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In the aftermath of the 2007-8 global financial crisis, foreign capital is flowing back to emerging and developing economies. This situation has been at least partially driven by carry trade practices favoured by the prevailing low interest rates in high-income countries. This surge in foreign capital has led to a renewed debate within academic, policymaking and media circles regarding the legitimacy and feasibility of implementing controls in order to smooth the amount and composition of capital flows.[1] Similar discussions took place in the 1990s, and with the Asian crisis came a new respectability for the use of some types of capital controls (Cohen 2002). Various countries experimented temporarily with these measures, yet no consensus was achieved vis-à-vis the development of an international code for controls or a coordinated regulatory mechanism.

Meanwhile, a 2010 IMF Staff Position Note startled several observers by declaring that capital controls are now "justified as part of the policy toolkit" (Ostry et al. 2010, 5). The IMF's report has prompted a lively debate on the subject. But what are the current opportunities and constraints for the adoption of capital controls in emerging markets? Are we experiencing a new period in macroprudential regulatory politics or are we undergoing a situation somewhat similar to that of the post-Asian crisis? This paper examines ongoing discussions about the role of capital controls in emerging economies. It argues that despite recent evidence that suggests a "change of mind" at the IMF and the G-20 vis-à-vis the control of capital inflows, a post-crisis international framework in this area is more likely to be constructed around the perception that capital controls constitute, for the most, a policy of last resort.

Yet, multilateral discussions can no longer ignore the ideological perspectives of emerging economies represented in the G-20 that have recently employed distinct controls as unilateral measures to prevent capital reversals. At the same time, the adoption of capital controls at a broader and more harmonized level in emerging markets remains significantly limited due to a combination of political, pragmatic and theoretical issues. To illustrate this argument, the paper identifies and briefly discusses the following constraints: a) binding bilateral trade and investment treaties that explicitly

[1] Economists usually differentiate between capital controls on inflows and controls on outflows. Moreover, measures are usually categorized as being "price-based" or "quantity-based" controls. This paper deals mainly with issues related to the implementation of *controls on capital inflows*, which have been the type of controls more commonly adopted by emerging markets in recent years. Examples of capital controls include taxes on short-term inflows, unremunerated reserve requirements, quantitative limits and time requirements.

mandate the free flow of capital to and from a country, b) countries' preferences for less political alternatives such as the accumulation of reserves and, c) the lack of cohesive frameworks for the implementation of controls and assessment of their macroeconomic impact.

The argument for capital controls and the IMF Staff Position Note

Scholars and policymakers alike have debated about the benefits of controls on capital inflows for some time. For John Maynard Keynes, Harry Dexter White, and other architects of the international financial institutions (IFIs), capital controls were seen as a core component of financial stability at the international level. However, from the Reagan-Thatcher era to the height of the Washington Consensus, capital controls fell out of favour. A common argument that served to justify this shift towards neoliberalism was the idea that by lifting capital controls, countries would have more access to credit and investment and thus enable stability and growth (Gallagher 2011a). On the other hand, there are at least four fears that can drive countries to adopt capital controls (Magud and Reinhardt 2006; Ocampo and Palma 2008; Cardim de Carvalho 2010). Avoiding exchange rate appreciation that would reduce competitiveness and preventing an accumulation of "hot money" ready to leave the country at the first perceived sign of trouble are two of these fears. Avoiding excessive inflows that might generate asset price bubbles and overconsumption as well as dislocations in the financial system is a third. The fourth concerns preventing the loss of monetary autonomy.

Where does the February 2010 IMF Staff Position Note situate itself with respect to this debate? On one hand, the document explicitly states that there may be circumstances in which capital controls are a legitimate component of the policy response in emerging markets as a shield from unwanted capital flow (Ostry et al. 2010, 15). For all intents and purposes, this seems to insinuate a "change of mind" regarding capital controls, as it has often been reported in the media and through the writings of IMF watchers.[2] On the other hand, when outlining the circumstances under which the introduction of capital controls could be justified, the report suggests that these measures are only desirable under somewhat stringent conditions. As Panizza (2010) states, the IMF Position Note implies that capital controls on inflows are only appropriate for countries that "have an overvalued exchange rate, inflationary concerns, cannot accumulate reserves, cannot sterilize [foreign exchange], cannot tighten fiscal policy, and have weak prudential regulation." The recent IMF Position Note, while significant, does not imply then that the Fund now supports more permanent restraints on capital flows (Chwieroth 2010a).

