasonably about capital controls (Subramanian and Williamson 2009). A week later, the IMF's Strauss-Kahn reframed the message on Brazil's controls. The new message was stunning: "I have no ideology on this"; capital controls are "not something that come[s] from hell" (quoted in Guha 2009).

Brazil continued to strengthen and layer new controls over existing measures in 2010 and 2011. These included controls that specifically targeted derivative transactions and others that closed identified loopholes as they became apparent. In October 2010, the tax charged on foreign purchases of fixed-income bonds was tripled (from 2% to 6%), the tax on margin requirements for foreign exchange derivatives was increased, and some loopholes on the tax on margin requirements for foreign investors were closed. In January 2011, Brazil introduced curbs on short selling in foreign exchange markets through the requirement that Brazilian financial institutions deposit the equivalent of 60% of their short dollar positions in a non–interest-bearing account at the central bank. In March 2011, it increased to 6% a tax on repatriated funds raised through international bond sales and foreign loans with a maturity of up to a year. In April 2011, a 6% tax was placed on new and renewed foreign loans with maturities of up to two years. And in July 2011, a 1% tax was placed on bets against the dollar in futures markets (with the government signaling that it could increase the tax to 25% if circumstances warranted), while it also imposed several new measures that targeted derivatives market trading. Despite this array of tightening controls, IMF economists called its strategies "appropriate" in an August 2011 review of Brazil (Ragir 2011).[18]

In 2011 and 2012, Brazilian policymakers began to narrow some capital controls even as they extended others. In December 2011, the tax on equity and fixed-income portfolio inflows was reduced to zero while the tax authority was retained, in March 2012 the hedge operations of exporters were exempted (up to a specified limit) from the tax on inflows, and the tax on new and renewed foreign loans was extended to loans with a maturity of up to five years.

Other EMDEs implemented and adjusted controls as circumstances warranted. Some strengthened existing controls, while others introduced new measures. For some countries (such as Argentina, Ecuador, Venezuela, China, and Taiwan), these measures were part of broader statist approaches to policy. For most other countries (e.g., Brazil, South Korea, Indonesia,

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Costa Rica, Uruguay, the Philippines, Peru, and Thailand), controls were central features of a pragmatic, dynamic, multipronged effort to respond to the challenges of attracting too much foreign investment and speculative activity.

Peru began to impose inflow controls in early 2008. The country's central bank raised the reserve requirement tax four times between June 2010 and May 2012. The May 2012 measures included a 60% reserve ratio on overseas financing of all loans with a maturity of up to three years (compared with two years previously) and curbs on the use of a particular derivative (Yuk 2012). What is particularly interesting about Peru's measures is the way in which they were "branded" by the central bank. In numerous public statements, the central bank's president maintained that the country did not need capital controls even while it implemented and sustained its reserve requirement tax (Quigley 2013).

In August 2012, Uruguay imposed a reserve requirement tax of 40% on foreign investment in one type of short-term debt (Reuters 2012b). Like Peru, a bilateral agreement with the United States could have made this control actionable. Currency pressures also induced Costa Rica to use capital controls for the first time in twenty years. The country began to use 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 Costa Rican president sought congressional approval to raise the reserve requirement tax to 25% and to increase from 8% to 38% a levy on foreign investors transferring profits from capital inflows out of the country.

In another sign of changing sentiments during the crisis, the rating agency Moody's recommended that South East Asian countries use controls to temper currency appreciation (Magtulis 2013). Indeed, numerous Asian countries deployed new controls or strengthened existing ones during periods of large capital inflows. For instance, in November 2009, Taiwan imposed new inflow restrictions that precluded foreign investors from placing funds in time deposits. At the end of 2010, controls on currency holdings were strengthened twice (Gallagher 2011). In 2010, China added to its existing and largely quantitative inflow and outflow controls (ibid.). In 2013, China's SAFE (unit of the PBOC) took new steps to control "hot money" flows to manage the appreciation of the currency, reduce external risks, and curb efforts to bring capital into the country via trade misinvoicing (Monan 2013).

In June 2010, Indonesia announced what its officials termed a "quasi capital control" via a one-month holding period for central bank money market securities. At the same time, it introduced new limits on the sales of

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central bank paper by investors and on the interest rate on funds deposited at the central bank. During 2011, the holding period on central bank securities was raised to six months, a 30% cap on short-term foreign exchange borrowing by domestic banks was reintroduced, and a reserve requirement on foreign currency deposits was raised twice (from 1% to 5%, and then to 8%) (Batunanggar 2013; Manurung and Utami 2010). The awkward labeling of controls in Indonesia reflected the fact that its government was still afraid of the stigma that had long been attached to capital controls.[19]

Thailand introduced a 15% withholding tax on capital gains and interest payments on foreign holdings of government and state-owned company bonds in October 2010. In December 2012, the Philippines announced limits on foreign currency forward positions by banks and restrictions on foreign deposits (Aquino and Batino 2012).

As in Brazil, Korean authorities took a dynamic, layered approach to capital controls while also targeting the particular risks of derivatives. But unlike in Brazil, Korean authorities reframed these measures as "macroprudential" and not as capital controls (see Chwieroth 2015). In 2010, Korean regulators began to audit lenders working with foreign currency derivatives, placed a ceiling on the use of this instrument, and imposed a levy on what it termed "noncore" foreign currency liabilities held by banks. In 2011, Korea also levied a tax of up to 0.2% on holdings of short-term foreign debt by domestic banks, banned "naked" short selling, and reintroduced a 14% withholding tax on foreign investment in government bonds sold abroad and a 20% capital gains tax on foreign purchases of government bonds (Lee 2011; AsDB 2011).

"Stopping the Bleeding"

Some countries have been and are using capital controls during the global crisis for the more customary reason of stemming a financial or economic collapse. In these cases, the IMF has tolerated controls on capital outflows. This is notable insofar as the Fund and the neoclassical heart of the economics profession have long seen outflow controls as far more damaging than inflow controls.

Iceland's policymakers put outflow controls in place to slow the implosion of the economy before signing an SBA with the IMF in October 2008. The SBA made a very strong case for the extension of these controls as means to restore stability and protect the krona (IMF 2012d; Sigurgeirsdóttir and Wade 2015). In public statements, the IMF's staff repeatedly said that the country's outflow controls were crucial to prevent a collapse of the currency, that they were temporary, and that it was a priority to end

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all restrictions as soon as possible. The IMF's mission chief in the country commented that "capital controls as part of an overall strategy worked very, very well" (Forelle 2012), and the institution's deputy managing director stated that "unconventional measures (as in Iceland) must not be shied away from when needed" (IMF 2011b). The Fitch rating agency praised Iceland's "unorthodox crisis policies" while announcing that it had raised the country's credit rating to investment grade in February 2012 (Valdimarsson 2012). It should be said that neoliberals in the country did not share this enthusiasm for the unorthodox response or the IMF's advice (Danielsson and Arnason 2011).[20]

