Theoretical, Ethical and Strategic Issues in Liberalization and Globalization: The Case of Cross-Border Banking

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We analyzed the fundamental claim of equilibrium theory and the derived claims applied to cross-border banking and showed that the claims lack empirical content. This led us to conclude that it would not therefore, be ethical or prudent for strategically disadvantaged nations such as Nigeria to play the game of international finance on the false expectation that the claims are valid. We also reviewed the recent history of globalization of finance to show that every major banking, currency or sovereign debt crisis has been preceded by a deepening and widening of financial liberalization. The analysis of the international transfer problem revealed that international capital flows are unstable and the upswing gives rise to false expectations and behaviors that amplify vulnerabilities of economies to financial contagion. In the light of the need for rethinking, we evaluated Keynes' vision of the global economy, the ethical standards of the international finance game and, the strategic issues germane to Nigeria's interests.

The paper concluded that unless the individual and global ethical standards change from the triple core of greed, selfishness and hedonism or Nigeria acquires a greater capacity to play to win international finance games, cross-border banking would not produce better result than "the game of development finance".

I. Introduction

It is axiomatic that liberalization has been the dominant philosophy and ideology shaping national and international financial games since the collapse of the Gold Standard in 1971. Economic liberalism has strong foundations in economic thought and policy and it takes pride of place as the orthodox economic thought. Indeed, economic liberalism is arguably, the pillar of much of the national and economic thoughts driving the process of globalization in the last four decades.

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[1] The International Gold Standard established by the Bretton Woods Agreement of 1994 took effect in 1946 with all currencies fixed to the US$ which was in turn fixed to the price of gold at US$35 per ounce. The system was sustained by the pledge by the US government to redeem US$ holdings of central banks with gold at the fixed rate. When President Nixon eliminated the fixed price on Gold in 1971 therefore, the system collapsed (http://en.wikipedia.org/wiki/Gold_standard). After the collapse, nations switched to *fiat* money that is, money declared legal tender by governments.

The post-1971 period has "been the most tumultuous in international monetary history". Yet, economic liberalism remains resilient attracting great support amidst the worse global economic crisis since the Great Depression. Figure 1 shows a timeline of the volatility of financial indicators such as exchange rate, interest rate, asset prices, commodity prices and domestic prices in the era before and during the 1970s and 1980s. From 1980s to date there have been at least *four episodes of global economic recessions* (1990-93; 1998; 2001-2002; 2007-2009) and *at least seven major financial crisis* - 1982 (debt crisis that affected Mexico and developing countries including Nigeria), 1986 (savings and loans crisis in the United States); 1990 (Japan, Sweden, Norway and Finland asset market bubble and banking crisis); 1995 (Mexican crisis); 1997 (South East Asian asset market, currency and banking crisis) and 2007-2009 (global financial crisis)[1]. At the heart of each of the major financial crisis are international and domestic banks and indeed, a majority of the crisis were failures of national banking systems or failures of the global financial system.

Financial crisis is very costly, protracted and contagious. For instance, Curry and Shibut (2000)[2] estimated that the US savings and loans crisis of 1986-95 cost the US tax system between 1989 and December 1999, a total of $153 billion with tax payers picking up $124 billion or 81per cent of the total cost. In addition, 1,043 thrift businesses with total asset base exceeding $500 billion closed down. Hunter, et al (2003) estimated that the banking crisis in the United States and Sweden cost respectively 3 per cent and 4 per cent of GDP to clean up compared to Thailand (42 per cent) and Indonesia (55 per cent).[3] These estimates suggest that financial crisis tend to be far more costly in developing countries than in developed countries. In addition, as suggested by the World Bank and Federal Reserve Bank of Chicago (2002), financial crisis tend to be more protracted in developing countries (Hunter, et al, 2003).

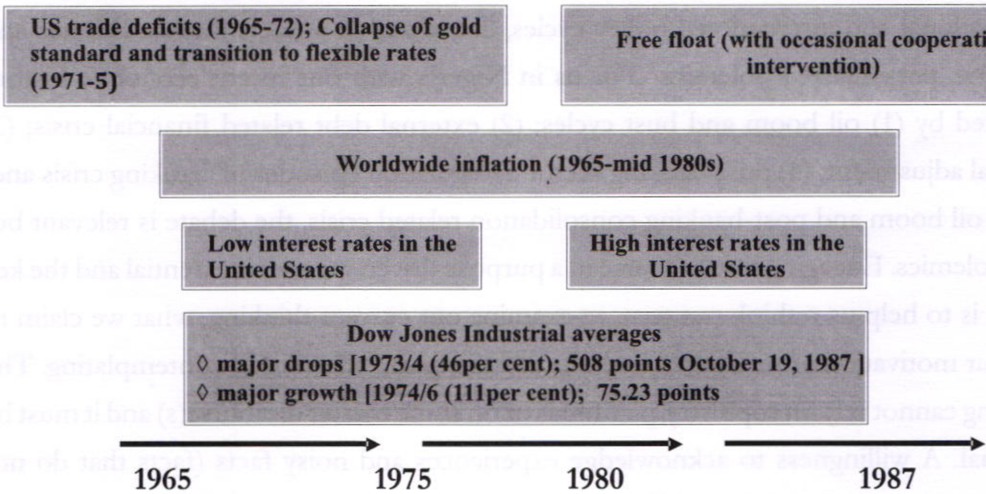
[1] The years represent when the financial crisis began.

