

Latin America & Financial Crisis

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- Levy Economics Institute
- GEM-IWG Summer Workshop
- July 2, 2009

*“Currency is the science of economy
what the squaring of the circle is to
geometry, or perpetual motion to
mechanics”*

William Stanley Jevons
Money and the mechanism of Exchange, 1875

Hypothesis: internationalization of financial circuits

- Latin American History:
- Integration to the international markets
- Integration to the financial circuits

Non-neutrality of money

- Alfred Mitchell-Innes: “What is Money? & “The Credit Theory of Money” (*Banking Law Journal*, 1913 & 1914)
- Knapp: *The State Theory of Money* (1924)
- Keynes: *A Treatise on Money* (1930)

Chartalism

Neutrality of money

- Karl Menger “On the origin of Money” *The Economic Journal*, Vol.2, No.6 (Jun.,1892), 239-255.
- Milton Friedman: “*The Quantity Theory of Money: A Restatement*” (1956)
- *Money falls from helicopter*

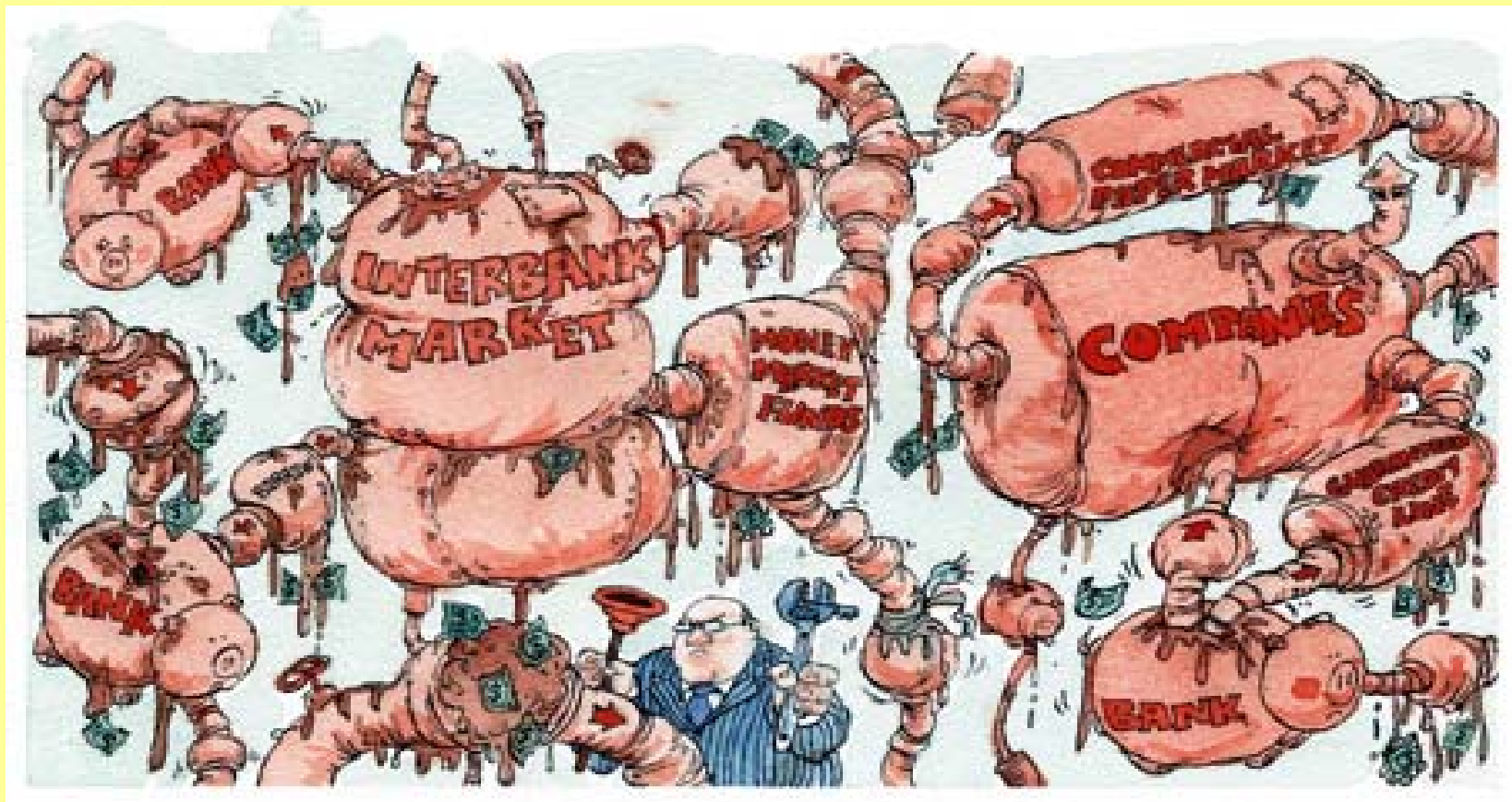
Bretton Woods System:

- Regulated monetary system

Post-Bretton Woods:

- Deregulation and liberalization financial process
80s & 90s
- [Rustines sur le “Titanic” de la finance globale](#)
- <http://www.monde-diplomatique.fr/2009/04/RIMBERT/17031>

- “Can “It” -a Great Depression- happen again?
...Instability is an observed characteristic of our economy. For a theory to be useful as a guide to policy for the control of instability, the theory must show how instability is generated. The abstract model of the neoclassical synthesis cannot generate instability. Once this is done, then instability can be shown to be a normal result of the economic process. Once instability is understood as a theoretical possibility, then we are in a position to design appropriate interventions to constrain it”.
- Can “It” Happen Again?
- Hyman Minsky, 1982



Commodities price crisis

(2008-2009).



Financialization and
securitización

Sopa de Letras

alphabet soup

- Roubini:
Structured Finance Glossary
Making Sense of the Alphabet Soup

NEW DERIVATIVES

**Credit
Default
Swaps
(CDS)**

**Vehículos
de Inversión
Estructurada
Ligeros
SIV-lite**

**Vehículos
de Inversión
Estructurada
(SIV)**

**Obligaciones
de Deuda con
Colaterales
(CDO)**

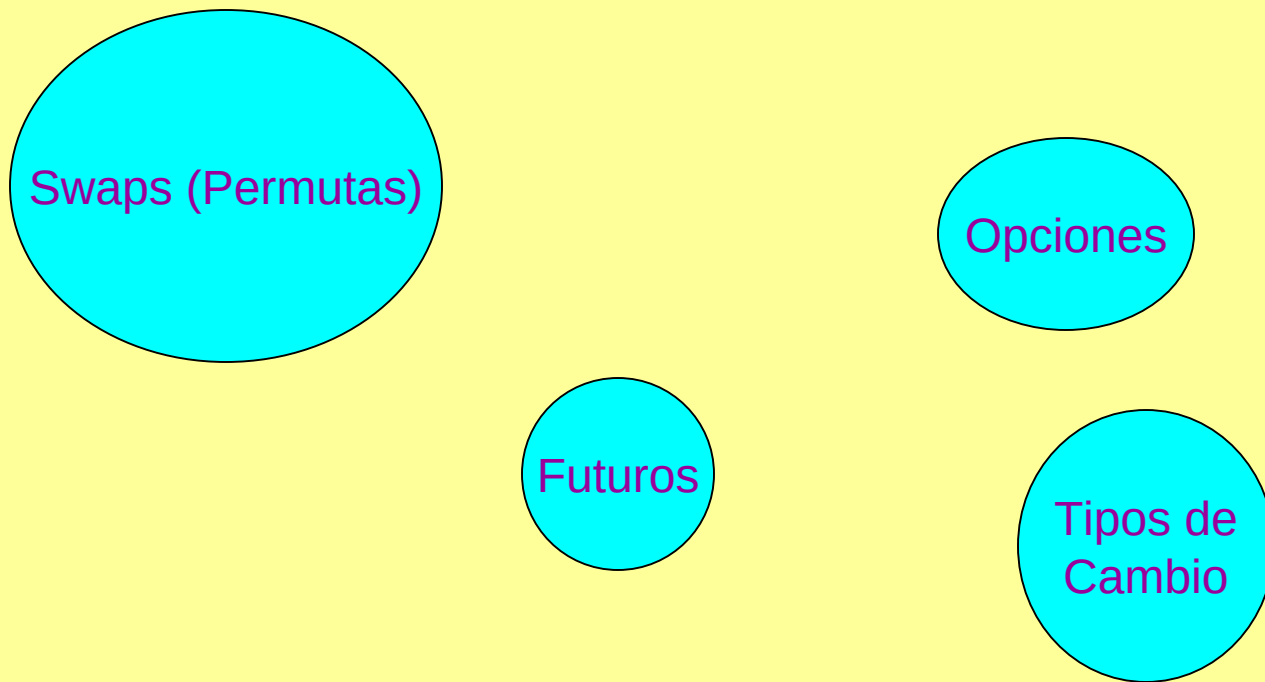
**Valores
respaldados
con Activos
(CDS of
ABS or
ABCDs)**

