Citation for published version: Grabel, Ilene. “Not your grandfather's IMF: global crisis, ‘productive incoherence’ and developmental policy space.” *Cambridge Journal of Economics* 35, no. 5 (2011): 805-830.
DOI: https://doi.org/10.1093/cje/ber012

NOT YOUR GRANDFATHER’S IMF: GLOBAL CRISIS, “PRODUCTIVE INCOHERENCE” AND DEVELOPMENTAL POLICY SPACE

Ilene Grabel*

June 2011

----

*I am grateful for the very useful reactions to this research offered by two anonymous referees, Jim Boyce, James Crotty, Mwangi wa Githinji, Barry Herman, Jonathan Kirshner, and especially George DeMartino, and also by participants at conferences or seminars at the Central Bank of the Argentine Republic, Federal University of Rio de Janeiro, the Political Economy Research Institute of the University of Massachusetts-Amherst, the New School for Social Research, the IDEAs conference in Muttukadu, India, and Cornell University. I benefited immensely from the research assistance of Stu Thomas and Jesse Golland.

Abstract: The response by the IMF (and developing country national governments) to the current global financial crisis represents a moment of what I term "productive incoherence" that has displaced the constraining "neoliberal coherence" of the past several decades. Productive incoherence refers to the proliferation of inconsistent and even contradictory strategies and statements by the IMF that to date have not congealed into any sort of new, organized regime. Those who see continuity at the IMF emphasize the reassertion of the IMF's authority; the reiteration of pro-cyclical policy adjustment; and the maintenance of existing governance patterns within the institution. In contrast, evidence of discontinuity includes a world now populated by increasingly autonomous states in the South; the normalization of capital controls; and Fund conditionality programs that are inconsistent in key respects. In the face of this evidence, it is best to understand the current conjuncture as an "interregnum" that is pregnant with new development possibilities.

Key words: Global financial crisis; policy space for development; International Monetary Fund; capital controls; neo-liberal policies and development

JEL classifications: E65, F53, O23

1. INTRODUCTION

When things have been so bleak for so long, it is understandable that heterodox development economists underestimate change when it begins to unfold. This is certainly true of those of us who have been deeply critical of the extension of neo-liberalism across the developing world via the combined influence of the International Monetary Fund (IMF)/World Bank, private financial actors, the US and UK governments, neo-liberals in the developing world and the economics profession. Faced with a juggernaut of this sort, we can forgive ourselves for failing to recognize, let alone take any hope in, signs of change.

Forgiven, that is, if the stakes were not so high. But they are very high, indeed—and so we can not be quite so self-forgiving if in fact our pessimism leads us to discount too readily evidence of new aperture that could be exploited by heterodox economists that have long sought to expand both policy and ideational space in the developing world. Given the current state of flux in economic thinking and policy, it is important at this juncture to guard against premature conclusions that nothing significant has, can or will change as a consequence of the crisis.

Regrettably, some heterodox development economists and IMF observers have suggested that the current crisis has had (and is likely to have) only a minimal or even trivial effect on policy space and on ideas about policy in the developing country context. This view, which I term the "strong continuity view," is apparent in the work, for example, of Chandrasekhar and Ghosh [2011] and Weisbrot et al. [2009a], and also among many civil society actors and organizations [e.g., Eurodad, 2009; Muchhala, 2009]. Other advocates of the strong continuity view include those who argue that the crisis is not likely to have a significant impact on economic theory and on the economics profession more broadly [e.g., Mirowski, 2010, Hodgson, 2009]. Of course it is important not to mistake the crisis as proof of the demise of neo-liberalism, the defeat of the global financial community and/or the demotion of the US dollar as a key currency. I do not address here the "strong discontinuity" view since neither scholars nor civil society representatives are seriously advancing it.

In what follows, I argue against the strong continuity view in favor of one that is more nuanced and empirically grounded. I argue that the mixed and even chaotic response to the current global financial crisis represents an historical moment of what I term "productive incoherence" that has displaced the constraining "neoliberal coherence" of the past several decades. By productive incoherence I refer to the proliferation of responses to the crisis by national governments, multilateral institutions (particularly the IMF) and the economics profession that to date have not congealed into any sort of consistent strategy or regime. The term is intended to signal the absence of a unified, consistent, universally applicable response to the crisis—both at the levels of rhetoric and policy. This incoherence is radically different from the response to the East Asian financial crisis of 1997-98, the reaction to which was remarkably coherent in terms of both rhetoric and policymaking. Indeed, the univocal response to the Asian crisis served to deepen the move to neo-liberal reform in the developing world through a variety of policy and ideational mechanisms [on responses to the Asian crisis, see Grabel, 2003a, 2007; Singh, 1999; Wade, 2007].

The responses to the current crisis that are emerging across the globe and within the IMF range from those that reflect substantial rhetorical and policy continuity with neo-liberalism to those that represent pronounced discontinuity in these two domains. For those like this author and others (e.g., Chang and Grabel, 2004; Gallagher, 2005; Shadlen, 2005; Wade, 2003) who have worried about neo-liberalism as a straightjacket over policy space in developing countries, the new incoherence may signal the tentative beginning of the end of a wrong-headed regime that granted excessive authority to the IMF, neo-liberal economists and the global financial community to set the parameters of acceptable, feasible policy choices in the developing world. In this (albeit limited) sense, the present incoherence is productive, signaling as it does not the death of neo-liberalism, certainly, but erosion of the stifling consensus that has secured and deepened neo-liberalism across the developing world over the past several decades. It follows that we would make a grave error were we to prejudge the historical moment as one of certain inertia rather than potential rupture.

Advocates of continuity can certainly marshal compelling evidence. On the one hand, one of the most interesting and important institutional aspects of the current conjuncture is the degree to which the crisis has restored the IMF's authority (see below), just when long-standing critics of the Fund might have hoped for new institutional arrangements to manage crises. Moreover, in some very important respects IMF assistance to countries in distress has followed its well-rehearsed script inasmuch as many conditionality programs continue to stress pro-cyclical policy adjustments, privatization and liberalization. Moreover, developing countries have secured only modest commitments for increases in their formal influence at the IMF as a consequence of the crisis. These facts are noteworthy, to be sure, but they do not represent the whole story.

On the other side of the ledger are promising signs that the neoliberal ideas and prescriptions of important economists and departments at the Fund are being challenged by the current crisis in ways that most of us did not anticipate. In response, at least some IMF economists are learning to live with serious departures from the old script. Most importantly in this regard, the crisis is having the effect of normalizing the use of capital controls in developing countries. I would suggest that this may represent the beginning of what may very well turn out to be the most significant expansion of policy space in the developing world of the past several decades. It is also the case that Fund staff have developed conditionality programs that–while still unduly harsh—display a degree of incoherence in two respects that we have not seen previously. First, while the Fund continues to advocate fiscal retrenchment, it also now routinely emphasizes the need for "pro-poor spending" to protect the most vulnerable from economic hardship. Second, there is striking lack of consistency in conditionality programs across countries. Indeed, the IMF's crisis response strategy is marked by ad hoc measures that reflect all sorts of differences across the countries where the IMF has asserted its influence. Missing here is the unyielding attachment to a global strategy of neoliberalism that has marked the Fund's interventions over the past several decades.

I will postpone until the end of this paper the usual and even necessary caveats about the resilience of neoliberal ideas and the fragility of the new policy space, and instead turn straight away to the main focus of this paper. My goals are straightforward. First, I intend to demonstrate that the response to the current crisis has in fact been incoherent in important respects, from "who's in charge here?" to "what is to be done?" As regards the former, we will see *inter alia* that the crisis has at once resurrected the IMF as a central actor in crisis management while exposing its diminished reach and influence as a consequence of the successful escapist strategies of large developing countries from the IMF's orbit. For the first time in recent memory, the IMF finds itself forced to respond after the fact to developing country economic strategies that flout the neoliberal prescription. In this context, the institution has adopted a new flexibility concerning some aspects of policy that should be striking to long-term IMF watchers. Associated with these changes, the "what is to be done?" question is being answered today more inconsistently and pragmatically than in the recent past. Second and equally important, I will show that this incoherence is in fact productive in the sense of expanding policy space for development.[1]

2. WHO'S IN CHARGE? THE RESURRECTION OF A DIMINISHED IMF IN A WORLD OF RELATIVELY AUTONOMOUS STATES

The IMF has had a dominant and controversial role in financial governance from the

[1] See also Best [2005] which argues that the international political and economic stability of the postwar WWII era depended on a carefully maintained balance between coherence and ambiguity.

developing country debt crisis of the 1980s through the immediate aftermath of the East Asian financial crisis of 1997-98. The IMF emerged from the East Asian crisis a greatly weakened institution in regards to its credibility around the world, the adequacy of its own financial resources, the size of its staff, and the geographic reach of its programs. Critics on both the left and the right railed against the institutions' mission creep, heavy handedness, ideological capture, domination by the US government and private financial interests, its myriad failures in East Asia prior to and following the crisis, and its excessively harsh and intrusive conditionality.

An important consequence of the Asian crisis and subsequent changes in the global economy was the loss of purpose, standing and relevance of the IMF. Indeed, prior to the current global financial crisis, demand for the institution's resources was at an historic low. Major borrowers (including Argentina, Brazil, and Ukraine) had repaid their outstanding debt to the institution and the Fund had contracted its staff [Kapur and Webb, 2006].[2] In fiscal year 2005, just six countries had Stand-by Arrangements (hereafter, SBAs) with the Fund, the lowest number since 1975 [Kapur and Webb, 2006].[3] From 2003 to 2007, the Fund's loan portfolio shrunk dramatically: from $105 billion to less than $10 billion, while just two countries, Turkey and Pakistan, owed most of the $10 billion [Weisbrot et al., 2009b]. The IMF's list of clients came to include primarily extremely poor countries that had no choice but to seek its assistance [Chorev and Babb, 2009].

The current crisis has been good to the IMF [Chorev and Babb, 2009]. It has rescued the institution from its growing irrelevance by re-establishing its central place as first responder to

[2] In the years following the Asian crisis, the Fund eliminated as much as 15% of its staff [Thomas, 2009]. Note, however, that Ukraine returned to borrower status when it signed a $15 billion SBA with the Fund in July 2010.