Nonetheless, the analysis presented in the IMF Staff Position Note does raise the question as to why IMF economists have decided now to explicitly declare that there could be circumstances where capital controls may be warranted. Contrary to popular views, the IMF has never uniformly or indiscriminately advocated the abolition of capital controls (Chwieroth 2010b). For Chwieroth (2010a) what is remarkable about this position note is not so much its content, but rather the clarity

[2] See for example Rappeport's (2010) article at the Financial Times or Rodrik's (2010) comment in Project Syndicate.

with which the authors provide a more far-reaching and explicit legitimation of controls. At the same time, Chandrasekhar (2010) identifies two other reasons that may explain the recent IMF staff's advice on capital controls. First, since there is ample evidence of a capital surge to emerging markets and past evidence has shown that this could generate a host of difficulties for such markets, the IMF may not want to be seen as having made the mistake of opposing capital controls as a means to manage excessive inflows. In addition, by specifically outlining the contexts in which capital controls are deemed appropriate, the Fund appears to be encouraging policymakers in emerging markets to weigh all other alternatives before considering capital controls and hence, to ultimately try to avoid the implementation of such controls (Chandrasekhar 2010, 12).

IMF recent developments and the broader multilateral environment

Recent press releases and official documents summarizing multilateral debates within and outside the G20 often suggest that the IMF needs to take on the role of regulating capital controls through more formal guidelines. The issue has arisen at least in part because some G7 nations have manifested concerns about the unilateral and ad hoc responses of emerging economies to "currency wars." Yet, as Gallagher (2011a) indicates, it is not clear whether the IMF has the legal standing to conduct a more formal bilateral and multilateral coordination and surveillance of capital controls. Moreover, some of the statements that the Fund has put forward in its publications since February 2010 indicate that recent efforts in providing a more explicit and broader legitimation of capital controls could be partially lost as the institution continues to "formalize" its advice on the topic. In the April and October 2010 issues of the *Global Financial Stability Report*, the Fund acknowledges that preliminary indications regarding the use of capital controls suggest that these might have helped somewhat in changing the composition of inflows in emerging markets, but not the volume (IMF 2010a, 2010b). In the October 2010 issue of *Global Economic Outlook*, the IMF advises that the adoption of capital controls should be supported by other measures such as: "continued two-way exchange rate flexibility to discourage speculative inflows, fiscal consolidation…and enhanced financial sector monitoring and supervision" (IMF 2010b, 80).

A somewhat more recent document which continues to explore and build on the current institutional position of the IMF in regard to capital controls – the November 2010 IMF Official Report – also reveals how the Fund is now trying to balance to a certain extent perspectives on the benefits of financial liberalization with possibilities for the implementation of controls. For example, the report indicates that "no presumption is made here that capital account liberalization is a goal in itself in all cases, but rather that a broader range of tools and advice, contemplating both the elimination and imposition of controls, may be more appropriate for domestic and systemic stability" (IMF 2010c, 5). The report further argues that neither the benefits of liberalization nor the costs and effectiveness of capital controls are well established in the empirical research (IMF 2010c, 31). Ultimately, the Fund advocates for the adoption of an alternative approach that would replace Article VI (Section 3) of the IMF Agreement with a provision that would require members to collaborate with the Fund and other members in seeking to ensure that capital movements support both economic growth and the stability of the international monetary system (IMS).

In preparation for its annual meeting in April 2011, the IMF released two documents – an official report and a staff discussion paper (Ostry et al. 2011) – which outline when countries should use capital controls, and what types should be employed under defined circumstances. The official report does three key things. First, it outlines how post-crisis capital flows to developing nations have been dominated by volatile portfolio flows and that some nations resorted to capital controls to cope with those flows, with some success. Second, it importantly proposes a new nomenclature for capital controls, referring to them as capital flow management measures (CFMs). Third, it advances a set of guidelines for when countries should (and should not) deploy such measures and what form CFMs should take (Gallagher and Ocampo 2011).

