SCUOLA
NORMALE
SUPERIORE

***This is an author version of the contribution published on**:*

Questa è la versione dell'autore dell'opera:

M. Moschella, 'The institutional roots of incremental ideational change. The IMF and capital controls after the global financial crisis', *British Journal of Politics and International Relations*, 2014, DOI: 10.1111/1467-856X.12049.

The definitive version is available at:

La versione definitiva è disponibile alla URL:

http://onlinelibrary.wiley.com/doi/10.1111/1467-856X.12049/abstract

The institutional roots of incremental ideational change

The IMF and capital controls after the global financial crisis

Manuela Moschella

Abstract

Although much scholarly attention has been devoted to examining the punctuated dynamics of ideational change, other dynamics exist. Ideational change may well occur incrementally in ordinary times or, as this study shows, can also materialize after a major shock, such as a financial and economic crisis. By examining the IMF's new approach to capital controls in the aftermath of the global financial crisis, the paper demonstrates that the non-punctuated nature of ideational change can be explained in light of the enabling (and not solely constraining) features of the institutional context in which actors operate. Rather than preventing change until an explosion of radical change occurs, institutional frictions may also allow for successive adjustments over time. They may in fact allow for a gradual release of pressure, thereby preventing the impending explosion.

Keywords: ideational change; crisis; punctuation; incrementalism; IMF; capital controls

1. Introduction

The use of controls in cross-border capital transactions is probably one of the most controversial issues in scholarly and policy-making circles. After having been officially enshrined in the international financial architecture designed at the end of the Second World War, capital controls have progressively become 'heterodoxy', so much so that capital account liberalization had been a hallmark of global economic governance over the past two decades.[i] The International Monetary Fund (IMF or Fund) has been at the forefront of the debate on the merits of capital account liberalisation and controls, particularly because of its distinctive organizational features. For one thing, the Fund has regularly produced research and empirical evidence that has informed the global debate on this issue. Additionally, the fact that the Fund may in principle use its conditionality in order to push its quasi-universal membership to liberalize (or reduce the stigma associated with the use of controls) made the Fund a powerful voice that can tilt the debate in favour or against the use of controls. The IMF's position on capital controls is thus not only very important per se but is also one of the crucial litmus tests for assessing ideational changes in global financial governance at large.

The purpose of this paper is to examine the development of the Fund's ideas on capital controls since 2007 – a process that is here defined as *ideational dynamics*. Indeed, since the burst of the global financial crisis in 2007, the Fund has significantly revised its previous policy stance on this issue. While in the 1990s the predominant view was that capital controls should not belong to the policy toolkit that countries can use to manage capital inflows (Chwieroth 2010a; Grabel 2010; Moschella 2010a), the same controls are now regarded as useful instruments to manage the macroeconomic and financial stability challenges resulting from large capital inflows. The introduction of outflows controls in Iceland and Cyprus under the aegis of the Fund further attests to the significant ideational transformations that have unfolded since the burst of the crisis in 2007-08. The Fund's changed approach to controls therefore speaks directly

to the research agenda that attempts to map and evaluate the implications of financial crises from a political economy of ideas perspective (c.f. Baker and Underhill 2012).

Examining the ideational transformation that has recently taken place within the Fund, the paper argues that the Fund's ideational shift represents a case of incremental change that varies from the standard process of change identified in most ideational studies in political economy. This standard process can be defined as a punctuated process, that is, a process in which periods of ideational stability are followed by periods of ideational change that, in turn, fall back on stability. In contrast, in the case under investigation, ideational change was slower and more incremental than most of the literature claims it to be even after a major shock.

So what factors account for such a dynamic? In the 'punctuated' explanation, the dynamic of ideational change is largely explained in light of the institutional and ideational frictions (or inertia) that characterize 'ordinary' times. Specifically, once an idea becomes embedded in the design of an institution, the new equilibrium becomes path-dependent, thus preventing change (Cox 2004) until the moment in which radical uncertainty opens up the way for new ideas to emerge once again (e.g. Baker 2012; Best 2003; Blyth 2002; Chwieroth 2010b; Hay 1996; Widmaier, et al. 2007).

Although this explanation applies to some of the most well-known dynamics of change in economic policy in the past decades (c.f. Hall 1993), the frictions have been somehow exaggerated and have thus obscured the presence of other change dynamics. The paper thus argues that ideational change may be slower and more incremental than is often acknowledged because the institutional set-up in which actors operate is not only constraining but also enabling (for a different view see Underhill in this issue). As a result, rather than preventing change until an explosion of radical change occurs, institutional frictions may also allow for successive adjustments over time. They may in fact allow for a gradual release of pressure, thereby preventing the impending explosion.

Advancing this argument, the paper builds on important recent attempts at bridge-building between International Relations and Comparative Politics (Fioretos 2011) that have drawn attention to

agent-centred models of institutional change by emphasizing the *empowering* nature of institutions alongside their constraining features (Bell 2011a). The permissive environment in which actors operate creates the conditions for ideational change to take place without disrupting existing institutional settings: change may well take place within the space provided by those settings and thus unfold in an incremental fashion.

In the case under investigation, the flexibility provided by the Fund's institutional mandate, as enshrined in its Articles of Agreement, favoured the incremental embrace of capital controls.[ii] As will be illustrated at greater length below, IMF staff members modified the Fund's approach to the issue within the parameters set by its mandate. As a result, rather than disrupting the existing equilibrium, ideational change took place within it. At the same time, however, change was also constrained by the specificities of the institutional mandate, thereby giving rise to a type of ideational change that presents broad continuities with past policy ideas. This is particularly evident in the slow incorporation of the lessons drawn from the serial crises in emerging market countries in the 1990s.

By drawing attention to an understudied dynamic of ideational change, this paper does not pretend to supplant punctuated models of ideational change, but rather to supplement them. That is to say, it is a purpose of this paper to advance the debate in the literature on ideational change by drawing attention to the presence of factors - such as the flexibility of the institutional environment in which actors operate – that may bring about change dynamics that are different from the standard punctuated model.

Before proceeding, three clarifications are in order with regard to the focus of this research. Firstly, the paper is solely concerned with investigating the causes of ideational change. That is, the focus is on 'norm emergence' (Finnemore and Sikkink 1998) or the development of intersubjective understandings (Widmaier, et al. 2007). In contrast, the mechanisms through which ideational change is instantiated into institutional change and those that account for ideational diffusion do not fall within the scope of this research (on these mechanisms see Babb 2012). This means that the causal factors that are identified here

to explain the incremental pattern of ideational change do not necessarily also explain why ideas are instantiated into policy recommendations and practices and diffused internationally.

Secondly, the adjective 'incremental' is used here to distinguish a type of ideational change that is neither punctuated nor paradigmatic. In short, it indicates a process of change that is continuous in time: it does not represent a rupture, as is the case in punctuated models. It also indicates change that preserves some broad continuities with past policy ideas without challenging the overall terms of a given policy paradigm (Hall 1993, 279).