The IMF's characterization of and role in strengthening Iceland's outflow controls marked a dramatic precedent and revealed a fundamental change in thinking. The December 2008 SBA with Latvia allowed for maintenance of preexisting restrictions arising from a partial deposit freeze at the largest domestic bank (IMF 2009d). Soon thereafter, an IMF report acknowledged that Iceland, Indonesia, the Russian Federation, Argentina, and Ukraine all put outflow controls in place to "stop the bleeding" related to the crisis (IMF 2009a). In a sign of destigmatization, the report provided no commentary on their ultimate efficacy or warnings against their use. Outflow controls in Cyprus and Greece also precipitated measured reactions by the IMF, and by the EU and the ECB. Indeed, the IMF's IEO (2015) takes note of the institution's greater tolerance for outflow controls during the global crisis as exemplified by its support for outflow controls in Iceland, Cyprus, and Latvia (though not in Ukraine).[21]

Cyprus was the first country in the Eurozone to implement capital controls during the global crisis. The IMF and the EU did not flinch when stringent outflow controls were implemented as the country's economy imploded in March 2013.[22] Cypriot controls evolved in the months that followed and after Cyprus began to receive IMF support in May 2013. Banks temporarily closed, and cash withdrawal limits were placed on individuals and businesses; it was illegal to carry out more than €3000 on departing flights; and a ceiling was placed on funds transferred abroad by individuals and businesses, with central bank approval required for transfers above the ceiling. Capital controls began to be removed in March 2014, and the remaining controls were lifted in April 2015. Standard and Poor's upgraded Cyprus's sovereign debt rating to BB– in September 2015, and in doing so cited the removal of capital controls (Zikakou 2015).

Greece became the second Eurozone country to implement capital controls. These were put in place at the end of June 2015, when the government was locked in a pitched battle with the Troika over the referendum

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on a third assistance package. Stringent outflow controls were put in place once Eurozone leaders announced that they would not extend Greece's then current assistance package beyond June 30 (when it was scheduled to expire) and that the ECB would cap emergency liquidity assistance to Greek banks. In that context, Prime Minister Tsipras announced an emergency shutdown of banks and the stock exchange (which were closed for three weeks), a €60 daily cap on cash withdrawals from ATMs, and a ban on international money transfers abroad without prior approval and documentation (Yardley 2015; Chrysoloras and Ziotis 2015).[23]

Several Latin American countries also implemented controls on capital outflows when they were deemed necessary to manage instability. In December 2008, Ecuador doubled its tax on currency outflows, established a monthly tax on the funds and investments that firms kept overseas, discouraged firms from transferring dollar holdings abroad by granting tax reductions to firms that reinvest their profits domestically, and established a reserve requirement tax (Tussie 2010). In October 2010, Venezuela implemented outflow controls and new restrictions on access to foreign currency and tiered exchange rates. Capital and currency controls in the country remain in force as of this writing. In October 2010, Argentina implemented outflow controls that placed stricter limits on dollar purchases. Argentina's controls were strengthened in October 2011, requiring that all dollar purchases be authorized by tax authorities and that the country's oil and gas companies repatriate all export proceeds and convert them to pesos (Webber 2011). Unlike controls implemented elsewhere, Argentina's 2011 measures were associated with a ratings downgrade (on oil and gas companies by Moody's). However, this had far more to do with nationalization of YPF, a Spanish oil company, and the long-running conflict with foreign investors and the IMF, than with capital controls (Gill 2011). Argentina's capital and exchange controls were lifted in December 2015 following the election of President Mauricio Macri, and the new government settled with foreign investors in February 2016. Moody's and Fitch upgraded the country's debt rating in April 2016. Moody's cited the removal of capital controls as among the factors in the ratings upgrade, and both credit rating agencies highlighted the settlement with foreign investors (Moody's 2016a).

"Taper Tantrums," "Trump Tantrums," and the New Outflow Rout

Beginning in 2013, EMDEs again began to introduce and adjust diverse types of capital controls against the backdrop of growing financial fragility, weakening economic performance, depreciating currencies, and turmoil

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induced by international policy spillovers. The taper and Trump tantrums exacerbated EMDE fragility in 2015 and 2016. At the same time, however, controls that had been put in place to deal with challenges associated with large capital inflows were loosened or abandoned. Taken together, the new activism represents a dramatic turn toward widespread pragmatic adjustment and experimentation.

Examples of ad hoc adjustment and experimentation abound. In June 2013, Brazil eliminated some of the capital controls it had introduced just a few years earlier. It reduced the tax on overseas investments in domestic bonds from 6% to zero and removed a 1% tax on bets against the dollar in the futures market (Leahy and Pearson 2013; Biller and Rabello 2013). In January 2016, the governor of the Bank of Mexico, Agustín Carstens, a longtime critic of capital controls, announced that it might soon be time for central bankers in EMDEs "to become unconventional" to stem the vast tide of capital outflows (Wheatley and Donnan 2016).

Even in the face of mounting capital outflows, Costa Rica anticipated and planned for an eventual reversal of fortunes. In March 2014, Costa Rica put in place a framework for new capital controls intended to give the central bank the ability to curb speculative money inflows from abroad. The measures would allow the country's central bank to require special deposits to be held against any foreign capital flows that it determines are speculative and also would allow it to levy increased taxes on foreign remittances (Reuters 2014).

China's strategy of "managed convertibility" has become increasingly difficult for officials to navigate in the wake of growing national and global economic turbulence and missteps by national policymakers, particularly involving decisions to devalue the currency in August 2015 and again in late December and early January 2016.[24] Managed convertibility involves a complex mix of liberalizing capital controls so as to increase the convertibility of the renminbi (without making it fully convertible) and facilitate its flow and use across borders while also tightening existing controls and implementing new ones to protect the economy and the currency from volatile capital flows (Subacchi 2015; 2017).[25] Liberalizing capital controls was also necessitated by policymakers' long-held (and now realized) goal of having the IMF include the renminbi in the SDR. Against this backdrop and in a series of announcements in 2014, the country's policymakers eased some capital controls, such as those that restricted domestic investors from investing in foreign stocks and properties and restricted firms from selling renminbi-denominated shares abroad, and doubled the daily trading range of the renminbi (Barboza 2014; Bloomberg 2014).

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After the surprise decision to allow the renminbi to devalue in August 2015, SAFE expended up to US$200 billion in reserves defending the currency during the next month, increased monitoring and controls on foreign exchange transactions, and imposed a 20% reserve on currency forward positions in hopes of curbing intense speculation against the currency (Anderlini 2015). Following another round of large capital outflows in January 2016, SAFE implemented several new, stringent capital controls. These restrict purchases of U.S. and Hong Kong dollars by individuals and businesses (by limiting annual and daily purchases and requiring increased documentation for purchases above the annual trading limit); require that those seeking to buy or sell foreign exchange demonstrate that the transaction is linked to trade, FDI, or other approved purposes; restrict banks from conducting certain types of foreign exchange transactions; and temporarily suspend operations of some foreign banks (Wildau 2016a). China still had more than US$3 trillion in reserves in early 2016 despite having depleted nearly US$500 billion in reserves in the previous year when trying to stem outflows and protect the currency (Stiglitz and Rashid 2016a). Nonetheless, in a widely reported speech at the 2016 World Economic Forum in Davos, the governor of the Bank of Japan, Haruhiko Kuroda, suggested that China tighten or use new capital controls to support its currency and economy against growing pressure. The IMF's Lagarde deflected requests for comment on this suggestion but admitted that it would be a mistake for China to deplete too much of its reserves to support the currency (Wheatley and Donnan 2016).

