Yilmaz Akyüz. 1991. Financial liberalisation in developing countries: a neo-Keynesian approach. UNCTAD discussion paper 36 (March).

and

Yilmaz Akyüz. 1993. Financial liberalization: the key issues. UNCTAD discussion paper 56 (March).

Six major issues were identified:

- neo-liberal economics, proponent of financial liberalization, suggest that:
  - the centre of the financial market is the household; depending on its savings behaviour, more or less financial resources will be available for investment;
  - positive real interest rates may influence households savings behaviour, as long as interest rates are higher than the time preference of households. In this case, households will save to consume more in the future at the expense of present consumption;
  - positive real interest rates also influence the efficiency of investment; given a positive real costs of capital, investors will be careful to only choose those projects which rate of return is higher that the rate of interest;
  - so far, the model assumes that economic agents are price takers and simply respond to price incentives and signals;
  - additionally, the model assumes that financial intermediaries exist to perform the role of intermediation between depositors (households who save) and investors (corporations), that the financial corporations do not pursue their own goals and that they are also price takers and operate in a market environment determined exogenously;

- evidence shows that savings are not particularly responsive to interest rates, as long as hugely negative real interest rates are avoided. Savings are much more strongly correlated with the level of income that with interest rates;

- on the other hand, there is strong evidence that high real interest rates affect the allocation of financial resources very strongly and clearly in three ways:
  - reduces the aggregate level of investment;
  - changes the composition of investment in favour of short-term, high private return projects (eventually with a high degree of risk), which may seriously damage long-term growth prospects;
  - attracts financial speculation and inflows of short-term capital flows, which are usually de-stabilising and add nothing in terms of real assets and productive capacities;

- evidence shows that the propensity to save is higher for corporations than for households. Thus, the financial system should encourage corporations to retain and re-invest profits, reduce the share of dividends paid and avoid altogether the tendency of corporations to acquire speculative financial assets instead of real assets;

- it is crucial that a reasonable level of macroeconomic stability is ensured, in order to reduce uncertainty, risk and speculative instincts, and increase the time horizon of savings and investment decisions;

- financial reform should be linked with industrial policy, which involves that:

- government and business should develop mechanisms of interaction and negotiation;
- support to business must be conditional to efficiency targets determined by industrial policy (ex., technology acquisition and learning, productivity and costs, exports, etc.);
- the financial system should aim at providing low costs and stable capital for productive investment;
- excessive competition and risk-taking in the financial system should be avoided;
- external capital flows (in and out) should be controlled, and short-term, volatile capital should be avoided or minimised and never used to repay long-term debt or sustain long-term investment programmes;
- developing countries should concentrate on the development of a bank-based system;
- prudential regulation and strong bank supervision are an essential part of the financial reform program.