The first two components of the report represent a breakthrough for the IMF. Yet, the report is still lacking in the Fund's determination of the efficacy of CFMs and what types should be used. It recommends that CFMs be used as a last resort and as a temporary measure, and only under similar stringent conditions as those proposed in the 2010 Staff Position Note. Therefore, a crucial question for current multilateral governance is whether a more neutral stance vis-à-vis capital flows, and even a more supporting position regarding their implementation, could be prompted by ongoing discussions at international forums such as the G-20. The *G-20 Seoul Declaration* (2010) refers at various points to the need to manage the "excessive volatility of capital flows," especially throughout the section that addresses instruments that are needed to strengthen global financial safety nets and this is also mentioned amongst the issues that warrant more attention in the future.

In February 2011, the G-20 issued a communiqué that mentions that for improving the resilience of the IMS, members have to address how to avoid disruptive fluctuations in capital flows. The communiqué also states that the G20 will benefit from the work of the Organisation for Economic Cooperation and Development (OECD) on capital flows, and from contributions of other relevant international organizations such as United Nations Conference on Trade and Development (UNCTAD) (G20 2011, 2). This statement raises some questions about the more explicit direction that the work of the G20 on capital controls will take in the near future. The two organizations that are mentioned in the communiqué present distinct approaches regarding regulatory alternatives for capital controls; while the OECD's main concern is to provide a framework for countries progressively to remove barriers to the movement of capital – thus financial liberalization remains the end goal – UNCTAD has for a long time deemed capital controls to be a useful instrument in several countries and has also supported the use of controls on outflows. Yet the OECD, at least in principle, allows for the temporary use of capital controls as a safeguard measure. As Gallagher (2010, 15) highlights, in many respects the OECD has the most expansive investment rules, as they cover all types of capital flows. However the OECD also has the broadest level of temporary derogation.

Therefore, an interesting development in multilateral governance is that since late 2009

UNCTAD and OECD have begun producing joint reports for the G-20 on investment measures. Moreover, while it seems that at the international institutional level it is now recognized that capital flows can be destabilizing in emerging markets since they prompt currency appreciation, formation of asset bubbles and volatility, there is no explicit recognition for helping nations to enforce controls on inflows when they deem it appropriate to implement these measures. The international networks that deal with this topic – as the OECD-UNCTAD joint reports for instance suggest – continue to converge in unexpected ways while international venues continue to search for more collaborative mechanisms that may bridge diverse institutional perspectives. Meanwhile, it is becoming more difficult to recognize what constitutes now a "specific" institutional perspective, especially once the recent debates that have taken place at the IMF and the G20 are examined.

Furthermore, within institutions there are important differences in country-members' perspectives that seem to have increasingly widened in the aftermath of the crisis. Initially, some of the recent IMF developments regarding capital controls have stemmed from the emerging plurality of the global system. There are now a variety of models of liberalism – the most obvious examples are China, India and Brazil – that have gained dominance and that may pose an alternative to the US brand of neoliberalism (Gallagher 2011a; Chwieroth 2010a). At present, these countries have more voting power at the IMF and World Bank. At the same time, for these nations the use of capital controls is also seen as part of preserving autonomy for domestic objectives (Gallagher 2011a, 11). Nonetheless, the G-20 members that belong to the European Union have recently declared in a G-20 terms-of-reference document[3] that "the EU believes in the benefits of the free movement of capital … and sees with some concern the increasing use of temporary controls" (quoted in Strupczewski 2011). Lifting existing capital controls has usually been perceived as an important requirement for countries that are seeking EU membership.