Chinese authorities again intervened to support the renminbi against the backdrop of large outflows in the third quarter of 2016. The currency depreciated by about 7% during 2016. It is estimated that US$88 billion in reserves were used to support the currency in September and October 2016, leading reserves to fall to US$3.05 trillion in November of that year (Wildau 2016c; Reuters 2017). Reserves fell further to US$2.99 trillion in January 2017 (Bradsher 2017). While still vast, the country's reserves fell to their lowest level since March 2011. In late 2016, the government implemented new restrictions to protect reserves, reduce outflows, and dampen financial and currency instability. The measures curb mergers and acquisitions (particularly since some are used to hide capital outflows) and limit investment in overseas markets through vetting of money transfers of US$5 million or more by SAFE, compared with the previous threshold of US$50 million (*Economist* 2016a; Wildau 2016b). Additional measures were put in place in 2017. These involve new scrutiny and reporting requirements on transfers by individuals, banks, and other financial institutions (*Economist*

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2017a). Taking a page from other countries, China's state news agency announced that these measures were "not controls" (Reuters 2017). Irrespective of labeling, the pace of outflows from the country slowed in the first quarter of 2017 and by April 2017 reserves had risen to US$3.03 trillion (Bloomberg 2017).

In August 2013, India introduced capital controls on the amount that Indian-domiciled companies and residents could invest abroad (*Financial Times* 2013). These steps were taken in the context of a weakening rupee, growth in the current account deficit, and the Federal Reserve's talk of eventual tapering. Duvvuri Subbarao, then governor of the Reserve Bank of India, took pains to explain that these measures should not be labeled capital controls. In his last speech as central bank governor, he said of these measures, "I must reiterate here that it is not the policy of the Reserve Bank to resort to capital controls or reverse the direction of capital account liberalization," and he emphasized that the measures did not restrict inflows or outflows by nonresidents (Reuters 2013c). His subterfuge was only partly successful: market observers dubbed the measures "partial capital controls." When the new central bank governor, Raghuram Rajan, took his place in September 2013, he promptly rolled back the new outflow controls (Ray 2013).

Tajikistan deployed several types of outflow controls during 2015 and 2016 in the context of turmoil induced by falling oil prices. These involved administrative measures to stabilize the currency, closure of private currency exchange offices, the requirement that ruble-denominated remittances be converted to the national currency, restrictions on foreign currency transactions, and termination of the direct sale of foreign currency to the population (IntelliNews 2016; UNCTAD 2015a; National Bank of Tajikistan 2015). Here, too, authorities attempted to brand these measures as something other than capital controls. In an interview with the *Financial Times*, first deputy chairman of the country's central bank Nuraliev Kamolovich denied that these moves amounted to capital controls (Farchy 2016b).

In December 2014, the Russian government put outflow controls in place, though these were referred to in the country's press as "informal" capital controls. The government set limits on net foreign exchange assets for state-owned exporters and required large state exporting companies to report to the central bank on a weekly basis and reduce their net foreign exchange assets to the lower level that had prevailed earlier in the year. Concurrently, the central bank installed supervisors at the currency trading desks of top state banks (Kelly, Korsunskaya, and Fabrichnaya 2014).

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Ukraine deployed several outflow controls in February 2014 in the context of a highly unstable political backdrop, significant weakening of the currency, depletion of official reserves, and fears of default on external debt (much of which is denominated in foreign currencies). Measures included a ceiling on foreign currency purchases by individuals, a ban on buying foreign exchange to invest overseas or prepay foreign debt, a five-day waiting period before companies could receive the foreign exchange that they have purchased, and a limit of about US$1500 per day on foreign currency withdrawals from bank deposits (Strauss 2014).[26]

The case of Azerbaijan is illustrative of the continued tensions over capital controls and also of the rating agencies' new, measured response to them. In January 2016, the country's parliament passed a bill that would impose a 20% tax on foreign currency outflows and allow repayment of dollar loans up to US$5000 at the exchange rate that had prevailed prior to the currency's devaluation. The country's president, Ilham Aliyev, rejected the bill the next month. In doing so, the president said that "it was a mistake to tax foreign-currency outflows as it would scare away foreign investors . . . [and] cause problems for large companies like BP" (Agayev 2016). In the period between the parliament's passage and the president's rejection, the rating agencies had a subdued reaction to the prospect of outflow controls in the country. Standard and Poor's lowered the country's rating, but cited low oil prices in doing so, while Fitch maintained its rating, stating that "the introduction of the capital controls does not 'automatically' have consequences for the country's sovereign rating" (Eglitis 2016; *Financial Times* 2016a).

Beginning in late 2014, Nigeria began to implement outflow controls as falling oil prices and a concomitant drop in foreign reserves destabilized its economy. In December 2014, limits on currency trading were imposed. Then, in April 2015 and continuing through the year, new outflow controls were put in place. These included limits on what Nigerians could spend on credit cards abroad; restrictions on access to hard currency and cross-border payments; limits on dollar-denominated transactions using ATM cards and daily limits on foreign ATM withdrawals; and foreign currency quotas and restrictions on access to dollars (Ferro 2014; Reuters 2015b; Johnson 2015). In February 2016, the IMF's Lagarde began to urge the government to remove capital and exchange controls, abandon the currency peg, and pursue fiscal discipline and structural reforms to bolster growth (Reuters 2016b). The country's economy (and reserve holdings) continued a downward spiral, and Nigeria's president allowed the currency to float in June 2016.

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Similar Pressures, Dissimilar Responses, and Legal Constraints

Not all policymakers have responded or are responding to the pressures induced by large inflows, outflows, and policy spillovers with capital controls. Policymakers in some countries that enjoyed high inflows during much of the global crisis, such as Turkey, Chile, Mexico, and Colombia, publicly rejected inflow controls. Instead, they increased their purchases of dollars and used expansionary monetary policy to stanch currency appreciation. Divergent responses to similar pressures reflect many factors, not least of which are differing internal political economies, the continued sway of neoliberal ideas, and the long shadow cast by the belief that central banks must signal their commitment to neoliberalism in order to maintain international credibility.

There is more to the matter of resisting capital controls than the long half-life of neoliberalism, however. Some countries simply cannot introduce capital controls—either on inflows or outflows—because of bilateral or multilateral trade and investment treaties with the United States, such as the North American Free Trade Agreement (NAFTA) and the Dominican Republic–Central American Free Trade Agreement, or because of commitments embedded in EU and OECD membership (Gallagher 2014, chap. 8; 2012; Shadlen 2005; Wade 2003). The failed Trans-Pacific Partnership (TPP), a multilateral trade agreement, would have made it more difficult for signatory countries to utilize capital controls (Public Citizen 2015).[27]

Governments also face restrictions on controls stemming from obligations to liberalize financial services under the World Trade Organization (WTO) (Gallagher 2012). Article 63 of the Lisbon Treaty of the EU enforces open capital accounts across the union and requires that members not restrict capital transactions with other countries.[28] However, EU members Cyprus and Greece did deploy stringent outflow controls in 2013 and 2015, respectively, when their banking systems imploded. The EC and the ECB gave their blessing to these capital controls on the grounds that they were temporary and essential to preventing large-scale capital flight and the collapse of the banking system.[29] This suggests that EU strictures can be less binding than is usually thought, at least when countries avail themselves of the treaty's temporary safeguard measures during crises. Other restrictions appear in the OECD's Code of Liberalisation of Capital Movements, though since it is not a treaty, the obligations are not actionable (Abdelal 2007; Gallagher 2012).