**Valores
respaldados
con hipotecas
(ABS/MBS)**

**Activos
respaldados con
Papel Comercial
(ABCP)**

**Obligaciones
de
Deuda de
Proporción
Constante
(CPDO)**

Traditional derivatives



**PRINCIPALES BANCOS COMERCIALES DE EU
Y SUS CONTRATOS EN DERIVADOS
VALOR NOCIONAL
AL 31 DE DICIEMBRE DE 2008 (\$ BILLONES DE DÓLARES)**

BANCO	TOTAL ACTIVOS	TOTAL DERIVADOS	PORCENTAJE DE ACTIVOS CONTRA DERIVADOS¹
			%
JPMORGAN CHASE BANK NA	1.69	81.16	2.08
GOLDMAN SACHS BANK USA	0.16	39.93	0.40
BANK OF AMERICA NA	1.43	38.86	3.69
CITIBANK NATIONAL ASSN	1.14	29.62	3.86
HSBC BANK USA NATIONAL ASSN	0.18	3.45	5.15
WACHOVIA BANK NATIONAL ASSN	0.58	3.39	17.07
WELLS FARGO BANK NA	0.55	1.87	29.53
BANK OF NEW YORK MELON	0.16	1.15	14.13
STATE TREET BANK & TRUST CO	0.14	0.65	22.08
SUNTRUST BANK	0.17	0.29	59.48

¹ Aquí la relación es inversa, es decir, porcentaje que representan los activos totales ante los contratos de derivados totales de cada banco.

Fuente: Comptroller of the currency administrator of national banks
(Reporte del primer trimestre de 2009)

Deregulation and liberalization process during the last 3 decades

- Devaluation(70s),
- External Debt Crisis (80s),
- Banking Crisis (90s),
- Argentina (2001),

- Latin America will experience the financial crisis with greater intensity during the next few years.
- The structural contradictions in which its development model is based will deepen for several reasons.
- In the framework of the process of securitization and financial innovation

Latin America???



Economic, political and social reasons.

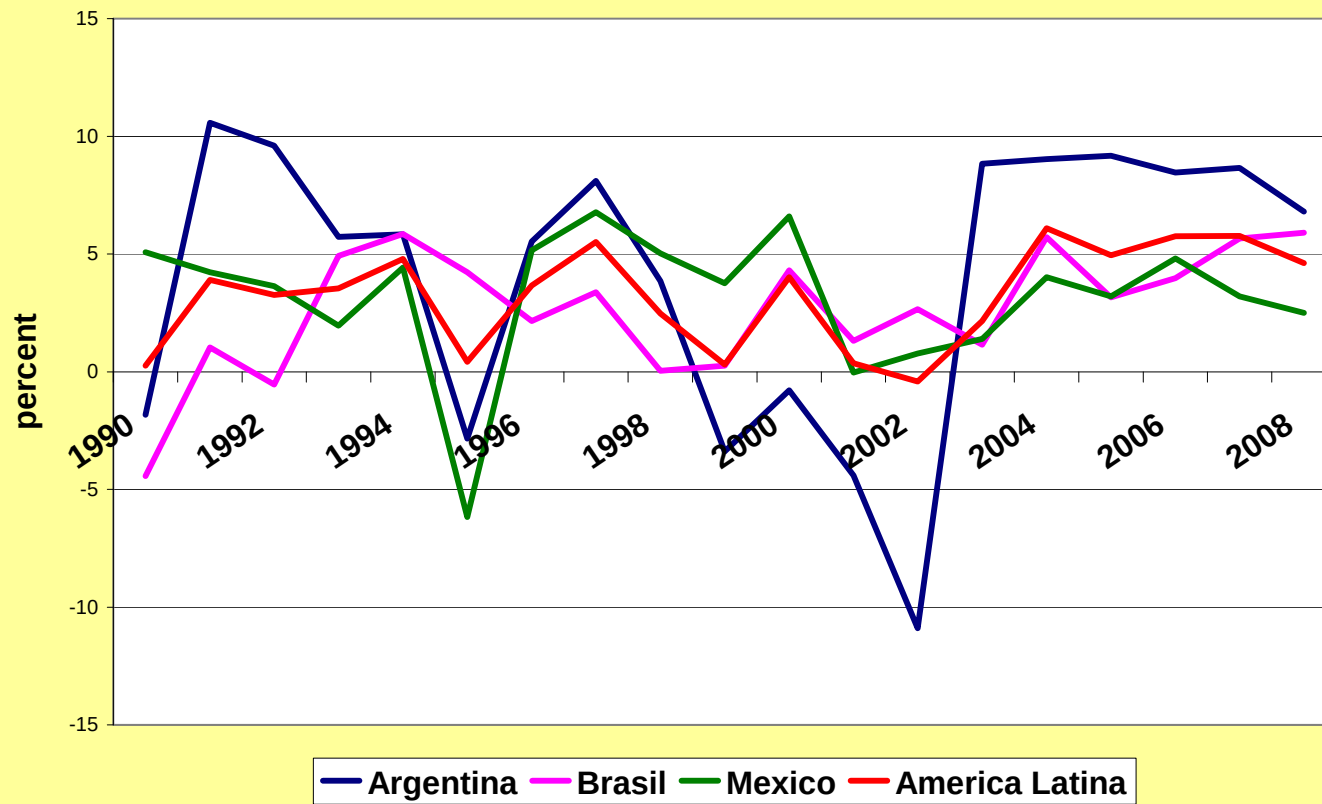
- Exporter of primary products
- High prices were result of the high financial speculation
- The lost of sovereignty of the Central Bank
- Foreign penetration of their banking systems
- Public and Development banks
- Competitiveness because the lack of a monetary policy of development.