Finally, the empirical analysis focuses solely on the intellectual change pertaining to the issue of *inflow* capital controls, by which I mean restrictive measures that discriminate on the basis of the residency of the parties to a capital transaction. That is, the analysis, which is based on first-hand interviews, archival material and secondary sources, traces the evolution of a specific aspect related to capital liberalization: the use of controls as a policy tool to prevent or manage macroeconomic and financial challenges associated with large capital inflows.

The paper is organized as follows. The next section reviews the orthodox view of ideational change in studies in political economy. In particular, it shows that much of the literature on ideational change has focused on the type of change that takes place under exceptional circumstances and follows a punctuated dynamic. Section 2 traces the incremental ideational change that has taken place within the IMF in the aftermath of the global financial crisis. This is then compared with the IMF's approach during the 1990s. Section 3 explains this specific pattern of ideational change by drawing attention to the dynamic interaction between IMF staff members and the evolving institutional and structural settings in which they operate. The last section concludes by reflecting on the empirical findings and their implications for the research agenda on ideational change.

1. Agents, institutions and ideational change

At the risk of simplifying what is a variegated and sophisticated literature, it is possible to say that, in recent years, ideational studies in comparative and international political economy have advanced to the point where the basic contours and factors driving ideational change are now reasonably well-identified and understood. Specifically, a great deal of empirical evidence points to the prevalence of a pattern that can be summarized as follows: an exogenous shock, such as a financial or economic crisis, opens up a window of opportunity that allows elite or non-elite actors to recast the terms of previous debate by introducing new ideas that, in turn, create the conditions for bringing about policy change (Widmaier, et al. 2007; see also Braun in this issue).

Of course, there are still several outstanding issues to be resolved, such as the exact meaning of the term *idea*. The question of how new ideas come to be favoured once old ideas have been discredited is itself controversial (Mehta 2011, 31). Nevertheless, once these conceptual issues are cleared away, it can be seen that many constructivist scholars now share an agreement on a general basic pattern of ideational change that revolves around two characteristics.

To start with, the process of change results from the deliberate actions of individual agents or groups of agents. In particular, agents creatively interpret the material and institutional reality in which they operate.[iii] In doing so, they develop new ideas and try to persuade other actors to accept them. Bèland and Cox (2011, 12) summarize the tenets of this consensual view in ideational research; 'there is material reality, but it lends itself to many interpretations than open endless options for human agency'. As a result, most attention to date has shed light upon the actors and the strategies they use to gain the upper hand in ideational battles (e.g. Abdelal 2007; Blyth 2002; Chwieroth 2008; Hay 1996; Jabko 2006; McNamara 1998; Park and Vetterlein 2010; Parsons 2002).

Alongside an emphasis on the creativity of human agency, the standard view on ideational change also posits the importance of exogenous shocks. In particular, the argument is that new ideas are more likely to emerge following turning points or critical junctures, due to the fact that they magnify conditions of uncertainty – i.e. situations when the ability of agents to form any meaningful estimate of future trends

becomes severely constrained (Best 2005; Blyth 2002). In the face of uncertainty, agents rely on intersubjective understandings to make sense of the material reality in which they live. Ideas assume center stage in this process. Indeed, they shape how people understand political problems, define their goals and strategies and settle around specific policy solutions (Blyth 2002). Uncertainty is thus key to the development and diffusion of new ideas (also Broome 2010). 'In such a context agents become more open to…the influence of ideas' (Blyth 2007, 775).

Given these characteristics, the process of ideational change is likely to follow a punctuated model. Constructivists suggest that once ideas are instantiated into institutions, a new equilibrium will be created. This in turn will exhibit path-dependent characteristics that result from both the workings of institutions and the ideas upon which those institutions were created. In short, both institutional and ideational inertia creates stability (Hay 2011, 68-9). When these constraining forces are released, usually because of an exogenous shock, new ideas are brought front and centre into the policy debate. The new ideas usually provide a significantly different solution to policy problems than the one supported by prior ideas. Since exogenous shocks usually demonstrate the link between ideas and institutions, on the one hand, and policy failure, on the other hand, one common reaction is to propose radically different ideas. In short, ideas have to provide an alternative to the status quo. As a result, political actors are involved in a proactive effort 'to reexamine their surroundings, reconsider their positions, and develop fresh new approaches' (Béland and Cox 2011, 11).

In this context, 'the most popular theories of ideational change [are] those that focus on paradigm shifts' (Schmidt 2011, 55), that is, studies that emphasize 'the broad and pervasive nature' of ideational change, such as the well-known shift from Keynesianism to Monetarism in the UK in the 1970s and 1980s (Hall 1993) or that from isolationism to crusading liberalism following the attacks in the United States on September 11, 2011 (Widmaier 2007, 792). Indeed, while the institutional and ideational stability that characterizes the pre-shock period discourages change, it will eventually cause even larger bursts of change than is the case in settings with less stability (Baumgartner and Jones 1993; Jones and Baumgartner 2005). That is to say, 'systems characterized by friction remain stable until the signals from outside exceed a

threshold, and then they lurch forward' (Jones, et al. 2009, 867). The transformation of intersubjective understandings that follows major wars and crises fits with this description in that it leads elite and mass public agents to reassess ''who they are'' and ''what they want'' (Widmaier, et al. 2007).

According to the logic examined thus far, existing ideas and institutions are considered as almost exclusively constraining. As such, they are seen as preventing change to the point where the pressure becomes irresistible and forces a sudden burst of change. The conceptualization of bureaucratic culture in ideational studies on the inner workings of international organizations (IOs) well illustrates this point.

Bureaucratic culture is indeed regarded as one of the primary factors that helps to explain why IOs have difficulties in adapting their policies to changed economic and political circumstances (Barnett and Finnemore 2004; Momani 2007). As Liam Clegg (2011) notes, 'the dominant "bureaucratic culture" serves to fix the "points of reference" around which discussions of policy reform take place.' Bureaucratic inertia, usually associated with deference towards the preferences of the most powerful shareholders, usually prevents change from occurring in the international financial institutions (Babb 2012). This constraint leads to a dynamic of change that follows the punctuated model: stasis prevails until some event – be it new recruitment (Chwieroth 2008) or a new leadership (Weaver 2008 108) – ruptures the status quo and pushes new and alternative ideas into the debate.

It is important to note that the conceptualization of existing ideas and institutions as obstacles to the emergence of new ideas is not confined to the IO scholarship but is one of the hallmarks of many ideational studies where one or more factors account for the non-emergence of new ideas. For example, mass expectations about how the economy should work set limits on the economic thinking of UK elite policy makers in the interwar period (Seabrooke 2007). Likewise, an intellectual paradigm based on the efficient market hypothesis prevented the emergence of alternative ideas on macroprudential regulation in the run-up to the global financial crisis (Baker 2012).

In spite of the predominantly constraining view of ideational and institutional stability, a key argument of this paper is that ideas and institutions are enabling and not solely constraining. It is exactly

this double nature that can help account for incremental patterns of ideational change even after major exogenous shocks.