In contrast, the Brazilian finance minister, Guido Mantega, and his Indian counterpart, Pranab Mukherjee, have explicitly opposed formal mechanisms to regulate capital inflows. For instance, Brazil has introduced a series of measures such as raising taxes on bond and derivatives investments and increasing reserve requirements on short dollar positions of local banks in the last two years. For Mantega, capital control measures are perceived then as a necessity brought by international imbalances: "we needed to adopt [capital control measures] to defend ourselves from an extremely harmful situation for the country, and we won't relinquish the right to do so as long as the situation persists" (quoted in Wall Street Journal 18/02/2011). Further, the two reports recently released by the IMF (the official note and the staff discussion paper) have not been welcomed by Brazil and by other emerging market economies (Gallagher and Ocampo 2011). Paolo Nogueira Batista – Brazil's Executive Director at the IMF and who also represents eight other countries – indicates that these countries strongly oppose any IMF guidelines that "establish, standardize, prioritize or restrict the range of policy responses of the member countries that are facing large surges in volatile capital

[3] This document was prepared for EU G20 delegations to the G-20 Paris meeting on February 18-19, 2011.

inflows" (quoted in Rastello 2011). Resistance from emerging economies makes it less likely that the Fund will be able to use the recent recommendations about capital controls in its annual reports that deal with the economic situation and policies of its members.

In October 2011, in preparation to the G-20 Cannes meeting, most of the G-20 discussions focused on the Eurozone. However, a working group was formed to debate the issue of capital flows, which forged the "G-20 Coherent Conclusions for the Management of Capital Flows Drawing on Country Experiences." The document concluded that "there is no 'one-size fits all' approach or rigid definition of conditions for the use of capital flow management measures" and that such measures should not be solely seen as a last resort. Instead, the G-20 has begun suggesting that nations should develop their own country-specific approach to managing capital flows (Gallagher 2011b).

WTO and US trade policy

During the neoliberal period when skepticism prevailed toward the use of capital controls, many barriers to these measures were put in place. One of the most significant constraints until now constitutes trade policy, especially US policy. Although the crisis has weakened the normative authority and leadership of the United States, it has not prevented the US from avoiding a broader implementation of capital controls in emerging markets, due to the existence of many of their trade and bilateral agreements. These agreements do not permit the use of controls without significant penalty. As Gallagher (2010) suggests, US trade policy remains a crucial obstacle to capital controls securing greater legitimacy as policy instruments.

But the role of the United States in limiting a broader use of capital controls is not something new. Cohen (2002) for example identifies three motives that help explain the US opposition to capital controls after the Asian crisis. First, one of the reasons lies in ideological conviction since most of the officials in charge of US policy in the Clinton and first Bush administration (like Robert Rubin and Lawrence Summers) were trained in neoliberal economics and firmly persuaded of its essential merit. Second, after the fall of the Thai Baht, there was a concern for systemic stability and for the development of extreme economic scenarios that included the risk of a global crunch. The US was not only the dominant architect of the prevailing monetary structure, but also one of its main beneficiaries. In that context, US political leadership had every reason to seek suppressing any challenge to the status quo (Cohen 2002, 110). Third, domestic US politics also favoured preservation of the status quo. The possibility for broader restraints on capital mobility in emerging markets was successfully limited and lobbied against by powerful US interest groups. There was a formidable confluence between Wall Street banks and brokerage firms' interests and (US based) multinational corporations in favour of open capital accounts worldwide (Wade quoted in Cohen 2002, 111).

Moreover, whereas US trade granted some countries (like Mexico under NAFTA) safeguards to use controls in order to prevent balance of payments problems, treaties under the administration of George Bush eliminated such safeguards (Gallagher 2011a, 12). Since 2003, US trade and investment agreements have outlawed capital controls by developing country trading partners by mandating the free flow of capital to and from a country, regardless of its level of development (Gallagher 2010). The Obama administration has not reinstituted NAFTA-like safeguards; instead, it seems to want to continue the trends of the Bush era. In response to a letter where more than two hundred and fifty economists urged the Obama administration to provide flexibility for controls in US trade deals, the US government replied that it did not intend to change treaties to that effect (Drajem in Gallagher 2011a).