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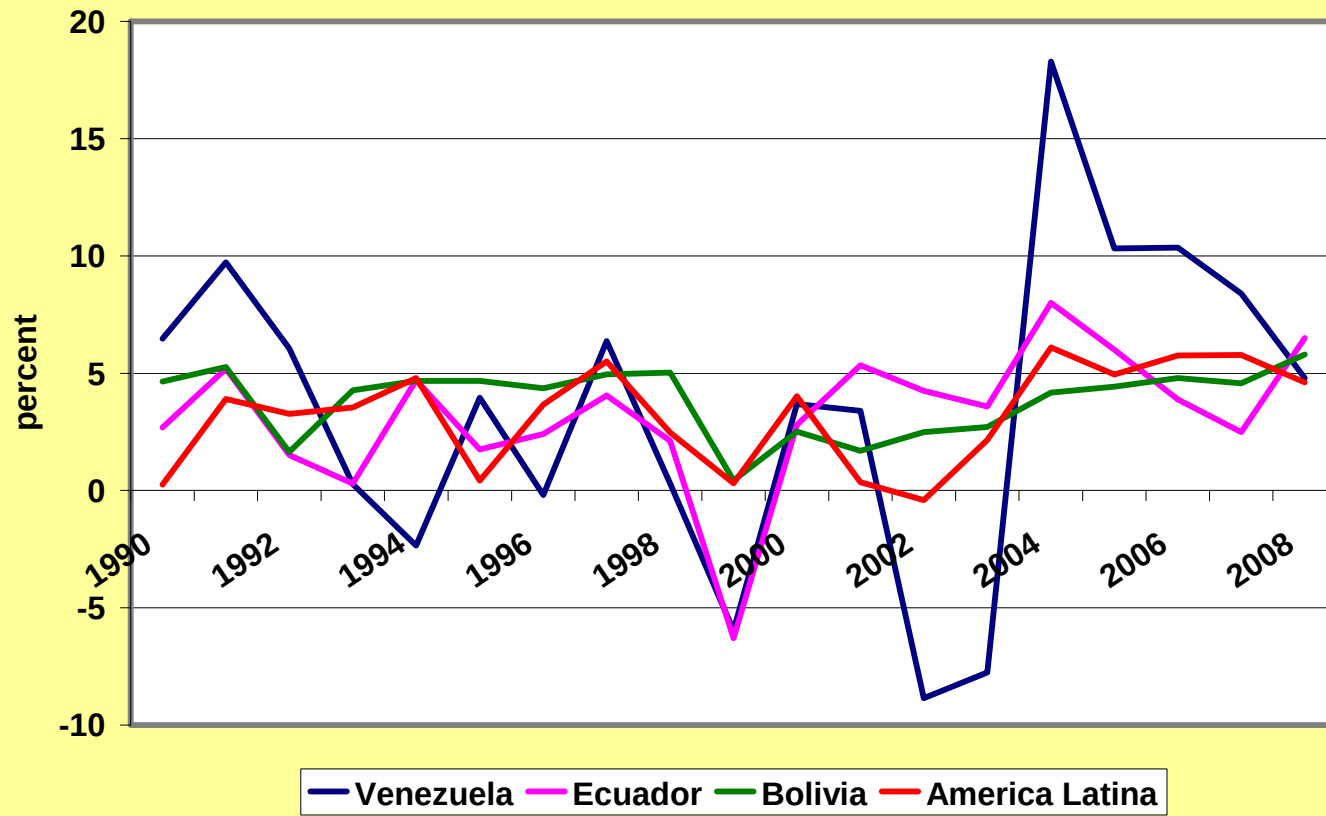
- ECLAC publication:
- 2003-2008 the region has been growing at an average of close to five percent.
- Unemployment and poverty rates diminished.
- Remittances occupied an important place.
- Macroeconomic equilibrium.

- However the same publication mentions that
- “...these results will not be repeated in 2009...
- Growth projections for 2009 are significantly lower than for the period 2003-2008.
- In view of this situation, the governments of the region should make every effort to deploy countercyclical policies in order to ward off and even sharper economic decline.
- The growth rate for Latin America and the Caribbean is projected to be 1.9% in 2009 based on a relatively optimistic scenario in which the existing crisis situation gives way to a gradual improvement in the second half of that year.
- The regional unemployment rate will rise from an estimated 7.5% in 2008 to between 7.8% and 8.1% in 2009.