[2] http://www.fdic.gov/bank/analytical/banking/2000dec/brv13n2_2.pdf

[3] http://www.fdic.gov/bank/analytical/banking/2000dec/brv13n2_2.pdf

World Bank and Federal Reserve Bank of Chicago (2002) puts the cost at $180 billion

Figure 1: Instability of key prices



Source: Garba and Garba (2001, 2003)

It goes without saying, therefore, that avoiding financial crisis is a wise decision for policy makers particularly those in developing countries. Advocating for greater liberalization seems to run counter to four stylized facts revealed by the seven episodes of financial crisis from 1982 to date. First, all seven crisis in 1982-2009 followed a regime of deepening and widening liberalization. This suggests that deepening and widening liberalization carry with it a risk of financial crisis. Second, the financial crises are systematically linked.[4] Thus, a country entering into a regime of deepening and widening liberalization is more likely to amplify its risks of financial crisis as well as its vulnerability to the virus of financial contagion. Three, financial crises is very costly, protracted and inherently, morally hazardous.[5] A fourth stylized fact from the experience of the global economy in the era of post-1971 liberalization is the growing independence of the financial sector from the real economy like the divide between "Wall Street" and "Main Street".

[4] Show the linkages between Japan and Scandinavian crisis; Japan and South East Asia etc.

[5] The burden of paying for financial crisis falls mainly on those who did not cause the crisis. As the current global crisis is showing, the economic agents whose behaviors are mainly causal to the crisis seem to benefit through large bonuses. Such morally hazardous situations we have argued in Garba and Garba (2001, 2003) are linked to behavior of the United States governments to financial crisis: (a) a historical tendency to shield causal agents from the United States from consequences of their actions while shifting burdens of financial crisis to asymmetrically dis-advantaged countries and citizens.

The stylized facts juxtaposed against the push for greater liberalization raise philosophical, theoretical, ethical and strategic questions. It is thus, not surprising that within academia and within national and international policy cycles, liberalization attracts intense debates and some time, personalized polemics.[6] For us in Nigeria with our recent economic history dominated by (1) oil boom and bust cycles; (2) external debt related financial crisis; (3) structural adjustment; (4) post-banking sector deregulation episodes of banking crisis and; (5) post-oil boom and post-banking consolidation related crisis, the debate is relevant but not its polemics. Engaging the discourse in a purpose driven manner is essential and the key purpose is to help us rethink our past, re-examine our current thinking, what we claim to know, our motivations, our choices and our actions; past, current and contemplating. The rethinking cannot rely on sophistry, platitudes or on some master discourse(s) and it must be contextual. A willingness to acknowledge experiences and noisy facts (facts that do not support preconceived views) would be most appropriate.

If situated within the context of the economic transformation of Nigeria as it ought to; any theoretical and policy introspection ought to be deep, clear and comprehensive. Otherwise, it is unlikely to produce the type of insights that could bear good fruits: *transformative* economic thinking, motivations, choice (strategies and policies) and actions.

One of the additional stylized facts that ought to guide such introspection is, the inconsistencies in the responses of governments in the United States, United Kingdom, Germany, France and other leading members of the G7 to the banking crisis, stock market crash and bankruptcies of major firms with the standardized "Washington Consensus" which the same governments directly and through the IMF and World Bank administered on developing and emerging nations that experienced financial crisis in the 1980s and 1990s. Instead of fiscal austerity and its attendant GDP deflation, the G7 governments implemented very large stimulus packages to avoid GDP deflation and growing unemployment; instead of allowing distressed financial organizations to collapse as they prescribed to developing and emerging countries in crisis, the US and UK governments and

[6] A good example is the Paul Krugman-Chicago School debate. It is so intense that personal issues infiltrated and clouded reason and effective communication of thoughts and values.

their allies bailed out their big banks and, instead of privatization of government businesses, the G7 governments nationalized and acquired stakes in private banks and firms at great costs to their taxpayers.[7]

This paper aims to contribute to the discourse on financial liberalization and its globalization through cross-border banking and, the deeper debate about the limits of the orthodox foundations of economic science. The paper rests on two fundamental claims. The first claim which act clarifies the position the paper is taking is:

> *The theoretical claims of economic liberalism are inadequate and deficient as a means of understanding how to solve current economic problems.*

Thus in the paper, we are not limited to the three sets of theoretical issues that frames academic and policy discourse on cross-border banking: (1) determinants of cross-border banking, (2) impacts of cross-border banking and (3) implications of cross-border banking for the effectiveness of national regulatory and supervisory capacities. Neither are we limited to how the questions are answered within liberal thought. Indeed, we raise questions about (1) the ethical commitments of equilibrium theory, the core of neo-liberal thought, and (2) the strategic implications of neo-liberalism in a conflict-oriented global economy characterized by strategic opportunities owing to asymmetries in political, economic and military power, information, technological capacities, national institutions and, in international trade and financial rules and that of ėffectiveness of enforcement.

