A new time for capital controls? A comparison between New Welfare Economics and Minskian Developmentalism

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Abstract

This paper discusses the implications of two theories that advocated the reregulation of cross-border financial flows after the 2007 Global Financial Crisis - the New Welfare Economics and the Minskian Developmentalism – for the topic of economic development. Besides policy prescriptions, these theories are compared around relying ideas, class-based interests and international alliances in order to understand the different agendas regarding global governance, policy instruments and policy objectives. Additionally, the paper presents how different theories of development framed the issue of capital mobility during the Bretton Woods and the Globalization order.

Keywords: Capital Mobility; Development Theories; Capital Controls.

Resumo

O presente artigo discute as implicações de duas teorias que defenderam a reorganização dos fluxos financeiros internacionais após a crise financeira global de 2007 – *New Welfare Economics* e *Minskian Developmentalism* - para o tema do desenvolvimento econômico. Além das sugestões de políticas, tais teorias são comparadas em torno de ideias fundamentais, interesses baseados em classes e alianças internacionais com o objetivo de entender as diferentes agendas em termos de governança global, instrumentos e objetivos de política. Além disso, o artigo apresenta como diferentes teorias de desenvolvimento se posicionaram frente à questão da mobilidade de capital durante a ordem de Bretton Woods e a posterior globalização.

Palavras-chave: Mobilidade de Capital; Teorias do Desenvolvimento; Controles de Capital.

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The relationship between capital mobility and economic development has come a long way in economics and international political economy. The Bretton Woods order, for example, was built upon the negative side of this relationship, institutionalizing the regulation of cross-border financial flows as a norm to maintain global and national macroeconomic stability. After the crisis of the Bretton Woods order, the globalization project bet on the positive effects of the referred relationship, advocating the removal of capital controls as a condition for economic growth.

The 2007 Global Financial Crisis eroded the consensus around the benefits of capital mobility within the mainstream economics. Thus, different neoclassical economists, followers of the so-called New Welfare Economics, started to include capital controls as a legitimate component of the macroeconomic policy toolkit. Similarly, international organizations like the International Monetary Fund (IMF) adopted new institutional positions, trying to find a balance between the theorized long-run benefits and the observed short-run risks of cross-border capital flows.

It is important to note that the defense of capital controls is not a novelty in the economic debate. Minskian Developmentalist[3] economists have pointed out the unstable foundations of financial globalization even after the dismantlement of Bretton Woods order, emphasizing the negative effects of capital account liberalization on economic development and stability, mainly in the case of developing countries.

Considering the convergence between opposite strands of economic literature, this research paper focuses on the following question: *what are the implications for development of the different theories that advocate the reregulation of cross-border financial flows through the adoption of capital controls after the 2007 Global Financial Crisis?* Relying on Jonathan Kirshner's (2003) framework, we argue that any convergence between Minskian Developmentalism and New Welfare Economics in terms of policy prescriptions hides relevant divergences in terms of ideas, class-based interests and international alliances. Consequently, despite sharing the support for capital controls, these two approaches present different agendas regarding global governance, policy instruments and policy objectives. In addition, the capital flows bring different benefits and risks according to each view.

In terms of structure, besides this introduction and the final remarks, this research paper has five sections. In the first section, we define some key concepts like capital mobility and capital controls. In the second section, we briefly discuss the Bretton Woods consensus against capital mobility, comparing three approaches – Development Economics, Modernization Theory and

[3] According to Gallagher (2015a), the Minskian Developmentalism refers to economists that combine the Developmental State tradition with Post-Keynesian Economics.

Dependency Theory – that support the restrictions to cross-border capital flows. After that, in the third section, we focus on the dominance of Neoclassical Economics after the dismantlement of Bretton Woods order, putting the removal of capital controls in the center of the globalization project. In the fourth section, finally, we present the New Welfare Economics and the Minskian Developmentalism, comparing their agenda regarding the employment of capital controls after the 2007 Global Financial Crisis[4].

1. Capital mobility: concepts and measurement strategies

Obstfeld and Taylor (2004) briefly define the capital mobility as the ability of investors to move capital flows across national boundaries. According to Edison et al. (2002a, 2002b) and Prasad et al. (2003, 2007), such concept has two complementary dimensions: the financial integration or *de facto* liberalization and the financial openness or *de jure* liberalization.