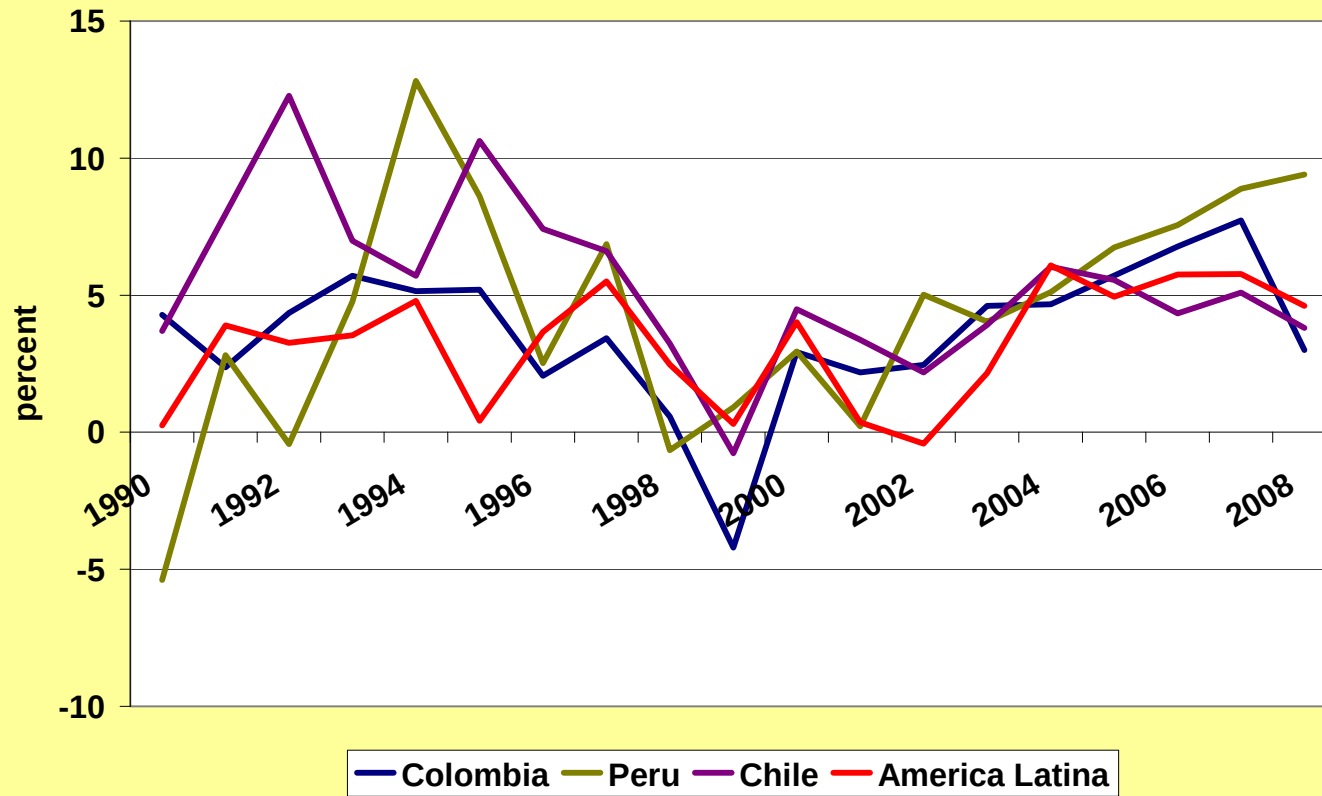
Economic Growth 1990-2008



Economic Growth, 1990-2008



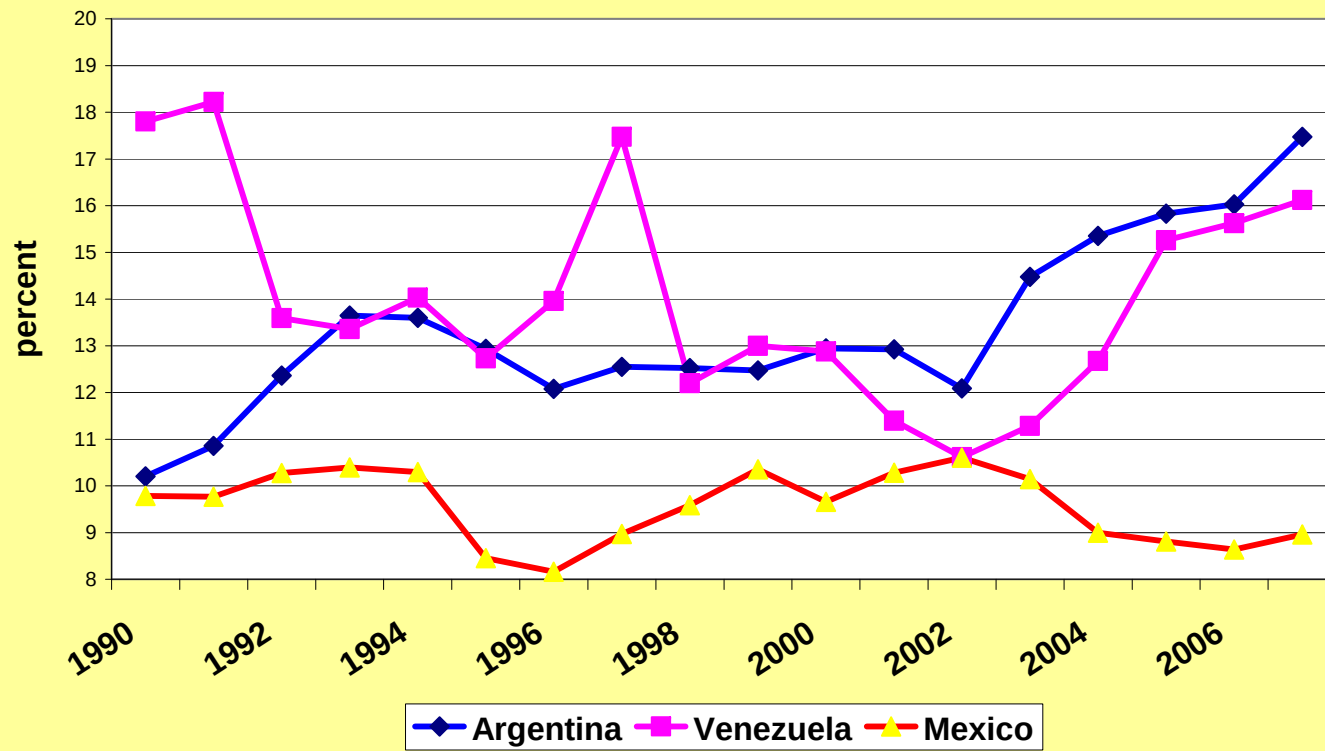
Economic Growth, 1990-2008



- Second:
- Exporter of primary products
- Unable to carry out the technological changes in order to be able to invest in productive projects to satisfy its internal markets as well as a more equitable insertion in the international market.
- 30% of total fiscal revenue comes from oil and natural gas production (Venezuela, Colombia, Ecuador, México and Bolivia).

- Argentina, Chile, Colombia and Peru: 18% of total fiscal revenue comes from oil, gas, copper and food prices.
- ECLAC predicts a fall in the fiscal revenue of these countries from 24.7% of GDP in 2008 to 22.3% for 2009.

Fiscal Income (central government) as GDP, 1990-2008



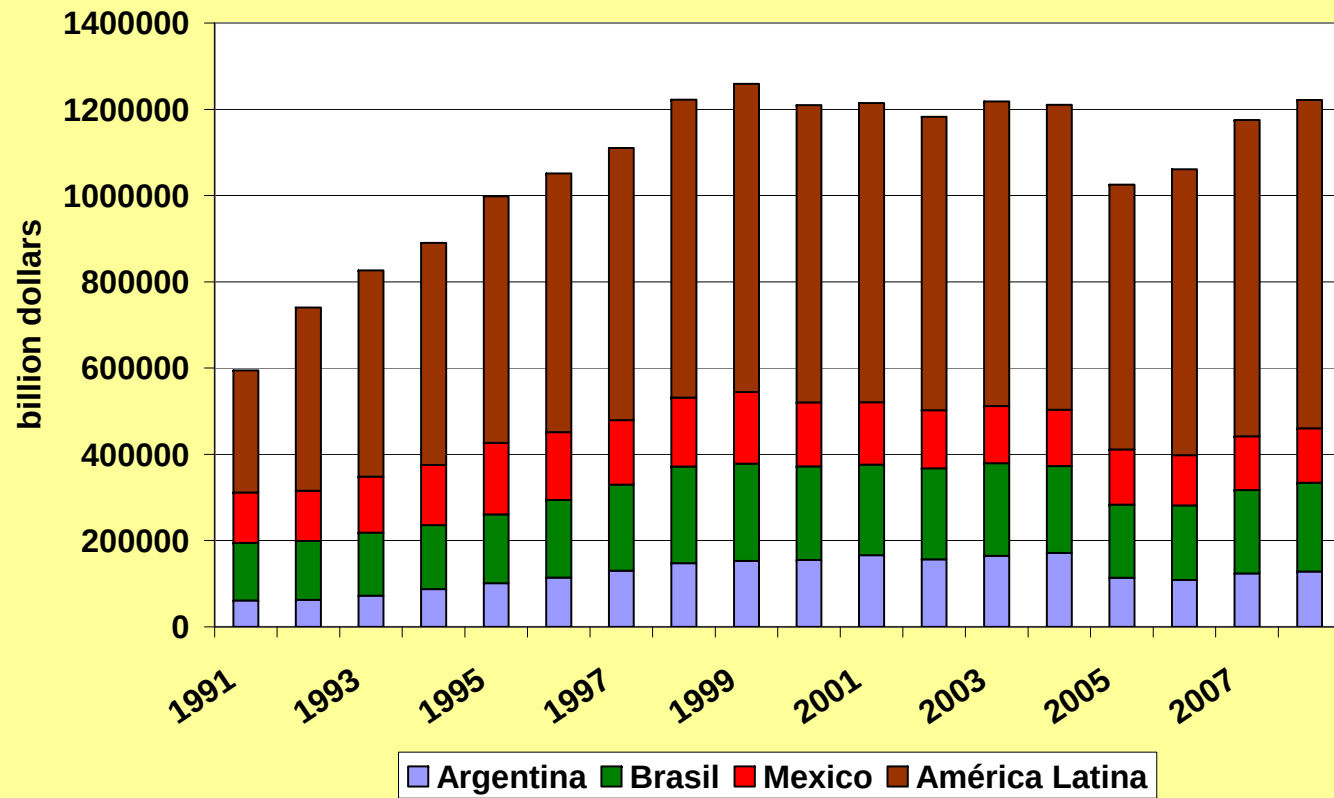
- Third:
- Central Bank changed the economic development aim
- This monetary policy of some countries changed in favor of fiscal equilibrium and zero inflation.
- These policies led in some countries to the dollarization of their economies and even to maintaining foreign exchange policies that overvalued the national currencies in relation to the dollar.

- The loss of sovereignty at the Central Bank was clear in Argentina and Ecuador. This has not allowed for monetary policies that would contemplate the use of job creation as the main policy instrument to spur growth.
- That is, the function of the central bank as an “employer of the last resort” has not occurred in practice and what is behind the discourse is more a policy of job creation via foreign investment, via exports and lastly, welcoming remittances from our emigrant women and men.

- Fourth
- With the boom in the Latin American region the question is
- What did they do?
- Did they create more jobs?
- Did they increase public spending?