[3] SBAs are the IMF's basic short-term loan agreement.

financial distress. This re-empowerment has come about for a number of reasons. Even with reduced staffing the Fund still holds a monopoly position when it comes to experience in responding to financial distress in poorer countries. The regional arrangements and institutions that have evolved in the developing world in response to the East Asian crisis and those that are evolving at present are not yet in a position to substitute for the Fund (though Fund staff may well be acting on the presumption that this may start to happen; see Grabel, 2011]. Moreover, events in and on the periphery of the European Union (EU) have contributed substantially to the IMF's resurrection as a consequence of the need of the EU, European Commission and European Central Bank for the Fund's expertise, financial assistance and authority. Indeed, Lütz and Kranke [2010] argue that the EU has "rescued" the IMF by partnering with it on bailouts and by channeling its harsh conditionality circa the 1980s and 1990s.

The IMF's rescue was also facilitated by G-20 decisions during the crisis. Representatives at the April 2009 meeting of the G-20 gave the IMF pride of place in global efforts to respond to the crisis. The message was not lost on the Fund's Managing Director, Dominique Strauss-Kahn who, at the meeting's end said: "Today is the proof that the IMF is back" [Landler and Sanger, 2009]. The meeting not only restored the IMF's mandate but also yielded massive new funding commitments to the institution to support its efforts to respond to the crisis (even if upon close examination these commitments are less than advertised, as Chowla [2009] demonstrates). Representatives committed $1.1 trillion in funds to combat the financial crisis, with the bulk of it, namely, $750 billion to be delivered through the IMF. The global crisis has reinvigorated not only the IMF, but also other multilateral financial institutions, such as the World Bank, the Inter-American Development Bank and the European Bank for Reconstruction and Development, EBRD.[4]

[4] For an interesting anecdote along these lines, see McElhiny [2009] for a description of how the Inter-American Development Bank's holiday party in 2008 celebrated the increased

At the same G-20 meeting several developing countries committed to purchase the IMF's first issuance of its own bonds: China committed to purchase $50 billion while Brazil, Russia, South Korea and India each committed to purchase $10 billion. Thus, $90 billion of the $500 billion in new resources for IMF lending will come from countries that have traditionally not played an important role in Fund governance. The support for the Fund coming from developing countries is surely a landmark event at the institution. For our purposes what is most important about these new commitments is that they not only contribute to the Fund's resurrection, but also reflect the global power and autonomy of these rapidly growing economies (see below). The Fund is continuing to seek additional resources: indeed, since July 2010 the institution's management has sought to raise an additional $250 billion in funding from its members.

The reemergence of the IMF at the heart of the global financial system is significant since the IMF has played a central role in driving thinking about policy and circumscribing the actual policy space available to developing and transitional countries over the last three decades. Whether the IMF will use its renewed influence and financial resources in familiar ways that explicitly constrain policy space or in new ways that expand the space for policy heterogeneity and experimentation will depend on many factors. Not least among these factors is the extent to which developing countries are ultimately able to use the financial crisis to enhance

---

demand for infrastructure stimulus packages through a musical number performed by some Bank staff. See Kulish [2009] on the reinvigoration of the EBRD.

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

significantly their formal voting rights and informal influence at the Fund, and whether the IMF has to change course more than it has to date in order to maintain its absolute and relative influence in relation to competitor institutions and increasingly autonomous nations (see below).

As of this writing, progress on formal governance reforms has been modest.[5] In October 2010 the G-20 Finance Ministers agreed to transfer 6% of the voting rights at the Fund to developing countries by October of 2012 and to double IMF quotas. Under the agreement the top ten shareholders of the Fund will represent the ten largest economies in the world, which now include China, Brazil, India and the Russian Federation. European representatives also agreed to cede two seats on the Executive Board. Under the proposal, all Executive Directors will be elected by late 2012. The IMF ratified the G-20 proposal in November 2010.

However, pro-development non-governmental organizations have voiced various concerns

[5] IMF governance has long been a point of contention among developing countries and civil society organizations. After nearly 12 years of pressure, the "Singapore reforms" of 2006 resulted in inconsequential changes in the voice and vote of developing countries at the IMF [Weisbrot and Johnston, 2009]. This issue was given a modest new life by the G-20 in the fall of 2010 after initially having been stalled by internal conflicts between the USA and Europe and within European countries [see IMF, 2010c]. This controversy flared up anew in the wake of Strauss-Kahn's arrest and resignation in spring 2011. European governments were able to replace him with a fellow European despite pressure from developing countries to terminate the "gentlemen's agreement" that sustains European leadership of the institution.

about the limits of these reforms. For instance, they argue rightly that Africa is still inadequately represented in IMF decision-making; and that the new agreement on voting shares "leaves in place the US unilateral veto over some IMF decisions" [Bretton Woods Project, Nov.-Dec. 2010]. Moreover, many have criticized the slow pace of governance reform.

On balance, these developments seem to bode well for the IMF as an institution, and to point to continuity in IMF governance. But the IMF's resurrection is tempered by events that have substantially diminished its geographic reach. Prior to the crisis, those developing countries that could do so had opted out of Fund programs. One important motivation behind this strategy was the IMF's handling of the Asian crisis. Developing countries across the globe sought to insulate themselves from the hardships and humiliations suffered by Asian policymakers at the hands of the IMF. The explicit goal was to escape the IMF's orbit. They achieved this goal in several ways: self-insuring against future crises through the over-accumulation of reserves; the attraction of international private capital inflows, including new sources of finance such as securitized remittances; the establishment of swap arrangements among central banks; and a new reliance on trade finance, private investment and official development assistance from fast-growing developing countries such as China and Brazil [Kapur and Webb, 2006; Ketkar and Ratha, 2009; Economist, 15 July 2010]. The dramatic decline in the IMF's loan portfolio after the Asian crisis indicates the degree to which these escapist strategies proved to be successful. Even in the context of the current crisis, countries did their best to stay clear of IMF oversight. Indeed, during the crisis South Korea likely would have been a good candidate for a (precautionary) Flexible Credit Line with the Fund. But it did not apply for the credit line, presumably because of its prior experience with the Fund and to avoid the stigma of being one of its clients [Wade, 2010:fn10]. Instead, it negotiated a reserve swap arrangement with the US Federal Reserve.

Those developing countries that have been able to maintain their autonomy during the crisis have used the resulting policy space to pursue a variety of counter-cyclical macroeconomic policies and, lately, various types of capital controls (on the latter, see section 3). Their ability to do so indicates the degree to which the IMF's geographic reach has been compromised in the years following the Asian crisis. Equally important for the matter at hand, the behavior of these autonomous states has served as an example for less powerful states which, in turn, have reacted to the crisis in ways that were taken to be unimaginable in previous crises [DeMartino, 1999].

It is beyond the scope of this paper to investigate just why the IMF has evolved in the ways that I will examine below, but it is likely that some combination of several factors is responsible. There seems to be a pragmatic recognition by IMF leadership and staff that the institution has no effective choice but to amend its policy prescriptions, owing to its diminished influence in the developing world. Relatedly, there is concern at the IMF about existing and future competition with other institutions (such as the World Bank, the Asian Development Bank, Brazilian Development Bank) and regional financial arrangements (such as the Chiang Mai Multilaterlisation agreement involving members of ASEAN, and South Korea, China and Japan, the Latin American Reserve Fund, the Bank of the South, etc.) in the area of crisis management [see extensive discussion of this matter in Grabel, 2011]. Next, there is the continuing influence of leading academic economists, who themselves have come to question and in some respects reject the traditional neo-liberal prescription for development. And finally, the current global financial crisis, coming just a decade after the Asian crisis, may be having the effect of encouraging those economists at the IMF (and the World Bank) who have long had reservations about the neo-liberal model to give voice to their concerns and to assert themselves more effectively. It is important to keep in mind in this connection that like any complex organization, the IMF comprises diverse constituencies that may very well disagree among themselves about some fundamental matters pertaining to the institution's strategies [see Chwieroth, 2010].[6]

In sum, then, the IMF has discovered new vitality as a first-responder to economic distress at the same time as it has faced diminished territory over which it can dictate economic policy. The newly resurrected institution faces a changed landscape. It no longer enjoys wall-to-wall influence across the developing world. The geography of its influence is now significantly curtailed as a consequence of the rise of relatively autonomous states in the developing world. Equally important, even within its orbit of influence its economists are responding to the current crisis in some ways that diverge from their recent past practice. To that and related issues we now turn.

3. WHAT IS TO BE DONE? PRODUCTIVE INCOHERENCE IN THE IMF'S RESPONSE TO THE CRISIS

In what follows we probe the IMF's response to the crisis—teasing out signs of tension and ambiguity within its conduct during the crisis period. We will see that the IMF has at once demonstrated both more policy and ideational flexibility in certain dimensions than in the past

[6] Chwieroth (2010) focuses on the role of activities by IMF staff in promoting the norm of capital account liberalization from 1980 to 1995. He finds that staff were able to engage in a kind of informal "norm entrepreneurship." Chwieroth's work suggests that we should expect the process of change in a complex organization like the IMF to be messy and uneven. As I argue throughout, this is an apt description of IMF reform during the current crisis.

While Chwieroth (2010) focuses on informal, ad hoc advocacy by mid-range staff, other analyses focus on the role of organizational leaders and formal rules in propelling change in multilateral institutions [e.g. see Abdelal, 2007, on the OECD and the European Commission].

when managing countries in crisis, while also holding fast to neo-liberal strategies in other regards. On balance one must conclude that the IMF's behavior has been incoherent during the current crisis. This nevertheless represents a substantial shift from its unified and coherent response to the Asian crisis. To illustrate this incoherence, I will focus first and foremost on the normalization of capital controls and then turn to the character of numerous SBAs (and other assistance packages) that it has signed during the crisis.

To preview our findings, we will see that when it comes to capital controls both the policy and rhetoric of the IMF have changed rather significantly, compared to the neo-liberal view that dominated in the Asian crisis context. There is nevertheless unsurprising evidence of tension and equivocation around this discontinuity. In contrast, there is clear rhetorical and policy continuity with neo-liberalism when it comes to the matter of the macroeconomic policies embodied in the design of the SBAs negotiated during the crisis. In contrast again, we will find policy continuity coupled with rhetorical discontinuity in the scope of conditionality, the on-going management of SBAs, and the attention to the poor and vulnerable. Table 1 summarizes these findings (though admittedly at the risk of failing to capture some nuance that appears in the subsequent discussion).

