Abstract

At least fifty years the Latin American countries (LAc) had have the hope of development. The economic theory and even the Latin American economic theory of development had establish a large vision of the economic horizon, with strong critics over the neoliberal path. Instead of development LAc have social and economic inequity, the uncertainty in the labor life, the insecurity, the injustice and impunity that became in the majors flagella. In general it could be say that the capitalist institutions of the states are weak, unstable or partners of the main factice powers This paper establishes the critics over the neoliberal model as the predator accumulation process, which transforms the local economies in subsidiaries, achieving a large social fragmentation and growing inequities. Then this paper analyze some of the main proposes of an alternative path, including a relooking of the main regional experiences. Finally, the last part of the paper studies the perspectives of a social convergence in South America, as the main component for the integration process of the South.
Introduction

Months ago Eric Hobsbawm, the famous English historian, titled his article in The Guardian “Socialism has failed. Now capitalism is bankrupt. So what come next? Its answer was simple and forceful: “The future, like the present and the past, belongs to mixed economies in which public and private are braided together in one way or to another”. (Hobsbawm, 2009)

The global economic and financial crisis that explodes in 2007 has triggered the alarms in the economic ideas, encouraging the debates on the policies and strategies for development, as well as the course that maybe take capitalism to the 21st century. Could this crisis be a deeply break in the led finance capitalism model? Which is the real reach of this historical cut that the crisis denotes? For the finance-led capitalism, what is its significance?

At the beginning of this financial crisis, the main insolvency conditions became general during Q4 of 2008 to Q1 of 2009. This insolvency moment shows us that the securitization process, as a key source of the financial system liquidity and the main way to clean up the banks balance sheets, was deeply damaged, but not harmed to death. In order to stop and manage the general collapse and to restrain the massive assets devaluation, the large governments, the CB supports and the changes to the financial accounting rules were the only option to confront the crisis’s high stress moment. The structured finance is one of the most important characteristics of the accumulation regime called financialization, and that is why, the bankruptcy of the structured finance (credit derivatives plus shadow banks) puts in evidence its limitations. The present global financial crisis does not necessarily imply the landslide of this regime that has been very effective for the economic and finance concentration.

This paper analyzes the securitization role in the led finance capitalism model and the form in which it gets develop in the emergent economies. This paper highlights that the neoliberal model is a destructive accumulation process, which transforms emergent LA economies in subsidiaries economies. This paper maintains that this model produces large social fragmentation, growing inequalities and high wasted working force.

1. Securitization in the financialization model and the neoliberal policies in LA economies

Before the outbreak of the global crisis, very few academics and experts had noticed the severe consequences of the structured finance. Some processes had given evidence of the fragility produced by the derivative instruments, like the bond crisis in the United States in 1994 (Borio and McCauley, 1995); the Asian crisis of 1997 (Kregel, 1998); the financial crisis of the Enron era (Aglietta, 2004); the exponential growth of the credit derivatives (Liu, 2002). Furthermore, theoretical-analytical studies, like for example its consequences on payments system (Perold 1995) or the risk of securitizations over the financial stability, or the financial frauds (Correa, 1998, Toporowski, 2000, Partnoy, 2003) were starting to emerge.

The new dynamics in the financial markets that enclosed the last 30 years economic transformations were incorporated into the analysis through thematic studies like the external debt of the developing countries and the 80s debt crisis; the developing
countries external debt securitization and the Baker and Brady Plans; also the analysis of the 90s financial globalization. Moreover, this rise also produced the concept of finance capitalism or finance led-capitalism or financialization (Chesnais, 1996, Aglietta, 1998, Epstein, 2005, Serfati, 2009, Guttmann, 2009).

This global financial crisis was within the theoretical universe of the regulation theories (De Bernis, 1988). Within the framework of postkeynesian analysis, financial crisis were deeply analyzed in Minsky works (Minsky, 1982). Although the instability and the financial crisis were largely studied for this school, the development of the structured finances did not bring singular modifications to their studies until very recently. (Epstein, 2005, Wray, 2009) Nevertheless, Minsky (1987) warned about securitization:

“Securitization implies that there is not limit to bank initiative in creating credits for there is not access to bank capital, and because the credits do not absorb high-powered money [bank reserve].”

The monetarism fighting against inflation created the market trends towards securitization:

Securitization reflects a change in the weight of market and bank funding capabilities: market-funding capabilities have increased relative to the funding abilities of banks and depository financial intermediaries. It is in part a lagged response to monetarism. Inflation fighting by constraining monetary growth opened opportunities for nonbanking financing techniques. The monetarist way of fighting inflation, which preceded the 1979 “practical monetarism” of [then–Federal Reserve Chairman Paul] Volcker, puts banks at a competitive disadvantage in terms of the short-term growth of their ability to fund assets. Furthermore, by opening interest rate wedges, monetary constraint provides profit opportunities for innovative financing techniques…

Bank participation in securitization is part of the drive, forced by costs, to supplement fund income with fee income. The development of the money market funds, the continued growth of mutual and pension funds, and the emergence of the vast institutional holdings by offshore entities provide a market for the instruments created by securitization. (Minsky, 1987)