- Answer:
- One of the most controversial points was the way of taking advantage of it from the fiscal point of view.
- External public debt was reduced.
- Central Banks increased their reserves.

Total External Debt, 1991-2008

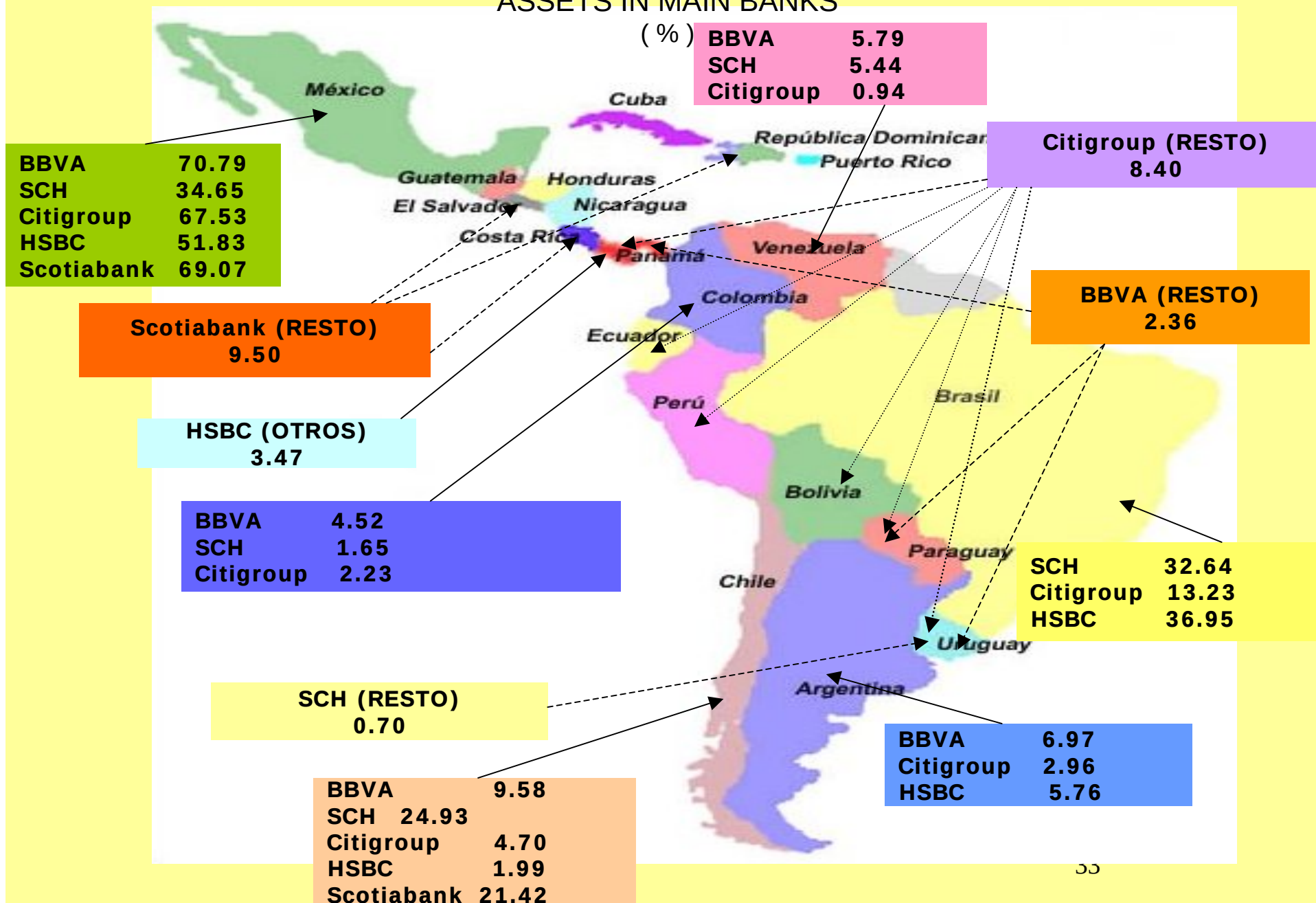


- Fifth:
- The public or development banks, designed to finance the public sector, major infrastructure projects, and the country's development have been displaced by commercial, often foreign banks and the capital markets whose objectives respond to private and not priority interests of economic development promoted by the state.

- Development banks:
- 1950s-1960s
- 40% & 65% assets
- 1980s-1990s
- 25% & 50% assets
- Securitization: mutual funds, hedge funds, pension funds, insurance companies and non institutional invertors assumed major importance in terms o financing on a macroeconomic level.
- Microfinance

LATIN AMERICA ASSETS IN MAIN BANKS

(%)



LATIN AMERICA PROFITS IN MAIN BANKS

(&)

