Financial Repression: The Always Presumed Guilt

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Introduction

The concept of financial liberalization is propelled by the writings of Mackinnon and Shaw (1973). This concept seems to constitute the remedy to get out of a regime of financial repression. It is at the end of the six decade that these two authors have delivered their first admission of failure of interventionism. They present the liberalization of the financial sector as a simple and effective way to accelerate the economic growth of developing countries. Because of this, the rejection of the interventionism and the passage to the liberal order derived, for proponents of liberalism, of the logical necessities of giving to the economic activity new policies which would allow it to access to levels of growth faster and to achieve a higher efficiency.

At the end of 70s, a number of countries in Latin America (Argentina, Chile, and Uruguay) put in place a policy of financial liberalization. Other countries of south-east Asia (South Korea, Taiwan) have adopted this policy at the beginning of 80s. The question that arises is the following: what are the implications of liberalization on the financial sphere and especially on economic growth for the developing countries subscribing in this strategy?

To answer this question, we have examined the foundations and implications of financial liberalization in the first section. In the second part of the study, we dealt with the development strategies related to financial liberalization. We discussed the transition from theory to practice through an empirical study in the third section.

I-Financial liberalization: concept, approaches and effects

1-Concept

Financial liberalization is usually regarded as the antipode of financial repression. According to Nouriel Roubini and Xavier Sala-i-Martin (1991), financial liberalization decreases the State of enforcement, by lowering the cost of access to external financing and by allowing the development of non-financial economic activity. However, in the case of the Asian countries that have abandoned the economic regime of repression, financial liberalization has been interpreted as a synonym for massive deregulation. Particularly, the free movement of international capital was perceived as a solution to collect more savings. The increase of real interest rates pushes up the investments as well as improves the use of available resources through a better diversification of risk and ease of access of borrowers to fund and therefore stimulate subsequent long-term economic growth.

To summarize, according to this liberal vision of financial system, the role of the State seems to have only one specific function: it must primarily refrain from interfering adversely with the rules of the market. This is the proclamation of the supremacy of the total market, which relegates the status to a single role of stooges subordinate.

2- Effects

The approach of financial liberalization is based on a close relationship between financial liberalization, savings and investment. Releasing the financial sector means to increase the level of real interest rates served on the deposits which may encourage the accumulation of savings and allows the increase of the investment. Similarly, the liberalization of the financial sector can increase the banking intermediation which may be behind the reduction of costs of intermediation between lenders and borrowers.

However, the emergence and the multitude of financial crises that have struck the majority of the developing countries, during the years 90, have opened a new debate about the benefits and the risks of financial liberalization.

It has been argued that a premature financial liberalization and a poorly controlled figure as one of the major factors behind the rise of financial instability and especially that of banks in developing countries. Indeed, the danger becomes more serious when financial openness is not preceded by the macro-economic reforms and is done in a manner evil sequencing.

- ✓ **Financial liberalization and behavior of saving**

On the theoretical level, the effect of financial liberalization on savings remains more or less ambiguous because of the multidimensional aspect of the reform process. Certain aspects, such as the liberalization of interest rates and the supply of new financial products are acting positively on savings. On the other hand, other dimensions, such as the easing of liquidity constraints and the lifting of the framework of the appropriations are likely to reduce the incentive to save. The impact on savings therefore depends on the net effect of these various dimensions of financial liberalization.

Empirical assessments of the impacts of financial liberalization on financial development are for the less diverse. In a study of seven Asian countries, Fry (1978) established a positive and significance correlation between national savings and the real credit interest rate. However, by reformulating the estimates of Fry (1978), Giovanni (1983) leads to different results. The conformity of the relationship between the various measures of savings and real credit interest rate has been established that in less than half of the twelve Asian countries studied by Gupta (1984). On the other hand, the panel was moderated by Diery and Yasim (1993) who found that the real credit interest rate is positive and significant in the constitution of the savings in nine countries in Africa. Bandiera (2000) analyzed the function of private savings in a sample of eight developing countries: in six countries, the regressions between private savings and the real credit interest rate lead to a negative correlation.

- ✓ **Financial liberalization and economic growth**

The link between economic growth and financial liberalization has been proven in the literature for more than three decades. Bagehot (1873), Schumpeter (1912), Goldsmith (1995, 1969), Gurley and Shaw (1955, 1960) were the precursors. Quickly the financial structure became even one of the elements of the strategy of economic development under the impetus of the authors such as Gurley and Shaw (1967), McKinnon (1973, 1991), and recently King and Levine (1993).