Securitization came from the US market and hand by hand with the globalization, looked to add new profitable assets around the world for the appetite of the looking-for-a-rent institutional investors managers

There is a symbiotic relation between the globalization of the world’s financial structure and the securitization of financial instruments. Globalization requires the conformity of institutions across national lines and in particular the ability of creditors to capture assets that underlie the securities. (Minsky, 1987)

The securitization is for Minsky one step to possible changes in money, which could be private money

Securitization throws light on the nature of money: money is a financial
instrument (a debt) that develops out of the financing of activity and positions in assets and becomes generally accepted in an economic community as a means of payment for goods and services and as an instrument by which debts are discharged. It is conceivable that in the not too distant future we could be using $100 interest-bearing short-term securities as currency. Private money is a distinct possible future outcome of current developments. (Minsky, 1987)

Towards 2007 the subprime crisis soon reached other assets with high quality mortgage underlying and to other securities linked to auto loans or credit cards; including credit derivatives as CMBS, CDO and CDS. The deregulated securitization created an opaque, fragile and disproportionate financial order, operating a volume of instruments never seen before, away from the central banks and the governments’ regulators control, and with amounts surpassing the commerce and the worldwide production volume.

At the same time the securitization created the most efficient way to transfer growing profitability of very different sources that has been transform in financial assets.

“...the growing global securities trade, managed by the principal global banks, created new markets for different financial instruments around the world. This turned out to be a powerful mechanism for transferring profits as they originated from very different productive, economic and political environments.” (Correa and Seccareccia, 2009)

Latin American economies remained caught in a vice. On the one hand, redistributive public expenditure that would allow for private sector profits in domestic currency has been blocked, while the on the other, the growing presence of global banks and institutional investors has guaranteed capital outflows proceeding from natural and energy resources and the exploitation of the labour force. Securitization has been a key element in this equation, providing necessary liquidity in dollars for these transferences. This leaves Latin American economies with weak to nonexistent monetary sovereignty.

2. The neoliberal model as a predator accumulation process, which transforms emergent LA economies in subsidiaries economies

The neoliberal model policies have dismantled the endogenous growth capacity of Latin American economies, not only because of growing capital transfers and lowered accumulation, but also because of the crumbling of public finances and the bankruptcy of national States. Financial opening and the region’s capital outflows, in addition to the diversion of the public’s income towards interest payments and the imposition of primary surpluses in public budgets, have restricted accumulation and have undermined profits of the domestic companies that depend mainly on the internal market.

The first and most important economic policy imposed by the large global creditors (Washington Consensus) since its first years in the 1980s, (even before John Williamson formulated it), was the reduction of the fiscal deficit. In the second half of the 1990s, with the second-generation reforms, fiscal equilibrium and even higher goals of budget surpluses became demands of adjustment policies.
Diminishing inflation and recuperating payment capacity for external compromises were the primary goals of such policies, signifying a rapid modification of local income distribution and a reduction of local business profit and workers’ wages.

Almost 30 years of these policies have destroyed, although in an uneven manner within the region, not only the sovereign decision making capacity of nation States over their currency, credit, economy, army, and territory, but also their social and political networks that allowed them to construct consensus, legitimacy and governability. These are the questions that can be characterized as a predator accumulation process which are created subsidiaries economies.

However, in some of the largest economies in the region such as Brazil and Argentina, a minimal reconstruction of legitimacy, consensus and governability is happening, conducted by leaders and social forces attempting to move away from the neoliberal model. They recognize that the biggest limit to growth and social and political reconstruction is the ongoing application of IMF policies, although the problem growth limits imposed by the policies aimed at maintaining fiscal surpluses have yet to be debated.

The continental fiscal asymmetry currently determines a growing concentration of income, allowing the United States to maintain a public per capita deficit almost three times bigger than all of Latin America’s combined. Therefore, the region needs to increase its fiscal position by at least five percent of the GDP. This would allow gross investment to increase by more than 15% and would begin to diminish the asymmetries and the huge concentration of wealth created by over 30 years of WC policies.

However, the minimum consensus needed to advance towards overturning the imposed economic and politic vision requires cooperative action, arranged and organized by at least a group of the region’s nations. All of this seems distant from the dominant ideological and political standards that exist today in the region. The weakness and economic bankruptcy of nation States is not a circumstance exclusive to LA or even to developing countries. This weakness confronts many nation States that are incapable of providing answers to citizens’ minimal economic demands and that are constantly pressured to act as lenders of last resort during recurring episodes of financial crisis.

3. A large social fragmentation and growing inequalities

In all international reports, the LA countries appear to be those with greater and increasing inequality. For example, the United Nations Development Programme (UNDP) reports, as well as the United Nations Conference on Trade and Development (UNCTAD) ones, together with the ECLAC and the World Bank’s, portrait Latin America as the greatest unequal region in the world with increasing levels of poverty. Only some of the economies’ branches can be positively articulated with the international trade and markets.