For one thing, existing ideas may provide space for the development of new ones. This may occur following the logic suggested by Martin Carstensen (2011) according to whom the meaning of an idea can only be understood in conjunction with the consideration of elements of meaning within and outside the idea. Some elements are central to the meaning of the idea, while others take up a more marginal position. Over time, the elements inhabiting a peripheral position in the idea may gravitate to a more central position, or vice versa, therefore leading to ideational evolution of an incremental type. To other scholars, ideational stability can be regarded as a condition favouring change – and not hindering it – because existing ideas provide the foundations for the development of new ones. As Jacqueline Best (2004) has shown, the shift away from the Keynesian ideas that had informed the Bretton Woods agreement cannot be characterized either as a clear continuity or as a complete breach with past norms. Rather, it was a process of 'hollowing out' through which a neoclassical synthesis developed both out of Keynesian ideas and out of attempts to provide some technical fixes to these (cf. Clift and Tomlinson 2011).

Alongside the permissive nature of existing ideas, another key factor for explaining a non-punctuated dynamic of ideational change is the permissive nature of the institutional contexts in which actors operate (Bell 2011a; 2011b; Moschella and Tsingou 2013). Indeed, recent advances in historical institutionalist literature have convincingly shown that institutions do not solely prevent change. Instead, institutions also allow for an endogenous dynamic of change. This happens because even the most formal institutions exhibit some degree of ambiguity that opens up the way to new interpretations (Mahoney and Thelen 2010). It can also happen because institutions, as norms of social behaviour, need to be reproduced in practice through agents that apply them to their specific – and changing – situations (Streeck and Thelen 2005). In short, even in the most 'institutionalized' settings, actors retain some room to manoeuvre to develop new ideas about how a specific institution should work in changed circumstances or about how a specific aspect of the world economy should be (re)interpreted.

Nevertheless, institutions also set limits on which ideas can be ultimately selected (also Underhill in this issue). If it is true that actors are not norm-following machines and can creatively (re)interpret existing institutions in light of new circumstances, these (re)interpretations are not completely detached from the institutions they are trying to change (Moschella 2011). For instance, Vivien Schmidt (2002) has forcefully shown that the ideas developed by political elites in Britain, France and Germany to justify the changes in political economic policies as a response to globalization and Europeanization have been influenced by different institutional contexts.

In short, institutions have a double nature: they serve both as structures that constrain thinking and acting, and as constructs that can be changed by actors (Schmidt 2008). As a result, while they provide some space for the development of new ideas due to their need for continuous interpretation and application, institutions set a limit to the 'endless options of human agency' in this process. Under these conditions, ideational change is likely to follow an incremental rather than a punctuated dynamic. If the development of new ideas is not contingent upon the disruption of old institutions, the process of ideational innovation does not require the development of a completely new approach to institutions but may take place through marginal adjustments.

In the sections that follow, I show how these theoretical arguments can be linked to empirical evidence. In particular, I illustrate how the ideational and institutional stability that preceded the crisis created the conditions for the adjustments in the Fund's thinking on controls following the crisis.

2. Capital controls' incremental path to legitimacy

The debate on the most appropriate mix of policies to manage the effects of global financial integration is a long-standing and controversial issue. This is particularly the case with regard to those policies that help to mitigate the macroeconomic and financial stability effects of large capital inflows. On the macroeconomic front, the concern is that capital surges will lead to an appreciation of the exchange rate that will, in turn,

undermine the competitiveness of the tradable sector, thereby jeopardizing exports and growth. On the financial front, capital inflows constitute a serious challenge to domestic economic management in that they may fuel asset and credit booms. A boom in foreign-exchange-denominated credit is especially dangerous if extended to borrowers lacking a natural 'hedge' (e.g. to households rather than exporters). In light of these macroeconomic and financial risks, capital inflows (especially short-term liabilities) can make the country more vulnerable to financial crisis if not appropriately managed.

However, what constitutes appropriate economic management is itself a matter of intense debate,, as the history of IMF advice to emerging market countries over the last twenty years demonstrates (Chwieroth 2010a; Moschella 2010b). With the onset of the global financial crisis, the debate on how to manage potentially destabilizing capital inflows is once again at the center of public and scholarly attention. While in the early stages of the crisis, emerging markets had to cope with severe capital outflows caused by the process of global deleveraging, in the final quarters of 2009, the easing of monetary conditions in the advanced economies pushed capital flows in the opposite direction. Since then, several emerging countries, such as Brazil, Chile and Peru, have heavily intervened in their currency markets, reviving memories of currency wars (*Financial Times*, Trade war looming, warns Brazil, 10 January 2011). In short, the volatility of capital flows from 2008 onwards raises the important question of what tools policy-makers can use to stem the potential inflationary pressures and asset bubbles associated with capital inflows.

During the 1990s, the most prevalent stance was against the use of capital restrictions (Cohen 2002; Grabel 2003; Williamson 2003, 49).[iv] This intellectual stance clearly emerges from an analysis of the Fund's approach to the issue. During this era, the IMF excluded the use of controls from its list of appropriate capital flow management policies, arguing that controls were ineffective in managing both the macroeconomic and financial stability risks deriving from large inflows.

In arguing for the ineffectiveness of controls, the Fund held that they could generally not work to stem exchange rate appreciation and asset and credit bubbles, because they were not able to change the volume and composition of inflows, and were administratively difficult to put into place. The Fund also

rejected the option of using controls to mitigate macroeconomic risks, based on evidence indicating the inability of controls to support stabilization efforts (Schadler, et al. 1993). Controls were also regarded as an obstacle to necessary macroeconomic adjustments[v], and therefore as potentially destabilizing. In the words of one of the IMF staff memorandums on this issue, 'controls imposed by one country typically affect others adversely.' This happened because controls, the Fund argued, delayed necessary exchange rate adjustments, or limited the repatriation of invested capital or financial market access.[vi] In other words, the view was that controls had negative spill-over and contagion effects that could interfere with the efficient allocation of investment across countries, thereby reducing gains from inter-temporal (asset) trade much as tariffs limit the gains from goods (within-period) trade.

Emblematic of this orientation was the IMF's interpretation of the Chilean experience with capital controls. Chile, which had introduced market-based controls on capital inflows in 1991 and 1992, was a country experiencing sustained rates of economic growth while avoiding the negative macroeconomic effects associated with large inflows.[vii] From the Fund's perspective, however, capital controls could at best be regarded as 'of limited macroeconomic effectiveness'.[viii] Furthermore, in the 1990s, the possibility that capital controls could be a means to address financial stability risks was not even considered.[ix] On the contrary, the opening of the capital account was considered as a useful mechanism through which to increase the efficiency of the domestic financial system, by introducing competition and innovation from abroad (Fischer 1997; Guitiàn 1996).

