Welfare Gains from Financial Liberalization

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Abstract

Financial liberalization has been a controversial issue, as empirical evidence for growth enhancing effects is mixed. Here, we find sizable welfare gains from liberalization (cost to repression), though the gain in economic growth is ambiguous. We take the view that financial liberalization is a government policy that alters the path of financial deepening, while financial deepening is endogenously chosen by agents given a policy and occurs in transition towards a distant steady state. This history dependent view necessitates the use of simulation analysis based on a growth model. Our application is a specific episode: Thailand from 1976 to 1996.