The first one describes to what extent a national economy is connected to the global financial markets, measured by the gross or net capital flows that enter and leave the national economy, the foreign assets and liabilities in the domestic economy or the co-movement of asset prices and risk premiums among the different markets. It is also possible to assess the financial integration by the composition of flows, relying on the differences between derivatives, portfolio, direct investments and debt, among others.

The second, on the other hand, is a function of the restrictions imposed by states in form of laws and/or regulations, the so-called capital controls[5] or capital flows management measures (CFMs), measured by researchers' qualitative evaluations - mainly based on the IMF Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER). It is also possible to assess the financial openness by analyzing the different types of instruments such as quantitative and price-based controls (Ostry et al., 2010).

According to Prasad et al. (2003) and Edison et al. (2002a, 2002b), both *de facto* and *de jure* measures present problems. *De facto* measures can be endogenous to GDP growth and do not consider other forms of government influence through regulation, while the *de jure* measures are exposed to subjective evaluations and do not consider the effectiveness of controls.

[4] The periodization of this paper is based on Kirshner (2014), who divides the Postwar period into four sub-periods: (i) the Bretton Woods order (1947-1973); (ii) the transition period; (iii) the Globalization project (1994-2007); and (iv) the new heterogeneity of thinking after the 2007 Global Financial crisis.

[5] In the literature, there are several synonyms to capital controls like, for example, regulations on cross-border financial flows, capital account regulations, capital management techniques, capital controls and capital flows management measures.

Considering that this paper focuses on how different theories see the role of capital controls in the development process, it is useful to pay attention on both dimensions of capital mobility. In this regard, one country can adopt capital controls – lowering the level of financial openness – to achieve different policy objectives. For example, one country may choose to avoid any level of financial integration, accepting flows through politically orientated exceptions. On the other hand, one country may keep partial controls to achieve an optimum level of financial integration or change the composition of cross-border financial flows.

2. Regulating capital flows during the Bretton Woods Order

According to Block (1980), the International Financial and Monetary System evolves around the tension between the internationalization of the economic relations and the national autonomy in face of the global market[6]. After the Second World War, the building of the Bretton Woods order leaned to the second pole of this tension, loosening of the ties between domestic and external economic policies, giving policy space for governments to seek full employment, and limiting the pressure of global financial markets over national exchange rates (Eichengreen, 2008).

The main features of such order were: fixed exchange rate regimes, based on the dollar-gold standard; limited convertibility of the capital account due to quantitative capital controls; and, in case of balance of payments' crises, financial assistance by the IMF. According to Kirshner (2014), this institutional arrangement was founded on the US monetary and military hegemony, the shared security concerns among Western countries and the need of an embedded liberalism, capable of combining growing trade liberalization with restricted capital mobility.

During the Bretton Woods order, from 1948 to 1973, Maxfield (2006) refers to three theories of development: the Development Economics, the Modernization Theory and the Dependency Theory. These approaches share the assumption that developing countries should build their national development strategies apart from the pressures of global financial agents, supporting the adoption of capital controls. However, they are based in different ideas, interests and international alliances – factors that affect the extent and the function of cross-border financial regulations as well as the dynamics of the Bretton Woods order itself.

The Development Economics, for example, was based on Keynesian economics and lessons from the socialist planning. These fundamental ideas were supported from the outside by advanced countries and international organizations, concerned with the economic situation in the developing countries (Maxfield, 2006). According to this approach, the spreading of development around the

[6] Polanyi (2001) also refers to the risks of commodifying money in global markets. In this regard, capital controls can be understood as a result of societal counter-movement in face of growing financial instability due to capital mobility.

world would help to keep the stability of Bretton Woods order by reducing the number of crises and sustaining global demand (Nurkse, 1944).

In terms of interests, the Development Economics proposes the reproduction of the Fordist settlement between capitalists and workers under the direction of government bureaucracies, responsible for the formulation of the national development plan[7] (Furtado, 1964). This suggestion relies on the description of developing countries as dual economies, in which the development process should be supported by modern and urban social groups against traditional and rural ones (Lewis, 2003).