At the time when many of these agreements were negotiated, the restrictions on capital controls no doubt seemed redundant since controls were effectively blocked by the effective constraints imposed by the IMF, rating

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agencies, and investors. Today, however, in the face of reversals by the previous enforcers of neoliberalism, the provisions are consequential. Chile's refusal to use capital controls during the global crisis has far more to do with its 2004 trade agreement with the United States than with neoliberal ideology. In the negotiations with the United States, Chile in fact sought a "carve-out" for the kind of inflow controls it used in the 1990s, when it was a pioneer in regard to reserve requirement taxes (Grabel 2003a). The United States refused to grant the exception. The resulting U.S.-Chile trade agreement exposes the country to lawsuits by investors who are able to demonstrate that they have been harmed by controls.[30] Mexico's situation is similar. Here neoliberal views are backed up by the strictures in NAFTA that threaten to punish any change in its policy stance.[31] By contrast, Brazil has been free to utilize controls during the global crisis because it has not signed bilateral treaties with the United States.

Reframing capital controls as something other than controls seems to be one viable avenue in cases where policymakers do not have the appetite to push the limits of trade/investment agreements (as with Peru and Uruguay) or where they otherwise fear the stigma that attaches to dirigisme; hence Korea's macroprudential measures, Indonesia's quasi-controls, Russia's informal controls, Tajikistan's outright denial that its measures amount to controls, and India's partial controls.[32] When policymakers are not confident of their ability to sell reframed controls to foreign investors, they are sometimes led, like Azerbaijan's president, to block capital controls altogether.

Revising the Rule Book

Since 2008, many EMDEs have implemented controls without seeking permission from the IMF. For many countries, controls were a response to the side effects of their relative economic success during much of the global crisis. It is highly unlikely that capital controls could have been rebranded as legitimate policy tools 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 crisis to assert control over financial flows. Just as history is written by the victors, so may it be the case that the rebranding and relegitimizing of a forbidden policy tool depends primarily on the practices and strategies of those countries whose success grants them the latitude, confidence, and influence over other countries not just to "cheat" in a policy domain but to rewrite the rule book. Whether the IMF and the economics profession have fundamentally changed their view

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of capital controls, then, may matter less than the altered global economic and political context in which they are being utilized.

It is clear that outflow controls are still seen in a different light than inflow controls, but the crisis has catalyzed rethinking on this controversial instrument as well. This may prove to be important in the near future, if the present economic turbulence deepens. A new round of crises might very well feature increased use of outflow controls, which may test the limits of the new policy space surrounding capital controls.

The rebranding of controls has also been facilitated by the fact that carry trade pressures in some AEs caused central bankers to reconsider their long-held opposition to currency interventions and even to capital controls. For example, in 2013, a top official of Germany's Bundesbank signaled a softening of its traditional position, stating that "limited use of controls could sometimes be appropriate" to counter currency pressures (Reuters 2013a). In 2015, the Swiss National Bank intervened aggressively and repeatedly to curb the Swiss franc's appreciation (Moschella 2015a). At that time, the head of the country's central bank, Thomas Jordan, announced that it would even consider implementing controls on foreign deposits to respond to pressure on the currency, though these measures were not introduced (Ross and Simonian 2012). These attitudes and actions should be expected to spread in the future as a consequence of the broadening mission of central banks in the AEs and EMDEs during the crisis. Today, central banks are targeting financial stability and the reduction of systemic risk through macroprudential policies rather than simply price stability (Benlialper and Cömert 2016; Moschella 2015a).

The Economics Profession, the IMF, and the New Pragmatism on Capital Controls

Today IMF staff economists and leading academic economists have 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 encouraging those economists at the IMF with reservations about capital liberalization to give voice to their concerns and to assert themselves more effectively and consistently, particularly now that views on capital controls by prominent academic economists are in flux. Economists at the Fund are not immune to the loss of confidence by many economists in the theories, models, and policy tools that have long dominated professional practice. A 2012 statement by the IMF's chief economist, Olivier Blanchard,

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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).

Neoclassical Economics and Capital Controls

Two views on capital controls have predominated among academic economists who advocate neoliberalism. The first, and minority view, is associated with libertarian thought. The libertarian case against capital controls is a principled rather than a welfare consequentialist argument. From the libertarian perspective, controls are a violation of investor rights. The case against them is therefore impervious to new empirical evidence or a change in economic conditions. In contrast, neoclassical welfarist critics have long held that capital controls are counterproductive.

Although the neoliberal case against capital controls began to fray during the global crisis, some ardent defenders remain. For instance, in a discussion of inflow controls at an IMF conference in 2015, Mexico's central bank governor Carstens said: "I have only eight seconds left to talk about capital controls. But that's OK. I don't need more time than that to tell you: they don't work, I wouldn't use them, I wouldn't recommend them" (Carstens 2015). In the same speech, he indicted outflow controls: "When investors come in [to a new country] they first look to see where the exit is and if it doesn't exist, they won't come in."[33] Prominent economists such as William Cline (2010) rebuked the IMF for its new tolerance of controls and for its outright support of controls in Brazil and Iceland. The Heritage Foundation, a conservative U.S. think tank, has been sharply critical of the IMF's recent acceptance of capital controls as embodied in its "Institutional View" (to be discussed), while a Heritage "Issue Brief" highlights with horror praise by the IMF's Lagarde for Malaysia's 1998 controls (Olson and Kim 2013).

Prior to the global crisis, neoclassical economists had almost universally held that controls raised the cost of capital, especially for small and medium-sized firms, and generated costly evasion strategies (Forbes 2005; Edwards 1999). Capital controls were therefore imprudent since EMDEs could hardly afford to introduce new sources of inefficiency.

Research in neoclassical economics during the global crisis challenges the critique by emphasizing the negative externalities associated with highly liberalized international financial flows, particularly in the absence of international coordination of monetary policies. The research has helped to legitimize capital controls, particularly those that are targeted and intended to be temporary. The research also offers support for international policy

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coordination and/or regulations on capital flows in both source and recipient countries.

There are three dimensions to the new academic research. The first strand, called the "new welfare economics of capital controls," is associated with the work of Anton Korinek.[34] It assumes that in an environment of uncertainty, imperfect information, and volatility, unstable capital flows generate negative externalities in recipient economies (Korinek 2011; Aizenman 2009).[35] In this approach, liberalized short-term capital flows are understood to induce ambient risk that can destabilize economies. Contemporary Pigouvians argue that unregulated capital flows induce externalities because individual investors and borrowers do not know, or find it advantageous to ignore, the effects of their decisions on the aggregate level of stability in a particular nation. Capital controls are then theorized as a second-best strategy that can reduce risk and dampen instability. What were formerly recognized as unwarranted interventions into otherwise efficient capital markets have now been rebranded as prudential financial regulation in an uncertain world. Inflow controls are conceptualized as a Pigouvian tax that corrects for a market failure rather than as 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 (Korinek 2011).