The second claim we make which is similar to that which Keynes made in Chapter 1 of the *General Theory*[8] is that the disastrous outcomes associated with episodes of a deepening or a widening of liberalism is strong evidence that the theoretical claims of economic liberalism is not a secure foundation for finding solutions to the concrete problems of today. Keynes

[7] The UK government for instance, nationalized Northern Rock and while using over £400 billion to shore up its financial system mainly through bailout and credit guarantees. Similarly, the US government under President Bush (a Republican) nationalized Bears Stearn and provided a $700 billion bail-out packages to acquire stakes in AIG, Citigroup, Merrill Lynch etc in addition, to bail-outs to the automobile industry (General Motors and Chrysler).

[8] Keynes argues that the postulates of the classical theory are applicable to a special case only and not to the general case, the situation which it assumes being a limiting point of possible positions of equilibrium. Moreover, the characteristics of the special case assumed by the classical theory happen not to be those of the economic society in which we actually live, with the result that its teaching is misleading and disastrous if we attempt to apply it to facts of experience." (Keynes, 1936:3).

focused on the failures of his days – failures to achieve full employment and arbitrary and great disparities in wealth and incomes – finding faults with the tacit assumptions of classical theory which are never satisfied.

Our focus is on equilibrium theory, the core fundamental theory of neoliberal and which drives extensions in thoughts and, the globalization of economic liberalization. Like Keynes, we argue that the claims are invalidated by weaknesses of assumptions but also, by ethical commitments that glorifies greed, selfishness, hedonism and individualism even at the expense of social cohesion and progression.

We analyze, systematize and evaluate equilibrium theory in section III and its applications to cross-border banking after clarifying some key concepts in section II. In analyzing equilibrium theory, we focus on the ethics it is implicitly committed to and the analytic *(homo economicus)* and how combined, it produces a thought that rationalizes selfishness, greediness and hedonism even at the expense of collective interests. In systematizing and evaluating our position, we relate the applications of equilibrium theory to cross-border banking and Keyne's discourse on (1) the transfer problem; (2) the social philosophy of *The General Theory;* and (3) the literature on information economics and games theory relevant to the discourse on cross-border banking. In section IV we highlight some of the key ethical and strategic issues raised by cross-border banking and the main conclusions are drawn in section V.

II. Conceptual Issues

The key concepts of interest are liberalization, globalization, cross-border banking, financial crisis, ethics and strategic choice situation. In clarifying the concepts, we organize the conceptual clarifications as follows:

1. Liberalization, globalization and cross-border banking
2. Financial Crisis
3. Ethics
4. Strategic Choice Situation

II.1 Liberalization, Globalization and Cross-border Banking

The three concepts are related. Of the three concepts, globalization is relatively more complex in its essence and manifestations. The essential characteristic of globalization is the international deepening and widening of the influence of the *dominant* global social, political and economic institutions, ideas, cultures, relations and policies.[9] The process of globalization is thus, inherently driven by the dynamic relations of power. The fall of the Berlin Wall 20 years ago, a victory for the dominating social, political and economic institutions, ideas, cultures, relations and policies gave rise to new states that were more receptive to influences of the dominating social, political and economic institutions, ideas, cultures, relations and policies. As China gains ascendancy, the global influence of its social, political and economic institutions, ideas, cultures, relations and policies would also, gain ascendancy.

Liberalization is conceptualized simply as the *relaxation of previous government restrictions or regulations*. It could be applied to social, political or economic domains. Often, political liberalism and economic liberalism are complements. However, of interest in this paper is economic liberalisation (EL) that is, a set of policies and institutional changes comprising financial liberalisation (FL), trade liberalization (TL), privatization (P), exchange rate liberalization (XRL), capital account liberalization (CAL) and more liberal laws (MLL) that relax entry and exit conditions and grants equal rights and opportunities to national and international economic agents.

(1) $EL = \{FL, TL, P, XRL, CAL, MLL\}$

Even after the recent global financial crisis, liberalization remains the dominant economic intellectual force shaping thought and economic policies in the dominant global economic powers that make up the G7 countries (United States, Japan, Germany, United Kingdom, France, Italy and Canada). Liberalization is usually associated with the neoclassical counter-revolution which gained ascendancy in the early 1970s as the Keynesian revolution declined undermined by (1) its failure to resolve the crisis posed to policy and policy makers by the

[9] In some conceptualizations (ref), globalization is viewed as an *integrating* process. However, while the integration may be a *harmonizing* process in psychology, biology and even mathematics, the integration of business organizations, markets and public policies across national borders is an inherently asymmetrical process that gives rise to strategic opportunities, market failures and unequal gains.

problem of stagflation (simultaneous occurrence of high inflation and high unemployment), and (2) by the neoclassical counter-revolution. Exchange rate liberalisation replaced the Gold Standard mechanism which collapsed in 1971 and between 1971 and 1994, financial liberalization, privatization, trade liberalization and capital account liberalization aided by the victory of the Conservative Party in the UK (in 1979) and the Republicans in the US (in 1980) widened the scope of liberalization in the UK and US. The debt crisis in Sub-Saharan Africa, Latin America and South Asia; the currency crisis in South East Asia, Mexico and Russia and the collapse of the Communist Bloc helped to globalize liberalization. Key multilateral organizations such as the World Bank, the IMF and the WTO, have beginning with the Structural Adjustment Programmes (SAP), been instrumental in globalizing liberalism.