In the approach of Development Economics, the cross-border capital flows should be targeted with quantitative capital controls to keep the stability of exchange rate and the equilibrium in the balance of payments (Nurkse, 1944). For countries in the beginning of the industrialization process, the Development Economics also advocates transitory trade barriers to protect the import-substitution process (Prebisch, 1950). The only relative exception in this myriad of regulations is opened to some kinds of foreign direct investments (FDI), which can serve to internalize technological innovations generated in advanced economies[8].

The Modernization Theory, exposed by Rostow (1959), resembles the Development Economics in several aspects, encompassing additional points. In the level of international politics, for example, the promotion of development is framed as part of the Western strategy to contain the communist threat in the Third World. In ideational terms, the Keynesian instruments are guided by broader aims of social and political modernization, including new interests like urban middle classes and multinational corporations.

Although keeping the support to quantitative capital controls, these additional aspects affect the role of cross-border financial flows in development and the consequent regulation. For example, Modernization Theory extends the role of FDI, which can contribute also for the improvement of managerial techniques and the building of modern consumption habits.

The Dependency Theory, on the other hand, relies on quite opposite foundations. In terms of ideas, this approach is based on Marxist assumptions, emphasizing how the underdevelopment is reproduced through unequal trade between and within countries (Frank, 1970). In the level of interests, it implies to build alliances based on the working class, potentially including national bureaucracy and capitalists depending on the historical stage (Wallerstein, 1974). Internationally, this

[7] Opposing this balanced growth theory, Hirschman (1958) relativizes developing countries' government capacity to plan and implement the national development strategy, stressing the importance of private entrepreneurs to create unbalances for dynamizing the development process.
[8] Nevertheless, development economists like Furtado (1964) discuss the FDI side-effects, specially, the capital-saving technology, formulated for developed countries' context, creating structural unemployment pressures within developing countries.

approach does not support the Bretton Woods order, pushing for initiatives like socialist revolutions, decolonization processes and the Non-Aligned Movement.

In terms of policy prescriptions, the Dependency Theory argues for quantitative capital controls with no exceptions for FDI, which serves only to the furthering of the underdevelopment. Similarly, this approach argues for little engagement with international system, avoiding the risks that even trade presents to autonomous development.

In the transition from 1960s to 1970s, the Bretton Woods order collapsed due to economic and political reasons. As to the economic reasons, Minsky (1993) connects the pressure for cross-border financial deregulation with the expansion of international trade during the Golden Age and the maintenance of current account imbalances between surplus and deficit countries. In addition to these endogenous factors, several authors underline the loss of effectiveness of capital controls due to technological innovations (Andrews, 1994; Eichengreen, 2008).

Politically, at the domestic level, the erosion of the Fordist post-war settlement and the emergence of neoliberalism favored initiatives for financial deregulation (Helleiner, 1995; Kirshner, 2003; Strange 1998). Finally, at the international level, the pressure over US balance of payments and the competition from Germany and Japan affected the priorities of the US government, which took advantage of its position to redesign the international monetary and financial system, liberating the dollar from gold constraints (Cohen, 1982; Kirshner, 2014).

3. The neoclassical agenda for capital mobility during the Globalization Order

The collapse of the Bretton Woods order was also a result from ideational transformation, that is, the emergence of the Neoclassical Economics as the dominant paradigm of economic policy (Kirshner, 2014). Unlike the theories discussed in the previous section, the Neoclassical Economics does not define development around industrialization and structural change, focusing on how macroeconomic outcomes like GDP per capita result from microeconomic efficiency gains (Williamson, 1990). In order to seek these gains, the government should perform a minor role, creating a business-friendly environment to not distort the outcomes of efficient markets composed by rational agents.

At the international level, the Neoclassical Economics is connected to the Globalization order that emerged during the 1970s and 1980s, after the crises in Developmental, socialist and welfare states, and was consolidated in the mid-1990s upon the US unprecedented unipolarity that followed the end of the Cold War[9] (Kirshner, 2014). In terms of interests, this agenda was pushed by the

[9] Kirshner (2014) describes two US Postwar Orders, separated by decades of transition: the Bretton Woods order (1947-1973) and the Globalization project (1994-2007).

following actors: developed countries' financial capital that could conquer new markets; the bureaucracies within international organizations that were looking for a new role after the end of Bretton Woods order; developing countries' most competitive companies that could gain with the economic liberalization; the managers that could obtain higher bonuses; and middle classes that demanded control over inflation .