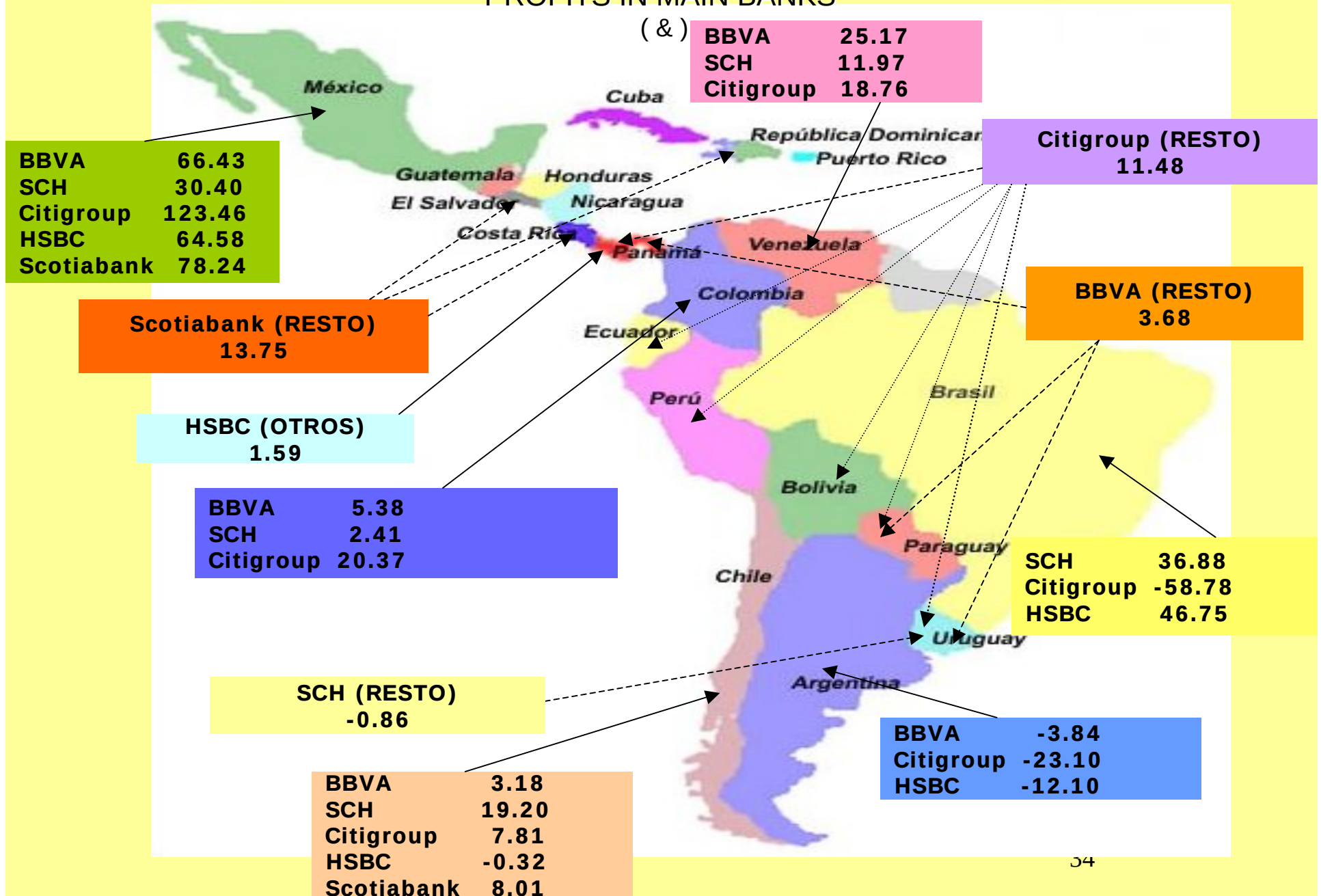
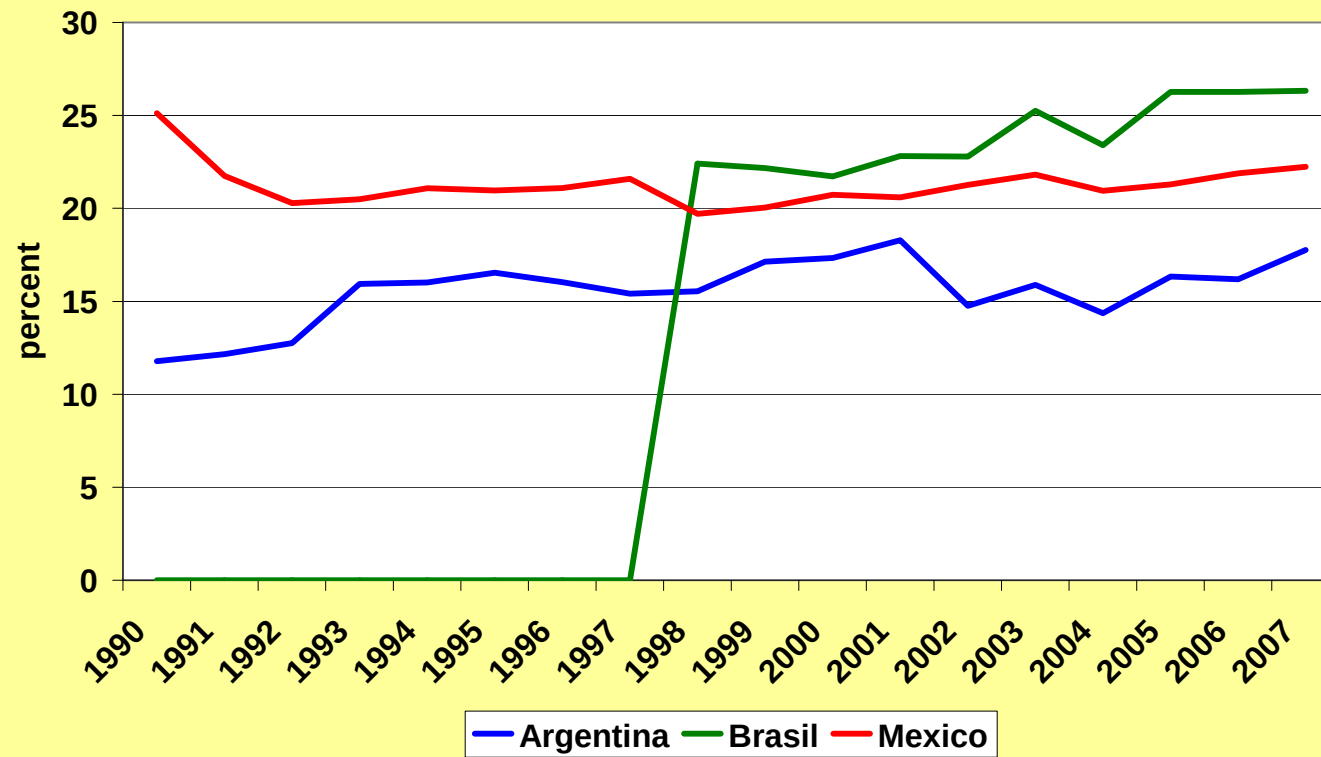


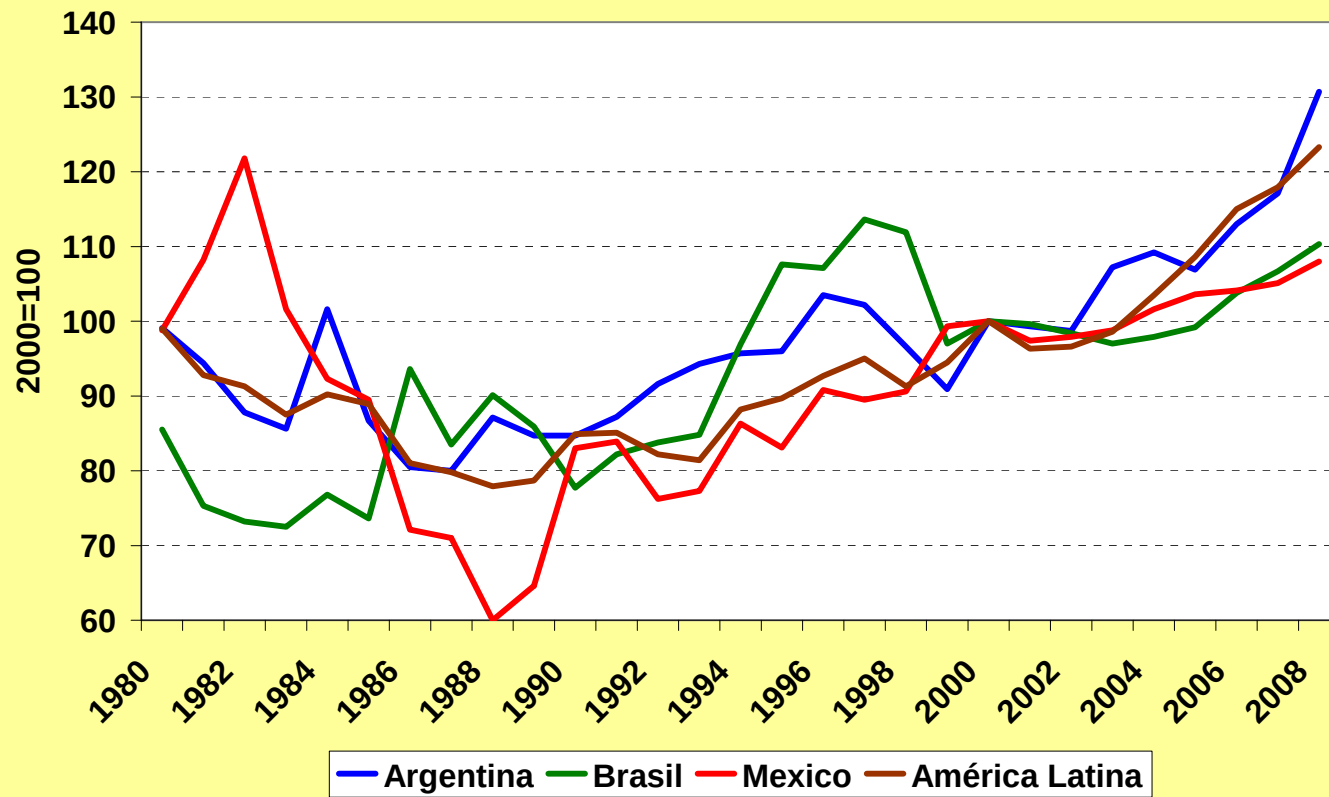
CHART NO. 4 PROFITS OF THE MAIN BANKS IN LATIN AMERICAN 2006 MILLIONS OF DOLLARS					
	BBVA	SANTANDER CENTRAL HISPANO	CITIBANK	HSBC	SCOTIABANK
Argentina	27.80	22.8	14.20	-34.80	n.a.
Brazil	n.a.	218.40	-117.40	206.20	n.a.
Mexico	760.00	360.40	540.90	191.60	199.90
Chile	34.30	264.50	19.30	2.10	17.40
Colombia	52.70	-1.40	4.50	n.a.	n.a.
Venezuela	92.40	112.80	27.10	n.a.	n.a.
**Others	91.89	2.10	12.17	9.40	45.66
TOTAL	1059.09	979.60	500.77	374.50	262.96
Source: Own elaboration with data from Latin Finance, 2005 and América Economía, 2006. **Others: BBVA: Panama, Paraguay, Peru, Uruguay; SANTANDER: Uruguay; CITIBANK: Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Panama, Paraguay, Peru, Uruguay; HSBC: Panama; SCOTIABANK: Costa Rica, Dominican Republic, El Salvador, Panama, Peru.					