Under the World Trade Organization (WTO), if a country has committed to granting cross-border market access in financial services or to allowing foreign investment in financial services, it must liberalize its capital account in order to fulfill those commitments. The WTO does have a prudential exception and a balance of payments exception, but it is not clear that such safeguards will apply to all types of capital controls (Raghavan 2009). Gallagher (2010) ultimately suggests that there is room for countries to deploy capital controls under the following circumstances: 1) the controls are on capital account transactions, not current account transactions, unless sanctioned by the IMF; 2) the nation has not committed financial services under the General Agreement on Trade in Services (GATS) at the WTO and 3) the nation does not have free trade agreements (FTAs) and bilateral investment treaties (BITs) with the United States. Not surprisingly, countries that fall under this category include “frequent” users of capital controls such as Brazil, India and China.

The rationale for less political alternatives

Reserve accumulation and stronger policy frameworks and fundamentals have helped many emerging powers with framing a course that it is increasingly independent of IMF influence (Chwieroth 2010a). At the same time, in terms of global economic governance, current proposed reforms to the IMS continue without offering support on helping nations to *endorse and enforce* controls on capital inflows when they deem them appropriate. Thus, it seems inevitable that emerging economies will continue exploring and pursuing individual solutions. One of these solutions – the accumulation of foreign reserves – may serve some similar purposes to capital controls, such as avoiding exchange rate appreciation in times of excess liquidity.

Cardim de Carvahlo (2010) examines why some emerging powers perceive reserve accumulation as a feasible and a major defensive strategy to deal with the volatility of the world economy. On the one hand, the accumulation of reserves does not depend on a currently unlikely disposition of IFIs to work towards a cooperative solution that takes into account the preferences and priorities of emerging economies. The accumulation of reserves seems likewise more attractive than trying to establish emergency credit lines with private banks, as done by Argentina during the Tequila crisis, which may not be honoured when the country needs them (Cardim de Carvahlo 2010, 284). On the other hand, accumulating reserves is politically much easier to adopt (at least at the domestic level) than reinstating capital controls, since it does not threaten any group’s privileges. As Gallagher (2011a) argues, the “losers” of a capital control regime are highly concentrated and very powerful politically, while the potential "winners" (in terms of the general public) are diffuse across the entire system. These "winners" may suffer from information externalities where they cannot understand the links between capital regulations, financial stability, and personal welfare to the extent that they would mobilize politically (Gallagher 2011a, 28). Nonetheless, the benefits of reserve accumulation do not come without costs. It is potentially expensive for the country holding them, particularly for countries that could find better capital accumulation strategies than just holding idle balances or low-yield securities. It is also deflationary for the global economy, reducing global demand and output (Cardim de Carvahlo 2010).

The lack of cohesive theoretical and technical frameworks

The policy discussion on capital controls is closely related to the academic literature on the growth effects of financial globalization. Although several policy and academic circles have contributed to the debate surrounding the use of capital controls, the topic seems to suffer some type of "loss of memory effect" (Magud, Reinhart and Rogoff 2011). As emerging economies continue to grow and appreciating pressures on their national currency ensue, the discussion about, and temporary use of, capital controls usually gains momentum. Yet, capital control cycles tend to be put aside once the economy is back in capital openness mode. This "loss of memory effect" was especially noticeable in the aftermath of the Asian crisis and now it is in the process of being tested within the current environment for regulatory politics. During the Asian crisis, some international institutions tried to negotiate the inclusion of (temporary) provisions for the use of capital controls, but they failed and the discussions were abandoned. This is, for instance, the case for the OECD-sponsored *Multilateral Agreement on Investment* (MAI). The MAI was launched in 1995 as an attempt at an international treaty that would have similar provisions to the OECD Codes – for OECD and non-OECD economies alike. However, the MAI was never agreed upon and was abandoned in 1998 (OECD 1998). The negotiating text of the MAI treaty included a broad safeguard for capital controls.