Cross-border banking is a key element of the globalization of financial liberalization originating from the global economic powers of the G7. Cross-border banking (CBB) includes capital flows (CF) which services international trade; commercial presence (CP) of foreign banks and consumption of banking services abroad (CA). Using set notation, cross-border banking (CBB) could be represented as:

(2) $CBB = \{CF, CP, CA, Z\};$

where, Z is any other cross-border provision and use of banking services

This study, however, limits itself to capital flows and commercial presence on the grounds that the dominant forms of cross-border banking in the context of cross-border banking, liberalization would generally involve:

(a) removals of restrictions of entry so that foreign banks could have commercial presence, solicit for business;

(b) prudential guidelines which protect players (investors, depositors, policy holders, etc)and maintaining integrity and stability of the financial system;

(c) adoption of international standards for regulation and supervision (Basel II); and

(d) capital account liberalization (removal of restrictions to entry and exit of foreign capital).

Indeed, the discourse on determinants of cross-border banking will include some if not all in the list of determinants of cross-border banking. Countries that desire to accelerate commercial presence for instance, are advised to provide the institutional and policy environments favourable to global players even including the morally hazardous guarantees of safety nets. It is important, however, both from conceptual and policy perspective to appreciate the fact that cross-border banking is, at best a means not an end. That is, what we know about activities in international banks in all the financial crisis in 1982-2009 cannot be ignored in advocating cross-border banks.

The Nigerian data on the net flows of financial capital associated with trade in goods, services and financial assets are shown in Table 1. The Table shows clearly a net outflow of (1) goods and (2) financial capital. The consistently positive trade balance implies that Nigeria is a net exporter while the consistently negative balances on the invisible and capital accounts indicate that Nigeria is a net exporter also, of financial capital. Indeed, the cumulative net transfers of financial assets from Nigeria in 1999-2007 are about US$128 billion. Clearly, (1) Nigeria is, a viable opportunity for foreign financial service providers and (2) Nigeria offers the opportunity at the cost of domestic absorption which is the sum of private consumption (Cp), private investment (Ip), government consumption (Cg) and public investment (Ig).[10]

Table 1: Balance of Payment Accounts, 1999-2007 (US$ Million)

Year	Balance of Trade	Current Account	Invisible Balance	Capital Account
1999	3521.88	-250.080	-5054.85	3957.36
2000	9408.86	6018.44	-5010.86	-385.45
2001	4435.68	-247.48	-6041.52	-690.48
2002	4137.24	5.735297	-5535.55	-3614.20
2003	7789.72	3838.511	-5498.61	-6616.59
2004	19593.48	15403.15	-6871.28	-6848.03
2005	19517.91	21285.68	-5215.74	-20514.18
2006	11317.78	11204.62	-10829.16	-12376.35
2007	22539.75	11468.58	-28934.26	-2580.34
Period Average	11362.48	7636.35	-78991.83	-49668.26
Cumulative Balance	102262.32	68727.2	-78991.88	-49668.3

Source: National Planning Commission (2009) with source data from Central Bank of Nigeria (2007)

[10] The national income identity is: GDP at market price= Cg +Cp + Ig + Ip + X – M. If we re-arrange, Net Exports (X –M) = GDP at market price – (Cg +Cp + Ig + Ip). Which means a positive trade balance is achieved by lowering private consumption (Cp), private investment (Ip), government consumption (Cg) or public investment (Ig). If investment is sacrificed to run a surplus trade balance to pay for financial services, the real costs is in terms of stunted growth and growth potentials.

II.2 Financial Crisis

Financial crisis is a generic term which refers to the following:

(a) *liquidity crisis* (when demand for money exceeds supply of money and banks are unable to meet their obligations to depositors and creditors);

(b) *stock market crash* (deterioration in financial asset prices);

(c) *bank failures and failures of financial service organization;*

(d) *currency crisis* (when the exchange rate depreciates suddenly and significantly or when a country on fixed exchange rate regime is forced by speculative attacks to devalue); and

(e) *sovereign default* on debt repayment obligations.[11]

Liquidity crisis, stock market crash and bank failures may or may not be contagious. However, currency crisis and sovereign default would have impacts well beyond the borders of the originating country.

II.3 Ethics

The synonyms for ethics include principle, morals, beliefs, moral codes and moral principle which suggests that morality is the essence of ethics. Indeed ethics in philosophy is also referred to as moral philosophy which "involves systematizing, defending, and recommending concepts of right and wrong behaviour" (HTTP://WWW.IEP.UTM.EDU/ETHICS/PRINT/). Ethics (ET) or moral philosophy can also be presented in set notation as:

(1) $ET = \{MET, NET, AET\}$

Where,

MET = Metaethics which investigates the sources of ethical principles and their meanings

NET= Normative ethics focuses on moral standards regulating right and wrong

AET = Applied Ethics which focuses on controversial ethical issues.