Considering the development debate, the Neoclassical Economics is represented in the Washington Consensus, which includes policy suggestions such as fiscal discipline, reduction of public expenditure on subsidies, end of financial repression, competitive exchange rate, trade liberalization, privatization, deregulation, property rights enforcement, among others (Williamson, 1990). It is important to note that the Washington Consensus intends to have universal applicability, promising growth, low inflation and viable balance of payments for all countries that embrace the globalization project.

In this trickle-down economics, the removal of capital controls has a pivotal role since all kinds of cross-border financial flows are expected to generate direct benefits. In the macroeconomic level, according to McKinnon (1973) and Shaw (1973), in the lack of restrictive regulations, the capital scarcity in developing countries would attract foreign capital seeking greater returns, as their (developed) home countries would present higher capital-labor ratios. Thus, opening the capital account would lower the interest rates and generate convergence in the level of development through a process of arbitrage of the marginal productivity of capital (Henry, 2007).

In the microeconomic level, the removal of capital controls and the consequent increase of financial integration are expected to generate productivity gains and lower consumption volatility due to portfolio diversification and technological spillovers. In this regard, Balassa (1989) points out that one of the main elements of inefficiency associated with financial repression is the predominance of internal funding, which generates an excessive accumulation of real estate, inventories and idle capacity.

This ideational shift affected, for example, the IMF agenda, which replaced the stability of exchange rate by the capital account liberalization as the main conditionality to offer financial assistance to developing and emerging countries in face of macroeconomic problems (Abdelal, 2006; Chwieroth, 2010). During the 1990s, developed countries and neoclassical economists also suggested to change the IMF articles of agreement in order to formalize the mandatory removal of capital controls (Fischer, 1998).

However, the eruption of several financial crises in the 1990s, specially the 1997 Asian Financial Crisis, buried the IMF reform due the resistance of emerging and even some developed countries (Gallagher, 2015a; Chwieroth, 2010). Additionally, Lucas (1998) notes that the removal of controls has not been able to generate a uniform increase in the financial integration, given the small size of flows from developed to developing economies. Similarly, the empirical evidence did not find enough support to the direct benefits of the two dimensions of capital mobility (Kose et al., 2009).

To address these challenges in the real and academic world, the institutionalist reformulation of the neoclassical model presents three complementary arguments. Prasad et al. (2003), for example, argue that the main benefits of capital mobility are indirect such as the development of domestic financial sector, the imposition of market discipline over macroeconomic policies, the institutional development and the efficiency gains from foreign competition[10]. Reinhardt, Ricci and Tressel (2010), on the other hand, stress that, to obtain the expected benefits, the countries need to achieve threshold initial conditions like well-supervised financial sector, human capital, proper institutions, sound macroeconomic policies, trade openness and even some degree of financial integration. Finally, Alfaro, Chari e Kanczuk (2014) admit the risks of capital mobility, but argue that capital controls have far more negative effects such as distortion of incentives, rent-seeking, administrative costs, maintenance of an artificial exchange rate, limitation to the diversification of the investment, increase of the cost of capital, among others.

This institutionalist reformulation does not rely on different core neoclassical assumptions, class-based interests and international alliances. Therefore, the increase of the financial integration remains the main objective to be achieved by the removal of capital controls. However, besides the expected benefits, this approach admits the existence of risks, mainly, for developing countries with insufficient institutions.

To deal with these risks, some institutional building – like proper supervision and reduction of informational asymmetries – and other liberalization processes – such as in trade and domestic financial system – should precede the capital account liberalization (Fischer, 1998). Additionally, the capital account liberalization should start with more stable flows, such as FDI and equity portfolio, which present fewer risks and can also contribute for the institutional development (Kose et al., 2009). During the transition period, the Neoclassical Institutionalism supports the adoption of temporary price-based capital controls, considered less distortionary than quantitative controls (Ostry et al., 2010). According to this approach, the removal of these controls should be gradual in terms of intensity and flows.