Table 1. Continuity and discontinuity with neo-liberalism in the IMF's response to the current crisis

	Rhetorical Continuity	**Rhetorical Discontinuity**
Policy Continuity	Macropolicies embodied in the design of SBAs	• Scope of conditionality • On-going management of SBAs (especially with regard to fiscal flexibility) • Attention to the poor and vulnerable in the design of SBAs
Policy Discontinuity		Capital controls

Capital controls: The "new normal"

The current crisis has achieved in a hurry something that heterodox economists have been unable to do for a quarter-century. It has provoked policymakers around the world to impose capital controls as a means to protect domestic economies from the ravaging effects of liberalized financial markets. What is perhaps more surprising and hopeful is that the implementation of new controls have been met variously with silence on the part of the IMF and the international business community and tacit acceptance of their necessity and prudence. This reception contrasts sharply with the IMF and investor condemnation that was provoked when Malaysia imposed stringent capital controls during the Asian financial crisis. At the time the IMF called these controls on capital outflows a "step back" [Bloomberg, 6 May 2010], and a representative article in the international business press stated that "foreign investors in Malaysia have been expropriated, and the Malaysians will bear the cost of their distrust for years" [cited in Kaplan and Rodrik, 2001:11]. More recently, capital controls in Thailand were reversed by the Central Bank within a few days after their implementation in December 2006 (following a coup) after they triggered massive capital flight (Bloomberg, 6 May 2010).

The IMF's ambiguous and fluid stance on and response to the new capital controls makes it easier for other countries to follow suit, and it appears that they are doing so [DeMartino, 1999]. In my view, the normalization of capital controls is the single most important way in which policy space for development has widened in several decades.

Capital controls were the norm in developing and wealthy countries in the decades that followed WWII [Helleiner, 1996].[7] At that time, they were widely understood to be an

[7] Capital controls refer to a range of policies that are designed to manage international capital flows. They can and have taken many forms in various countries over time. For example, they have involved restrictions on foreign investment in certain sectors or assets, minimum stay requirements on foreign investment, restrictions on capital outflows, taxes on foreign

essential tool of economic management. Policymakers deployed capital controls in order to enhance macroeconomic policy autonomy, promote financial and currency stability, protect domestic industries/sectors from foreign control or competition, and ensure the provision of adequate credit to favored sectors and firms at the right price [Epstein, Grabel, Jomo KS, 2004]. In the first several decades of its existence, the IMF supported capital controls, a position that was consistent with and reflected the views of the economics profession (and notably, the views of John Maynard Keynes) and public figures (such as the US Treasury's Harry Dexter White). The views of staff at the institution and of the profession more broadly, of course, shifted dramatically during the neo-liberal era. Thus, the new shift in thinking and practice on capital controls at the IMF represents an important reversal that takes us back in the direction of the post-war institution.[8]

The reception that greeted Malaysia's capital controls during the Asian crisis was unremarkable inasmuch as it was consistent with the then predominant view of neo-liberal economists and policymakers. Indeed, up until the Asian crisis the Fund was poised to modify its Articles of Agreement to make the liberalization of all international private capital flows a central purpose of the Fund and to extend its jurisdiction to capital movements. But despite the neo-liberal tenor of the times, some developing countries nevertheless maintained capital controls—most famously, Chile and Malaysia, but also China, India, Colombia, Thailand, and a few others.

Then a notable development occurred. In the wake of the Asian crisis, IMF research staff

---

investment, restrictions on access to the domestic or to foreign currencies or to holding bank accounts outside the country, etc.

[8] Hence, depending on the reader's age, perhaps more accurately this paper should be titled "Not your father's IMF."

started to amend their views of capital controls—modestly and cautiously to be sure. In the post-Asian crisis context, the intellectual center of gravity at the Fund and in the academic wing of the economics profession shifted away from an unequivocal, fundamentalist opposition to any interference with the free flow of capital to a tentative, conditional acceptance of the macroeconomic utility of some types of capital controls. Permissible controls were those that were temporary, market-friendly, focused on capital inflows, and were introduced only when the economy's fundamentals were mostly sound and the rest of the economy was liberalized [Prasad et al., 2003; Ariyoshi et al., 2000].

Academic literature on capital controls in the decade that followed the Asian crisis reflected this view: as Gallagher [2010a] points out, cross-country empirical studies offered strong support for the macroeconomic achievements of controls on inflows (see the overviews in Magud and Reinhart, 2006 and Magud, Reinhart and Rogoff, 2011; see also David, 2008; Coelho and Gallagher 2010; Epstein et al. 2004 on inflow and outflow controls in seven countries; Gallagher 2011a on the achievements of inflow controls in Brazil and Taiwan; Chwieroth, 2010:ch.8.][9] While evidence supporting the achievements of outflow controls remains more scant, research on Malaysia by Kaplan and Rodrik [2001] finds strongly in favor of the achievements of Malysia's controls on outflows. They find that compared to other countries in the region that had IMF programs during this period, Malaysian policies produced faster economic recovery, smaller declines in employment and real wages, and a more rapid turnaround in the stock market. Magud and Reinhart's review [2006] bears out this view of Malaysia's outflow controls as well, though their survey also concludes that outflow controls had inconclusive effects in other countries (a finding that is echoed in Magud, Reinhart and Rogoff, 2011].

[9] A review of thirty-seven empirical studies by Magud, Reinhart and Rogoff [2011] is more cautious on the achievements of inflow controls, though these findings are not inconsistent with those in Magud and Reinhart [2006].

The IMF itself took note of its own change in stance. A 2005 report by the IMF's internal watchdog, the Independent Evaluation Office (IEO, 2005:48), finds that during the 1990s the IMF "displayed sympathy with some countries in the use of capital controls and…even suggested that market-based measures could be introduced as a prudential measure." The report then finds that the IMF's support for capital controls increased after the Asian crisis. That said, the report acknowledges (correctly) that there was a lack of consistency in the IMF's advice on this matter during the post-Asian crisis period. Thus began the tepid, gradual and uneven practical and ideational process by which some types of capital controls came to be normalized conditionally by the IMF and by academic economists after the Asian crisis.

Although the seeds of an intellectual evolution had been planted in the post-Asian crisis context, there was push back in this period from stalwarts in the academic wing of the profession [e.g., Forbes, 2005; Edwards, 1999]. In addition, there was a real disconnect between the research of IMF staff, on the one hand, and advocacy for capital account liberalization by the institution's economists when they worked in the field with particular countries, on the other. This disconnect might be explained by the relative autonomy of different departments at the IMF, a lack of leadership from the top on capital controls, and the internal entrepreneurship of mid-range IMF staff when working in different contexts [Chwieroth, 2010]. Hence, despite the modest intellectual progress on capital controls that began after the Asian crisis, capital controls were still largely viewed as an exceptional measure that could achieve desirable outcomes only where state capacity was high and/or where investors were undeterred by controls because opportunities in the country were so attractive.

But something happened in the midst of the current global financial crisis. Policymakers in a range of developing countries quietly began to impose a variety of capital controls, often framing them simply as prudential policy tools (akin to what Epstein et al. 2004 termed "capital management techniques"). These controls are now becoming a part of the global financial landscape for several reasons that we will explore below. At the same time the ideas of economists at the Fund on capital controls have continued to evolve with the consequent effect of now normalizing this policy instrument.

The case of Iceland is particularly interesting for the discontinuity that it demonstrates in connection with the IMF's view of capital controls (in terms of both rhetoric and policy).[10] Iceland was the first country to sign a SBA during the current crisis, and it was the first financial rescue in Western Europe since Britain's in 1976. The country originally went to its Nordic neighbors for assistance, and then to Russia in early October 2008. When these negotiations failed other European countries refused to lend unless Iceland negotiated an arrangement with the IMF, which it ultimately did in the fall of 2008. What is most interesting about the Icelandic SBA is that it includes provisions regarding the need for stringent capital controls, something that we do not find in earlier SBAs that the IMF signed in connection with East Asian countries or in other crises during the neo-liberal era. Even more surprising, the SBA provided for controls even on outflows. In the words of the IMF's Deputy Managing Director, Murilo Portugal, Iceland's capital controls are "an essential feature of the monetary policy framework, given the scale of potential capital outflows" (cited in Krugman, 2010).

Iceland's controls were initially imposed prior to the signing of the SBA in October 2008, though the agreement with the Fund made a very strong case for their necessity and maintenance as means to restore financial stability. The central bank formalized the capital control regime in November 2008, and then modified it via the issuance of new rules the next month. The December rules prohibited foreign exchange related to capital transactions and required domestic parties to submit all foreign currency that they acquired either from the

[10] See the discussion of Iceland in Wade [2009].

sale of goods and services or in another manner to a domestic financial institution. These capital controls were designed to protect the Icelandic krona from collapsing due to capital outflows from the country. (As soon as the crisis emerged, the krona depreciated by 70% and the stock market lost more than 80% of its value. Since most of Iceland's debt is denominated in foreign currency, the large currency depreciation had severe spillover effects on debt-service abilities.) Not surprisingly, given the IMF's long-held allergy to capital controls, IMF staff were questioned repeatedly in news conferences on what seemed to be an abrupt about face. Fund staff repeatedly said the capital controls in the country were crucial to prevent a free fall of the currency, that they were explicitly temporary, and that it was a priority of the Fund to end all restrictions as soon as possible. The country's central bank announced that it would begin a sequenced removal of its capital controls in November 2009, but since that time liberalization has not occurred due to continued uncertainty about the economy and turbulence in international markets. Indeed, as of May 2011, the IMF was still cautioning the country's officials that they would need to proceed slowly if they are to loosen capital controls.[11]

Although the IMF's stance with respect to Iceland's capital controls initially appeared anomalous, it soon became clear that it marked a dramatic precedent. For example, the SBA with Latvia of December 2008 allowed for the maintenance of pre-existing restrictions arising from a partial deposit freeze at Parex, the largest domestic bank in the country [IMF, 2009a]. Soon thereafter, a joint World Bank-IMF report [2009:Table 1.4] on the current crisis notes without evaluation that six countries (namely, China, Colombia, Ecuador, Indonesia, the Russian

[11] The IMF's caution may stem from concern that a new run on the krona will be stimulated by the May 2011 referendum in which Iceland's voters rejected a revised $5 billion repayment plan in connection with Icesave accounts (which would provide compensation to British and Dutch depositors for losses on savings accounts of the collapsed Landsbanki bank) [Shanley and Pollard, 2011].