Following the emergence of the global financial crisis, this whole-hearted rejection of capital controls has been relaxed. As the IMF now puts it, 'there may be circumstances in which capital controls are a legitimate component of the policy response to surges in capital inflows' (Ostry, et al. 2010, 15). Although the differences between the pre- and post-crisis intellectual stances may at first seem dramatic, a closer look at the Fund's ideational shift in the aftermath of the global financial crisis reveals several elements of continuity with pre-crisis thinking. Rather than replacing its previous positions, the Fund has incrementally adjusted it by incorporating new evidence and by clarifying the circumstances under which controls may be considered acceptable.

The IMF's rethinking of capital controls centres on the recognition that controls can be helpful in managing the risks to financial stability associated with large capital inflows. Specifically, the empirical evidence collected since the burst of the crisis shows that controls may be helpful in changing the composition of capital flows in favour of safer transactions, tilting the balance towards less vulnerable liability structures and therefore reducing financial fragility (Ostry, et al. 2010, 5). Furthermore, cross-country experience during the crisis shows that 'the use of capital controls was associated with avoiding some of the worst growth outcomes associated with financial fragility' (Ostry, et al. 2010, 13). Based on these observations, the Fund has come to the conclusion that 'inasmuch as controls reduce countries' precautionary demand for reserves by curtailing inflows of "hot money" and especially risky forms of liabilities, they could contribute to reducing global imbalances and thus enhance systemic stability' (Ostry, et al. 2010, 15). In short, controls have become acceptable because they may contribute to mitigating the financial risks associated with capital inflows, including those associated with their volatility (IMF 2011c, Ch. 4).

While the Fund's inclusion of capital controls in the policy toolkit available to domestic authorities is based on the recognition of the potential positive impact of these restrictive measures on financial stability, more continuity is visible in the Fund's understanding of capital controls as a tool to manage the macroeconomic implications of capital inflows. As was the case in the pre-crisis period, controls are still regarded as ineffective in impacting the overall volume of inflows and 'rarely successful in dampening exchange rate appreciation' (IMF 2010b, 13).[x]

That the Fund has merely relaxed but not rejected its earlier orthodoxy opposing controls is also evident in its embrace of a sequenced approach. That is to say, controls are accepted as 'a useful element in the policy toolkit' only if temporary, and if 'the available policy options and prudential measures do not appear to be sufficient or cannot provide a timely response to an abrupt or large increase in capital inflows' (IMF 2010b, 4; also IMF 2011a). The IMF thus accepts capital controls only as a last resort policy tool – that is, their use is recommended only after such measures as building up reserves, letting currencies appreciate and cutting budget deficits have been implemented.

As in the pre-crisis period, the IMF still holds the view that the use of capital controls by individual countries has the potential for adverse multilateral consequences. In particular, it argues that an unwise use of controls may prevent macroeconomic policy adjustment in emerging markets with undervalued currencies, thereby hampering global recovery. Furthermore, 'controls imposed by some countries may lead other countries to adopt them also: widespread adoption of controls could have a chilling longer-term impact on financial integration and globalization, with significant output and welfare losses' (Ostry, et al. 2010, 5).

In conclusion, in the aftermath of the global financial crisis, the IMF has been gradually edging towards an acceptance of the view that capital controls may help countries manage the financial stability risks deriving from large capital inflows. As the former Managing Director Dominique Strauss-Khan put it, 'there is no reason to believe that no kind of control is always the best kind of situation' (*Financial Times*, IMF refuses to rule out use of capital controls, 2 November 2009). For an organization that has historically opposed capital controls, even trying in the mid-1990s to amend its Articles of Agreement to allow it to promote capital account liberalization, the current position is puzzling and deserves scholarly attention.

However, this embrace has not taken the form of a dramatic departure from previously held normative and cognitive orientations. On the contrary, the current ideational stance within the Fund presents broad continuities with past policy ideas – a circumstance that has led several commentators to describe the Fund's embrace of capital controls as *inter alia* hesitant (Batista 2012) and incoherent (Grabel 2010). In what follows, I provide an explanation for this incremental dynamic of ideational change. Specifically, I examine the impact of the Fund's mandate, showing how its empowering-constraining nature shaped the dynamic of ideational change that has taken place within the Fund since the crisis erupted.

3. Explaining the Fund's incremental ideational change

In order to explain the lack of a more dramatic rethink in the Fund's approach to capital controls from the perspective of the consensual view in IPE ideational research, two factors figure prominently: the absence of strategic actors willing to take advantage of the opportunity provided by the crisis to push new ideas to the fore, and the lack of alternative ideas that could justify the use of controls from an economic point of view (see also Blyth 2011; forthcoming). In other words, the absence of agency and alternative ideas would, from this perspective, have prevented the emergence of the typical punctuated and paradigmatic model of ideational change.

However, the empirical record does not lend support to the argument that these causal factors account for the pattern of post-crisis ideational change. For one thing, as has been thoroughly documented the supporters of a gradualist approach to capital liberalization have been well-represented within key IMF departments, such as the Research and the Policy Development and Review Departments, since the late 1980s and early 1990s (Chwieroth 2008). Gradualists have long emphasized the importance of sequencing to the liberalization process and have supported the use of temporary controls in some circumstances. It is also important to note that the experience of the Mexican and the Asian crises in the 1990s strengthened gradualist advocacy within the organization at the expense of the radical shift supporters (Chwieroth 2008 150-51, 153-54).

Furthermore, the internal advocates favouring the use of capital controls could count on the existence of a well-developed intellectual apparatus to justify the introduction of restrictive measures long before the global financial crisis burst. Although the IMF has often claimed not to have abandoned its 'neoclassical model' after this model's failure to recognize the imperfections in international capital markets in the aftermath of the Asian crisis (Stiglitz 2004), the organization in fact began to reassess its position on controls in the late 1990s based on the experience of countries that had imposed controls (Grabel and Chang 2010). The ideational path through which the Fund came to rethink capital controls unfolded in three stages.

Firstly, research within the Fund called into question the presumed positive and direct relationship between financial liberalization and economic growth that had long been a matter of consensus within the organization. This theoretical reassessment has been closely related to the experience of the emerging market crises of the 1990s. For instance, a number of IMF studies showed that large capital inflows are not associated with substantial risk-sharing (Kose, et al. 2007) and that financial integration has not significantly helped emerging and developing countries in stabilizing their consumption growth (Prasad, et al. 2003). Furthermore, IMF staff started to pay greater attention to the exact nature of the benefits that capital flows may bring about. In this regard, the view emerged that 'far more important than the direct growth effects of access to more capital is how capital flows generate a number of…'potential collateral benefits'' (Kose, et al. 2006, 8). These 'collateral' benefits include a strengthened domestic financial market, good governance and market discipline. These factors, in turn, contribute to GDP growth (also Leiteritz and Moschella 2010).