A second strand of research, associated with Korinek (2011; 2014) and Hélène Rey (2015; 2016), has also contributed to a mainstreaming of capital controls within the profession. This work emphasizes the way in which capital controls protect EMDEs from the international spillover effects of monetary policy in AEs, and it explicitly takes up the absence of multilateral mechanisms to coordinate monetary, capital control, and other prudential policies. Korinek's and Rey's research provide rigorous academic support for the claims of Brazil's Mantega and India's Rajan (among others) regarding currency wars and spillover effects. Similarly, it provides support for the view of Hyun Song Shin, head of research at the BIS, who has highlighted the destabilizing spillover effects and speculative investment flows induced by Federal Reserve policy (Shin 2015). An article in the *Economist* put the connection between these spillover effects and capital controls quite clearly: "QE has helped to make capital controls intellectually respectable again" (*Economist* 2013).

The negative international spillover effects of expansionary monetary policy during the global crisis highlight the need for multilateral coordination (Korinek 2013). An IMF Staff Discussion Note (in which Korinek is one of the authors) extends these themes (Ostry, Ghosh, and Korinek 2012).

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Citing Keynes and White, the report argues that spillovers in the absence of coordinating mechanisms justify regulating capital flows at both ends. In this view, coordination of capital controls between source and recipient countries improves welfare since unilateral action requires more intensive measures than coordinated action, and since the cost of controls increases at an increasing rate with the intensity of controls. Thus, international coordination or cooperation achieves globally more efficient outcomes and helps to prevent what Ghosh, Qureshi, and Sugawara (2014) term costly "capital control wars" (see also Korinek 2014; Korinek and Sandri 2015; Davis and Presno 2014).[36]

Rey's (2015) work is also motivated by the unwelcome international spillover effects of monetary policy in AEs. These spillover effects necessitate using targeted capital controls on inflows and outflows, particularly since she sees international coordination on monetary policy spillovers as being "out of reach." Capital controls are necessary to protect EMDEs from what Rey terms the "global financial cycle," the instability triggered by large, sudden inflows associated with carry trade activity and their equally sudden exit (ibid.). In a 2014 lecture at the IMF, Rey argued that the negative spillover effects of the global financial cycle affect countries with floating and pegged exchange rate systems alike (Rey 2016). In a lecture at the IMF the next year, former Federal Reserve chairman Ben Bernanke criticized Rey and Mantega by name for portraying policymakers in EMDEs as "passive objects of the effects of Fed policy decisions" (Bernanke 2015, 24, 30, 33, 36, 44). Moreover, he argued that the EMDEs that experienced the most turbulence already had fragile economies because of domestic economic problems. Thus, international cooperation on monetary policy was neither necessary nor appropriate. Instead, Bernanke called for increased communication among central bankers. Bernanke nonetheless endorsed the use of targeted capital controls to tackle the unwelcome international spillover effects of monetary policy, even while emphasizing the primary importance of domestic regulatory and other macroprudential measures.

Other neoclassical economists have wrestled with the international spillover effects of monetary policy and capital controls during the crisis. Nobel laureate Michael Spence (and co-author Richard Dobbs) wrote of the troubling "financial protectionism" that was occasioned by expansionary monetary policy in AEs, and expressed worry that protectionism would accelerate as the era of "cheap capital" came to a close (Dobbs and Spence 2011). Despite characterizing controls as financial protectionism, however, Spence spoke favorably about their utility in EMDEs during a 2010 speech at the Reserve Bank of India. There he stated that capital controls are

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"essential as part of the process of maintaining control," and he also noted that most high-growth EMDEs have had such controls (Spence 2010b).

A third strand of new neoclassical research is empirical and substantiates the theoretical claims of the welfarist approach.[37] For example, Qureshi et al. (2011) found that capital controls and prudential measures relating to foreign currency in 51 EMDEs from 1995 to 2008 were 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 capital controls and foreign-currency measures in place during the boom enhanced resilience during the bust of 2008. Ghosh and Qureshi (2016) review a large body of empirical evidence that shows that inflow controls change the composition of capital inflows and do not discourage investors. They argue that evidence on the efficacy of outflow controls is more mixed. Even Forbes, a long-standing critic of controls, found that Brazilian taxes on foreign purchases of fixed-income assets between 2006 and 2011 achieved one of its key goals by reducing the purchase of Brazilian bonds (Forbes et al. 2011). Recent "meta-analysis" of existing studies likewise finds evidence of the utility of controls. Magud and Reinhart extended their 2006 work to encompass a larger number of studies, including some that focus on the global crisis (Magud, Reinhart, and Rogoff 2011). They found that inflow controls enhanced monetary policy independence, altered the composition of inflows, and reduced real exchange rate pressures, but did not reduce the aggregate volume of net inflows. Finally, Jeanne, Subramanian, and Williamson (2011) show that free capital mobility has little benefit to long-run growth. On this basis, they conclude that the international community should not promote unrestricted financial flows, and they call for an international code of good practices for controls under the auspices of the IMF in coordination with the WTO.

Empirical findings by economists outside the profession's mainstream sustain deeper support for controls than we find in the recent work of neoclassical economists (e.g., Epstein 2012; Erten and Ocampo 2013; Gallagher 2014; Grabel 2015b). Erten and Ocampo (2013) provide what is perhaps the most expansive evidence of the achievements of a range of capital controls, including those on outflows. Using data from 51 EMDEs from 1995 to 2011, they find that capital controls that target inflows, outflows, and measures related to foreign exchange were associated with lower foreign exchange pressures. They also find that outflow regulations had larger effects than inflow regulations. They conclude that these three types of measures have enhanced monetary policy autonomy, that increasing their restrictiveness

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in the run-up to the global crisis reduced the growth decline during the crisis (and thereby enhanced crisis resilience), and that countries using these measures experienced less overheating during postcrisis recovery when a new surge in capital inflows occurred.

The Global Crisis, the IMF, and Capital Controls

The evolution in thinking by academic economists on capital controls is reflected in and reinforced by developments at three overlapping levels of practice at the IMF: research, official statements by key officials, and policy recommendations by its staff.[38] We find continued discomfort and tension around capital controls during the global crisis, which is reflected in efforts to develop a hierarchy among types of capital controls and the circumstances under which they are most acceptable.

There is ample evidence of change and tension in recent IMF research on capital controls. An IMF report drafted early in the crisis found that the use of capital controls protected the banking systems in low-income countries, stating that "the existence of capital controls in several countries . . . helped moderate the direct and indirect effects of the financial crisis" (IMF 2009c, 9, fn9). An Article IV report on Bangladesh credits the effective closure of its capital account for its ability to avoid the global "flight to safety" early in the crisis (IMF 2010a).