Federation, and Ukraine) all imposed some type of capital control during the crisis.[12] Another Fund report acknowledges that Iceland, Indonesia, the Russian Federation, Argentina and Ukraine all put capital controls on outflows in place to "stop the bleeding" related to the crisis [IMF, 2009b]. These reports neither offer details on the nature of these controls nor commentary on their ultimate efficacy, something that further suggests that capital controls—even (and most notably) on outflows—are increasingly taken for granted by the Fund.

The Brazilian case is notable since it illustrates both the evolution and continued equivocation in the views of Fund staff on the matter of capital controls. Moreover, it illustrates the policy space that is increasingly being appropriated by policymakers in developing countries that remain independent of the Fund. In late October 2009, Brazil imposed capital controls via a tax on portfolio investment. The controls were self-described as modest, temporary and market-friendly, and were aimed at slowing the appreciation of the currency in the face of significant international capital inflows to the country. Initially they involved a 2% tax on money entering the country to invest in equities and fixed income investments, while leaving foreign direct investment untaxed. Once it became clear that foreign investors were using purchases of American Depository Receipts (ADRs) issued by Brazilian corporations to avoid the tax, the country's Finance Ministry imposed a 1.5% tax on certain trades involving ADRs.

[12] See Reuters.com [2009] for a brief description of Ukraine's controls and also those imposed by Nigeria during the crisis. An IMF report [2009a] notes in passing that in Ukraine and Pakistan it "encouraged timely elimination of exchange restrictions on current payments." If this is code for stronger opposition it would suggest the existence of a greater degree of continuity between the IMF's current view of capital controls and the view that it held during the Asian crisis. But no further details are provided in Fund reports on the negotiations involving Pakistan or Ukraine's capital controls. Weisbrot et al. [2009a] mentions that there was conflict between Pakistan and the IMF over capital controls, but information on the content of these discussions or any conflict is unavailable at this time.

The IMF's initial reaction to Brazil's controls on capital inflows was ever so mildly disapproving. A senior official said: "These kinds of taxes provide some room for maneuver, but it is not very much, so governments should not be tempted to postpone other more fundamental adjustments. Second it is very complex to implement those kinds of taxes, because they have to be applied to every possible financial instrument," adding that such taxes have proven to be "porous" over time in a number of countries. In response, no less than John Williamson (with Arvind Subramanian) indicted the IMF for its doctrinaire and wrong-headed position on the Brazilian capital controls, taking the institution to task for squandering the opportunity to think reasonably about the types of measures that governments can use to manage surges in international private capital inflows [Subramanian and Williamson, 2009]. But Williamson's criticism misses the point that in fact the IMF reaction was quite muted, especially in comparison with its unequivocal reaction to Malaysia's capital controls during the Asian crisis, and was likely intended not to deter Brazil (a new lender to the IMF) from its strategy but to warn other developing countries against following Brazil's lead down a policy path that the IMF views as a last resort. A week later the IMF's Strauss-Kahn reframed the message on Brazil's capital controls. The new message was, in a word, stunning: "I have no ideology on this"; capital controls are "not something that come from hell" [cited in Guha, 2009].

As the crisis continues to grind on, other developing countries have implemented capital controls. Many of these are aimed at controlling capital inflows so as to reduce speculative or inflationary pressures and/or pressures on the currency to appreciate, while some target outflows. In December 2008, Ecuador implemented a number of measures governing inflows and outflows. In terms of outflows, it doubled the tax on currency outflows, established a monthly tax on the funds and investments that firms kept overseas, and also sought to discourage firms from transferring US dollar holdings abroad by granting tax reductions to firms that re-invest their profits domestically. In terms of inflow controls, the government established a reserve requirement tax [Tussie, 2010].[13] In December 2009 Taiwan imposed new restrictions on inflows that aim to reduce speculative pressures from overseas investors. The controls preclude foreign investors from placing funds in time deposits [Brown, 2010]. Around the same time, China added to its existing controls on inflows and outflows. Then, in June 2010, Indonesia announced what its officials awkwardly term a "quasi capital control" that governs short-term investment. Indonesia's new inflow controls seek to dampen speculation in the country via a one-month holding period for central bank money market securities, the introduction of longer maturity instruments, and new limits on the sales of central bank paper by investors and on the interest rate on funds deposited at the central bank [Wagsty, 2010]. In the same month, South Korea also announced controls on inflows. These controls seek to reduce the risks associated with a possible sudden reversal of inflows, rising short-term foreign borrowing and the use of derivative instruments. The controls limit the amount of currency forward and derivatives trading in which financial institutions can engage, and limit the foreign currency loans extended by banks to local companies [Economist, 16 June 2010].

Also in June 2010, Argentina and Venezuela implemented controls on outflows: in Argentina they involve stricter limits on US dollar purchases (Webber, 2010), and in Venezuela they involve new restrictions on access to foreign currency [Mander, 2010]. Peru has been deploying a variety of inflow controls since early 2008. The country's reserve requirement tax (which is a type of control on capital inflows) has been raised three times between June and August 2010.

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

More recently, we have seen that sterilization and new capital controls are being layered over existing controls in efforts to mitigate the currency appreciation, inflation pressures and asset bubbles induced by the current flood of foreign investment into rapidly growing developing countries.[14] These inflows are intensifying as the prospects for and returns available in the US and the Eurozone grow ever bleaker. For example, in October 2010, Brazil twice strengthened the capital controls it first put in place in October 2009. The new Brazilian controls triple (from 2 to 6%) the tax it charges foreign investors on investments in fixed-income bonds. Thailand also deployed capital controls in the same month: authorities introduced a 15% withholding tax on capital gains and interest payments on foreign holdings of government and state-owned company bonds. In March 2011 Brazil imposed new capital controls, this time on foreign purchases of domestic farmland, a measure that many analysts suggested was aimed at curbing China's growing land purchases in the country [Leahy, 2011]. In the same month, Brazil's policymakers increased to 6 percent a tax on repatriated funds that are raised abroad through international bond sales and new, renewed, renegotiated or transferred loans with a maturity of up to two years [Bristow and Dantis, 2011]. Finally, in April 2011 South Korea began to levy a tax of up to .2% on holdings of short-term foreign debt by domestic banks (with a lower tax levied against longer term debts) [Reuters.com, 4 April 2011]. This measure built on others put in place in October and June 2010.

The response of investors and credit rating agencies to the myriad initiatives surveyed here? Silence and, in some cases, tacit approval. The response by economists at the IMF has been the same.

Ambivalence and inconsistency in IMF practice on capital controls are echoed in its research and in the public statements of leading Fund officials. These evidence both a much more

[14] As of this writing, currencies in some of these countries (e.g., Brazil) remain far too strong from the perspective of exports. Inflationary pressures are also still a very serious problem.

explicit and far-reaching acceptance of capital controls than we saw prior to and following the Asian crisis. In the raft of reports that the IMF has issued in the context of the crisis, we find frequent mention of the protective role of capital controls. For example, an early IMF report on low-income countries states that the impact of the current crisis on banking systems in these countries has been modest insofar as "[t]he existence of capital controls in several countries and structural factors have helped moderate the direct and indirect effects of the financial crisis" (IMF 2009c:9, fn9).

That said, the IMF is trying to avoid going too far in embracing this policy instrument. One Fund report warns that capital controls should be considered only as a last resort. The costs of even temporary capital controls are enumerated with great care; e.g., a country "could as a last resort regulate capital transactions—though these carry significant risks and long term costs." Later on the report argues that "even temporary standstills will have long-lasting legal implications" (IMF, 2009d:8-9, fn5, fn8). A joint report by the Bank and Fund discusses capital controls in the same cautionary vein, though the brief discussion concludes that "nonetheless, capital controls might need to be imposed as a last resort to help mitigate a financial crisis or stabilize macroeconomic developments" [WB-IMF, 2009:65].

In February 2010 IMF economists (Ostry et al., 2010) reached far beyond the Fund's public statements or practice to date in regards to controls on inflows. Ostry et al. [2010] commend controls on capital inflows for preventing crises and ultimately making crisis-induced recessions less likely, and for reducing financial fragility by lengthening the maturity structure of countries' external liabilities and improving the composition of capital inflows. These findings pertain to capital controls that were in place prior to and after the Asian crisis, as well as during the current crisis. The report also indicates that "such controls, moreover, can retain their potency even if investors devise strategies to bypass them….the cost of circumvention strategies acts as 'sand in the wheels'" (p. 5) The paper argues that "policymakers are again reconsidering the view that unfettered capital flows are a fundamentally benign phenomenon. ...even when flows are fundamentally sound...they may contribute to collateral damage...." Not exactly your grandfather's IMF!

Other parts of the Ostry et al. [2010] policy note qualify this new acceptance of controls on inflows, however. The report hedges in the expected ways—identifying the restrictive conditions under which capital controls can work (or be justified). But in comparison with earlier reports by the IMF the qualifications are just that—they are not offered as insuperable obstacles to the use of controls. And that, in itself, represents a major advance, as many observers have acknowledged. After the Ostry et al. [2010] policy note was released, several prominent IMF watchers praised the Fund for finally embracing a sensible view of capital controls. For example, Ronald McKinnon stated "I am delighted that the IMF has recanted" (cited in Rappeport, 2010); former IMF official, Eswar Prasad states that the paper represented a "marked change" in the IMF's advice (cited in Wroughton, 2010), and Dani Rodrik stated that the "the stigma on capital controls [is] gone," and the [Ostry et al. 2010] "policy note is a stunning reversal – as close as an institution can come to recanting without saying, 'Sorry, we messed up'" [Rodrik, 2010]. Rodrik goes on to note that "[j]ust as John Maynard Keynes said in 1945—capital controls are now orthodox" [Thomas, 2010]. No less telling is the sharp rebuke to the empirical work in Ostry et al. [2010] by William Cline, which is illustrative of the discomfort that "true believers" in capital account liberalization have with what they see as the Fund's troubling and wrong-headed embrace of capital controls [Cline, 2010].

In the lead up to the spring 2010 IMF-World Bank meetings, the IMF's Global Financial Stability Report (GFSR, IMF 2010a) also dealt with capital controls in surprising ways. Many analysts responded to the spring 2010 GFSR (one of the Fund's most important regular publications) by indicating that the Fund is already renouncing what seems to be a new openness to capital controls. It is certainly true that the discussion in this GFSR contains more caveats than are found in the other recent studies of controls discussed to this point. But the basic and very important message that appears in Ostry et al. [2010] and elsewhere that "capital controls may have a role in the policy toolkit" is retained in the GFSR [see also IMF, 2010b]. It is also notable that the GFSR acknowledges conflicting empirical findings on capital controls among empirical researchers, and even acknowledges empirical work on the achievements of capital controls by heterodox economists, such as Coelho and Gallagher [2010]. The subsequent GFSR's also retain the basic message on the legitimacy of capital controls, though they caution that they are to be considered a last resort [e.g., IMF, October 2010a:35; IMF, 2011b].