4. Two paths for reregulating capital flows after the 2007 Global Financial Crisis

The discussion about the potential risks of capital mobility and the proper process of capital account liberalization did not alter the pressure suffered by developing and emerging countries to

[10] According to Kose et al. (2009), because of these indirect channels, it is difficult to measure the impact of capital mobility. In addition, the evaluation of these benefits is problematic also because they are not immediate.

remove their capital controls as a condition to engage in global markets (Kirshner, 2014). The causes and the diverse consequences of the 2007 Global Financial Crisis changed this situation (Gallagher, 2015a, 2015b).

As presented in the previous section, the Neoclassical Institutionalism argues that the effects of capital mobility were a function of the institutions adopted by each country, being the 1990s financial crises in emerging markets a result of the lack of proper institutions. The 2007 crisis weakened this argument since the crisis epicenter – the US economy – was the institutional model internationally sold as the condition to achieve positive effects with capital mobility (Helleiner, 2014). Second, countries that did not open the capital account or did this partially were less affected by the crisis, directly caused by the US massive deregulation of financial markets (Kirshner, 2014; Gallagher, 2015a, 2015b). Finally, after the crisis, the developing and emerging countries became less vulnerable to developed countries' pressure for capital account liberalization (Grabel, 2015).

Considering the post-crisis context, two different economic theories advocate the adoption of capital controls: the New Welfare Economics and the Minskian Developmentalism. Despite this convergence, these two views are based on different ideas, interests and international alliances, proposing different agendas in terms of global governance, policy instruments and policy objectives.

The New Welfare Economics, for example, is built upon neoclassical assumptions, expecting the same benefits from capital mobility and domestic financial deregulation. However, according to this approach, these benefits come together with risks for all countries no matter the level of development (Jeanne, Subramanian and Williamson, 2012). Even if these risks can be mitigated by regulation and institutional design, they do not disappear, being rooted on market failures associated with free financial markets (Tobin, 1999; Stiglitz, 2000).

In this regard, the New Welfare Economics associates the deregulated financial markets with two types of market failures: information asymmetries and pecuniary externalities. The first failure emerges when one group of economic agents do not have enough information to take efficient decisions, originating problems like adverse selection, moral hazard and herd behavior (Stiglitz, 2000). In the case of international financial markets, the failure is accentuated by the physical and cultural distance between agents.

Pecuniary externalities are the ones transmitted through the price system rather than external channels. Because of the information asymmetries, the financial markets are imperfect, allowing that pecuniary externalities cause distortions through the financial amplification effect, according to which individual investors do not internalize their continued impact over the aggregate instability (Korinek, 2007, 2011). Therefore, cross-border financial flows are pro-cyclical, amplifying economic fluctuations and consequently the risk of financial crises.

This pro-cyclical behavior can be observed through the concept of global financial cycle, described as mutually reinforcing interactions between perceptions of value and risk, attitudes towards risk and financial constraints (Borio, 2012). During the cyclical boom, there is a surge of capital inflows to developing and emerging markets without considering the macroeconomic fundamentals of each country (Rey, 2013). In the contraction period, such optimism reverts, and even countries with sound economic performance can suffer with capital flight and financial crises (Obstfeld, 2015).

Besides the financial instability, the pecuniary externalities also cause allocative distortions. In this regard, Cechetti and Kharoubi (2012) argue that the relationship between financial development and productivity growth takes the shape of an inverted-U. Thus, the financial sector growth is positively related to productivity growth only up to a point, and financial booms are negative for economic development. If the financial development reduces transaction costs and raises investment, on the other hand, it competes for physical and human capital with other sectors.

In face of these risks, the New Welfare Economics supports the adoption of cyclically-adjusted and price-based capital controls to correct the market failures and make the financial market more efficient (IMF, 2011). In this regard, the regulation will focus on more unstable flows like debt and derivatives (Ostry, Ghosh and Korinek, 2012). On the other hand, the New Welfare Economics keeps the increase of the financial integration as a long-run objective (Ostry et al., 2010). In other words, some level of capital controls is accepted to protect a growing financial integration from its negative effects.