In February 2010, a team of IMF economists, led by Jonathan Ostry, published a thorough survey of econometric evidence that commended inflow controls for preventing crises and reducing the risk and severity of crisis-induced recessions, while reducing fragility by lengthening the maturity structure of external liabilities and improving the composition of inflows (Ostry et al. 2010). The findings refer to the experience with controls prior to and after the Asian crisis, as well as during the global crisis. The study 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'" (ibid., 5). The study hedges in the expected ways—identifying the restrictive conditions under which controls can work. But in stark comparison with earlier IMF reports, the qualifications are just that—considerations to take into account but not insuperable obstacles to the use of controls. That, in itself, represents a major advance in IMF open-mindedness.

After the Ostry report was released, prominent IMF watchers praised the Fund for finally embracing a sensible view of controls. Ronald McKinnon stated, "I am delighted that the IMF has recanted" (quoted in Rappeport 2010); former IMF official Eswar Prasad asserted that the paper represented

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a “marked change” in the IMF’s advice (quoted in Wroughton 2010); and Rodrik concluded that “the stigma on capital controls [is] gone” and that the report “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 “just as John Maynard Keynes said in 1945—capital controls are now orthodox” (quoted in Thomas 2010). Equally telling is the sharp rebuke to Ostry et al. (2010) by Cline, an unrepentant advocate of capital liberalization, who viewed the new IMF embrace of controls as troubling and wrongheaded (Cline 2010).

Research on controls spilled out from the IMF from 2011 through 2016. Findings appeared in reports of its research departments and in Staff Position Notes and Staff Discussion Notes. The reports continue to illustrate the growing legitimation of controls while also providing a window into the endurance of the dissenters.[39] The IMF’s crisis-induced research on controls culminated in a December 2012 report of the Executive Board, which the IMF terms the “Institutional View” (IMF 2012e; 2012f). The Institutional View is an official board-endorsed view that IMF staff are expected to incorporate into surveillance activities (Gallagher 2015a). The report makes clear that inflow and outflow surges induce instability; that countries should not consider capital liberalization prematurely; that temporary, targeted, and transparent inflow and even outflow controls may be warranted during turbulence, though they should not discriminate against foreign investors; that countries retain the right under Article VI to put controls in place; and that the IMF’s new, more permissive stance on controls may conflict with and be subsumed by trade and other agreements. Particularly notable is the fact that the report refrains from dismissing capital controls as a “last resort” measure—a theme that had recurred throughout IMF research in 2010 and 2011—and that it sanctions the deployment of outflow controls during crises.[40]

The Institutional View provides ample evidence of the IMF’s continued effort to “domesticate” the use of controls. We see this in the language around targeted, transparent, temporary, and nondiscriminatory measures. Moreover, arguments in the report continue to be guided by the view that capital liberalization is ultimately desirable, though claims to this effect are more nuanced than in the past.[41] Not least, the report rejects the presumption that capital account liberalization 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 IMF, and more directly in press accounts, many of which focused on criticisms of the report by Paulo Nogueira Batista Jr.,

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then IMF executive director for Brazil and ten other countries (IMF 2012e; Beattie 2012). Nogueira Batista focused on the failure of the Institutional View to consider the role of push factors from AEs and the IMF's lack of evenhandedness (Prasad 2014, 195). That said, the fact that the IMF shifted the discussion of capital controls away from circa-1980s neoclassical economics and toward the legal and institutional conditions required for their success is further evidence that the most stubborn resistance to controls on economic grounds has been overcome.[42]

The IMF continues to wrestle with the interpretation and practical implications of its own Institutional View. An April 2013 Staff Guidance Note sought to provide clarification regarding how IMF staff should interpret the Institutional View (IMF 2013c). The note reiterates that "staff advice should not presume that full liberalization is an appropriate goal for all countries at all times," and it made allowance for "a temporary re-imposition" of capital flow measures under certain circumstances (ibid., 9–10, 16). But it also reiterates that controls should be "transparent, targeted, temporary, and preferably non-discriminatory" (ibid.). Despite increasing acknowledgment of spillover effects, the note rejects the view that capital source countries should be expected to take spillover effects into account when pursuing policies in line with their "primary domestic objectives" (ibid., 17). A December 2015 report prepared for IMF staff (IMF 2015d) probes what the Institutional View and the Staff Guidance Note entail specifically for outflow controls. The 2015 report insists that outflow controls (like inflow controls) should be transparent, temporary, lifted once the crisis conditions abate, and nondiscriminatory, though it does acknowledge that sometimes residency-based measures may be hard to avoid (ibid., fn1). The report also observes that, unlike controls on inflows, temporary outflow controls generally need to be comprehensive and adjusted to avoid circumvention (ibid., 3) and that "re-imposition of [controls] on outflows can be appropriate and consistent with an overall strategy of capital flow liberalization . . . even in non-crisis-type circumstances if premature or improperly sequenced liberalization . . . outpaced the capacity . . . to safely handle the resulting flows" (ibid., 4).

The messiness of the Institutional View and the Talmudic process of interpretation that has followed its release reflect deep internal conflicts within and outside the IMF. The IEO reports that the Institutional View was the "furthest some Directors (mainly from major AEs) were prepared to go in condoning the use of CFMs [capital flow management] and the minimum other Directors (mainly from major emerging market economies) were willing to accept as a repudiation of full capital account liberalization

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as a desirable goal" (IEO 2015, 9, fn15). Notwithstanding board endorsement of the Institutional View, the same report notes that it is uncertain whether IMF advice on capital controls will be consistent, owing to the fragile nature of the consensus around this view, the presence of internal conflict, and the constraints on controls in trade and investment agreements. Preliminary evidence suggests a basis for cautious optimism. The 2015 IEO report that reviews the IMF's Article IV reports from January 2006 to August 2014 finds that staff advice on capital controls was more discouraging in the early part of this period and more supportive and even encouraging of such measures from 2010 on (ibid., 12). Today the IMF continues to study country experiences and what it terms "emerging issues" in connection with capital flow management.[43]

Public statements by current and former officials at the BWIs beginning in 2009 further illustrate the normalization, lingering ambivalence, and attempt to domesticate the use of controls. IMF first deputy managing director John Lipsky acknowledged in a December 2009 speech that "capital controls also represent an option for dealing with sudden surges in capital flows" (Lipsky 2009). In the address, he argues that controls should be used when capital inflow surges are temporary (though we have to wonder when sudden surges would not be temporary), and he emphasizes that controls likewise should be temporary. Despite these caveats, he argues that "above all, we should be open-minded." Public statements by the IMF's Strauss-Kahn illustrate particularly clearly the grudging evolution in the IMF's views. In public statements in 2009, Strauss-Kahn emphasized the costs of capital controls, claiming that they tend to lose effectiveness over time (IEO 2015, box 3). But, in a July 2010 speech, he reframed his message, saying "it is just fair that these [EMDEs] countries would try to manage the inflows" as a last resort against inflow-induced asset bubbles (Oliver 2010), and later in the year he reiterated what was by then the new mantra that capital controls are a legitimate part of the toolkit (Strauss-Kahn 2010c; IEO 2015, 16). In 2010, the director of the IMF's Western Hemispheric department made a case (unsuccessfully) for the utility of controls in Colombia, owing to the appreciation of its currency (Crowe 2010). The IMF's Lagarde spoke in 2012 and 2014 of the utility of temporary, targeted capital controls (IEO 2015, box 3), and in March 2015 she observed that there is scope for greater cooperation in connection with monetary policy spillovers (Lagarde 2015a).