Reports by IMF research staff and more official Fund documents issued through spring 2011 continue to cement the legitimacy of capital controls, making clear that they should be considered alongside taxes and other prudential measures, and that they have had positive macroeconomic accomplishments in many countries [IMF, 2011c, 2011d, IMF 2010d; Ostry et al., 2011]. [15] Notably, capital controls are referred to innocuously in these latest reports as "capital flow management" techniques.[16]

---

[15] Even though they do not represent the official position of the Fund, Staff Discussion Papers (such as Ostry et al., 2011) are nevertheless authorized for distribution by the institution. Thus, they are important documents in tracking the evolution of thinking by the IMF. Indeed, the Ostry et al. [2011] discussion paper was authorized by no less than Olivier Blanchard.

[16] Note that the three April 2011 reports [IMF 2011c, 2011d; Ostry et al. 2011; see also IMF 2010d] are not without problems. They have generated controversy, most notably from some developing countries. This is because the new reports discuss capital controls as a last resort, they have raised suspicions as to whether the IMF will ultimately try to determine when controls are or are not legitimate, and they fail to take seriously the contribution of loose

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

Top officials at the World Bank have also gone on record in support of capital controls. For example, Bank president Robert Zoellick had this to say of the reemergence of capital controls

---

monetary policy in wealthy countries to the high levels of capital inflows to the developing world [Gallagher and Ocampo, 2011; Bloomberg.com, 6 April 2011].

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

Given the inertia at the IMF, its recent rhetoric and actions mark by its standards a minor revolution. Change at the Fund has been uneven, to be sure, with one step back for every two steps forward. In the growing pile of reports that the Fund (and the World Bank) has issued in the context of the current crisis, we find positive statements about the protective role of capital controls followed immediately by warnings about their use only as a temporary, last resort, and an enumeration of the significant risks and potential long-term costs of capital controls. This should not be surprising. We should expect that long-held ideas—especially those that have hardened to the level of ideologies and been codified in institutional practices—have very long half lives (Grabel 2003b). The process of changing these ideas and practices is necessarily uneven; moreover, progress will inevitably generate push back from within the institution itself. Hence we should expect to find continuing evidence of tension and equivocation in future IMF reports and practice that preclude a clear and decisive Fund verdict on capital controls.[17]

At the moment, this new openness towards capital controls on the part of the IMF is being tested. Despite the deployment of new capital controls and other measures (such as

[17] One example of the tension appears in a curious footnote in the IMF's 2011 *Asian Regional Economic Outlook* [IMF, 2011a]. In a footnote within a textbox that neutrally describes macroprudential policies in Asia, Latin America and Europe and capital controls in Latin America, the following statement appears "The IMF, the Financial Stability Board, and the Bank for International Settlements do not consider capital controls to be a part of the macroprudential toolkit" [IMF 2011a, fn2:40].

sterilization and dollar purchases), rapidly growing developing countries still confront the triple threat of currency appreciation, inflation and asset bubbles. It is likely that the developing countries surveyed here (and perhaps others) will continue to find it necessary to expand or introduce additional capital controls.[18] It will be important to watch the IMF closely as it tries to fashion its response. It may be that the patience of economists at the Fund will be severely taxed as other countries test the limits of the developmental policy and ideational space that has arisen as a consequence of the crisis. What is clear from the foregoing is the tenuous situation in which the IMF now finds itself, as it has begun to acknowledge the reality of its diminished influence across the developing world and the necessity of capital controls in cases of financial disruption, while not wanting to lose control over just when, how and by whom this policy instrument is employed.

In late 2010 and early in 2011 the IMF provided us with an interesting vantage point from which to observe the continuing tension within the institution on capital controls. In several reports, Fund staff note that the institution is seeking to develop standards for the appropriateness of different types of controls [IMF, 2010d, 2011c, 2011d; Ostry et al., 2011]. This effort is reminiscent of a project that was stalled by the Asian crisis. The current

[18] Some countries facing this threat remain committed to a liberal stance toward capital flows. Mexican, Turkish, Chilean and Colombian policymakers have publicly rejected capital controls as a means of dealing with the appreciation of their currencies [Attwood, 2011; Crowe, 2010; Thomas, 2010; Thompson, 2011]. This is not to suggest that policymakers in these countries are sitting passively on the sidelines. These central banks have been buying dollars to try to stem the appreciation of their currencies. And even in Colombia, policymakers implemented measures that they do not refer to as capital controls, but which clearly function as such. Colombian policy wisely prevents domestic banks from borrowing in foreign currency to lend in pesos, restricts the use of short-term finance for long-term projects, and limits bets in foreign exchange derivatives.

discussion of developing standards for controls was also given life by the French government, which seemed eager to use its new leadership of the G-20 and G-8 in early 2011 to give the Fund a role in coordinating capital controls via a code or mandate on the subject [Hollinger and Giles, 2011]. Some ECB officials and representatives of the German government expressed support for this IMF role as well. The issue has since fallen off the European agenda (perhaps because of the French election, events in North Africa and the Middle East, and the continued fallout from the financial crisis in Ireland, Greece and Portugal). But the fact that the IMF tested the waters on the matter of controlling capital controls is instructive. Far more instructive is the fact that Brazil and numerous developing countries in the G-24 (a group of key developing countries that work through the Bank and the Fund) unequivocally and quite publicly rejected any such role for the Fund [Wagstyl, 2011; Reddy, 2011; G-24, 2011; Gallagher, 2011b]. Notably, the Fund has not issued a public response to this rebuke by developing countries.

Macroeconomic policy: The old normal (mostly)

We turn now to the macroeconomic policy changes that have been an integral part of the design of SBAs (and other assistance programs, such as the Exogenous Shock and the Poverty Reduction and Growth Facilities) that the IMF has negotiated with countries in distress during the current crisis. The SBAs with transitional countries have been jointly funded by the IMF, the Bank, the EBRD and the EU and, in some cases, the Nordic countries. Across these many SBAs we find both continuity and some puzzling discontinuities with past IMF practice (see Table 1).

Policy and rhetorical continuities in the IMF's design of SBAs

A large number of recent studies of the SBAs and other assistance programs negotiated during the crisis have established that the IMF has promoted pro-cyclical macroeconomic policy adjustments or targets [UNICEF, 2010; Van Waeyenberge, et al. 2010; UN, 2010;

Muchhala, 2009; Eurodad, 2009; Solidar, 2009; Cordero, 2009; Weisbrot et al., 2009a]. Indeed, only two studies conclude otherwise, and both are self-congratulatory reports by the Fund [IMF 2009a, 2009e]. The evidence overwhelmingly supports the conclusion that current IMF conditionalities are similar to those during the Asian and previous crises. For example, a study by Van Waeyenberge et al. [2010] of thirteen low-income countries with IMF programs in place prior to and during the current crisis concludes that they preclude countries from utilizing countercyclical policies and public investment programs. Similarly, a study by Weisbrot et al. [2009a] of forty-one countries that had Fund programs in 2009 finds that thirty-one of these agreements involve tightening fiscal or monetary policy or both. Fund programs across the European periphery are also illustrative of the pro-cyclical policy adjustments that we have seen in previous crises. Interestingly, in cases involving European countries, the EU and the German government appear to be going even further than the IMF in regards to demands for fiscal austerity (Lütz and Kranke, 2010.]

A few illustrative cases will suffice to substantiate the case for rhetorical and policy continuity in this area. Iceland's package of reforms was conditioned on the kinds of macroeconomic policies that we saw during the East Asian and other developing country financial crises.[19] These highly pro-cyclical macroeconomic polices induced intense, prolonged social unrest in the country. Tension between the IMF and Iceland deepened during the late spring and summer of 2009 concerning cuts in public spending, an increase in the value-added tax (VAT) to 18% and an increase in income taxes, and the central bank's decision to reduce the interest rate on four occasions, from its initial high of 18% down to 12%. These tensions contributed importantly to the fall of the government, and led to a protracted game of chicken between the new Center-Left government and the IMF.

[19] E.g., Iceland has to turn a fiscal deficit that is presently equal to 13% of GDP to a balanced budget by 2013.

El Salvador signed an agreement with the Fund in January 2009 that also prevented it from using expansionary fiscal policy to counter a downturn. The agreement obligated policymakers to maintain a fiscal deficit of no more than 2.8% of GDP. The IMF has since allowed the deficit to rise to around 5%, and the government has committed to reduce it to 3.3% in 2011. Since El Salvador is officially dollarized, monetary policy is effectively precluded, as it is in countries that use or maintain hard pegs to the euro. Romania's May 2009 SBA specifies a 25% wage cut for public employees and a reduction in the number of public sector employees. In May 2010 the government of Greece signed an agreement for a three-year loan package (with $35 billion to come from the IMF and €100 billion from Eurozone countries). This package necessitated stringent fiscal retrenchment along several dimensions, including cuts in public sector spending, reductions in wages and pensions paid to public employees, increases in the value-added tax, and the imposition of other taxes.

As in Iceland, the fiscal contraction required by the SBAs has caused considerable political turmoil and conflict between national governments and the IMF. For example, Pakistan signed a SBA with the Fund in November 2008. Its most recent disbursement of $1.8 billion is being withheld because of a disagreement with the Fund over the imposition of a VAT and a commitment to further fiscal tightening in 2010-11. Similarly, the IMF has refused since February 2010 to release $2.6 billion to Sri Lanka because the government failed to bring the budget deficit down to 7% of GDP in 2009. The governments of Romania and Serbia are also locked in a stalemate with the Fund over fiscal retrenchment.[20]

The case of Hungary is particularly illuminating. The Hungarian government was granted a $25 billion rescue package by the IMF, the EU and the World Bank in October 2008. But in July 2010 a conflict emerged between the government and the Fund. The IMF said the country has to do more to cut its deficit. In the context of this conflict, the country's currency

[20] Some details in this paragraph are drawn from BWP [June/July 2010].

depreciated by more than 3% and the Budapest stock exchange also fell by almost 3%. This raised doubts about existing IMF loan arrangements with Hungary, particularly once IMF officials said additional measures were needed for Hungary to achieve its deficit target of 3.8% of GDP in 2010 and 3% of GDP in 2011. The conflict came to a head during the IMF's July 2010 two-week visit to the country, when IMF officials sought to assess the country's economic progress since signing the 2008 agreement. Hungary's Prime Minister, Viktor Orban, angrily responded to the IMF that his government would only negotiate with the EU and not with the IMF when its current credit line expires in October 2010. Consequently, the IMF halted talks with the government and ended its review. But within a few days of this turmoil and a rebuke from the Fund and the EU, the Hungarian government backed away from its refusal to work with the IMF.

