

WORKING PAPER NO. 53

**CAPITAL INFLOWS AND DEVELOPING COUNTRY
FINANCIAL CRISES: IMPLICATIONS OF COMPETING
EXPLANATIONS FOR POLICY INTERVENTIONS**

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Foreword

Prof. Ken Kletzer of University of California, Santa Cruz has been engaged in collaborative research with ICRIER faculty on issues relating to capital flows, financial liberalisation and financial integration of India with the world economy. This paper, “Capital Inflows and Developing Country Financial Crises: Implications of Competing Explanations for Policy Interventions”, by Prof. Ken Kletzer discusses some alternative policy proposals in the light of the recent theoretical literature on financial and currency crises in developing countries.

The paper discusses the potential costs and benefits of financial openness. It attempts to compare the costs of alternative proposals and policies for controlling short term capital flows. While all the proposals have drawbacks, the paper concludes that a proportionate transactions tax on capital flows may be less desirable than an entry tax or contingent temporary suspensions of convertibility.

I have no doubt the analysis in this paper will lead to a better understanding of the issues involved in the opening up of the financial sectors of the developing economies.

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