Secondly, well before the global financial crisis erupted, the IMF had already started detailing the policies that could help minimize the costs of liberalization. Strengthening the domestic financial system and improving governance figured prominently in this list of necessary policies, especially in light of the experience of the East Asian crisis (Rogoff 2002). In short, in the run-up the crisis the IMF had already started reflecting on the policy toolkit that domestic authorities could adopt to managing the risks of financial integration. As such, particular attention was devoted to developing a sequenced approach to liberalization. [xi]

Finally, and connected to the aforementioned ideational twists, the IMF had moved towards the acceptance of capital controls as a legitimate part of the policy toolkit. In particular, while the Fund had decidedly put its emphasis on financial sector policies as the means through which to influence the direction and composition of capital inflows,[xii] capital controls had begun to make their way into the Fund's thinking. While outflow controls had continued to be viewed sceptically (it was argued that their use could not prevent devaluation in the presence of macroeconomic misalignments), the use of controls on capital inflows had become an increasingly acceptable policy option (Eichengreen, et al. 1999; IMF 1998, 79; 150).

Again, the serial crises that the Fund confronted during the 1990s were pivotal in triggering a reassessment within the organization (Independent Evaluation Office (IEO) 2005). This is well illustrated in the IMF's revised assessment of Chilean-type controls – that is, those market-based controls on capital inflows whose use had been stigmatized in the first half of the 1990s. Although this type of control was still regarded as ineffective and distortionary in the long run (IMF 2007, Ch. 3), the IMF had ceased to regard them 'as incompatible with the still-desirable goal of capital account liberalization.'[xiii]

In summary, before the global financial crisis burst, there existed strategic and well-positioned advocates endowed with alternative ideas opposing capital controls; these could have led to a more dramatic type of ideational change than the one we are currently observing. The incremental pattern of ideational change cannot be traced back to organizational practices and routines that prevented the Fund from assessing developments in the global financial system. On the contrary, since the end of the 1990s, the IMF had actually strengthened its organizational resources by creating new departments and nurturing financial expertise, in order to make sense of financial developments (Moschella 2011).

In short, when the uncertainty of the crisis led to the questioning of existing ways of thinking on capital controls, there existed internal advocates endowed with fully-fledged ideas and organizational resources that could have pushed for a more radical understanding of capital restrictions.

However this did not happen– a circumstance that is puzzling if we consider the rise of emerging markets' economic power and their likely support for more radical pronouncements that would have taken the stigma away from the use of controls (Gallagher forthcoming). Furthermore, the support for a more profound rethink was also explicitly provided in 2011 by the G20 Finance Ministers and Central Bank Governors, who endorsed the view that 'there is no "one-size fits all" approach or rigid definition of conditions for the use of capital flow management measures'.[xiv] The French President Nicolas Sarkozy, who held the Presidency of the G20 Leaders in 2011, even concluded that 'the use of capital controls … is now accepted as a measure of stabilisation' (as quoted in Gallagher 2011).

Hence, if all the standard conditions were in place for a more profound ideational change than the one we are currently observing, we need to shift attention from the 'usual' factors explaining ideational change to those factors that are usually regarded as constraining it, namely those associated with the institutional set-up in which actors operate. In this case, the IMF's mandate provided its staff with the necessary room to re-interpret the Fund's role on capital flows in light of the changed economic circumstances brought about by the crisis. In other words, the rules that guide the Fund's behaviour were sufficiently open to re-interpretation and thus allowed the organization to tackle the complexity of the changing economic environment (Best 2012).

The Articles of Agreement give the IMF the task of promoting economic growth and presiding over international financial stability for the benefit of its quasi-universal membership. Of course, this is a very broad mandate that has been implemented in different ways over time. As the IMF itself recognizes, although 'the IMF's main purpose—to provide the global public good of financial stability—is the same today as it was when the organization was established', the modalities through which the Fund achieves its established objectives have 'evolved along with the global economy throughout its 65-year history'.[xv] For instance, the modalities through which the IMF conducts its bilateral and multilateral surveillance, or those through which it provides financial assistance to crisis-hit countries, have been significantly adapted over time within the parameters of the Fund's original objectives.[xvi]

The flexibility of the IMF's mandate is also relevant in the case under examination. Immediately after the release of the staff position note in which the Fund went public with its new stance on controls (i.e. Ostry, et al. 2010), the IMF developed an internal report clarifying the links between the emerging ideational shift and the Fund's institutional mandate (IMF 2010a). For instance, the report clarifies that the Fund's Articles of Agreement allow for a new understanding on controls due to the impact of capital flows on the core mission of the organization. As the Fund puts it, 'in the aftermath of the global crisis, and especially now with resurgent capital flows requiring a considered policy response, it is not tenable for the Fund to remain on the sidelines of a debate so central to global economic stability' (IMF 2010a, 3). Furthermore, the Fund's surveillance function (which entails giving advice on policies directed towards

international capital flows) and the Fund's crisis assistance role, (which may lead the Fund to provide financing to address capital account crises) figure among the institutional considerations that justify the adjustment of the Fund's thinking on controls (IMF 2010a, 24-5).

While the letter of the institutional mandate provided the necessary flexibility to rethink the use of controls, it also limits the ideas of IMF staff. Indeed, the IMF is expected to justify the use of capital restrictions against the mandate set forth in Article IV according to which 'the essential purpose of the international monetary system [over which the IMF presides] is to provide a framework that facilitates the exchange of goods, service, and capital among countries'. Hence, IMF staff members were called on to think of ways in which capital controls could be regarded as compatible with this provision and the related one, ensuring that members retained the freedom to impose controls (Article VI, Section 3). In short, the mandate, although flexible, set parameters on what ideas IMF staff could put forward. In particular, staff members have to balance different institutional exigencies: ensuring the free exchange of capital, on the one hand, and preserving the freedom to impose controls, on the other hand. In doing so, the Fund is also expected to foster a multilateral, non-discriminatory approach in line with its mandate. [xvii]

This specific institutional configuration has led to a qualified approach to capital controls, that is, an approach that tries to combine the principle of the free movement of capital flows with the new economic needs of its members in their struggle to manage capital volatility. The Fund has thus developed a framework that identifies the spectrum of measures available to policymakers in managing inflows (IMF 2011a). Although the framework includes capital controls, they are still sceptically regarded from a multilateral perspective and their use is therefore suggested only when macroeconomic considerations preclude the use of traditional monetary and fiscal policy tools (such as when the exchange rate is not undervalued and the inflation outlook is not benign) (IMF 2011a, 7). The Fund itself provides a justification for this sceptical view on controls by stating that 'the key motivation for the Fund to have a preference against such measures is *institutional*.' That is, 'since such measures directly discriminate against non-residents, they run counter to the international cooperative spirit of participation in the Fund, particularly given the Fund's role in respect to the international monetary system' (IMF 2011b, 2).

In summary, the Fund's embrace of capital controls has become possible with the flexibility provided by the Articles of Agreement; this flexibility allows IMF staff members to re-interpret the role of the Fund in light of changed economic circumstances. However, this institutional factor was not solely permissive—it also had a constraining effect on the type of ideational change that the IMF could adopt. Given the need to balance opposing exigencies and to ensure an even-handed approach to its membership, the Fund has shown a cautious embrace of controls and has tried to combine the earlier orthodoxy of opposing restrictive measures with the new practical concerns of most of its members.