As this survey illustrates, IMF assistance is conditioned on the same kinds of pro-cyclical policy adjustments that we saw in previous crises. The rhetoric that is deployed to defend these pro-cyclical policies is also taken from the same playbook. Indeed, Dominique Strauss-Kahn seemed to be channeling his predecessor at the IMF, Michel Camdessus, when he stated in June 2010 that he was "totally comfortable" with deficit cuts "even if it has some bad effect on growth" (BWP, June-July 2010).[21]

Policy continuities and rhetorical discontinues in IMF programs during the crisis

Though the design of SBAs reveals strong rhetorical and policy continuities with past practice, there are subtle departures that bear noting. The IMF has recently demonstrated a somewhat greater degree of flexibility than in the past when countries have failed to meet their fiscal targets *after* a SBA has been implemented for some time. The IMF has allowed some countries, especially those on the eastern side of the European periphery, to relax the fiscal targets in their SBAs as domestic and world economic growth decelerated and as

[21] This view, unfortunately was echoed by the G-20 Finance Ministers in 2010 and 2011.

serious political and social tensions emerged in many countries. Pakistan is illustrative. Its SBA provides for significant spending cuts and rising interest rates. In the face of economic deterioration, the Fund allowed an increase in Pakistan's fiscal deficit from 3.4% to 4.6% of GDP (although it has not increased the flexibility of the monetary policy targets). However, this relaxation of fiscal targets in several countries was from initial levels that were already unsustainable and dangerous to economic performance, living standards, and social stability. In addition, this relaxation extends over a very short time period. Indeed, the Fund has called for more severe fiscal tightening in 2011 and 2012. In short, this modest degree of fiscal flexibility in the on-going management of SBAs has more rhetorical than actual policy content.

In addition to their pro-cyclicality, there are other ways in which today's policy conditionality is consistent with those of previous crises, even though the rhetoric surrounding conditionality differs from that of the past. The IMF has marketed heavily the idea that it has narrowed the scope of its conditionality, owing to prior criticisms. In fact, various Fund reports issued during the current crisis herald the end of conditionality[22] and emphasize country ownership and national policymaker involvement in the reforms mandated by SBAs. The purported end of conditionality was marked by the announcement in May 2009 that the Fund had eliminated structural performance criteria on all programs. Initially this seemed to be the case with the early SBAs, but more recently the same package of reforms that have long been at the heart of IMF activity, such as privatization and liberalization, have become essential features of new SBAs. For example, privatization of the national railway was a condition in the SBA with

[22] The process of rethinking conditionality began after the Asian crisis. This led to the adoption of new guidelines on conditionality in September 2002. However, real change proved illusory: despite these new guidelines a 2007 study of conditionality by the IMF's Independent Evaluation Office found that the number of structural conditions on Fund programs had not declined and that the Fund continued to promote some conditions that were not necessary to achieve program goals [see IMF, 2009f].

Greece, while privatization of the national airline was a feature of Jamaica's SBA. Many of the European and developing country SBAs also call for all manner of pension system and public sector reforms, as well as the elimination of various subsidy programs.

In March 2009 the IMF introduced the Flexible Credit Line (FCL). The FCL is essentially a precautionary line of credit designed for countries that meet the IMF's pre-established qualification criteria. This demanding set of pre-conditions requires that a country possess the following: international capital market access; strong fundamentals; and a record of sound policies, the institutional framework necessary to support them, and credible commitment to continue these policies in the future.[23] Funds are available through the FCL as a single up-front disbursement or may be treated as a precautionary line of pre-approved credit. The IMF has heralded the FCL as a key example of its new modernized conditionality since disbursements are not tied to the usual ex-post policy conditions (i.e., structural performance criteria). As of this writing, only three countries have applied for and received funding through the FCL program—Mexico ($47 billion, the largest arrangement in the Fund's history), followed shortly thereafter by Poland ($20.5 billion) and Colombia ($10.4 billion). Despite the Fund's rhetoric to the contrary, the FCL hardly marks an advance in regards to conditionality. The FCL transforms traditional structural (*ex-post*) conditionality into a demanding *ex-ante* conditionality

[23] The criteria for policy soundness under the FCL are so demanding as to render most developing countries ineligible for support. A country must have a sustainable external position, a capital account position dominated by private flows, a track record of steady sovereign access to international capital markets at favorable rates, a reserve position that is relatively comfortable, sound public finances, low and stable inflation in the context of a sound monetary and exchange rate policy framework, the absence of bank solvency problems that pose an immediate threat of a systemic banking crisis, and effective financial sector supervision, data transparency and integrity. One wonders whether the USA could qualify for this program!

that elevates precisely the same neo-liberal policy and institutional agenda that the Fund has been promoting over the last three decades. Thus, the FCL program demonstrates a strong policy continuity with the conditionality of Asian crisis period, despite the institution's claim that it marks a break with the past.

Moreover, as part of its new approach to conditionality, the Fund has made much of its new commitment to social and pro-poor spending during the current crisis. Indeed, the current SBAs can be distinguished on paper from those of the Asian crisis years by the IMF's emphasis on the importance of social protection for the most vulnerable. This commitment appears in two recent IMF reports, one that surveys fifteen SBAs between July 2008 and September 2009 [IMF, 2009a] and another that surveys diverse assistance packages in nineteen low-income countries during the same period [IMF, 2009e, especially Annex 3]. One example involves the IMF's stipulation that rather than eliminating the "13th month pension" in Hungary in response to fiscal difficulties, the government should put in place a cap on it to insulate poorer pensioners from the harshest effects of the crisis. There was a similar initiative in the SBAs with Lativa and Romania [Lütz and Kranke, 2010]. However, it is difficult to square this emphasis on protection of socially vulnerable groups with the severe fiscal constraints that are a key feature of so many of the current SBAs. The decline in tax revenues and official development assistance has further complicated the matter of financing programs of social protection during the crisis. On the practical matter of where the funding for social protection is to come from, especially in the short run, the IMF has been utterly silent.[24]

[24] One final discontinuity in the IMF's response to the crisis bears mention. A review of various IMF assistance programs in 86 countries by UNICEF [2010] finds that in 2/3 of the countries reviewed, the IMF advised governments to contract total public expenditure in 2010 and to further their fiscal contraction in 2011. However, upon examination the report reveals (but fails to examine) a pronounced and curious inconsistency. While fifty six countries have been told to curtail or adjust public expenditure, 31 have been instructed instead to expand or

Summing up: The IMF's response to the crisis and the implications for policy space

Where does this review of the evidence leave us? The foregoing discussion sustains the following tentative conclusions. The IMF's response to the current crisis is different from and far less coherent than its response to the Asian crisis. Though the IMF certainly continues to apply pressure to secure compliance with stringent fiscal and monetary policy targets and expansive programs of liberalization and privatization,[25] it has also exhibited a degree of flexibility that was absent during its response to the Asian financial crisis. In particular, to a very limited extent it has relaxed fiscal constraints in some countries facing crisis, and has emphasized the need to protect the dispossessed even in the face of what it takes to be the need to impose fiscal and monetary discipline. Although it has failed to move beyond rhetoric

---

maintain public expenditure [UNICEF, Table 1]; while 35 are told to cap or cut the wage bill, 8 countries are told to increase it [UNICEF, Table 2]; while 16 were told to rationalize, cut or narrow eligibility for transfer programs, 23 countries were advised to expand these programs [UNICEF, Table 2]. Other studies note that a few IMF programs have strong counter-cyclical elements. Notably, programs in Georgia, Mozambique, Niger, and São Tomé and Principé involve expansionary fiscal policy, and that of Tanzania involves both expansionary fiscal and monetary policy [Eurodad, 2009; Weisbrot et al., 2009a]. It is not at all clear why some program countries are being told to pursue counter-cyclical fiscal adjustments, while others are being pushed in the opposite direction. This is suggestive of the ad hoc nature of the IMF's response to the current crisis. In this context, it is important to note the IMF's de facto movement away from the standard "one size fits all" approach of the past, even if the institution has not yet gone so far as to repudiate that approach or to announce a replacement.

[25] At the same time, the World Bank also continues to promote its usual program of small government and liberalization, as Wade [2010] argues.

in these regards, the rhetoric itself marks an important break with the past that legitimizes a concern for the poor as a criterion for evaluating Fund policies in the future.

Moreover, and much more importantly, the IMF has begun to reverse its position on capital controls—in word and in deed. Intentionally or not, its practice in this regard is contributing to the normalization of capital controls as a tool of prudential macroeconomic management. In a context of increasingly autonomous states and geographically curtailed IMF influence, a raft of developing countries have availed themselves of the new policy space that they enjoy to regulate international capital flows. Developing countries have even publicly rejected the IMF's apparent new interest in developing a code governing the appropriate use of capital controls. The Fund's response has been inconsistent—ranging from outright insistence upon capital controls, to tepid support, to equally tepid warnings about their potential mis-use, to silence.

4. CONCLUSION

The upshot of all this is that at present there is no one unifying narrative at the IMF that coherently captures its approach to the crisis. This incoherence, coupled with a crisis of confidence among erstwhile neo-liberal economists, and with initiatives taken independently by developing countries during the crisis, suggests that we have entered a period of "productive incoherence" as concerns economic governance in the developing world. There is a new ad hocery in evidence today that we have not seen for the past quarter century or so. While confusion and ambiguity in policy design and implementation are generally seen by economists (and perhaps other social scientists) as problematic (though see Best, 2005), in the current context of the onset of decay of the neo-liberal project they should instead be taken as productive of the opportunity for developing countries to engage in policy experimentation of their own design. And on that score, the evidence seems to suggest that policymakers are not waiting for the permission granted by the emergence of a new, coherent theoretical model. They are instead muddling through (Colander, 2003)—experimenting, among other things, with diverse types of capital controls. And from the ad hoc and even inconsistent strategies now underway there just might emerge a widely diverse platform of new interventions that are tailored to the unique contexts that policymakers face across the developing world.