McKinnon (1973) and Shaw (1973) presented in their writings the liberalization of the financial sector as an effective mean to accelerate the economic growth of developing countries. However, at the same time, L. Taylor (1983) and S. Van Winjbergen (1983) began to challenge the merits of financial liberalization. Relying on a more structural vision of the economy, they wanted to demonstrate that such a policy only lead to a slowdown in economic growth. The past experience of developed countries and those more current economies of south-east Asia demonstrated that in responding to requests and to offers of financial mutation of an economy, financial liberalization participated by pushing and following the development of the latter. The modernization of the financial systems leaves promises the best in terms of economic growth. The massive flows of capital to the south-east Asian country have quickly led, thanks to a rapid growth of domestic credit and to the efficient processing of savings into productive investment, to the economic performance of these countries.

- ✓ **Financial liberalization and crises**

The change in the framework of the activity of financial institutions combined with the lack of banking supervision was behind the emergence of new practices on the part of banks. In fact, as a result of the liberalization, the State will disengage from any responsibility to the banks, and therefore, the shareholders and the leaders of the banks are increasingly encouraged to take risk because the decline in profits is linked to the rise of competition which reduces the economic value of the bank. This explains the excessive risk-taking by the banks. According to Plihon and Miotti (1999), the decision of additional risk is not necessarily bad for the economy and therefore the banks can finance projects risks including the anticipated yield is high.

The intensification of competition and the development of the financial market will however lead to the reduction of bank profits and due to the decrease in the profitability of traditional banks. The latters will seek new sources of liquidity in order to achieve high yields of speculative nature which explains the speculative behavior of banks. These practices have played a key role in the embrittlement of the national banking systems and the triggering of banking crises in developing countries.

The majority of countries which have led the reforms that aimed at the liberalization of their financial system, have faced a considerable increase in interest rates, a spread made of bank failures, a sharp inflation, a significant external deficits and an instability of foreign exchange. These problems concentrated on the banking sector have affected all countries without exception. In almost all cases, the State found itself obliged to intervene to save the bankrupt bank and to impose a certain degree of control. The costs have been very significant, in the order of 55% of GDP in Indonesia and Argentina, 42% in Chile, 34% in Thailand, 30% in Turkey and Israel, 28% in Korea and 19% in Mexico.

Demirgurc-Kunt and Detragiache E. (1998) have shown that the experiences of the financial liberalization have resulted in a set of countries by a large macroeconomic and financial instability.

✓ **Impact on the social categories**

The financial liberalization, that has concerned the whole of the developed countries, has different impacts on the evolution of unemployment. It has little effects on American unemployment, and seems to be without influence on development of European unemployment. The liberalization of financial markets and the growing role of shareholders in the management of firms have not had the same impact on unemployment in the two continents due to the uneven development of employee shareholding.

The liberalization of trade does not benefit all countries in the same way, which, to a certain extent, explains the rise of internal inequalities that it has been noted in the course of 1990. One of the main criticisms directed to globalization is the growing disparities in wealth and development in the world.

The emergence of the social and solidarity economy seems to be carried out by a fundamental mobile, to correct the social imbalance or minimize the discrepancies in terms of inequality. More the State becomes unreal and more the social economy develops, the shrinkage of the material basis of the State has generated the exclusion and the casualization of a plurality of social strata. The disengagement of the State from the basic services no longer authorizes access of such layers to these services.

According to J. P. Fitoussi and P. Rosanvallon (2011), globalization participated to an economic rebalancing between the north and the south. If the structural inequalities are decreasing between the continents, the structural inequalities and internal dynamics are developing.

The gaps between the more advanced countries and the developing countries are enormous and tend to grow. If we rank countries by GDP/capita or by GNI/capita, there is a magnitude of inequalities between rich and poor countries.

II- Financial liberalization in development strategies

1- The under development in terms of delay

The climate, the lack of natural resources, the geographical situation, can be of the brakes on the development but these causes do not explain everything. The under-development, associated with the third-world, derives its origin from the colonization exercised by the various European powers during nearly five centuries on countries, today considered under-developed.

For the liberal economists, the under-development would be only a delay on the royal route and universal chart of the developed countries. In 1960, the current liberal economist adopted a universal linear concept: "development is a succession of steps by which would pass all countries". According to the heirs of Smith, Malthus and Ricardo, the less development is a delay of development. The openness to global trade and the adoption of a capitalist system should naturally allow the retrofit of the delay with the time.

