

WAJ Blog 8
March 9, 2010 [Slightly Revised July 15, 2010]
Bhagwati

IMF does Mea Culpa: Triumph After All

Bob Davis, the reporter for the Wall Street Journal who writes influential commentary on international economic issues, called me up last week and told me that the IMF had done a mea culpa on capital controls and interviewed me for a story that he wrote with quotes from me in the WSJ (February 19 , 2010).

We discussed also how my heresy in Foreign Affairs (May/June 1998) in an essay titled “The Capital Myth”, had been attacked by the IMF in a formal letter to the magazine by their External Affairs director, Shailendra Anjaria (“The Capital Truth: What Works for Commodities Should Work for Cash”, November/December 1998). The IMF had now changed that to an admission that capital controls made sense. Triumph had finally come my way, even if it was almost 12 years in the making; though, other major ideas of mine have sometimes taken even longer to get accepted and one must remember that patience is a virtue.

I might add that I had been denounced also by many others at the time, including the eminent economic historian Brad deLong who is such an outspoken and ruthless liberal blogger today that he is sometimes called the Rush Limbaugh on the liberal side. And, while my essay was an important contribution which led to numerous foreign translations of my article, Awards and invitations worldwide, I was never invited to the annual Jackson Hole conferences of the Federal Reserve, whose organizers included the practitioners of the orthodoxy which I had critiqued, not even to participate in their frequent sessions on international trade: heretics such as myself were clearly not welcome at events routinely covered by the major media.

I should also add that my 1998 Foreign Affairs piece also advanced another influential idea, that of the Treasury-Wall Street Complex to explain why the world’s smartest economists like Larry Summers and Stanley Fischer had suspended guard about the asymmetry of the case for free trade and the case of free

capital flows. I argued that the symbiotic relationship between Wall Street (whose titans' views about financial flows were excessively rosy) and the Treasury (which I said should include the IMF, World Bank and the State Department), because of constant back-and-forth movements among them --- e.g. Robert Rubin went from Goldman Sachs to the Treasury and back to Citi --- led to shared euphoria and forgetfulness about the downside of free capital flows. This concept has been widely accepted and used by economists as diverse as Robert Wade of London School of Economics and Barry Eichengreen of Berkeley, in various ways. It has been used, but turned into a “capture” theory (which I not not share in its entirety) of the Treasury by Wall Street, by the brilliant MIT economist Simon Johnson who wrote in The Atlantic, but talked of the “corridor” rather than the “complex”.

Since President Eisenhower was President of Columbia when he talked about the “military-industrial complex”, and Columbia sociologist Wright Mills wrote about the “power elite”, and I have been at Columbia since 1980, we are sometimes known as the “Columbia trio”. I might say to my distinguished Columbia colleague Joe Stiglitz, who unfortunately encourages ill-read and uninformed populists and is an icon to them: Columbia has had made more respectable, intellectual and radical impact on the world than cheap populism will ever achieve.