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100 Economists Call for Trans-Pacific Trade Deal to Allow Capital Controls

Kevin P. Gallagher and Sarah Anderson, guest blogger

Since the onset of the global financial crisis, Triple Crisis bloggers have been commenting on the need for policy space for capital controls in developing countries and the need to reform US trade agreements, which generally prohibit their use. To further that end, Triple Crisis co-chair Kevin Gallagher and Sarah Anderson of the Washington-based Institute for Policy Studies initiated an economist sign-on letter to urge negotiators of the Trans-Pacific Partnership Treaty. The letter attracted 100 signatories from TPP countries and was released today.

Click [here](#) for the full statement and list of endorsers.

In advance of Trans-Pacific trade talks, over 100 economists are sending a letter today urging negotiators to promote global financial stability by allowing the use of capital controls.

Signatories include prominent scholars from six of the nine countries currently involved in the Trans-Pacific talks: Australia, Chile, Malaysia, Peru, New Zealand, and the United States. The other participating countries are Brunei, Singapore, and Vietnam. Trade officials will meet March 1-9 in Melbourne, Australia for the 11th round of negotiations.

The economist statement reflects growing consensus that capital controls are legitimate policy tools. It notes, however, that nearly all U.S. trade agreements “strictly limit the ability of trading partners to deploy capital controls – with no safeguards for times of crisis.”

They recommend that the Trans-Pacific Partnership agreement “permit governments to deploy capital controls without being subject to investor lawsuits, as part of a broader menu of policy options to prevent and mitigate financial crises.”

Among the endorsers:

- Several economists who are generally supportive of free trade but are critical of the provisions that restrict capital controls (e.g., **Jagdish Bhagwati** of Columbia University) and
- Former IMF officials (e.g., **Olivier Jeanne** of Johns Hopkins University and **Arvind Subramanian** of the Peterson Institute for International Economics **Guillermo Le Fort Varela**, executive director to the IMF for Southern Cone Latin American Countries) and
- **Ricardo Ffrench-Davis**, former Director of Research at Chile’s Central Bank, **Michael Lim Mah-Hui** of the Penang Institute in Malaysia, who worked for major international banks for more than 20 years.

Kevin Gallagher, Boston University professor and research associate at the Global Development and Environment Institute at Tufts University (GDAE), and **Sarah Anderson**, director of the Global Economy Project at the Institute for Policy Studies, initiated the statement. In 2009, Gallagher and Anderson examined this issue as members of the Investment Subcommittee of the State Department's Advisory Committee on International Economy Policy.

"This will be the first major trade agreement to be negotiated since the 2008 financial crisis," notes Anderson. "It would be a shame if leaders in the Trans-Pacific region did not use this opportunity to ensure that governments have a full menu of policy options for preventing such catastrophes in the future."

"The Trans-Pacific region has been susceptible to volatile capital flows. And in fact, many of the governments involved in these talks have proven that regulating such flows can contribute to stability and growth," says Gallagher. "We want to send a message that no government should have to give up a proven tool for combating the financial volatility which has caused so much suffering around the world."