According to Rostow, development would be an inevitable phenomenon. Some countries have started the process before others; everything is therefore only a matter of time.

In a model consisting of successive and universal steps of development, Rostow analyzed the under development as a delay in the start of growth dynamics. Some stressed the importance of the exogenous factors in this start up, for others, the internal factors, such as the level of savings, constituted the main determinants. But all economists consider the output of the "vicious circle" as a prerequisite for development.

But, under certain conditions, the development could be accelerated. W. W. Rostow in his book "The stages of economic growth" has attempted to release the uniform characteristics of the modernization of societies. According to him, the companies travel in the course of their development through five different steps: after the first step of "traditional society", the economies meet the "Prerequisites for takeoff", meet "this takeoff", cross the step of the "maturity" and finally access to the "era of mass consumption". Following the example of the industrialized countries, all countries have their chances of catching up.

The weakness of this theory is its certitude that, the under-developed countries will arrive at this last stage and they are for the moment starting the pre-take off. However, this theory does not take into account the cultural vision of the evolution of the economy, and it is based on a linear view of history which by this fact is questionable. In fact, these countries that begin their pre-takeoff are not facing the same problems as the developed countries.

For Rostow, some countries can sometimes burn some steps. Canada for example has started the era of mass consumption, without passing by the step of maturity. Australia would have done its starting and its consumption of earth at the same time. The time between each step differs according to each country. England has crossed the five steps in two centuries. Japan has done them in thirty years. The disparities in development are the sign of a delay but not an under development.

According to Rostow, the blocking of the process of development can be attributed to technical causes, of erroneous choices made by the governments such as, incorrect specialization, growth of the public sector with high budgetary expenditure and corruption of policy makers. This perspective is shared by many international institutions such as, World Bank or IMF and attests that if the countries in development paths will rule these difficulties, they should know a more rapid development, comparable to that of the emerging countries.

Another economist, Everest Hagen, describes the process followed by the countries in their progress toward development in six steps:

-Appearance of the first autonomous industries.
-Increase of relations between enterprises.
-Development of the small mechanical.
-Improvement of the quality and ownership of industrial standards.
-Establishment of an industrial complex.
-Development of an industrial system complete in all its complexity.

The liberals support that the existence of a world market characterized by a large freedom of movement of goods and an indisputable competition should enable each country to specialize in the production for which it has a comparative advantage. In short, thanks to the international exchange, each country should be able to supply the best account and in this way, the progress of each should be disseminated to the other.

The liberal analysis imputes to the dynamics of market and competition the role to achieve the necessary changes in the concerned countries. These changes will eventually, sooner or later occur. The under-development will iron itself.

Aware of their delay in comparison to the West, the countries of the South are trying different policies to uneven results. In fact, the developed countries are industrialized countries and most of the under-developed countries will therefore focus their development on the industrialization because it presents multiple interesting consequences. From the end of 1960, the development strategy followed was industrialization by promotion of exports.

2- The industrialization strategy by export promotion

In the years 80-90s, the World Bank, the IMF and the United States, impose the "Washington Consensus" to the indebted developing countries. They must undertake a search of systemic competitiveness by the sanitation of their economy and abandon the mirage of the self-centered model to the benefit of an open growth strategy; the industrialization strategy by promotion of exports.

For the liberals, the enhancement of the productivity and the opening up of the economy, have been achieved simultaneously. International competition has fostered domestic competition.

In general, the policy of promotion is linked to openness to imports. It is under pressure of the World Bank and the IMF that some countries headed this new strategy.

This strategy aims to develop the sector primo-exporter, to increase the export earnings and to articulate activities of all sectors. A portion of the resources also serves to the import of consumer goods and equipment that cannot be produced on site. The industrialization strategy by promotion of exports, has long presented as the royal road to increase output of under-developed countries. The new industrialized countries have as well beyond the stage of developing countries without reaching that of industrialized countries. They are based on the opening to the world market and subscribed to the international prices competition. The aims were to put the emphasis on new exports and to replace the traditional production, by playing the comparative advantages.

To promote exports, the policies used are, exchange rate adjustment, assessment included to reduce the costs, search for markets including signatures of trade agreements, open policy of trade with reduction of the protections to the import, discriminatory tax favoring exports, establishment of free zones, intervention of the State ensuring a workforce docile non-unionized labor and cheap, privatization of activities of the State in order to reduce its influence in the production and increase the role of the market in the economy. The export promotion strategy does not aim to develop a self-sufficient national economy, but, on the contrary, seeks to insert in an optimal way of the international division of labor. The economy may therefore have an industrial structure unbalanced and be organized around a few niches of activities.

