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Summary of
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"The Impact of Controls on Capital Movements on the Private Capital Accounts of Countries' Balance or Payments: Empirical Estimates and Policy Implications" by R. Barry Johnston and Chris Ryan

This paper explores the impact of controls on the private capital accounts of countries' balance of payments by examining data from 52 industrial and developing countries for the period 1985-92. The paper examines different measures of private capital flows in the balance of payments, including estimates of unrecorded flows--errors and omissions in the balance of payments and estimates of trade misinvoicing. Samples of data from industrial and developing countries and from countries with restricted and liberalized regimes are examined. Equations including explanatory variables intended to capture portfolio balance and monetary explanations of capital flows are estimated. The impact of controls on capital flows is assessed through F-tests for structural differences between liberalized and restricted regimes and dummy variables identifying the nature of the exchange control regime.

The paper's main are that: (1) capital controls operated by developing countries have not been effective in insulating these countries' balance of payments, and (2) capital controls operated by industrial countries had some role in inhibiting foreign direct and portfolio investment outflows, but not in controlling other private capital movements. These findings are consistent with findings reached in other research. In particular, empirical examination of the determinants of countries' interest rates suggests that the role of capital controls in insulating national monetary policies is relatively limited, and a number of developing countries with extensive exchange controls have experienced capital flight; however, capital outflows from industrial countries are often observed to increase with the elimination of restrictions on such flows.

The increasing body of evidence on the ineffectiveness of capital controls in developing countries raises the question whether these countries should continue with such controls or eliminate them rapidly. The paper concludes that external liberalizations can support domestic financial reforms in terms of both macroeconomic flows and institutional and market development.

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