Letters

Capital inflow controls do work most of the time

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From Mr Kevin P. Gallagher.

Sir, Your report "IMF refuses to rule out use of capital controls" (November 3) is both welcome and concerning. It is welcome to hear the International Monetary Fund, now under Dominique Strauss-Kahn, reaffirm that it is not unequivocally opposed to capital controls to avoid asset bubbles and to tame the appreciation of the exchange rate in developing countries. However, it is concerning that Mr Strauss-Kahn is really saying that the IMF will simply tolerate capital controls but seldom recommend them. The reason, as he says in your report, is that "most of the time it does not work".

This statement stands in stark contrast with the economic evidence on capital controls. Indeed, restrictions on inflows of capital seem to work most of the time. In a recent NBER report http://www.nber.org/papers/w11973 Carmen Reinhart and Nicholas Magud assess the most rigorous studies on capital controls and conclude that "in sum, capital controls on inflows seem to make monetary policy more independent, alter the composition of capital flows and reduce real exchange rate pressures".

If Mr Strauss-Kahn truly wants to make the IMF relevant again he will have to do a better job in representing the peer-reviewed evidence on macro-economic policy.

Kevin P. Gallagher,

Global Development Policy Programme,

Department of International Relations,

Boston University, MA, US