CAPITAL: Advocates of Borderless Money Temper Outlook for Benefits
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TEN YEARS AGO, with spectacularly bad timing, finance ministers and central bankers gathered in Hong Kong and declared that encouraging the free flow of capital across borders should become as much a part of the International Monetary Fund's mission as encouraging trade in goods and services.

That was in September 1997, in what turned out to be the opening act of the Asian financial crisis. Money that had rushed into Thailand, Indonesia, the Philippines, Malaysia and South Korea rushed out, heightening fears that allowing money to slosh around the globe without restriction could be dangerous to economic health. In the end, the IMF's mission wasn't expanded.

A lot has happened in the past 10 years. Private money shied away from emerging markets for about five years but returned with such force in 2004 that emerging markets now borrow at surprisingly slim premiums to the rates richer countries pay. Emerging markets, China in particular, have built huge war chests of foreign reserves in case they have to fight another 1997-style war against currency speculators. Talk of imposing controls on flows of short-term money in and out of emerging markets has faded.

But anxiety about unfettered flows of money could return if recent market turmoil persists, economies falter and politicians react to public suspicion in rich and poor countries that globalization means huge profits for Wall Street, hedge funds and private-equity investors and uncertain benefits for workers.

AMID ALL THIS, intellectual architects of the world financial order are rethinking the case for allowing money to move wherever it wants. A few inconvenient truths are giving them headaches.

The theory was that capital would flow from rich to poor countries because returns would be higher there, and that would spur growth in the poor countries. Think British investment in American railroads in the 19th century.

But money is actually flowing heavily from poor nations (China) to rich countries (the U.S.), the reverse of what economists think should happen. And some countries that grew fastest between 1980 and 2005 (ranging from China to tiny Mauritius) weren't completely open to financial globalization. Some of the countries that were relatively open (Bolivia and pre-Chavez Venezuela) didn't grow at all.

The rationale for free flows of capital is undermined and the advantages are less than evident. So are the benefits worth the risks of inevitable financial crises?

Stanley Fischer says they are. Mr. Fischer is a prominent academic economist who later moved on to dispensing advice as a World Bank and IMF honcho and is now Israel's central banker. He is as convinced as he was when he pushed the 1997 IMF charter change that "orderly" opening of an economy's financial markets to the rest of the world is wise -- but for different reasons.

It isn't clear, he says, that there are "massive, obvious benefits" from the money that flows into an economy when barriers to entry and exit are lowered. Instead, the benefits "have much more to do with your world view, how your people look at the world, and what they need to do to prosper."

A quartet of economists -- three IMF researchers and their former boss, Keneth Rogoff, now back at Harvard -- see the world much as Mr. Fischer does. In a recent "reappraisal" of financial globalization, they write, "The indirect effects . . . on financial-sector development, institutions, governance and macroeconomic stability are likely to be far more important than the direct effect" of the money itself.

IN SHORT, EXPOSURE to global capital markets ups a country's game, forces financial markets and firms to be more efficient, offers businesses and consumers better terms for borrowing and lending, reduces openings for corruption and discourages short-sighted domestic economic policies. It isn't the money; it's the collateral benefits. Skeptics like Harvard's Dani Rodrik respond: Pursue those economic benefits directly and avoid the risks of getting swept away by a global financial tsunami.

Indeed, Mr. Fischer's advocacy comes with caveats. Israel's 1977 move to open to world capital markets failed. The economy was unstable, inflation was 40% and rising, and financial markets were dominated by government deficit financing. "It neglected the necessary preconditions," Mr. Fischer says.

A second try, in the 1990s, worked because it was preceded by a successful effort to reduce inflation and the government budget deficit, and the move to a flexible exchange rate was gradual.

The case for erasing national borders to lift the fortunes of people in countries rich and poor isn't intuitive. That's why it has been so controversial for so long. There are obvious benefits: The world is richer today and has fewer poor people than it did 25 years ago. But there are obvious risks.

And in an admission that is striking coming from researchers at an institution that was ready to carve a new commandment into its charter a decade ago, Mr. Rogoff and his IMF colleagues conclude: "The more extreme polemic claims made about the effects of financial globalization on developing counties, both pro and con, are far less easy to substantiate than either side generally admits."