4. Conclusions

Ideational scholars in political economy largely share an understanding of ideational change as a punctuated process. However, the findings of this paper reveal that other change dynamics in fact exist. Ideational change may well occur incrementally in ordinary times (Carstensen 2011). Alternatively, as the present study has demonstrated, the incremental dynamic of ideational change can also materialize after a major shock, such as a financial and economic crisis.

By shedding light on this understudied variant of ideational change, the paper does not suggest that the punctuated model is wrong or irrelevant. But the paper indicates that there are circumstances in which the expectations of the model may not be fulfilled. The ideational research agenda thus needs expanding in order to identify the factors that lead to one specific change dynamic instead of another. In the case under investigation, the factors that help account for the Fund's incremental embrace of capital controls since 2007 have been identified as the enabling features of the institutional context in which IMF staff members operate. In contrast to cases where institutions prevent change until the point where the pressures for change become irresistible, leading to an explosion, here institutions acted as the safety valves that allowed for some kind of pressure relief and thereby prevented the blast. Specifically, the Fund's institutional mandate provided IMF staff with the opportunity to reinterpret the Fund's approach to

controls. As a result, rather than disrupting the existing equilibrium, ideational change took place within it. At the same time, change was also constrained by the specificities of the institutional mandate, giving rise to a type of ideational change that presents broad continuities with past policy ideas.

By emphasizing the role played by institutions in explaining the specific dynamics of ideational change, this study does not wish to deny the importance of agents and the strategic action in which they engage in line with recent institutionalist scholarship (Bell 2011). It is one thing to claim that institutions provide actors with room to manoeuvre in bringing about ideational change—it is quite another to claim that this ideational change will always take place. It is not difficult to think of cases where, in spite of the room to manoeuvre, change does not materialize. For instance, IMF staff had the opportunity to change their policy ideas on capital account liberalization after the 1994 Mexican financial crisis but failed to do so (Moschella 2010a). As a result, while the institutional flexibility identified above is certainly important in explaining the absence of punctuated change, it alone cannot explain the initial push towards change. Central to the process of ideational transformation is the ability of agents to exploit the political space available to them in order to propose new ideas or to consider new versions of existing ones.

In short, if we want to expand the research agenda in ideational scholarship by investigating the causes of different dynamics of ideational change, the interaction between agents and institutional constraints is crucial. From this perspective, constructivist political science scholarship can be effectively complemented with historical institutionalism in analyses of financial crisis and reform (c.f. Baker and Underhill 2012; Moschella and Tsingou 2013). Finally, an important priority of future research will be to understand the relationship between different types of ideational change. In particular, it is important to specify the conditions under which small changes snowball into more radical ideational innovations. This is particularly relevant for the case under investigation here. Indeed, although the current Fund's rethink on controls is timid in light of the empirical evidence collected as the result of the latest crisis, it certainly signals that the IMF is revaluating its assumptions about the costs and benefits of liberalization. This leads the Fund into potentially uncharted territories. We still lack the analytical toolkit to understand if and when this apparently hesitant revaluation will lead to a full-fledged paradigm shift.

Acknowledgements

For comments on prior drafts, I thank André Broome, Stefano Pagliari, Stephen Bell, Kevin Gallagher, Katie Lavelle,, Randy Germain and BJPIR two anonymous reviewers. A previous version of this paper was presented at the 2012 ECPR Joint Sessions in Antwerp. I am indebted to all the participants to the workshop on *Economic Ideas and the Political Construction and Meaning of Financial Crisis* for their sharp comments and useful suggestions.

References

Abdelal, R. (2007) *Capital Rules. The Construction of Global Finance* (Cambridge, MA: Harvard University Press).

Babb, S. (2012) 'The Washington Consensus as transnational policy paradigm: Its origins, trajectory and likely successor', *Review of International Political Economy*, 1-30.

Baker, A. (2012) 'The New Political Economy of the Macroprudential Ideational Shift', *New Political Economy*, 1-28.

Baker, A., and Underhill, G. R. D. (2012) *Economic Ideas and the Political Construction of Financial Crisis and Reform* (Proposal for Workshop: ECPR Joint Sessions Antwerp 2012).

Barnett, M. N., and Finnemore, M. (2004) *Rules for the World: International Organizations in Global Politics* (Ithaca, New York: Cornell University Press).

Batista, P. N. J. (2012) 'The IMF, Capital Account Regulation, and Emerging Market Economies ', in Task Force of the Frederick S. Pardee Center for the Study of the Longer-Range Future at Boston University, *Regulating Global Capital Flows for Long-Run Development* 93-102.

Béland, D., and Cox, R. H. (2011) 'Introduction: Ideas and Politics', in D. Béland and R. H. Cox (eds), *Ideas and Politics in Social Science Research* (Oxford: Oxford University Press), 3-20.

Bell, S. (2011a) 'Do We Really Need a New 'Constructivist Institutionalism' to Explain Institutional Change?', *British Journal of Political Science*, 41: 883–906.

Bell, S. (2011b) 'The Power of Ideas: The Ideational Shaping of the Structural Power of Business', *International Studies Quarterly*.

Best, J. (2003) 'From the Top–Down: The New Financial Architecture and the Re-embedding of Global Finance', *New Political Economy*, 8: 3, 363-84.

Best, J. (2005) *The Limits of Transparency. Ambiguity and History of International Finance* (Ithaca: Cornell University Press).

Best, J. (2012) 'Ambiguity and Uncertainty in International Organizations: A History of Debating IMF Conditionality', *International Studies Quarterly*.

Blyth, M. (2002) *Great Transformations. Economic Ideas and Institutional Change in the Twentieth Century* (Cambridge: Cambridge University Press).

Blyth, M.."Paradigms Lost? Cowboys and Indians in the Battle over Economic Ideas." *TripleCrisis* - http://triplecrisis.com, March 9, 2000 2011.

Blyth, M. (forthcoming) 'Paradox and Change: Policy Paradigms in Two Moments of Crisis', *Governance: An International Journal of Policy, Administration and Institutions*.

Boughton, J. M. (2012) *Tearing Down Walls. The international Monetary Fund 1990-1999* (Washington, D.C.: International Monetary Fund).

Broome, A. (2010) *The Currency of Power: The IMF and Monetary Reform in Central Asia* (Basingstoke: Palgrave Macmillan).

Carstensen, M. B. (2011) 'Ideas are Not as Stable as Political Scientists Want Them to Be: A Theory of Incremental Ideational Change', *Political Studies*, 59: 596–615.

Chwieroth, J. M. (2008) 'Normative Change From Within: The International Monetary Fund's Approach to Capital Account Liberalization', *International Studies Quarterly*, 52: 1, 129-58.