The World Bank, too, amended its public position on capital controls during the global crisis. A 2009 World Bank report concludes cautiously that "capital controls might need to be imposed *as a last resort* to help mitigate

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financial crisis or stabilize macroeconomic developments" (World Bank 2009, 48, emphasis added). In a similar spirit, commenting on the reemergence of controls in Asia, World Bank president Robert Zoellick offered qualified support for capital controls by stating that they are "not a silver bullet . . . they may help at the margin" (quoted in Gallagher 2010). A World Bank report issued after the IMF's Institutional View (and reports related to it) captures well the continued hedging on the matter. It cautions that "there is potential danger for policymakers to err on the side of overly strict capital controls, choking off access to finance, when what is really needed is careful reform of regulatory institutions and greater institutional regulatory coordination" (World Bank 2013a).

Given the inconsistency of the IMF's position on capital controls after the Asian crisis, the research, policy advice, and statements coming from key officials during the global crisis mark, by its standards, a minor revolution.[44] Change at the Fund has been uneven, to be sure, with one step back for every two steps forward. None of this should be surprising. We should expect that deeply established ideas hang on despite their apparent disutility (Grabel 2000; 2003b). We should expect to find continuing evidence of tension and equivocation in research by academic economists and in future IMF reports and practices that preclude a clear and decisive verdict on capital controls. But for now, at least, welfarist arguments for controls have been embraced at the top of the profession, and this will surely continue to influence the IMF and other critical actors—even if just by validating views that they have come to hold independent of developments within academia. More importantly, and as I have argued throughout this book, change at the IMF and in the economics profession is only one of a larger set of factors that have legitimated capital controls.

The Struggle to Control Capital Controls

At several key moments, the IMF, the G-20, and the G-24 turned their attention to, and sometimes sparred on, the matter of standards for capital controls, which body should adjudicate the appropriateness of controls, and the right of nations to experiment with them. Beginning in late 2010, the IMF and the G-20 discussed the development of standards for the appropriate use of controls (Habermeier, Kokenyne, and Baba 2011; IMF 2010c; 2011c; Ostry et al. 2011; Ostry, Ghosh, and Korinek 2012). This project was also given life by the French government, which tried to use its leadership of the G-20 and G-8 in early 2011 to authorize the IMF to pursue this project (Hollinger and Giles 2011).[45] Indeed, capital flows figured prominently on

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the G-20 agenda during France's leadership of the network. The matter of capital controls and a code of conduct to manage their use fell off the G-20 agenda shortly thereafter, perhaps because of a leadership change, the exigencies of the Eurozone crisis, and, per Chwieroth (2014; 2015), because of enduring U.S. influence.

At the same time that the IMF was developing its Institutional View, the G-20 approved an expansive statement on controls that reflected the work of a fractious G-20-appointed committee co-chaired by Germany and Brazil (G-20 2011a). The G-20 statement goes beyond the IMF's Institutional View by taking an unambiguous, firm stand against "one size fits all" approaches to controls, rejecting the idea of developing a set of conditions for their use, and calling on 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 it acknowledges that the G-20 document is nonbinding and is the product of a "hard-won consensus" (read: conflict that pitted the United States and other AEs against Brazil and other EMDE members).[46]

The IMF's 2013 Staff Guidance Note obliquely takes up the matter of the IMF's role in adjudicating capital controls. This note invokes many times a refrain along the lines of "this will require staff judgment" in connection with country policies. This reflects continued efforts by the IMF to try to secure for itself a leading role in managing the use of controls. However, equally instructive is the fact that Brazil and other EMDEs working through the G-24, G-20, and even the IMF have consistently, unequivocally, and publicly rejected such a role for the Fund (G-24 2011; Reddy 2011; Wagsty 2011). The opponents of IMF oversight have pressed to maintain the right to deploy capital controls that are expansive, blunt, lasting, and discriminatory, so long as internal or external economic conditions warrant. Newly enjoying policy autonomy in this domain, EMDEs are not anxious to succumb to IMF codes, sanctions, or guidance that could tie their hands in the face of destabilizing flows of hot money and the unwelcome spillover effects of monetary policy in AEs.[47]

China had indicated that it would use its position at the helm of the G-20 in 2016 to resurrect dormant discussions of international capital flows, capital controls, and global financial architecture (G-20 2016b, para. 5). But the September 2016 communiqué released after the final Leaders' Summit of the year contained only general diplomatic language to the effect that the group looks forward to the release of the IMF's latest study of experiences with managing capital flows by year-end 2016, supports more effective cooperation between the IMF and regional financial arrangements,

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welcomes the upcoming CMIM-IMF test run, and endorses a strengthened global financial safety net with a strong, quota-based, and adequately resourced IMF at its center (G-20 2016c). China may have passed on the opportunity to take the lead on capital flow management because its officials were occupied with domestic financial volatility during 2016 and the launch of new institutions, such as the AIIB.

Conclusion

The ultimate outcome of the rethinking of capital controls is uncertain, of course. It is possible that the pre-2008 view of controls may reestablish itself, not least because its advocates have proven remarkably adept at "paradigm maintenance" over the last three decades—as Wade (1996), Mirowski (2010), and Hodgson (2009) have noted, and as Polanyi (2001[1944], 143) argued long ago. As with most rebranding exercises, there is also uncertainty about whether the new framing will prove sufficiently sticky, especially in the context of tensions and countervailing impulses at the IMF and elsewhere, a resilient bias within economics against state management of economic flows, and new attempts to assert outflow controls in times of distress that would run counter to the interests of powerful financial actors.

That said, it seems most unlikely that the pendulum will swing back in the direction of reifying capital liberalization. The myriad changes that I have examined here (and throughout the book)—especially the pragmatic turn in global financial governance, along with the growing exigencies occasioned by the latest turbulence in the world economy—portend continuing interest in and experimentation with capital controls.[48]

In the end, whether the IMF's new openness on capital controls fades with the crisis may not matter much insofar as the institution has been rendered less relevant as it faces increasingly autonomous and assertive EMDE members, on which it now depends. The fact that many economies that performed relatively well during the crisis successfully utilized controls has eliminated the instrument's long-standing stigma. That the Fund has also acknowledged the utility of outflow controls in countries in crisis also makes it harder to envision a return to pre-2008 views.