[11] This conceptualization is a synthesis of definitions of financial crisis in http://www.highbeam.com/doc/1O104-financialcrisis.html, www.businessdictionary.com/definition/financial-crisis.html and http://en.wikipedia.org/wiki/Financial_crisis

All three aspects of ethics are relevant to the discourse on economic liberalism, hence, globalization of liberalism including cross-border banking. Foundational to liberalism is the individual's right to choose. In equilibrium theory, the individual choosing agent is characterized as a rational, self-interested hedonist with a capacity to make perfect judgement the attainment of subjectively defined material goals. The characterization raises both metaphysical and ethical questions. When human choice is an issue, at least three ethical issues arise: morality (is the choice right or wrong), prudence (is the choice prudent) or foresight and efficiency (is the choice the best attainable?). Understanding the motive forces driving human choices, the social implications and the wisdom embedded in the choice is critical to the stability of human societies.

The notion of homo economicus (economic man or rational man), the analytic for equilibrium theory, embeds an ethical standard for human behaviour. It is an ethical standard that glorifies hedonistic desires and the selfish pursuit of insatiable desires regardless of social consequences. If key players in national and global financial markets are guided by such moral standards, they would exploit all strategic opportunities regardless of the social consequences.

II.4 Strategic Choice Situation

A choice situation is strategic if the payoffs to agents depend on their choices and the choices of others. For instance, in a foreign exchange auction market, success or failure for each bank submitting a bid at any foreign exchange auction depends on the bid submitted by the bank and, the bids submitted by other banks. In such a setting, the agent that ignores other agents and acts as if the choices of other agents do not matter is unlikely to succeed in achieving its subjective goals. A strategic choice situation demands strategic behaviours from players.

Financial markets are strategic and imperfect markets subject to national laws, regulation and supervision by national regulatory and supervisory organizations. With multilateral agreements and negotiations on trade in financial services, neither players nor regulators in national financial markets could act non-strategically if they are to be successful in attaining their subjective goals within national and international laws and conventions.

III. Theoretical Issues in Cross-border Banking

Foundations and Fundamental Claim

Foundational to the equilibrium theory, which supports some of the claims ascribed to cross-border banking, is the model of human behavior, the conception of the economic problem – **scarcity** (limited resources relative to insatiable wants) and choice (because of scarcity, alternative use properties of resources and ability of homo economicus to value alternatives differently). The central claim of equilibrium theory is that decentralized decision making by rational and self-interested hedonists produces socially optimal outcomes.[12]

If the fundamental claims were true, business cycles like the Great Depression, the global economic crisis of the 1970s; the global recessions of 1990-93; 1998; 2001-2002 and 2007-2009 and the seven major episodes of financial crisis of 1982-2009 would not be part of the global economic history. Similarly, exchange rates, capital flows across nations and asset prices would not have been as volatile as they have been. At the least, the business cycles and volatilities would have been far less protracted, less intense and less costly.

It is true that the global economy has expanded rapidly particularly in the 1990s. However, it is also true that poverty, inequality and economic regression has deepened and widened in a majority of countries in Sub-Sahara Africa (SSA), Latin America and South Asia. Inequality is on the increase within nations and, internationally. It seems, therefore, contrary to the fundamental claim, that greater economic decentralization has not been a powerful force for global economic growth, stability and convergence.

There is no consensus on economic liberalism. That is not surprising given that it embeds ethical commitments that not all would find acceptable. In the next sub-sections, we discuss some of the competing claims at the core of disputations about the impacts of cross-border banking.

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[12] The partial and general equilibrium model with decentralized rational and self-seeking consuming and producing hedonists could be shown with the aid of appropriate assumptions and axioms about constraints, preferences, costs and prices to produce goal equilibrium for each agent and competitive equilibrium partial and general that are, Pareto efficient. Several Nobels Prizes in Economic Science have rewarded such efforts (Kenneth Arrow, Gerlad Debreu, etc).

Competing Claims about the Impacts of Cross-border Banking

This liberal line of reasoning applied to cross-border banking gives rise to a set of claims that include:

(a). cross-border banking has positive effects on *efficiency* of the financial system of the host economy that will in turn, have positive effects on economic growth[13];

(b). cross-border banking supports the *development* of the financial system of the host country – that is, better quality of rules and enforcement;

(c). commercial presence will cause economic agents in host countries to have access to international capital;

(d). cross-border banking enhances the *stability* of the financial system;

(e). degree of contestability of markets is a more significant determinant of competitiveness than market structure and actual degree of entry;

(f). competition affects incentives of institutions and banks to innovate; etc.

Equilibrium theory which supports the claims above rests on axioms that are empirically invalid.[14] In logic, when premises are untrue, the conclusions that depend on them cannot be true. Yet, using the "F-Twist argument", Milton Friedman in his *Methodology of Positive Economics* argues for empirical testing of claims as the true test of the claims. The problem with the "F-Twist" is that economics lacks a conclusive testing method. Hence, it ought to be preferable to ensure that claims rests on axioms that are empirically valid.

The statement that agents have knowledge problems is true. This has become axiomatic that rationality is bounded or limited and that as a result, (1) agents cannot optimize and (2) the quality of choices agents make at any given point in time depends on their computational capacities, access to information and information costs.

The problems of adverse selection and moral hazard as well as the principal-agency problem caused by (1) information asymmetries and (2) willingness of agents with strategic advantages to exploit their advantages for private gains means that it cannot be reasonable to assume that commercial presence of international banks will lead to efficiency, growth,

[13] The efficiency gains are in the form of lower costs of capital and higher rate of returns on investment.