Chwieroth, J. M. (2010a) *Capital Ideas: The IMF and the Rise of Financial Liberalization* (Princenton: Princenton University Press).

Chwieroth, J. M. (2010b) 'How Do Crises Lead to Change?Liberalizing Capital Controls in the early Years of new order Indonesia', *World Politics*, 62: 3, 496–527.

Clegg, L. (2011) 'Global Governance Behind Closed Doors: The IMF boardroom, the Enhanced Structural Adjiustment Facility, and the intersection of material power and norm stabilisation in global politics', *Review of International Organizations*.

Clift, B., and Tomlinson, J. (2011) 'When rules started to rule: the IMF, neo-liberal economic ideas and economic policy change in Britain', *Review of International Political Economy*, DOI:10.1080/09692290.2011.561124.

Cohen, B. J. (2002) 'Capital Controls: Why Do Governments Hesitate?', in L. E. Armijo (ed.), *Debating the Global Financial Architecture* (Albany, NY: SUNY Press),

Cohen, B. J. (2003) 'Capital controls: the neglected option', in G. R. D. Underhill and X. Zhang (eds), *International Financial Governance Under Stress. Global Structures versus National imperatives* (Cambridge: Cambridge University Press),

Cox, R. (2004) 'The Path-dependency of an Idea: Why Scandinavian Welfare States Remain Distinct', *Social Policy & Administration*, 38: 2, 204-19.

Eichengreen, B., Mussa, M., Dell'Ariccia, G., Detragiache, E., Milesi-Ferretti, G. M., and Tweedie, A. "Liberalizing Capital Movements: Some Analytical Issues." Economic Issues N° 17, 1999.

Finnemore, M., and Sikkink, K. (1998) 'International Norm Dynamics and Political Change', *International Organization*, 52: 4, 887-917.

Fioretos, O. (2011) 'Historical Institutionalism in International Relations', *International Organization*, 65: 2, 367-99.

Fischer, S. (1997) 'Capital Account Liberalization and the Role of the IMF', Paper prepared for the International Monetary Fund's Seminar on "Asia and the IMF", Hong Kong. 19 September 19.

Gallagher, K. "The IMF must heed G20 decisions." *The Guardian*, 29 November 2011.

Gallagher, K. (forthcoming) *Countervailing Monetary Power: Emerging Markets, New Ideas, and the Re-Regulation of Cross-Border Finance*

Grabel, I. (2003) 'Averting Crises?Assessing Measures to Manage Financial Integration in Emerging Economies', *Cambridge Journal of Economic*, 27: 3, 317-36.

Grabel, I. (2010) 'Not your grandfather's IMF: Global crisis, 'Productive Incoherence' and Developmental Policy Space', *Political Economy Reserach Institute (PERI) Working Paper Series,* August.

Grabel, I., and Chang, H.-J. "Why capital controls are not all bad." *Financial Times*, 25 October 2010.

Guitiàn, M. (1996) 'The Issue of Capital Account Convertibility: A Gap Between Norms and Reality', in S. M. Nsouli and M. Guitián (eds), *Currency Convertibility in the Middle East and North Africa* (Washington, D.C.: International Monetary Fund),

Hall, P. A. (1993) 'Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain', *Comparative Politics*, 25: 3, 275-96.

Hay, C. (1996) 'Narrating Crisis: the Discursive Construction of the 'Winter of Discontent'', *Sociology*, 30: 2, 253-77.

Hay, C. (2011) 'Ideas and teh Construction of Interests', in D. Béland and R. H. Cox (eds), *Ideas and Politics in Social Science Research* (Oxford: Oxford University Press), 65-82.

Helleiner, E. (1994) *States and the reemergence of global finance: from Bretton Woods to the 1990s* (Ithaca and London: Cornell University Press).

IMF "International Capital Markets: Developments, Prospects, and Key Policy Issues." Washington, D.C.: International Monetary Fund, 1998.

IMF (2007) *World Economic Outlook* (Washington, D.C.: International Monetary Fund).

IMF (2010a) *The Fund's role regarding cross-border capital flows* (Washington, D.C.: International Monetary Fund. 15 Novemnber).

IMF (2010b) *Global Financial Stability Report* (Washington, D.C.: International Monetary Fund. April edition).

IMF (2011a) *Recent Experiences in Managing Capital Inflows—Cross-Cutting Themes and Possible Policy Framework* (Washington, D.C.: International Monetary Fund, 14 February).

IMF (2011b) *Recent Experiences in Managing Capital Inflows—Cross-Cutting Themes and Possible Policy Framework—Supplementary Information* (Washington, D.C.: International Monetary Fund, 11 March).

IMF (2011c) *World Economic Outlook. April edition* (Washington, D.C.: International Monetary Fund).

IMF Archives "Review of Members' Policies in the Context of Surveillance - Lessons for Surveillance from the Asian Crisis." 9 March 1998. EBS/98/44.

IMF Archives "Issues and Developments in the International Exchange and Payments Systems." 1 August 1994. SM/94/202.

IMF Archives "Capital Account Convertibility: Review of Experience and Implications for Fund Policies, Background paper." 10 July 1995. SM/95/164 Sup. 2.

IMF Archives "Capital Account Convertibility and the Role of the Fund-Review of Experience and Consideration of a Possible Amendment of the Articles." 5 February 1997. SM/97/32.

IMF Archives "Developments and Issues in the International Exchange and Payments System-Background Studies." 8 July 1998. SM/98/172 Sup. 2.

IMF Archives "Theoretical and Practical Aspects of Capital Account Liberalization." 17 July 1998. SM/98/187.

Independent Evaluation Office (IEO) (2005) *The IMF's approach to capital account liberalization: evaluation report* (Washington D.C.: International Monetary Fund).

Jabko, N. (2006) *Playing the Market: A Political Strategy for Uniting Europe* (Ithaca: Cornell University Press).

Jones, B. D., Baumgartner, F. R., Breunig, C., Wlezien, C., Soroka, S., Foucault, M., Francois, A., Green-Pedersen, C., Koski, C., John, P., Mortensen, P. B., Varone, F. e. e., and Walgrave, S. (2009) 'A General Empirical Law of Public Budgets: A Comparative Analysis', *American Journal of Political Science*, 53: 4, 855-73.

Kose, A. M., Prasad, E., Rogoff, K., and Wei, S.-J. (2006) 'Financial Globalization: A Reappraisal', *IMF Working Paper N° 06/189*.

Kose, M. A., Prasad, E., and Terrones, M. (2007) 'How Does Financial Globalization Affect Risk Sharing? Patterns and Channels', *IMF Working Paper No. 07/238*.

Leiteritz, R. J., and Moschella, M. (2010) 'The International Monetary Fund and Capital Account Liberalization: A Case of Failed Norm Institutionalization', in S. Park and A. Vetterlein (eds), *Owning Development: Creating Global Policy Norms in the World Bank and the IMF* (Cambridge: Cambridge University Press), 105-17.