Therefore, in terms of international politics, this approach supports the globalization project at same time that it tries to accommodate the demand for reform of the global financial governance. After the 2007 crisis, emerging countries like Brazil, China and India demanded changes in the international monetary and financial order, based on the US dollar dominance and the growing capital mobility. This position was strengthened by the accumulation of official reserves, the growing South-South trade, the two-speed recovery and the building of alliances among developing and emerging countries within international organizations (Gallagher, 2015a, 2015b).

The change in the IMF institutional position about capital flows management, occurred in 2012, is a good example of this combination between globalization support and partial reform. In its new institutional position, the IMF (2012, 2016) admitted the capital controls as part of the legitimate policy toolkit to deal with a surge in capital flows. However, capital controls should be adopted only as last resort, being the financial integration and the capital account liberalization kept as long-run objectives.

In terms of interests, the New Welfare Economics is a compromise solution, generating partial gains for heterogeneous agents. For example, bureaucracies in developing and emerging countries gained a legitimate path to reframe the reregulation of capital flows, but lost an opportunity to deeply reform the global monetary governance. Similarly, exporters in diverse countries can be protected from exchange rate overvaluation, but the limited nature of the regulations may postpone a long-run investment. On the other hand, actors like the IMF staff, the financial capital and the independent central bankers had to accept the rebirth of capital controls as legitimate policies. However, they were able to frame the new regulations to be functional to the stability of the globalization project, keeping enough consensus around this order even in the midst of the deepest financial crisis after the Great Depression.

The Minskian Developmentalism, on the other hand, is based on opposite theoretical assumptions, derived from two convergent strands of heterodox economics: Post-Keynesian economics and Developmental State tradition. The first defines capitalist economies as endogenously unstable due to the radical uncertainty and the financial ties among private agents, supporting financial regulation to mitigate this endogenous tendency to produce crises (Davidson, 2002; Minsky, 1991). Similarly, relying on the experience of developing countries, the second tradition advocates that governments should subordinate market freedom to national economic development, defined around concepts like industrialization, technological upgrading and internal articulation (Chang, 2008; Wade, 1990).

Applying these assumptions to the topic of capital mobility, the Minskian Developmentalism emphasizes the risks[11] for emerging and developing countries on three dimensions: macroeconomic policy, development strategy and income distribution. It is important to note that the Minskian Developmentalism adds these dimensions to the market failures described by New Welfare Economics.

In terms of macroeconomic policy, the Minskian Developmentalism connects the increase of capital mobility to the loss of autonomy by emerging and developing countries (Palley, 2009)[12]. It happens because of the interaction between capital account liberalization and currency hierarchy, according to which developing countries need to offer high interest rates to attract foreign capital, creating a trade-off between the domestic and the external equilibrium (Crooty, 1983)[13].

[11] Despite the emphasis on the diverse risks, the Minskian Developmentalism admits some benefits of capital mobility if correctly managed such as technological spillovers and competitive pressures over domestic capitalists (Wade, 2003).

[12] According to Mundell (1963), one country cannot have at same time a fixed exchange rate regime, monetary policy autonomy and full capital mobility. In order to keep the monetary policy autonomy, the Bretton Woods order sacrificed the full capital mobility, while the Globalization project sacrificed the fixed exchange rate. However, Rey (2013), discussing the impact of the US monetary policy on the global financial cycle, asserts that there is indeed a dilemma in the open macroeconomics, presenting a choice between free capital mobility and autonomy of monetary policy. Similarly, for Obstfeld (2015), there is also a financial policy trilemma, being impossible to reconcile the following factors: national responsibility for policy, financial integration and financial stability.

[13] The first refers to goals like full employment and inflation control, and the second refers to the balance of payments equilibrium.

This loss of autonomy is also observed in the development space, since global markets tend to punish countries that implement divergent policies and regulations (Palley, 2009). Additionally, the increase of capital inflows generates an overvaluation of the exchange rate, harming the competitiveness of the manufacturing industry (Thirlwall, 2002). Similarly, the entrance of foreign banks in the domestic financial system may amplify the degree of concentration and the funding for non-tradable sectors instead of promoting efficiency gains (Prasad et al., 2007). Finally, the capital mobility affects the behavior of private entrepreneurs, impacting negatively on their disposition to engage into long-run commitments and adding an exit option to the bargain with the government (Davidson, 2002).

