The stock market and economic development: should developing countries encourage stock markets?

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Abstract

Abstract

In a famous passage in chapter 12 of the General Theory, Keynes observed: As the organisation of investment markets improves, the risk of the predominance of speculation does, however, increase. In one of the greatest investment markets in the world, namely, New York, the influence of speculation (in the above sense, i.e. `the activity of forecasting the psychology of the market') is enormous. ... Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done. The measure of success attained by Wall Street, regarded as an institution of which the proper social purpose is to direct new investment into the most profitable channels in terms of future yield, cannot be claimed as one of the outstanding triumphs of laissez-faire capitalism...[Keynes, 1936, pp 158-159]

Today, however, as a part of a general trend towards liberalisation, deregulation, privatisation, the diminution of the role of the state and enhancement of that of the market which for various reasons is sweeping the globe - the North and the South, what remains of the East as well as the West - an important feature of the development of the financial sector in a large number of developing economies is the very fast growth of stock markets in these countries. The establishment and expansion of these markets is favoured not just by the Bretton Woods institutions, as one would expect, but also by many heterodox economists as well those from the centrally planned economies.

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