This strategy aims to accentuate competition by a price advantage which allowed the meteoric success of global markets, thanks to the use of modern techniques of production, to the purchase of intermediate components at the best world prices and to the quality of a cheap workforce. Some works have measured the consequences of a widespread inclusion of developing countries in the international economy. In his article, Cline (1982) estimated that if all the developing countries had the same intensity of export that the four Asian newly industrialized countries in the first wave in the mid-seventies, the generalization of the export promotion strategy would imply a growth of more than 700% of manufactured exports of the third world. This implies an important problem of absorption of these goods by the industrial countries. Some economists imputed the crisis of these countries to the gap between structure of production and real capacity of their self-consumption.

This strategy has been successful in the case of many countries in Asia such as Korea, China and nowadays most of the other countries of south-east Asia are on the path of development (Thailand, Vietnam, etc.). Today, the South Korea, for example, has become a wealthy and prosperous country.

Governments have ensured not to distort domestic prices in relation to world prices. They became aware of their mistakes and endeavor to prevent competition instead of resisting it. The experience of the new industrialized countries is therefore evidence of a growth transmitted by international trade and of the falsity of the theses of the dependency. However, a strategy for the promotion of exports, allows to accelerate industrial growth in developing countries, and to enhance their economic fragility because of the structural characteristics that it draws, on the other hand. This strategy has proved to be very risky in making the economy of the developing countries heavily dependent on the application and conditions of external financing.

However, the State remains a central element. The planning played an important role in the early stages of industrialization and it is the role of the State, in imposing the standards, the path to be followed and the low wages. The governments of East Asia is proving to probably be more effective in their economic interventions that most of their counterparts in the developing countries.

III- Empirical Validation

1-Review of the literature

The paradigm of financial liberalization has helped to highlight the fundamental differences between the neo-classic approach, supported by Mackinnon and Shaw (1973), and neo-poststructuralist inspired of Keynesian analyzes and developed by Taylor and Van Wijnnbergen (1983). Generally, the empirical work dealing with this subject can be classified into two categories: those who support the hypothesis that financial liberalization promotes economic growth and those who doubt this relationship. Mackinnon and Shaw consider the liberalization of the financial system as an effective mean to accelerate and stimulate the economic growth of emerging countries. In their model, the success of the process of financial liberalization depends on the verification of the following assumptions:

- The effective deepening of the financial sector.
- A positive relationship between the interest rate and savings.
- The perfect complementarity between cash and monetary investment.

The contributions of these two pioneers of financial liberalization have been revised by the work of the first generation of heirs, Kapur (1976, 1983), Vogel and Susanne Buser (1976) and Mathieson (1979, 1980). Their work is attached more to model the original contributions of Mackinnon and Shaw that bring new foundations at the concept of financial liberalization.

The second generation, Roubini and Sala-i-Martin (1992, 1995), de Melo and Giovannini (1993) and King and Levine (1993), expressed the determinants of financial liberalization, and demonstrated the crucial role of financial intermediation at the time of financial liberalization.

De Gregorio and Guidotti (1992) broaden the sample of King and Levine, and shown that when the sample is divided into three groups of countries according to the initial level of income per head, the correlation between financial development and growth increases and becomes significant, as the initial level of income per head decreases. The authors have restricted the sample only for the countries of Latin America. They have found a negative and significant impact of financial development on growth. This result can be explained by the fact that in the years 70 and 80, the Latin American countries have experienced an episode of financial liberalization of rapid financial markets followed by recurring financial crises. Financial liberalization has been operated in a context of non-suitable legal environment and regulation, and therefore has led to a fragile financial system. Similarly, Diaz-Alejandro (1985), shown by analyzing the financial liberalization in the years 70 in Latin America, that the low regulation and the implied warranty of the public authorities have led to an increase in the loans which may reveal a fragile financial system, and not an effective financial system.

Following the failure of the financial liberalization in many developing countries, the neo-poststructuralist models challenge the arguments advanced by Mackinnon and Shaw and their heirs based on the importance of informal financial markets. The neo-poststructuralists claim that the informal sector is more effective than the formal sector. Thus, in the neo-poststructuralist models, financial liberalization, in the sense of an increase in the rate of interest payable, can only reduce the investment and the economic growth.