[14] The psychological experiments of Kherneman and Tversky, amongst others, show that men and women do not always behave as predicted by the rational choice model.

increased access to international capital or stability of the financial system of a host economy regardless of the host economy, institutions, government and private economic agents.

The literature on market failures reveals that actions by consuming and producing agents have third party effects leading to cases of negative external effects and lower private and social costs leading to overproduction of goods and, marginal social benefits that exceed marginal social costs giving rise to underproduction of merit goods. In addition, when markets are not perfect and information is asymmetrical, strategic opportunities arise that when exploited, lead to sub-optimal social outcomes. The theoretical literature makes cases for government intervention when market fails and when costs of bargaining in situations of reciprocal externalities are prohibitive.

There are no guarantees that governments (1) will act to promote the social good always or (2) have the capacities to effectively intervene. Indeed, many governments have failed to varying degrees. Neo-liberalism use the failure of some governments to argue against even the residual role assigned to the state by equilibrium theory. Indeed, the neo-liberalism which emerged as a counter-revolution in the 1970s was opposed to residual roles for governments even in cases of public goods and merit goods. Yet, neo-liberalism assigns to government the role of implementing liberalizing reforms. However, if it is valid that government is inefficient, its inefficiency would undermine even reform.

It is important to appreciate the logical and evidential challenges to equilibrium theory and, to be prudential (wise), skeptical and carefully and systematically think through policy challenges or seeking greater understanding about social phenomena. At the least, other counter claims ought to be duly analyzed, systematized and evaluated given that the literature on liberalization, globalization and cross-border banking is not one sided.

Some of the counter claims worth contemplating are:

(a). increased competition causes bank's lending behavior to be riskier thus increasing the risk of financial crisis;

(b). competition can have negative or positive impacts on access to banking services;

(c). capital flows impact only a limited set of economic agents while the impact of commercial presence on access to international capital is limited in developing countries;

(d). there is a trade-off (1) between efficiency and stability of the financial system and (2) between financial deepening and stability of the financial system;

(e). the structure of markets (ownership structure and degree of conglomeration) matters for the impacts of cross-border banking;

(f). Commercial presence increases the risk of contagion effects of financial shocks;

(g). Financial liberalization has increased the frequency, speed and intensity of contagion.

Developing countries are more vulnerable to financial crisis, pay far more costs and for much longer time than developed countries. Many countries including Nigeria have not fully recovered from the financial crisis linked to the debt crisis of 1982. In addition, many including Nigeria do not meet the conditions for benefiting effectively from financial liberalization and current account liberalization. It is thus unwise for government and financial regulators to embrace capital account liberalization regardless of the state of the economy or of existence of generally accepted institutional preconditions for financial liberalization. A check list of qualifying preconditions specified by a former Managing Director of the IMF include

(a) a sound domestic financial system,
(b) adequate supervision and prudential regulations,
(c) good risk management capacities in banks and businesses,
(d) greater transparency and
(e) market discipline.[15]

[15] Horst Kohler (2001), "New Challenges for Exchange Rate Policy", Kobe, January 13, 2001

Similarly, a former Deputy Managing Director of the IMF Stanley Fisher affirms that:

> *"The IMF's position has long been that capital-account liberalization should proceed in an orderly way: countries should lift controls on outflows only gradually as the balance of payments strengthens; liberalization of inflows should start at the long end and move to the short end only as banking and financial systems are strengthened."*[16]

The statement indicates that the IMF does not believe that freeing capital inflows and outflows is good strategy for a country without a strong balance of payment position and strong banking and financial system. Nigeria's balance of payments position may have improved in 1999-2007. However, current revelations about lending portfolios of consolidated banks and the insolvency problems seems like a déjà vu to the early mid 1990s banking crisis and, the revelations at the failed bank tribunal.

The International Transfer Problem and Cross-border Banking

Often much is made within the policy cycle in Nigeria about the significance of inflows of foreign capital. Since Keynes discourse of the transfer problem, it ought to be obvious that financial transfers need not be confused with real transfers. Furthermore, it should not be taken for granted that inflows of foreign savings through commercial presence or capital flows would generate responses either by the monetary authorities and economic agents that would accelerate economic transformation in Nigeria.

The crash of the Nigerian stock market has given Nigerian investors, regulators and supervisors experience about (1) the volatility of portfolio flows; (2) the unsustainability of inflows of foreign savings into Nigeria, (3) the dangers of asset price bubbles fueled partly by inflows of foreign savings and partly by greed, expectation failures and regulatory and supervisory failures. The insolvency and credit crunch following the unanticipated withdrawals of foreign savings makes it clear that the aftermath of unsustainable flows of foreign savings is costly. For instance, as foreign savings are withdrawn, asset price crashed, the stable exchange rate was unsustainable triggering devaluations and uncertainties heightened by high exposure of banks to margin loans. The insolvency problems and credit crunch that followed are typical of financial crisis to which Nigeria was shielded hitherto

[16] Stanley Fisher, "Lessons from a crisis", (*The Economist*, October 3rd, 2000).

until it exposed itself by deepening and widening financial and current account liberalization.