- Sixth:
- Public spending

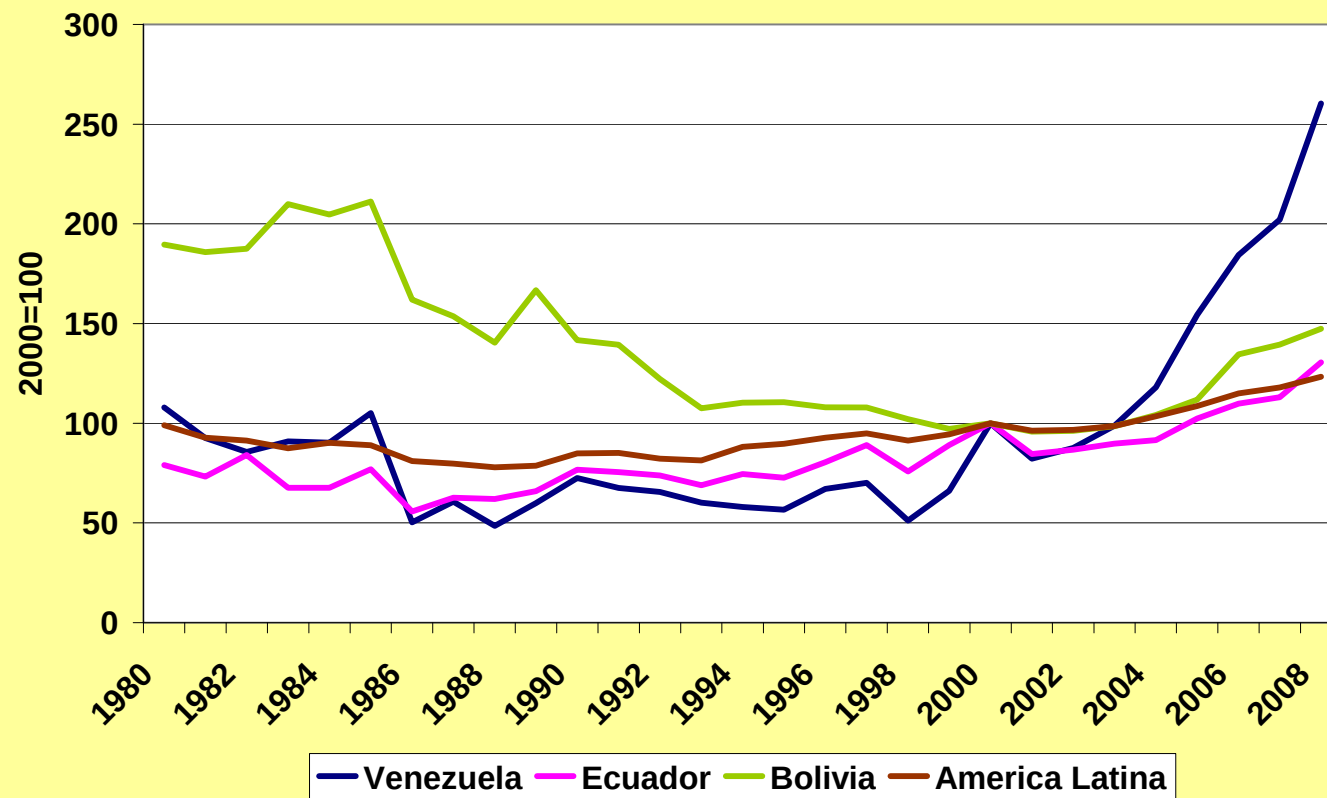
Public Expenditure as GDP (central government)