Van Wijnbergen studied the effects of financial liberalization on economic growth by using the portfolio analysis of households of Tobin (1965). We assume that the households allocate their wealth real X, between the cashed monetary C, the term bank deposits D and direct loans to the productive sector on the financial markets LSI (IF: informal sector). It assumes that these three assets are substitutable and depend on the same variables.

$$C = fc\,(\pi, i, r, Y)\,X \quad (1)$$
$$D = fd\,(\pi, i, r, Y)\,X \quad (2)$$
$$LSI = fl\,(\pi, i, r, Y)\,X \quad (3)$$

For the neo-poststructuralist, households tend to substitute the term deposits to assets of the informal market in response to an increase in the real rate of interest payable. Thus, the arguments advanced by Mackinnon and Shaw on financial liberalization do not cause adverse effects. The financial liberalization can transform into a restrictive monetary policy in the wake of the decline of the overall supply of credits. It is therefore presented as a policy of recession.

In 1999, Klein and Olivei have conducted an important empirical study including a sample of 82 developed and developing countries over the period of 1986-1995. First they made the distinction between the industrialized countries and those in development. Then, they have sought to show the role of the free movements of capital on the financial development and the effect of the latter on the growth. They consider a growth model that takes into account the variable deepening of the capital market, as an indicator of financial development. The results were a bit unexpected since they emit a positive effect of the liberalization on the growth in the industrialized countries which possess a financial developed system, whereas for the non-industrialized countries, these authors did not lead to clear conclusions.

2-Model Results and interpretations

The objective of this study is to identify, empirically, the link that might exist between the growth of economic activity and the policy of liberalization of the financial system.

We have tried at the beginning of this study to provide a response to this question by analyzing the theory. We will in this section address the response empirically by using econometric tools.

- **Spécification of variables:**

The econometrics of Panel data may be considered as the best way to take into account the phenomenon of growth because it provides information in dynamic for a large number of countries. For our study, we used the following variables:

- Gross Capital Formation**:** it is the expenditures on the additions to the fixed assets of the economy, more than the net changes in the level of stocks.
- Annual GDP Growth**:** this endogenous variable represents the annual rate of growth of gross domestic product (GDP). The GDP is an economic aggregate which measures the total production of goods and services of residents and non-residents, regardless of their respective share. Financial liberalization has a positive effect on the growth of GDP.
- External Debt /GDP**:** it is the ratio of total external debt to gross domestic product. The total stock of external debt is the sum of the long-term external debt, the recourse to the credit of the international monetary fund (IMF) and the external debt to cost term. The debt to GDP ratio is a measure of the degree of indebtedness and the relative weight of the service of the debt of a country. This report is higher than the share of production which must be devoted to the service of the debt.
- Democracy policy**:** this variable allows temporal comparisons of economic performance following the political regimes deployed by each country.
- Civil liberties**:** are rights and freedoms that protect the individual from the State. This index measures the democracy of a country. There is a positive link between the degree of freedom in a country and its economic success.
- Adjusted Net Savings: this variable, also known as the real savings, measure the true rate of savings in an economy after having taken into account the investment in human capital, the exhaustion of natural resources and the damage caused by pollution. The theory of financial liberalization implies a growing relationship between real interest rate and savings.
- Inflation Consumer Price: it is the consumer price inflation measured by the consumer price index. This variable expresses the current price of a basket of goods and services in terms of price during the same period of the previous year, to show the effect of inflation on the purchasing power.
- Real interest rate**:** this is the nominal interest rate adjusted by the rate of inflation. It is retained for the analysis of the evolution of bank deposits. Financial liberalization is characterized by a positive real interest rate.

- **Sample and Period:**

We have chosen to work with a sample of 16 countries, of which the decomposition in terms of income or level of development is not unique. Our sample was spread from 1989 until 2006. This choice of the period is justified by the fact that the movement of financial liberalization has guided many emerging country during the last three decades and by the availability of data for some of these countries.

The data were obtained from the CD-ROM *World Data indicators* of the World Bank 2006 and the database CD-ROM of the International Monetary Fund in his update of 2006 (International Financial Statistics, IFS 2006).