The capital mobility has also negative effects on income distribution through two channels. First, the largest wealth holders capture most of the gains and have more possibilities for risk diversification and protection against the costs of integration (Prasad, 2011). Second, the capital account liberalization reduces the workers' bargain power and the government's capacity to make income transfers (Minsky, 1986; Quinn, 1997).

In face of these negative effects, the Minskian Developmentalism proposes the adoption of permanent capital controls, both quantitative and price-based ones (Gallagher, 2015a). This regulation should target all types of flows, going further than correcting market failures. Unlike the New Welfare Economics, the Minskian Developmentalism advocates the reduction of the financial integration through high levels of capital controls in order to expand the policy space of developing and emerging countries.

In the international level, the Minskian Developmentalism proposes a deep reform of the global monetary and financial order, imposing extensive cross-border financial regulations at both capital exporters and importers. Relying on the so-called Keynes Plan[14], this proposal includes the reduction of dollar dominance as well as sanctions against both surplus and deficit countries to avoid global imbalances. This agenda is supported by the growing South-South economic ties, the good performance of emerging countries and the international alliances between emerging and developing countries within international organizations.

In terms of interests, the Minskian Developmentalism resembles the Development Economics, combining developing and emerging countries' bureaucracies, manufacturing industries and workers. The first group would be able to recover the policy space reduced after the dismantlement of the Bretton Woods order. The second would increase the competitiveness within global markets. And the third would face better conditions to fight for the rebuilding of wage-led growth model (Lavoie & Stockhammer, 2013).

[14] For more information about the Keynes Plan, see Boughton (2009).

To illustrate the differences between New Welfare Economics and Minskian Developmentalism, it is worth to compare emerging countries like Brazil and China. The Latin American country has gradually opened its capital account since the mid-1980s, keeping price-based capital controls, mainly of derivatives and short-run flows. According to Cardoso and Goldfajn (1998), these capital controls respond to the size of flows, increasing in face of surges of capital inflows. However, during the rise of the global financial cycle, the appetite of foreign investors is not fully contained by price-based controls. Foreign investors also take advantage from the lower controls over direct investment to circumvent restrictions over short-run flows. Similarly, the Brazilian cyclically-adjusted and price-based capital controls are not part of a competitive exchange rate strategy, not affecting the overvaluation trend that harms the manufacturing industry. In the case of Brazil, unlike the expectations of the New Welfare Economics, the combination between growing financial integration and partial capital controls did not avoid the financial instability, manifested in the 1999 financial crisis and the 2015 massive exchange rate devaluation[15].

China, on the other hand, pursues a cross-border financial policy more aligned with the Minskian Developmentalism. The Asian country employs both quantitative and price-based controls, focusing on two policy goals: (i) maintaining a competitive exchange rate to foster the manufacturing industry; and (ii) restricting the financial integration mainly to FDI to achieve technology upgrading. Therefore, the maintenance of a closed capital account allowed China to subordinate the financial integration to national development strategy, keeping the macroeconomic policy autonomy and avoiding financial crises even after the dismantlement of the Bretton Woods order[16].

5. Final remarks

This research paper discussed the implications of two theories that advocated the reregulation of cross-border financial flows after the 2007 Global Financial Crisis - the New Welfare Economics and the Minskian Developmentalism – for the topic of economic development. Before focusing on this main objective, this paper briefly presented how different theories of development framed the issue of capital mobility during the Bretton Woods and the Globalization order.

Relying on Kirshner's (2003) framework, it is possible to observe relevant divergences between Minskian Developmentalism and New Welfare Economics in terms of ideas, class-based interests and international alliances. Consequently, the Minskian Developmentalism proposes the adoption of capital controls to lower the level of financial integration, expanding the policy space of

[15] For more information about Brazil's capital account policy, see Cohen (2012), Prasad and Wei (2007), Vermeiren and Dierckx (2012), among others.
[16] For more information about China's capital account policy, see Cardoso and Goldfajn (1998), Carvalho e Garcia (2008), Prates and Paula (2017), among others.

developing and emerging countries. The New Welfare Economics, on the other hand, supports the employment of some level of capital controls to mitigate the negative effects of a growing financial integration.

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