Tables 1 and Table 2 show that as Nigeria deepened financial and current account liberalization, in the 1999-2007 era, it was hemorrhaging financial capital through its invisible account which averaged N1.08 trillions per annum and cumulated to N9.72 trillion. In US$ terms the cumulative net exports of foreign savings from Nigeria is US$128 billion, a sum far more than what was invested in Nigeria in the same period.

Table 2: Cumulative External Imbalances, 1999-2007

Account	Average Annual	Cumulative
1. Balance of Trade	₦1.42 trillion	₦12.78 trillion
2. Invisible (shipping, banking, insurance and travels)	- ₦1.08 trillions	- ₦9.72 trillion.
3. Current	₦979.4 billion	₦8.81 trillion

Source: Table 1

The Social philosophy of Keynes' General Theory

Chapter 24 of the *General Theory* is probably the most quoted. Yet, its true essence is completely lost in the neoclassical synthesis (see Garba and Garba, 2002 for argument). Table 3 shows a summary of the core problems, arguments and advocacies. A close analysis in the context of the contemporary world indicates that:

(a) the contemporary society still fails to provide full employment or close the wide disparities in wealth and incomes;

(b) inequalities in wealthy and incomes have grown

(c) the rentier capitalist has grown stronger and more sophisticated; his/her oppressive power to exploit the scarce value has grown in magnitude and in spatial reach enabled by financial liberalization and capital account liberalization;

(d) financial capital has acquired a life and power; probably more powerful than national armies as Thomas Jefferson once held;

(e) the state has been progressively disabled in (1) safeguarding capitalism, (2) enabling the successful functioning of individual initiative and (3) curbing the excesses of private initiatives;

(f) state-private cooperation creates situations of moral hazard that encourages behaviors that render decentralized decision making unable to serve the majority of citizens within nations and internationally without frequent crisis;

(g) individualism has thrived and its values have become more self-oriented and hedonist powered by insatiable desires;

(h) the state has retreated progressively from the 1970s as the liberalism deepens and widens;

(i) no nation has learnt to provide full employment by domestic policies and, ingenious trade and financial devices have been frequently deployed to gain strategic advantages in competitive struggles for market; and

(j) economists, practical men, men in authority, civil servants, politicians and agitators remain slaves of defunct economists.

Keynes did wonder if his vision of a world where nations are able to provide full employment, minimize inequalities in wealth and income, provide sufficient incentives for entrepreneurs to serve the best interests of communities and where no one is exploiting the scarcity value of capital and where nations have no economic reasons to go to fight costly wars. Under a liberal world it has not been realizable. Keynes seemed to doubt whether (1) his vision had sufficient roots in the motive forces that governed society and (2) the relative balance of power between those that would be better off with a world that fits the vision of Keynes and those who would be worse off. With the benefit of hindsight, we argue that the Keynesian was unrealistic because his vision required:

(a) a selfless and superior guardian state;

(b) the effective checking of defects and abuses of individualism through economic incentives without fundamental changes in motivations and ethical standards; and

(c) that Keynes' vision had sufficient roots in the motives that govern the evolution of political societies.

Simply put, Keynes placed far too much trust in the state and in the effectiveness of economic incentives to check abuses and defects of individualism. In addition, he assumed wrongly that his motives converged with the motives that govern the evolution political society.

Table 3: Summary of Chapter 24 the concluding Chapter of *The General Theory*

Key Point	Elucidation
1 Failure of society to "provide for full employment and its arbitrary and inequitable distribution of wealth and income." (p.372).	• Book I, II and III address problem of full employment • Chapter 24 deals with 1. Current inequalities: use taxation to remove inequalities 2. No economic justification for wide disparities in wealth and incomes 3. The growth of capital depends on the savings of the rich 4. However, growth of capital depends not on high propensity to save: no economic justification for great inequality in wealth 5. There are social and psychological justifications: wealth seeking provides (1) incentive for valuable human activities and (2) comparatively harmless channel for otherwise dangerous human proclivities 6. States should prudently allow the game of wealth making subject to rules and limitations provided the average
2 Dealing with the "cumulative oppressive power of the capitalist to exploit the scarcity value of capital." (p.376)	o Future inequalities to be mitigated by socializing capital such that interest rate=marginal efficiency of capital (MEC); both should fall as supply of capital increases such that returns =product costs + allowance for risk + cost of skill and supervision o Euthanasia of the rentier that exploits the scarcity value of capital [note the value of Tobin Q] o No intrinsic reason for scarcity of capital "I see, therefore, the rentier aspect of capitalism as a transitional phase which will disappear when it has done its work" p.376 (a) Target growth in capital until it ceases to be scarce, so that the functionless investor will no longer receive a bonus (b) Use scheme of direct taxation that allows the entrepreneur to channel determination and executive skills to service community on reasonable terms of reward (c) Challenges: (1) balancing inducement of APC with goal of increasing capital supply to deny capital of its scarcity value within two generations and (2) savings by current generation to secure full investment for succeeding generation