Moreover, other factors that also contribute to this "loss of memory effect" and that ultimately prevent a broader implementation of capital controls stem from: the lack of a unified theoretical framework to examine the macroeconomic consequences of controls; the multiplicity of definitions in existing studies on capital control of what constitutes a "success"; and the lack of a common methodology to analyze case studies (Magud, Reinhart and Rogoff 2011). However, Magud, Reinhart and Rogoff (2011) are among the few prominent authors who have been working on trying to bring together the theoretical and empirical literature on capital controls. They have examined and attempted to "standardize" the results of over thirty empirical studies in order to measure more precisely which measures can be framed as "successful."

Magud, Reinhart and Rogoff's (2011) analysis represents an important step for (re)introducing broader yet more consistent and organized arguments regarding the conditions for capital controls' implementation and possible measures to assess their effectiveness. Ultimately, Magud, Reinhart and Rogoff (2011) have been cautious in framing their conclusions. They suggest that controls on inflows seem to make monetary policy more independent, alter the composition of capital flows, and reduce real-exchange-rate pressures, but they do *not* reduce the volume of net flows (and hence, the current account balance). As to controls on outflows, they conclude that except for Malaysia, there is little evidence of success, either in terms of altering the volume or regaining monetary independence (Magud and Reinhart 2006).

Although Magud, Reinhart and Rogoff (2011) try to find some common ground regarding the academic and empirical literature on capital controls, a different set of constraints exists in regard to methodological and technical aspects that relate to the implementation of capital controls. For example, the fact that capital controls are often imposed or strengthened as part of an overall package of policy responses makes it difficult to isolate their effect (Chandrasekhar 2010). Moreover, there are often econometric and statistical issues involved in measuring their effectiveness. For instance, if emerging economies that are facing large inflows are the ones that impose controls, it is not surprising that econometric studies find no, or even a positive, relationship between controls and the magnitude of capital inflows (Chandrasekhar 2010).

Thus, even if intellectual and institutional advances have been made in regard to restraints on capital movements, crucial functional questions remain to be discussed and resolved if the IMS is going to sincerely adopt a more "sympathetic" operational view towards capital controls. Decades of skepticism regarding the use of capital controls have discouraged the institutional knowledge and policy work that may be necessary to implement control on inflows effectively. For example, an ongoing challenge for governments that have adopted some kind of controls on inflows has been the fact that investors have often found tools to evade these measures through derivatives and other instruments. One of the most profound ways that controls have been circumvented in Brazil's past has been through disguising short-term capital as FDI (Gallagher 2011a, 28).

For Cohen (2002, 105), there are two critical questions to ask regarding technical issues: What kind of capital flows should be subject to limitation, and what kind of controls would be the most effective? However, as the discussion on the recent developments at the IMF and the broader multilateral environment demonstrate, the answers to these questions are neither simple nor obvious. This is particularly evident when we take into account that, although it is increasingly accepted by several leading academic economists that controls on inflows constitute valid macroprudential tools, when it comes to mechanisms for actual implementation there is no consensus within and beyond the institutional level.

At the most fundamental level, at least three distinctions are important in considering the implementation of capital controls: differences involving the *direction* of capital movement, the *type* of capital movement, and the *identity* of the actors involved. Likewise, in thinking about what kinds of restraints to use, key distinctions must be drawn involving both *duration* and *tactics* (Cohen 2002). For example, one of the contentious issues in economic governance relates to whether controls should be temporary (implemented only during periods of crisis) or more permanent. Recent academic and institutional studies[4] have focused their attention on the examination of transitory periods. Thus, the most permanent approaches to capital controls, taken by the Chinese and the Indian governments, may represent in practice a distinct set of policy discussions and technical frameworks for governance on these issues in national and international forums.

Nevertheless, the discussion on capital flows continues to advance in academic and policymaking circles. Recently, Andy Haldane (2011) – Executive Director for Financial Stability at the Bank of England – discussed how capturing the present dynamic of surges in foreign capital flows to emerging economies requires a distinct conceptualization. At the 2011 Institute for New Economic Thinking (INET) conference, he explained this dynamic as the "Big-Fish-Small-Pond" (BFSP) problem. The challenge is that financial markets in emerging economies – the small ponds – remain relatively modest. Therefore, strong inflows from large, capital-exporting, advanced countries – the big fish – can cause ripples right across the international monetary system, never more so than in today's financially interconnected world (Haldane 2011). If recent trends continue, the BFSP problem may become more acute over time. The global flow of funds could become an increasingly powerful generator of international financial instabilities.