For over more than twenty years (80s and 90s), the Latin Americas’ GDP has poorly increase. In Argentina, between 1980 and 2002, the GDP grew at a .6% rate. In Brazil the average growth between 1980 and 2004 was 2%, while in Mexico from 1981 to 2004, was 2.2%. In all cases, the increase was close to the population rate of growth. In the three greatest economies, the GDP per capita does not register any increase and it
even diminishes between 1981 and 2003-2004. Measured in terms of their respective national currency, the Argentinian GDP decreased at an annual rate of -0.16% from 1980 to 2004, while Brazil and Mexico grew at an annual rate of .4%. Thus, the behaviour of the regions’ major economies measured in terms of the product allow concluding that the conducted reforms did not produce development, and that even the growth is very weak.

Some economic sectors have had significant technological and organizational changes; productivity has increased. Others have been reorganized or displaced by imports. In any case, productive homogeneity has been kept and social heterogeneity has been deepened. It is common to observed a rising incapacity to generate formal employment; in the region underemployment and uncertainty have become usual, increasing substantially migration towards the US and Europe. (Burgueño y Rodríguez, 2002, García Zamora, 2010). Economic concentration and income, as well as the maintenance of the social heterogeneity partly explain the tendency to economic stagnation (Cronemberger Mendes y Teixeira, 2004: 11). In the process of economic concentration the role-played by a group of ETN that have their head offices in some developed countries stands out. A small group of these companies fully control some industries, such as telecommunications, energy, steel, construction, aluminium, banking, mass media, foods, and drinks, among others. In the history of Capitalism there are lessons about the negative consequences of allowing the lead of economic and social processes only for the interest of a very small number of businessmen and financiers. The positive results in terms of the GDP growth are obtained when the minimum interests - and not so minimum- can be added to those of many and can be considered for the conduction of the economic realities. (Hobsbawm, 1998). In Latin America, the increasing weight of these transnational companies aggravates the problem of consumption fragmentation that characterizes the region’s societies. The consumption pattern is another obstacle for development and gets reinforced with the high levels of income concentration.

Nevertheless, in some southern LA counties, democratically elected governments are moving away from the Washington Consensus agenda. Argentina, Brazil, Ecuador, Bolivia, Uruguay, Venezuela and more recently, Paraguay, are taking measures to push growth from the internal market, with tough redistributive policies and higher wages. Although the processes are very different and few have had advances in topics for development cooperation, results are impressive when public policies that stop transfers are instrumented, ending with higher levels of profitability been retained.

3. The main proposes of an alternative path

In 2009, after six years of regional growth, a contraction of 1.7% was registered and that ‘…would suppose the GDP per capita contraction of around the 2,8 percent (CEPAL, 2009: 9). The global economic and financial crisis appeared in the region at the end of 2008 and beginning of 2009, with the exports’ prices decreasing and the global and internal credit contracting. Recovery in 2010 is closer in those less opened economies that have an important public banking system, such as Brazil, Argentina and Uruguay. However, as in other countries, economic recovery, especially in companies’ and banking profitability, has not comprised employment’s rate revival.
In fiscal issues resistance can also be observed. Besides a more flexible policy handling over the fiscal deficit, in Brazil there are temporary tax reductions on industrialized products that are used in motor vehicles, electric home appliances and construction material. Income tax for individuals is also been reduced for those who earn up to 875 dollars monthly (CEPAL, 2009: 50). However in Mexico, in 2010 the income tax and the VAT increased. Apart from these measures, a systematic increase over gasoline and gas prices for individual consumption has been applied, with a tax collecting aim.

To reclaim a path of growth with justice, fairness and total law enforcement in the middle of the global crisis is an enormous challenge, even for those governments elected democratically and that proceed with a complete opposite agenda to that of the WC. Nevertheless, it seems important to firstly take a step towards the recovery of the monetary and fiscal sovereignty. In that sense, modifying the profound securitization and to modify the financial structures seem as an urgent task. Thus, it is necessary to push for formulas that help retaining the internal savings, locally and regionally, as well as to sustainably expand the investment financing. It is also important to reconstruct the local financial structures and to develop a collaborative system of regional fiscal and financial institutions.

Social requirements need to be covered in order to allow men and women to replicate
their production capacities. Taking into account their interests in government tasks implies the consideration of social needs. In LA these needs required the transformation of production conditions and of agricultural workers, the incorporation of technical advances, a universal education system that goes beyond elementary levels, a universal health care system, and the dissemination of technical progress thorough out the entire productive system. From this conception, development and democracy converge.

Employment, feed supply, health and education - the interests of those within the lower tiers, democratic demands in total sense - are development consumption. ‘Is a consumption that allows to generate mental and social change within the population in order to establish sustainable and cumulative growth… it allows or is part of the transition between a relatively weak productive per capita structure to a relatively higher one…” (Correa & Vidal, 1998: 96) according to the production conditions that prevail. This is to consume and at the same time, boost the country’s production capacity. The satisfaction of demands from those under is a reality for the creation of development and promotion of democratic governments.

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