Corporate Lobby Groups Issue Weak Attack on Economists Who Support Capital Control Flexibility

IPS and GDAE Rebut U.S. Chamber of Commerce, Business Roundtable, Other Big Business Critics

Major U.S. corporate lobby groups have issued a rebuttal to a letter sent by more than 250 economists to the Obama administration calling for a fresh approach to capital controls.

The Institute for Policy Studies and the Global Development and Environment Institute at Tufts University (GDAE) initiated the January 31 economist statement that provoked the corporate response. That initial letter called for trade reforms to “permit governments to deploy capital controls without being subject to investor claims, as part of a broader menu of policy options to prevent and mitigate financial crises.” The statement’s 257 endorsers include an ideologically diverse array of academics and former IMF and government officials.

The February 7 corporate letter, endorsed by the U.S. Chamber of Commerce, the Business Roundtable, and 15 other lobby groups, urges the Obama administration to reject this call, based on unsubstantiated arguments that permitting U.S. trading partners to support financial stability through the use of capital controls would undermine everything from U.S. jobs to national security.

Two years into the global financial crisis, Americans and citizens across the globe continue to suffer because of the actions of footloose capital. If we have learned anything from the crisis it is that sound regulations are needed to stem the ability of speculative capital to create financial bubbles that burst and then leave ordinary people to live with the disaster that follows.

A point-by-point response to the corporate claims:

**Corporate lobby claim #1: Capital controls would undermine U.S. exports and jobs**

The International Monetary Fund and other international institutions now recognize capital controls as macro-prudential regulations that can help ensure financial stability. Financial stability at home and abroad is essential for the United States to return to full employment and to meet the President’s export goals.

- When trading partners fall into financial crisis, the United States loses export markets and subsequently jobs in the export sector.
• Capital controls can help stabilize exchange rates, which is good for long-term investors and for exporters and importers from the United States.
• When countries abroad cannot control financial bubbles that drive up currency values, American consumers may be hurt by rising prices on imported goods.
• As we have learned all too well from past crises, financial instability in a globalized world can be contagious, and quickly come back to the United States.

Corporate lobby claim # 2: Allowing capital controls would undermine U.S. foreign and national security objectives

Granting nations the ability to use the full range of legitimate policy tools for preventing and mitigating financial instability, including capital controls and other macro-prudential measures, should be a cornerstone of U.S. foreign policy. As Daniel Tarullo, a member of the Federal Reserve Board, put it in congressional testimony in 2003, prohibiting capital controls is not only “bad financial policy and bad trade policy,” but also “bad foreign policy.” He went on to lay out what would likely happen if a government bound by these rules were to use short-term capital controls during a severe financial crisis: “As the country struggles to emerge from its recession...U.S. investors file their claims for compensation. And, of course, under the bilateral trade agreement they are entitled to that compensation. Thus the still-suffering citizens of the country are treated to the prospect of U.S. investors being made whole while everyone else bears losses from an economic catastrophe that has afflicted the entire nation. Regardless of what one thinks of the merits of capital controls, one would have to be naïve not to think that an anti-American backlash would result.”

Corporate lobby claim # 3: Capital controls are already allowed in U.S. trade and investment agreements

The corporate letter implies that a provision found in U.S. trade and investment treaties to protect “prudential measures” from being subject to investor-state claims provides protection for the use of capital controls. To the contrary, the U.S. government has repeatedly stated that this clause does not cover capital controls and that private U.S. corporations are free to file claims against our trading partners if they deploy capital controls to prevent financial crises. See, for example, testimony by former Under Secretary of the Treasury John Taylor. This has also been confirmed by a number of legal experts. Our trading partners have repeatedly asked for a safeguard that would include capital controls but the United States has denied that request. In a few instances, U.S. negotiators allowed our trading partners to receive an extended grace period before lawsuits can be filed, as well as limits on damages related to certain types of controls. Such modest reforms still allows for investor claims and potentially have a “chilling effect” on responsible policy-making.

Corporate lobby claim # 4: Other countries’ trade agreements are less flexible on capital controls

The corporate lobby groups incorrectly attempted to cast doubt on the statement in the economist letter that “The trade and investment agreements of other major capital-exporting nations allow for more flexibility.” Below are links to just a few of the many trade and investment treaties by European Union nations, Canada, and Japan that either have a broad balance-of-payments safeguard or a special annex that completely carves out a trading partner’s rules on capital controls.

Annex G-09.1 of the Canada-Chile FTA
Article 8.4 of the EU-Korea Free Trade Agreement
Article 20 of the Japan-Peru Bilateral Investment Treaty
Article 17 of the Japan-Korea Bilateral Investment Treaty
Annex 810 of the Canada-Colombia Free Trade
Corporate lobby claim # 5: Capital controls hurt the poorest of the poor in developing countries

As we’ve seen with the current crisis, the poorest of the poor are always the hardest hit and the last to recover. According to the ILO, despite rebounding GDP growth, nearly 28 million more people are unemployed today than on the eve of the global financial crisis in 2007. The poorest also suffer the most from the collapse of financial assets like retirement savings and housing values and often have to pay a higher share of their incomes in taxes in order to help the government recover. Capital flight also has huge social costs and may take a long time to return, leaving the nations that need infrastructure, factories and other forms of investment with few opportunities for growth.

Corporate lobby claim # 6: Allowing capital controls would lead to unfair barriers against U.S. farm and manufactured goods and services

This statement represents a misguided understanding of trade and investment treaties. Disciplines on “goods” barriers such as farm products and manufactured goods are dealt with elsewhere in trade and investment treaties, not in the chapters on investment and financial services. Chapters on investment and financial services now let U.S. financial services firms move complex derivatives, bond arrangements and other capital into and out of countries with virtually no regulations. Corporate lobbyists have long opted to move U.S. factories overseas. They now aim to move retirement savings, mortgages, pensions, and other investments overseas to nations that may not be able to manage such a large influx of capital and – as a result of trade and investment treaties -- will not be able to resort to capital controls to promote stability.

For more information:

Kevin Gallagher, Boston University and Global Development and Environment Institute (kpg@bu.edu, tel: 978-290-2080)
Sarah Anderson, Global Economy Director, Institute for Policy Studies (sarah@ips-dc.org, tel: 202-787-5227)

Institute for Policy Studies (www.ips-dc.org) is a community of public scholars and organizers linking peace, justice, and the environment in the U.S. and globally. We work with social movements to promote true democracy and challenge concentrated wealth, corporate influence, and military power.

Global Development and Environment Institute (www.ase.tufts.edu/gdae) is a research institute at Tufts University dedicated to promoting a better understanding of how societies can pursue their economic and community goals in an environmentally and socially sustainable manner. GDAE pursues its mission through original research, policy work, publication projects, curriculum development, conferences and other activities.