The ultimate outcome of these developments is uncertain, of course. It is possible that the neo-liberal worldview may re-establish itself, not least because its advocates have proven remarkably adept at "paradigm maintenance" over the last three decades as Wade [1996] has noted and as Polanyi [1944:143] suggested long ago. Mirowski [2010] and Hodgson [2009] are pessimistic about the economic profession's ability to learn from its mistakes. And it might be that the center of the battle over policy space has shifted from the IMF to other arenas. As Gallagher [2010a] has shown, for example, there are powerful restrictions on the right to impose capital controls embodied in US bi- and multi-lateral trade and investment agreements, a view that the US Treasury appears to embrace even as the views on the matter by the IMF and those of the economics profession are changing rather significantly [Geithner, 12 April 2011].

On balance, though, I would argue that it is best to conclude that the present conjuncture is one of increasing uncertainty and aperture—in economic ideas, IMF influence and policy, and, as a consequence of these, in developing country policy space. Helleiner [2010] is instructive on this point. He argues that those who are disappointed that the current crisis has not already generated a "Bretton Woods moment" marked by a new consensus over the contours of a new and progressive global policy regime fail to appreciate the nature of the time-consuming, contested and politically contingent process that culminated in the kinds of policies we associate with the Bretton Woods era. Helleiner emphasizes that the Bretton Woods agreement was preceded by an "interregnum"—a period of disturbance and discontinuity in the existing order—that in turn led to a constitutive phase of policy formation. Viewed from this perspective, we are now in another interregnum—a productive moment marked by the shaken confidence among economists and policymakers in the current economic order; increasing pragmatism among economists and leadership of governing economic institutions; diminished authority and influence of those institutions; and increasing willingness and ability of national governments to chart their own course and challenge the IMF as they wrestle with the effects of the global crisis. It is vital that heterodox development economists not overlook the opportunities provided by these developments—incoherent and uneven though they may be—to press an agenda that enhances developmental policy space and greater ideational pluralism.

References

Abdelal, Rawi. 2007. *Capital rules: The construction of global finance*, Cambridge: Harvard University Press

Ariyoshi, Akira, Karl Habermeier, Bernard Laurens, Inci Otker-Robe, Jorge Ivan Canales-Kriljenko, and Andrei Kirilenko, 2000. "Capital Controls: Country Experiences with their Use and Liberalization," IMF Occasional Paper no. 190

Attwood, James. 2011. Capital controls are 'extreme,' Chile's Marfan tells La Tercera, Bloomberg.com, 9 January

Beattie, Alan. 2011. World Bank backs efforts to counter rapid inflows, *Financial Times*, 13 January, available at http://www.ft.com/intl/cms/s/0/ca0df71e-1e71-11e0-87d2-00144feab49a.html#axzz1T9Omvz3y
[date last accessed 25 July 2011]

Best, Jaqueline. 2005. The limits of transparency, Ithaca: Cornell University Press

Bloomberg. 2011. IMF's proposed guidelines on capital controls divide board, Bloomberg.com, 6 April

—. 2010. Asia should consider capital controls to stem asset-bubble risks, UN says, Bloomberg.com, 6 May

Bretton Woods Project (BWP). Bretton Woods Update, various issues, 2009-2011, available at http://www.brettonwoodsproject.org/update/67/index.shtml [date last accessed 25 July 2011], http://www.brettonwoodsproject.org/update/71/index.shtml [date last accessed 25 July 2011], http://www.brettonwoodsproject.org/update/73/index.shtml [date last accessed 25 July 2011]

Bristow, Matthew and Iuri Dantas. 2011. Brazil's US dollar inflows plunged 88% in April on foreign loan tax increase, Bloomberg.com, 4 May

Brown, Kevin. 2010. Asia toys with introducing capital controls, *Financial Times*, ft.com, 30 June

Chandrasekhar, C.P. and Jayati Ghosh. 2011. Revisiting capital controls, *Hindu Business Line*, http://www.thehindubusinessline.com, 6 May

Chang, Ha-Joon and Ilene Grabel. 2004. *Reclaiming development: An alternative economic policy manual*, London: Zed Books

Chwieroth, Jeffrey. 2010. *Capital ideas: The IMF and the rise of financial liberalization*, Princeton: Princeton University Press

Chorev, Nitsan and Sarah Babb. 2009. The crisis of neoliberalism and the future of international institutions: A comparison of the IMF and the WTO, *Theory and Society*, vol. 38, no. 5, 459-484

Chowla, Peter. 2009. The potential development implications of enhancing the IMF's resources, G-24 Policy Brief No. 47

Cline, William. 2010. The IMF staff's misleading new evidence on capital controls, Peterson Institute for International Economics, Realtime economic issues watch, www.piie.com/realtime/?p=1351

Coelho, Bruno and Kevin Gallagher. 2010. Capital controls and 21st century financial crises: Evidence from Colombia and Thailand, Political Economy Research Institute Working Paper No. 213, University of Massachusetts-Amherst

Colander, David. 2003. Muddling through and policy analysis, *New Zealand Economic Papers*, 37(2), 197-215

Cordero, Jose Antonio. 2009. The IMF's stand-by arrangements and the economic downturn in Eastern Europe: The cases of Hungary, Latvia, and Ukraine, Center for Economic and Policy Research, Washington DC, www.cepr.net

Crowe, Darcy. 2010. Colombia central bank rules out capital controls, Dow Jones, http://colombiareports.com/colombia-news/economy/12457-colombia-central-bank-rules-out-capital-controls.html, 19 October

David, Antonio. 2008. Controls on capital inflows and the transmission of external shocks. *Cambridge Journal of Economics* 32, 887-906

DeMartino, George. 1999. Global neoliberalism, policy autonomy, and international competitive dynamics, *Journal of Economic Issues*, 33(2), 343-349

Economist. 2010. Speak softly and carry a blank cheque, http://economist.com/node/16592455, 15 July

—. 2010. The won that got away. Economist.com, http://www.economist.com/blogs/newsbook/2010/06/south_koreas_currency_controls 16 June

Edwards, Sebastian. 1999. How effective are capital controls, *Journal of Economic Perspectives*, 13(4), 65-84

Epstein, Gerald, Ilene Grabel and Jomo KS. 2004 Capital management techniques in developing countries: An assessment of experiences from the 1990's and lessons for the future, G24 Discussion Paper No. 27, United Nations, NY and Geneva

Eurodad. 2009. Bail-out or blow-out? IMF policy advice and conditions for low-income countries at a time of crisis. http://www.eurodad.org/uploadedFiles/Whats_New/Reports/Bail-out%20or%20blow-out.pdf

Forbes, Kristin. 2005. Capital controls: Mud in the wheels of market efficiency. *Cato Journal* 25(1), 153-66

G-24. 2011. Communique, Washington DC, 14 April, available at http://www.imf.org/external/np/cm/2011/041411.htm [date last accessed 25 July 2011]

Gallagher, Kevin. 2011a. Regaining control: Capital controls and the global financial crisis. Political Economy Research Institute Working Paper No. 250, University of Massachusetts-Amherst

—. 2011b. The IMF, capital controls and developing countries. Economic and Political Weekly, XLVI(19), 12-16

—. 2010a. Policy space to prevent and mitigate financial crises in trade and investment agreements. G-24 Discussion Paper. No. 58, United Nations, NY and Geneva

—. 2010b. Obama must ditch Bush-era trade deals, guardian.co.uk, 1 July

—. (ed.). 2005. *Putting development first-The importance of policy space in the WTO and International Financial Institutions*, London: Zed Books

Gallagher, Kevin and Jose Antonio Ocampo. 2011. The IMF's welcome rethink on capital controls, guardian.co.uk, 6 April

Geithner, Timothy. 2011. Response by US Treasury Secretary Timothy Geithner to the Economists' Letter, available at http://www.ase.tufts.edu/gdae/policy_research/CapCtrlsLetter.html [date last accessed 25 July 2011]

Grabel, I. 2011. Promising avenues, false starts and dead ends: Global governance and development finance in the wake of crisis. Political Economy Research Institute Working Paper No. 241, University of Massachusetts-Amherst

—. 2007. One step forward, Two steps back: Policy (in)coherence and financial crises, in Bhumika Muchhala (ed.), *Ten years after: Revisiting the Asian financial crisis*, Washington, DC: Wilson Center Press, 95-104

—. 2003a. Averting crisis: Assessing measures to manage financial integration in emerging economies, *Cambridge Journal of Economics*, 27(3), 317-336

—. 2003b. Ideology, power and the rise of independent monetary institutions in emerging economies, Jonathan Kirshner (ed.), *Monetary orders: Ambiguous economics, ubiquitous politics*, Ithaca: Cornell University Press, 25-52

-----. 2009. "Currency and Contest in East Asia: The Great Power Politics of Financial Regionalism." Ithaca, NY: Cornell University Press.

Guha, Krishna. 2009. "IMF refuses to rule out use of capital controls," *Financial Times*, 3 November

Helleiner, Eric. 2010. A Bretton Woods moment? The 2007-2008 crisis and the future of global finance. *International Affairs* 86(3), 619-36

—. 1996. *States and the Reemergence of Global Finance*, Ithaca: Cornell University Press

Hodgson, Geoffrey. 2009. The great crash of 2008 and the reform of economics, *Cambridge Journal of Economics*, 33, 1205-1221

Hollinger, P. and Giles, Peggy. 2011. Sarkozy seeks capital flow code, *Financial Times*, Ft.com, 24 January

International Monetary Fund (IMF), Independent Evaluation Office. 2005. Evaluation report: The IMF's approach to capital account liberalization, Washington DC, IMF

IMF. 2011a. Regional economic outlook: Asia and Pacific, Washington DC, IMF

—. 2011b. Global financial stability report, October, April

—. 2011c. Policy responses to capital flows in emerging markets, Report prepared by the Asia and Pacific Department, http://www.imf.org/external/pubs/ft/sdn/2011/sdn1110.pdf

—. 2011d. Recent experiences in managing capital inflows-Cross-cutting themes and possible policy framework, Report prepared by the Strategy, Policy, and Review Department, http://www.imf.org/external/np/pp/eng/2011/021411a.pdf

IMF. 2010a. Global financial stability report, April

—. 2010b. How did emerging markets cope in the crisis? Report prepared by the Policy, strategy, and review department, http://www.imf.org/external/np/pp/eng/2010/061510.pdf

—. 2010c. IMF governance reform, Report prepared by the Policy, strategy, and review and Legal departments, http://www.imf.org/external/np/pp/eng/2010/070710.pdf

2010d. The Fund's role regarding cross-border capital flows, Report prepared by the Policy, strategy and review and Legal departments, http://www.imf.org/external/np/pp/eng/2010/111510.pdf

—. 2009a. Review of recent crisis programs, Report prepared by the Strategy, policy and review department, http://www.imf.org/external/np/pp/eng/2009/091409.pdf

—. 2009b. Annual report on exchange rate arrangements and exchange restrictions.