✓ **Results and interpretations:**

The evaluation of the effect of financial liberalization on economic growth is presented in the following table:

Dependent Variable: HDI				
Method: Panel Least Squares				
Date: 05/15/10 Time: 3:05 PM				
Sample (adjusted): 1989 2006				
Periods included: 27				
Cross-sections included: 13				
Total panel (unbalanced) observations: 88				
Variable	Coefficient	Std.	T-Statistic	Prob.
GROSS_CAPITAL_FORMATION_	0.015044	0.003764	3.997304	0.0001
GDP_GROWTH__ANNUAL___	0.000793	0.004506	0.175995	0.8607
DETTE_EXTERIEURE___PIB	0.000987	0.000392	2.518154	0.0138
DEMOCRACY_IPOLITIY2	-3.82E-08	1.10E-06	-0.034610	0.9725
CIVIL_LIBERTIES	0.020358	0.015777	1.290386	0.2006
ADJUSTED_SAVINGS__NET_NA	-0.001322	0.003459	-0.382063	0.7034
INFLATION_CONSUMER_PRICE	0.007282	0.001166	6.246400	0.0000
TAUX_D_INTERET_REEL	2.07 E-08	3.94E-07	0.052576	0.9582
R-squared	0.663628	Mean dependent var		0.646598
Adjusted R-squared	0.809195	S.D. dependent var		0.127965
S. E. of regression	0.172122	Akaike info criterion		-0.594724
Sum squared resid	2.370066	Schwarz criterion		-0.369511
Log Likilihood	34.16785	Hannan-Quinn criter.		-0.503991
Durbinwatson statistic was	0.504932			

The results appear conclusive, even if little of financial variables seem significantly in explanatory research on growth factors, especially for the less developed countries.

The first result to put forward is the proximity of our results with the usual literature on growth, and this despite the use of panel data and not as is usually done by estimates in cut. The actual variables that we use (investment rate, rates of enrolment, democracy) appear significant, and the signs of the coefficients associated does not differ from that found by other studies.

The real interest rates have registered an increase between the years 70 and 80. At the beginning of years 90, real interest rates are declining in most countries, but this trend was abruptly reversed at 1994. The removal of financial regulations that maintained interest rates at an artificially low level is one of the factors that have contributed to the rise in real interest rates between the years 70 and 80.

The coefficients of the variables Gross Capital Formation and Inflation Consumer Price have the positive sign expected and are both significant. In fact, the investment is considered the engine of economic growth. Inflation has a negative effect on growth. This coincides with the different theoretical analyzes which consider inflation as a detrimental factor to economic growth.

The theory just as the empirical studies has demonstrated that the determination of the relationship between financial liberalization and economic growth remains largely dependent on some conditions. It is essentially the level of development of the financial sector, the macroeconomic stability and the strength of the institutional framework.

Well that financial liberalization is designed since the work of Mackinnon and Shaw as the most effective solution for getting out of a regime of financial repression and initiates an economic growth, the conclusions drawn and the test of facts show that this policy, to share these challenges, remains a choice more complex and paradoxical. Some countries, such as those of Latin America, have faced banking and financial crises accompanied by declines in growth. By contrast, in Asian countries such as South Korea and Taiwan, where the process of financial liberalization has been progressive, the results regarding the mobilization of savings and the development of activities of financial intermediaries were positive.

The financial liberalization does not generate the positive results that were expected. This paradigm has demonstrated many limits. It has contributed to the emergence of crises in some emerging countries. These failures have come shake the virtues of liberalization and predict the failure of such a development model. In total, the links between financial liberalization and economic growth are complex and uncertain.

Financial liberalization should not be taken as a phenomenon of mode, not more as an end in itself. It is a process which success is linked to internal factors to the economies. Thus, the liberalization cannot obviously succeed without a legislative framework and adequate accounting, without prudential regulation in the behavior of banks and without a dissemination of transparent information.

As Harwood emphasized it (1997), there is no "recipe" to financial liberalization: it is necessary to take into account the financial, legal, political and economic context of the country in which it is proposed to introduce this type of reform. The public authorities have a role to play in this process, particularly regarding the establishment of the appropriate legal framework.

Conclusion

The main conclusion that we have reached is that, in general, the establishment of policies of financial liberalization, which is imposed after a quarter century of economic development, has yielded mixed results. In effect, this new approach is unable to find a definitive and precise therapeutic, necessary for the stability and the development of the financial system. To share these conditions, financial liberalization has become more and more binding and risky.

It is to be noted that the current crisis born in the United States and which has spread to the rest of the world, puts to the test the financial systems of countries in transition and demonstrated their flaws. The rescue measures of certain banks in these countries have marked a return in force of the State in the economy, and particularly in the financial system.

We recommend that to optimize effects of financial liberalization, it is necessary to define a process of flexible, gradual liberalization, and an adapted approach to the particular case of each country. The intervention of the State as a support and a complement to the market at the level of the early stages of the development is also so recommended.

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