Final considerations

Despite ongoing international discussions, capital controls are still perceived mainly as a policy of last resort by the IFIs. There are some important differences not only in terms of content but also in terms of impact between IMF official reports and the less strident discussion papers and position notes. Therefore, although the "change of mind" at the IMF is by now welcomed in many academic and policy circles, it is imperative to be careful when framing capital controls as the "new normal" (Grabel 2011) or by affirming that "the stigma on capital controls is gone" (Rodrik 2010). It is important to remember, for example, that Cohen (2002) has declared previous personal judgment on how "limits on capital mobility could soon become the wave of the future." However, as long as capital flows to emerging markets remain volatile and potentially disruptive in the post-2007 crisis, the discussion of capital controls in academic and policy circles will continue to develop and to take new forms regarding informal and perhaps more formal institutional and academic "advice" on these measures. Yet, as previously mentioned, the test is now to overcome the "loss of memory effect" that has prevailed in previous periods where a broader endorsement of capital controls seemed possible.

Although the door for capital controls may be somewhat open in terms of global economic governance, it remains shut with respect to US trade and investment treaties. But even for emerging powers that are currently in a position to implement capital controls, larger dilemmas remain which these countries cannot avoid given their increasing participation in the global economy. For a given country, capital controls may temporarily reduce the pressure on its capital account (or even

[4] See for example Magud, Reinhart and Rogoff (2011), Ostry et al. (2010) and Coehlo and Gallagher (2010).

permanently limit the volatility of its exchange rate). Nonetheless, for the entire international system, these measures may simply shift the pressure to other countries or asset classes and exacerbate, rather than reduce, overall volatility. Thus, the adoption of capital controls, as uncoordinated and unilateral measures, may not be sustainable for some of the emerging market economies. Finally, it is important to remember that the shift from the Bretton Woods era of acceptance of capital controls to the neoliberal legalization of capital liberalization occurred over twenty years. Thus, we must keep in mind that we may be seeing a slow but epochal shift to a new regime in the IMS,[5] despite all the current limitations mentioned throughout paper.

[5] I thank Dr. Tony Porter for this helpful comment during the "Mapping the Dimensions of Global Public Policy" conference held at McMaster University on January 26-27, 2012.

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Institute on Globalization and the Human Condition

The Institute on Globalization and the Human Condition was created in January 1998 following the designation of globalization and the human condition as a strategic area of research by the Senate of McMaster University. Subsequently, it was approved as an official research center by the University Planning Committee. The Institute brings together a group of approximately 30 scholars from both the social sciences and humanities. Its mandate includes the following responsibilities:

- a facilitator of research and interdisciplinary discussion with the view to building an intellectual community focused on globalization issues.
- a centre for dialogue between the university and the community on globalization issues
- a promoter and administrator of new graduate programming

In January 2002, the Institute also became the host for a Major Collaborative Research Initiatives Project funded by the Social Sciences and Humanities Research Council of Canada where a group of over 40 researchers from across Canada and abroad are examining the relationships between globalization and autonomy.

The WORKING PAPER SERIES...
...circulates papers by members of the Institute as well as other faculty members and invited graduate students at McMaster University working on the theme of globalization. Scholars invited by the Institute to present lectures at McMaster will also be invited to contribute to the series.
Objectives:

- To foster dialogue and awareness of research among scholars at McMaster and elsewhere whose work focuses upon globalization, its impact on economic, social, political and cultural relations, and the response of individuals, groups and societies to these impacts. Given the complexity of the globalization phenomenon and the diverse reactions to it, it is helpful to focus upon these issues from a variety of disciplinary perspectives.
- To assist scholars at McMaster and elsewhere to clarify and refine their research on globalization in preparation for eventual publication.

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McMaster University

Post-2007 Financial Governance and Capital Controls: Reassessing the policy toolkit

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