—. 2009c. The implications of the global financial crisis for low-income countries. https://www.imf.org/external/pubs/ft/books/2009/globalfin/globalfin.pdf

—. 2009d. Coping with the crisis: Policy options for emerging market countries, IMF staff position note, No. 8. http://www.imf.org/external/pubs/ft/spn/2009/spn0908.pdf

—. 2009e. Creating policy space—responsive design and streamlined conditionality in recent low-income country programs, Report prepared by the Strategy, policy and review department, http://www.imf.org/external/np/pp/eng/2009/091009A.pdf

—. 2009f. Factsheet on IMF conditionality, April

Johnston, Tim. 2010. Thailand joins Asian central bankers taking on Greenspan, *Financial Times*, ft.com/beyondbrics, 21 July

Kaplan, Ethan and Dani Rodrik.. 2001. Did the Malaysian capital controls work? NBER Working Paper No.8142, Cambridge, MA, National Bureau of Economic Research

Kapur, Devesh and Richard Webb. 2006. Beyond the IMF, G-24 Policy Brief, No. 1

Ketkar, Suhas and Dilip Ratha (eds.) 2009. *Innovative financing for development*. Washington DC, World Bank, http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/%5Be-book%5DInnovative_Financing_for_Development.pdf

Kirshner, Jonathan. 2006. "Money, Capital and Cooperation in the Asia-Pacific Region." In G. John Ikenberry and Takashi Inoguchi, eds., The Uses of Institutions: U.S., Japan, and Governance in Asia. New York: Palgrave, 187-216.

Krugman, Paul. 2010. The conscience of a liberal, nyt.com. 4 March

Kulish, Nicholas. 2009. "Global economic crisis rescues European bank, *New York Times* (NYT), B3, 8 October

Landler, Mark and David Sanger. 2009. World leaders pledge $1.1t to tackle crisis, *NYT*, A1, 2 April

Leahy, Joe. 2011. Brazil plans curbs on farmland speculators, Ft.com, 6 March

Lipsky, John. 2009. Building a post-crisis global economy-An address to the Japan Society, New York, http://www.imf.org/external/np/speeches/2009/121009.htm, 10 December

—. 2010. The road ahead for central banks: Meeting new challenges to financial stability, Moscow, http://www.imf.org/external/np/speeches/2010/061810.htm,18 June

Lütz, Susanne and Matthias Kranke. 2010. The European rescue of the Washington Consensus? EU and IMF lending to Central and Eastern European countries, London School of Economics, LEQS Paper, No.22

Magud, Nicholas and Carmen Reinhart. 2006. Capital controls: An evaluation. NBER Working Paper No.11973

Magud, Nicholas, Carmen Reinhart, and Kenneth Rogoff. 2011. Capital controls: Myth and reality-A portfolio balance approach, National Bureau of Economic Research Working Paper No. 16805

Mander, Benedict. 2010. Venezuela begins anti-inflation plan. *Financial Times*, ft.com, 7 June

McElhiny, Vince. 2009. Global crisis is good news for IFIs in Latin America, Americas Program Report, Center for International Policy, available at http://www.iadb.org/intal/intalcdi/PE/2009/03605.pdf [date last accessed 25 July 2011]

Mirowski, Philip. 2010. The great mortification: Economists' responses to the crisis of 2007- and counting, *Hedgehog Review*, 12(3), http://www.iasc-culture.org/publications_article_2010_Summer_mirowski.php

Muchhala, Bhumika. 2009. The IMF's financial crisis loans: No change in conditionalities, Third World Network, http://www.twnside.org.sg/title2/par/IMF.Crisis.Loans-Overview.TWN.March.2009.doc

Oliver, Christian. 2010. IMF warns on emerging market currency controls. *Financial Times*, ft.com, 11 July

Ostry, Jonathan, Atish Ghosh, Karl Habermeier, Luc Laeven, Marcos Chamon, Mahvash Qureshi, and Annamaria Kokenyne. 2011. Managing capital inflows: What tools to use? IMF Staff Position Note No. 11

Ostry, Jonathan, Atish Ghosh, Karl Habermeier, Marcos Chamon, Mahvash Qureshi, Dennis Reinhardt. 2010. Capital inflows: The role of controls. IMF Staff Position Note No. 4

Polanyi, K. 1944. *The Great Transformation: The Political and Economic Origins of Our Time*, Boston, Beacon Press

Prasad, Eswar, Kenneth Rogoff, Shang-Jin Wei and M. Ayhan Kose. 2003. Effects of financial globalization on developing countries: Some empirical evidence, http://www.imf.org/external/np/res/docs/2003/031703.htm

Rappeport, Alan. 2010. IMF reconsiders capital controls opposition. *Financial Times*, ft.com, 22 February

Reddy, Sudeep. 2011. IMF under fire over plans for capital controls, *Wall Street Journal*, 18 April

Reuters.com. 2011. S. Korea parliament approves levy on banks' foreign debt, 4 April

—. 2009. Factbox-Recent capital controls in emerging markets, http://in.reuters.com/article/governmentFilingsNews/idINLK53166920090520, 20 May

Rodrik, Dani. 2010. "The end of an era in finance," Project syndicate, 3-11-2010– http://www.project-syndicate.org/commentary/rodrik41/English]

Shadlen, K. 2005. Exchanging development for market access? Deep integration and industrial policy under multilateral and regional-bilateral trade agreements, *Review of International Political Economy* 12(5), 750–75

Shanley, Mia and Niklas Pollard. 2011. IMF cautions on Iceland controls, Reuters.com, 5 May

Singh, Ajit. 1999. "'Asian capitalism' and the financial crisis," in J. Michie and J. Grieve Smith (eds.), *Global Instability and World Economic Governance*, London: Routledge, 9-36

Solidar. 2009. Doing a decent job? IMF policies and decent work in times of crisis, October. http://www.eurodad.org/uploadedFiles/Whats_New/Reports/Doing%20a%20decent%20job.pdf

Strauss-Kahn, Dominique. 2010. Macro-prudential policies-An Asian perspective, speech, Shanghai, China, http://www.imf.org/external/np/speeches/2010/101810.htm,18 October

Subramanian, Arvind and John Williamson. 2009. The Fund should help Brazil to tackle inflows, *Financial Times*, 19, 25 October

Thomas, Landon Jr. 2010. Countries see hazards in free flow of capital, *NYT*, B11, 11 November

—. 2009. Known for tight spending, IMF may loosen reigns, *NYT*, A12, 5 April

Thompson, Adam. 2011. Mexico's central bank to keep piling up reserves, *Financial Times*, Ft.com, 19 April

Tussie, Diana. 2010. Ecuador after the financial crisis: Room for external or internal policy space? TripleCrisis Blog, http://triplecrisis.com/ecuador-after-the-financial-crisis/

United Nations (UN). 2010. *World economic situation and prospects 2010*, UN Department of Economic and Social Affairs, NY

UNICEF. 2010. Prioritizing expenditures for a recovery with a human face: Results from a rapid desk review of 86 recent IMF country reports, Social and Economic Policy Working Brief, April, www.unicef.org

Van Waeyenberge, Elisa, Hannah Bargawi, and Terry McKinley. 2010. Standing in the way of development? A critical survey of the IMF's crisis response in low-income countries, Eurodad and Third World Network, http://www.eurodad.org/whatsnew/reports.aspx?id=4083

Wade, Robert. 2010. The state of the World Bank, *Challenge*, July-August, 1-25

—. 2009. Iceland as Icarus: From 'miracle' to crash, and beyond, *Challenge*. May-June, 5-33

—. 2007. "The aftermath of the Asian financial crisis: From "liberalize the market' to 'standardize the market' and create a 'level playing field.," in Bhumika Mucchala (ed.), *Ten years after: Revisiting the Asian financial crisis,* Washington, DC: Wilson Center Press, 173-94

—. 2003. 'What Strategies are Viable for Developing Countries Today? The WTO and the Shrinking of 'Development Space', *Review of International Political Economy*, 10: 627–44

—. 1996. 'Japan, the World Bank, and the art of paradigm maintenance: The East Asian miracle in political perspective', *New Left Review*, 217, 3–36

Wagsty, Stefan. 2011. IMF and capital controls: Sauce for the goose should be sauce for the gander, *Financial Times*, ft.com/beyond-brics, 6 April.

—. 2010. Indonesia: Controls or quasi-controls on capital inflows? *Financial Times*, ft.com/beyond.brics, 16 June

Webber, Jude. 2010. Argentina unveils tighter controls on US dollar buys, *Financial Times*, ft.com/money-supply, 8 June

Weisbrot, Mark and Jake Johnson. 2009 (May). IMF Voting Shares: No plans for significant changes, Center for Economic and Policy Research, Issue Brief, Washington DC, www.cepr.net

Weisbrot, Mark, Rebecca Ray, Jake Johnston, Jose Antonio Cordero and Juan Antonio Montecino. 2009a. IMF-Supported Macroeconomic Policies and the World Recession: A Look at Forty-One Borrowing Countries. Center for Economic and Policy Research, www.cepr.net

Weisbrot, Mark, Jose Cordero and Luis Sandoval. 2009b. Empowering the IMF: Should Reform be a Requirement for Increasing the Fund's Resources? Center for Economic and Policy Research, www.cepr.net

World Bank (WB)-IMF. 2009. Global monitoring report 2009: A development emergency, available at http://web.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTGLOBALMONITOR/EXTGLOMONREP2009/0,,menuPK:5924413~pagePK:64168427~piPK:64168435~theSitePK:5924405,00.html [date last accessed 25 July 2011]

Wroughton, Lesley. 2010. Update 1-IMF endorses capital controls as temporary measure, reuters.com, 19 February