For now, there seems to be substantial momentum propelling increasing use of and experimentation with the flexible deployment of capital controls, in some cases with IMF support and in most other cases without IMF resistance. The fact that support for capital controls stems from such diverse quarters today increases the likelihood that the new thinking will

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be sustained. Prominent neoclassical economists have used the tools and language of their discipline to make a theoretical case for controls and to highlight the costs of policy spillover effects. Neoclassical and heterodox economists have added ample empirical evidence that controls have had important beneficial macroeconomic effects during the crisis. Former and current central bankers such as Bernanke and Kuroda have spoken in favor of controls. Key officials of the BWIs have argued in favor of some types of capital controls (under some conditions). National policymakers in many of the most assertive EMDEs are committed to controls. And rating agencies have come to accept capital controls in many contexts as reasonable policy responses to financial threats. Such widespread support not only makes possible the continued use of capital controls but also creates the opportunity for the construction of a viable, flexible, and permissive capital control regime that is consistent with the goals of mitigating negative international spillovers and financial instability while promoting development and enhancing national policy space.

The widening of policy space and the practical experience with capital controls gained during the global crisis may prove consequential in the immediate future, if as we might expect the emerging financial fragility continues to deepen. Even as the problems of "doing too well" fade across EMDEs, earlier experiments with controls on capital inflows may pay important dividends in what are likely to be challenging times ahead. A critical test of recent and ongoing experiences with capital controls will occur in future crises, as states rely on and adjust fledgling practices and policies in hopes of dampening instability and otherwise managing turbulence better than they had over the course of previous crises. The coming period may test—sooner rather than later—the resilience of the new openness to controls, especially on outflows. It may also test the ability of states and institutions to capitalize on the opportunities that they have had for learning by doing and learning from others that have thus far been afforded by the crisis.

One reason for cautious optimism is found in the effects of the enormous capital outflows from the EMDEs in 2015 and early 2016. Taken in isolation, the numbers are bleak. In the past, outflows of this magnitude would inevitably have induced an immediate, severe, and sustained crisis and touched off crisis contagion across the EMDEs. It is notable, then, that despite the intensity of EMDE capital flow reversals since 2015, EMDEs have not imploded. In comparison with the past, EMDEs are demonstrating significant financial resilience (UNCTAD 2016, chap. 1, fn14). China's experience is particularly notable. Although China has suffered extraordinary

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outflows, it continues to possess the largest international reserve holdings in the world (ibid.).

In my view, it is 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 to adjust them as circumstances warrant. The pressing policy challenge today, then, is to construct regimes that expand national policy autonomy to use capital controls while managing cross-border spillover effects. This certainly suggests abandoning or, at the very least, renegotiating the restrictions on capital controls in existing and pending bilateral and multilateral trade and investment agreements. It also suggests the need to develop global and/or regional frameworks for burden sharing and regional and international cooperation in the case of spillover effects. Recent and ongoing experimentation with subregional, regional, and transregional arrangements and institutions during the global crisis might therefore generate significant benefits in regard to developing strategies to manage the spillover effects from capital controls or currency fluctuations. Moreover, historical and recent experience indicates that capital controls on inflows and outflows should be thought of not as a last resort but rather as a permanent and dynamic part of a broader prudential, countercyclical toolkit to be deployed as internal and external conditions warrant, and that there are circumstances where controls may need to be blunt, comprehensive, significant, lasting, and discriminatory rather than modest, narrowly targeted, and temporary (Epstein, Grabel, and Jomo K. S. 2004; Erten and Ocampo 2013; Fritz and Prates 2014; Grabel 2003c; 2004; 2017; Rodrik 2015b).[49]

Any governance regime that seeks to develop a framework for capital controls should err on the side of generality, flexibility, and permissiveness; should involve and promote cooperation by both capital source and recipient countries; and should embody an evenhanded acknowledgment that monetary policies, like capital controls, have positive and negative global spillover effects that necessitate some type of burden sharing. It is therefore heartening that the crisis appears to have occasioned the rediscovery of the relevant views of Keynes and White[50] and that these views have been given new life by the widespread use and rebranding of capital controls across diverse national contexts and by the related attention to currency wars and policy spillovers.

The spread of capital controls and the conflict over spillovers highlights the problems associated with the absence of regional and/or global policy coordination. Brazil's former finance minister raised the matter of unwelcome spillover effects on many occasions. More recently, in October 2015,

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Rajan began to be openly critical of IMF support of the easy money policies in AEs, and the institution's failure to flag the negative spillover effects of such measures (*Times of India* 2015). Echoing Mantega's concerns, Rajan has drawn attention to the tide of competitive and nationalist monetary easing among central banks in AEs, and the related absence of consideration of the negative financial and political spillover effects for EMDEs (ibid.).

Rajan's proposals warrant attention here because they focus attention on the right kinds of issues. He calls on the IMF (and possibly the G-20 and BIS) to develop a system for assessing the net effects of policy spillovers, in which spillovers would be graded on a color-coded traffic light type of system. "Green-rated" policies are those that are beneficial to domestic and foreign economies, have few adverse spillovers, or only have temporary negative spillover effects on foreign economies. "Orange" are those policies that should be used only temporarily and only with care. In contrast, "red" policies are those that should be avoided at all times because they are likely to have significant adverse spillover effects on foreign economies (even if they have small positive effects on the domestic economy) (Rajan 2016a; 2016b). For reasons of expediency, a group of globally representative "eminent academics" (appointed by the IMF, G-20, and/or BIS) would measure, analyze, and grade policies in terms of their spillover effects. The next step would involve discussions within international organizations (such as the IMF Executive Board and the BIS) that would be based on background papers on spillovers prepared by the IMF, academics, and central banks in EMDEs. Following these discussions, policymakers would be asked to defend their policy choices when they are deemed to have spillover effects that are sufficiently detrimental so as to be graded red. Rajan notes that it would be necessary to consider how and if consideration of international spillovers aligns with the domestic mandates of individual central banks. He also observes that his approach might necessitate either a new international agreement or, at the very least, a change in the IMF's Articles of Agreement. One might expect a renewed attention to policy spillovers in 2017 if EMDEs, as expected, continue to experience fallout from a strengthening dollar and tightening U.S. monetary policy (or more generalized volatility in U.S. markets).

We have thus far focused on the negative spillover effects of capital controls and monetary policies. But capital controls can also have beneficial political and economic spillovers. In particular, they can enhance democracy, state capacity, and national policy autonomy. Returning to Hirschman's exit and voice, capital controls can to some degree rebalance political voice by limiting the entrance and exit options available to the

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holders of capital. As the 2016 release of the "Panama Papers" makes clear, massive offshore money holdings facilitate tax avoidance by the world's super-rich, a practice that both deprives states of badly needed tax revenues and enhances the political voice of investors vis-à-vis states and less wealthy groups within national economies.[51]

Capital controls can also enhance financial stability. Thus, they may protect intraregional trade relationships while also reducing the likelihood of cross-border financial contagion and the need for IMF involvement in domestic governance. Of course, destabilizing capital flows may be diverted from an economy with capital controls to one that does not have them, and this can export financial instability. Here again, there are benefits to cross-border coordination of capital flows or, at the very least, ex ante discussions of possible negative spillovers.

In this environment of disruption, economic and institutional change, intellectual aperture, and uncertainty, we find a productive expansion of policy space for experimentation with capital controls. We also find a grudging movement away from the idealization of financial liberalization within neoclassical economics, something that may ultimately be seen as a consequential legacy of the global crisis. Taken together, the change, messiness, aperture, and uncertainty exemplify the productive incoherence of the present conjuncture.

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