3 Role of the state	• Guiding influence on propensity to consume through: (1) tax; (2) fixing interest rates and (3) other means • Socialization of investment • Cooperation with private sector • Extension of traditional functions of governments: necessary to (1) safeguarding capitalism and (2) successful functioning of individual initiative • If effective demand is adequate, average skill and average good fortune is enough. But if demand is deficient only those exceptional skill and exceptional good fortune will succeed and while many with courage and initiative but without those exceptional skill and exceptional good fortune will fail. • Avoid authoritarianism: full employment is gained at the cost of efficiency and freedom. • Democratic government can cure the disease without sacrificing freedom and efficiency (p. 381)
4 Role of Individualism	• Residual before full employment but full when full employment is reached (p.379) • Advantages: efficiency; variety of life (preserves traditions and embody most successful and most secure choices of previous generations- most powerful instruments for a better future); best safeguard of personal liberties • Challenge: purge individualism of defects and its abuses
5 Dealing with the "competitive struggle for market" to avoid wars (p.380)[1]	• Domestic laissez faire and international gold standard constrains governments from dealing with problems of unemployment at home allowing governments only the policy windows to improve balance of trade. • Consequently competitive struggle for markets is a critical means for maintaining and growing national prosperity. • "But if nations can learn to provide themselves with full employment by their domestic policy . . . there need be no important economic forces calculated to set the interest of one country against its neighbors . . . International trade would cease to be what it is, namely, a desperate expedient to maintain employment at home by forcing sales on foreign markets and restricting purchases, which if successful, will merely shift the problem of unemployment to the neighbors which is worsted in the struggle, but a willing and unimpeded exchange of goods and services in conditions of mutual advantage" p.382-3.

"War has several causes. Dictators and others such, to whom war offers, in expectations at least, a pleasurable excitement, find it easy to work on the natural bellicosity of their peoples. But, over and above this, facilitating their task of fanning the popular flame, are the economic causes of war, namely, the pressure of population and the competitive struggle for markets. It is the second factor, which probably played a predominant part in the nineteen century, and might again, that is germane to this discussion." (p.381-2).

6 Dangerous effects of the ideas of economists and political philosophers and slavish attitudes of economists, practical men, men in authority, civil servants, politicians and agitators (383-4)	• what are the motive forces governing the evolution of political societies? What interest does the GT claim to serve and which interests are opposed to it? Which interests is stronger? • "the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else." P.383 o Practical men and men in authority are slaves of some defunct economists o Most economists after the age of 25 – 35 age group are not influenced by new theories o Civil servants, politicians and agitators hardly apply the newest ideas.

Ethical and Strategic Issues

Ethical Issues

That liberalism is committed at the individual level to ethical standards rooted in selfishness, greed and hedonism is well established. For cross-border banking, the international and domestic moral standards are significant. The international ethical standards are embedded in (1) the international rules of financial liberalisation and (2) the behaviours of the most powerful states and the provisions of international banks and financial service institutions. Just as we do in aggregating demand and supply to undertake market analysis, consistency requires that international standards must be consistent with individual standards in a liberalizing context.

In the absence of the international counterpart of the type of state agent envisioned by Keynes, in a world of competitive struggles for strategic advantages, differential capacities of nations and players in international finance would inevitably produce rules that are unlikely to be fair and just and devoid of exploitation of strategic opportunities. That rules are not fair to all nor allow for fair and equal competition is well established (footnote).

The question then is, is it possible for Nigeria given its current status in international finance and trade to play the international finance game and; win?

Strategic Issues

First, what is our experience? As indicated earlier, our recent economic history has been dominated by (1) oil boom and bust cycles; (2) external debt-related financial crisis; (3) structural adjustment and GDP deflation; (4) post-banking sector deregulation episodes of banking crisis and (5) post-oil boom and post-banking consolidation-related crisis. The leading players with the quality, quantity and diversity of endowments that Nigeria have do not have these types of economic history. It is, therefore, safe to assert that unless (1) the individual and global ethical standards change from triple core of greed, selfishness and hedonism or (2) Nigeria acquires a greater capacity to play to win, cross-border banking would not produce better fruits than "the game of development finance".

V. Conclusion

The paper makes and attempts to justify two claims: First, that the theoretical claims of economic liberalism are inadequate and deficient as a means of understanding how to solve current economic problems and by extension, how to play the games of international finance. Second, that the disastrous outcomes associated with episodes of a deepening or a widening of liberalism is strong evidence that the theoretical claims of economic liberalism is not a secure foundation for finding solutions to the concrete problems of today.

We analyzed the fundamental claims of equilibrium and claims specific to cross-border banking concluding that the claims lack empirical content and it would not therefore be prudent to play the game of international finance on the false expectation that they are valid. We reviewed the recent history of globalization of finance to show that every major banking, currency or sovereign debt crisis has been preceded by a deepening and widening of financial liberalization. Using the international transfer problem we showed how unstable and unsustainable international flows of capital are and how the unprepared nation can amplify its vulnerabilities to financial contagion.

We also reviewed Keynes' vision of the global economy, the ethical standards of the international finance game and, the strategic issues germane to Nigeria's interests and explained why Keynes' vision remain unrealized given the ethical standards of international finance. In conclusion, the paper asserts that unless (1) the individual and global ethical standards change from triple core of greed, selfishness and hedonism or (2) Nigeria acquires a greater capacity to play to win international finance games; cross-border banking would not produce better fruits than "the game of development finance".

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