Mahoney, J., and Thelen, K. (2010) 'A Theory of Gradual Institutional Change', in J. Mahoney and K. Thelen (eds), *Explaining Institutional Change. Ambiguity, Agency, and Power* (Cambridge: Cambridge University Press), 1-37.

McNamara, K. R. (1998) *The Currency of Ideas: Monetary Politics and the European Union* (Ithaca: Cornell University Press).

Mehta, J. (2011) 'The Varied Roles of Ideas in Politics: From 'Whether' to 'How'', in D. Béland and R. H. Cox (eds), *Ideas and Politics in Social Science Research* (Oxford: Oxford University Press), 23-46.

Momani, B. (2007) 'IMF staff: Missing link in fund reform proposals', *Review of International Organization*, 2: 1, 39-57.

Moschella, M. (2010a) *Governing Risk: The IMF and Global Financial Crises* (Basingstoke: Palgrave Macmillan).

Moschella, M. (2010b) 'Mexico and the IMF in the 1990s. Old and New Issues on Capital Account Liberalization and Emerging Market Countries', *Comparative Economic Studies*, 52: 4, 589-609.

Moschella, M. (2011) 'Lagged Learning and the Response to Equilibrium Shock. The Global Financial Crisis and IMF Surveillance', *Journal of Public Policy*, 31: 2, 1-21.

Moschella, M., and Tsingou, E., eds (2013) *Great Expectations, Slow Transformations: Incremental change in post-crisis regulation* (Colchester, UK: ECPR Press).

Ostry, J. D., Ghosh, A. R., Karl Habermeier, Chamon, M., Qureshi, M. S., and Reinhardt, D. B. S. "Capital Inflows: The Role of Controls." IMF Staff Position Note, SPN/10/04, International Monetary Fund. 19 Febrary 2010.

Park, S., and Vetterlein, A., eds (2010) *Owning Development: Creating Global Policy Norms in the World Bank and the IMF* (Cambridge: Cambridge University Press).

Parsons, C. (2002) 'Showing Ideas as Causes: The Origins of the European Union', *International Organization*, 56: 1, 47–84.

Prasad, E. S., Rogoff, K., Wei, S.-J., and Kose, A. M. (2003) 'Effects of Financial Globalization on Developing Countries: Some Empirical Evidence', *IMF Occasional Paper* N° 220, International Monetary Fund.

Rogoff, K. S. (2002) 'Straight Talk -- Rethinking capital controls: When should we keep an open mind?', *Finance & Development*, 39: 4.

Schadler, S., Carkovic, M., Bennett, A., and Kahn, R. (1993) 'Recent Experiences with Surges in Capital Inflows.' *IMF Occasional Paper* N° 108, International Monetary Fund.

Schmidt, V. A. (2008) 'Discursive Institutionalism: The Explanatory Power of Ideas and Discourse', *Annual Review of Political Science*, 11: 303-26.

Schmidt, V. A. (2011) 'Reconciling Ideas and Institutions through Discursive Institutionalism', in D. Béland and R. H. Cox (eds), *Ideas and Politics in Social Science Research* (Oxford: Oxford University Press), 47-64.

Stiglitz, J. E. (2004) 'Capital-Market Liberalization, Globalization, and the IMF', *Oxford Review of Economic Policy*, 20: 1, 57-71.

Streeck, W., and Thelen, K. (2005) 'Introduction: Institutional Change in Advanced Political Economies', in W. Streeck and K. Thelen (eds), *Beyond Continuity. Institutional Change in Advanced Political Economies* (Oxford: Oxford University Press), 1-39.

Weaver, C. (2008) *Hypocrisy trap: The World Bank and the poverty of reform* (Princeton: Princeton University Press).

Widmaier, W. W., Blyth, M., and Seabrooke, L. (2007) 'Exogenous Shocks or Endogenous Constructions? The Meanings of Wars and Crises', *International Studies Quarterly*, 51: 4, 747-59.

Williamson, J. (2003) 'Costs and benefits of financial globalization: concepts, evidence and implications', in G. R. D. Underhill and X. Zhang (eds), *International Financial Governance Under Stress. Global Structures versus National Imperatives* (Cambridge: Cambridge University Press), 41-59.

Endnotes

[i] On the history of capital controls and the emergence of capital mobility as a global norm see, for instance, (Abdelal 2007; Chwieroth 2010a; Cohen 2003; Helleiner 1994).

[ii] The flexibility in the mandate discussed in this paper echoes the concept of ambiguity developed in Jacqueline Best's works (Best 2005; Best 2012) and in Mahoney and Thelen's study on institutional change (Mahoney and Thelen 2010) Indeed, similarly to the concept of ambiguity, the institutional flexibility that is here discussed indicates an openness to multiple interpretations by the actors involved in a social interaction. I will get back to these issues below.

[iii] This strand of constructivist scholarship is thus significantly different from the structural variant that characterized constructivist scholarship in its first decade.

[iv] However, it is worth remembering that, according to the letter of the IMF Articles of Agreement, members may adopt capital controls, but that no member may exercise these controls in a manner that restricts payments for current international transactions or that unduly delays transfers of funds in settlement of commitments (Article VI, Section 3).

[v] (IMF Archives SM/94/202), 24.

[vi] (IMF Archives SM/97/32), 6.

[vii] The restrictions on inflows in Chile included a 30 percent non-remunerated reserve requirement to be imposed for one year on all external liabilities, irrespective of their maturity, a minimum one-year holding period for all foreign

investments (direct and portfolio investment) and minimum amount and rating requirements for all bonds issued by Chilean companies.

[viii] (IMF Archives SM/95/164 Sup. 2), 21-3.

[ix] Furthermore, until the mid-1990s, the importance of domestic prudential regulations and supervisory frameworks to the process of liberalization did not figure prominently in the IMF's advice (Independent Evaluation Office (IEO) 2005)

[x] Nevertheless, it is also important to note that some empirical studies on the effectiveness of controls adopted as a response to the volatility that followed the burst of the crisis have found that 'in most cases currency appreciation has slowed or halted around the time of the introduction of the measures' (IMF 2011a)., 5.

[xi] (IMF Archives SM/98/172 Sup. 2), 57.

[xii] (IMF Archives), 36.

[xiii] (IMF Archives SM/98/187), 49.

[xiv] *G20 Coherent Conclusions for the Management of Capital Flows Drawing on Country Experiences*, 15 October 2011.

[xv] IMF website, *What we do,* Available at http://www.imf.org/external/about/whatwedo.htm Accessed 14 March 2011.

[xvi] The literature on the historical evolution of the IMF activities is huge. For a recent historical account see, for instance, (Boughton 2012).

[xvii] The need to reconcile opposing exigencies is evident in previous ideational shifts within the Fund, such as the shift that led the organization to embrace liberalization as the first-best option. As IMF staff members themselves recognize, 'even then [i.e. in the 1990s], however, it was expressly understood that the liberalization obligation under the Articles would be subject to important qualifications.' (IMF 2010a), 19.