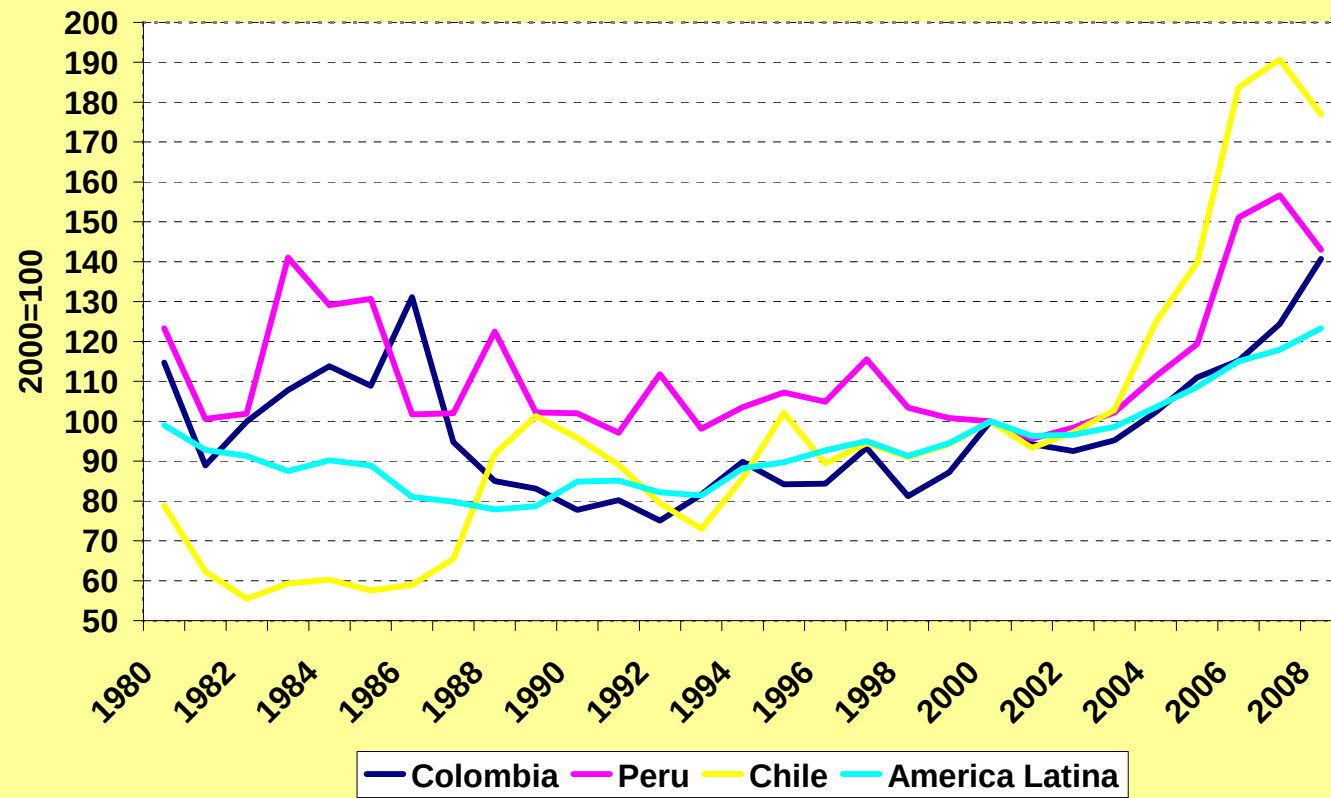
Terms of Trade (goods) 1980-2008



Terms of Trade, 1980-2008

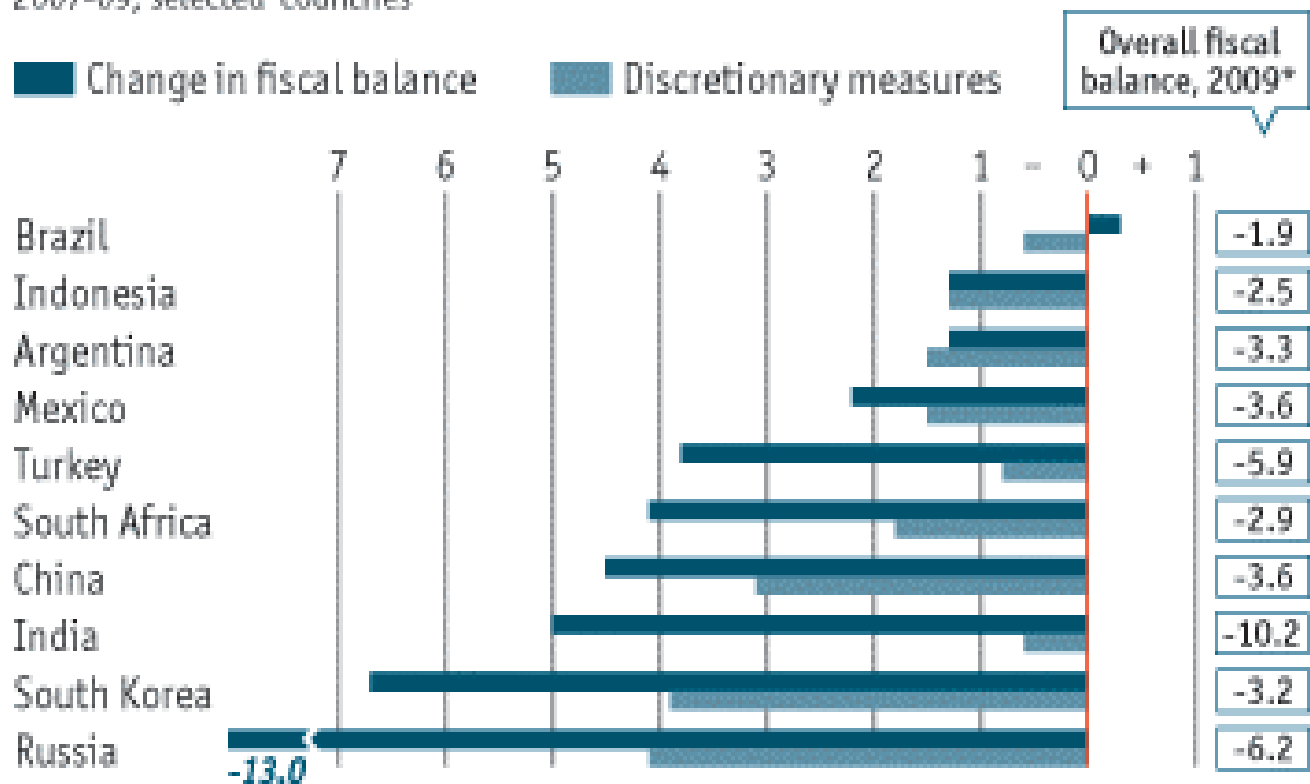


Terms of Trade, 1980-2008



The big easy

Fiscal-stimulus measures of emerging-market G20 members as % of GDP
2007-09, selected countries



Source: IMF

* Forecast

ILO Forecast

- 3 billion people over the world were employed in 2008,
- 1, 200 million were women (40%)
- Women unemployment 7.4% (10 y 22 million)
- Men unemployment 7.0% (14 y 30 million)

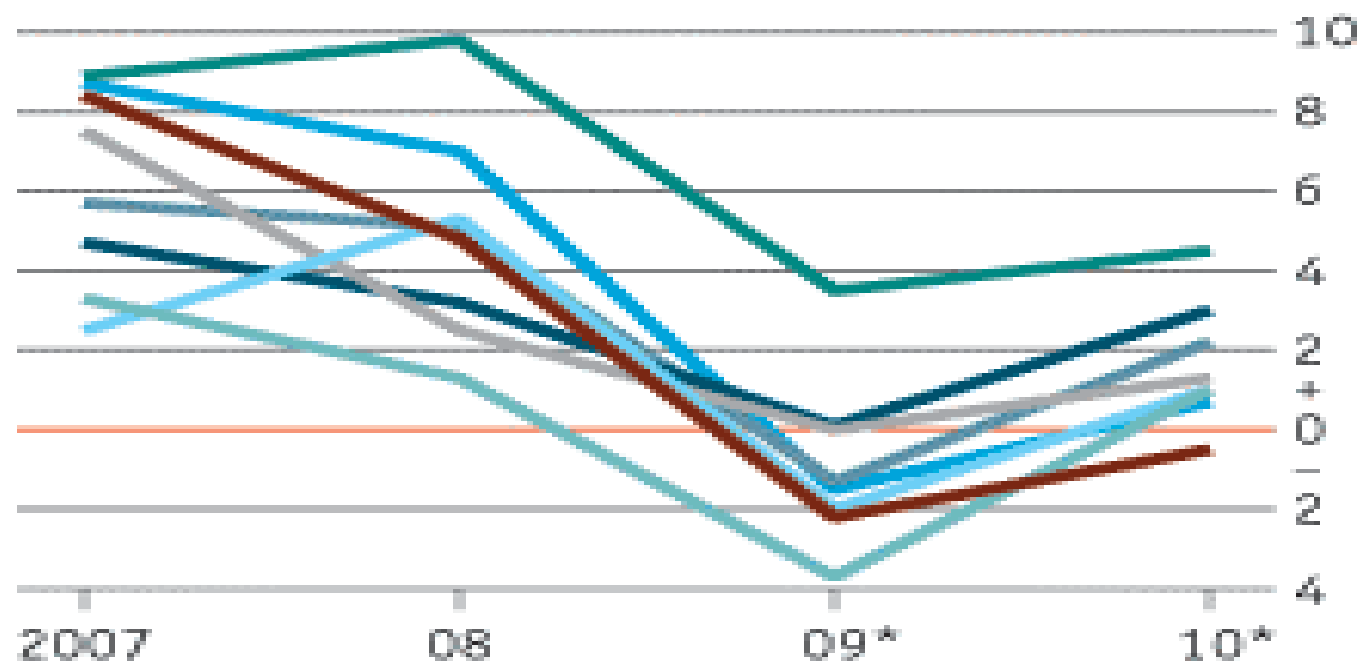
CEPAL Forecast

- 5.5 % 2006
- 4.6% 2007
- 4.6% 2008
- 1.2% 2009
- FMI
- 1.1% PIB

Latin lunch

GDP, % change on previous year

Peru	Colombia	Argentina
Chile	Ecuador	Venezuela
Brazil	Mexico	



Source: IMF

* Forecast

Hypothesis

- The last 40 years, women have increased their essential role in economics, politics and social issues.
- Women participation, from the economy through the job market, to the public life, are attached to the structural change of the capitalist pattern.

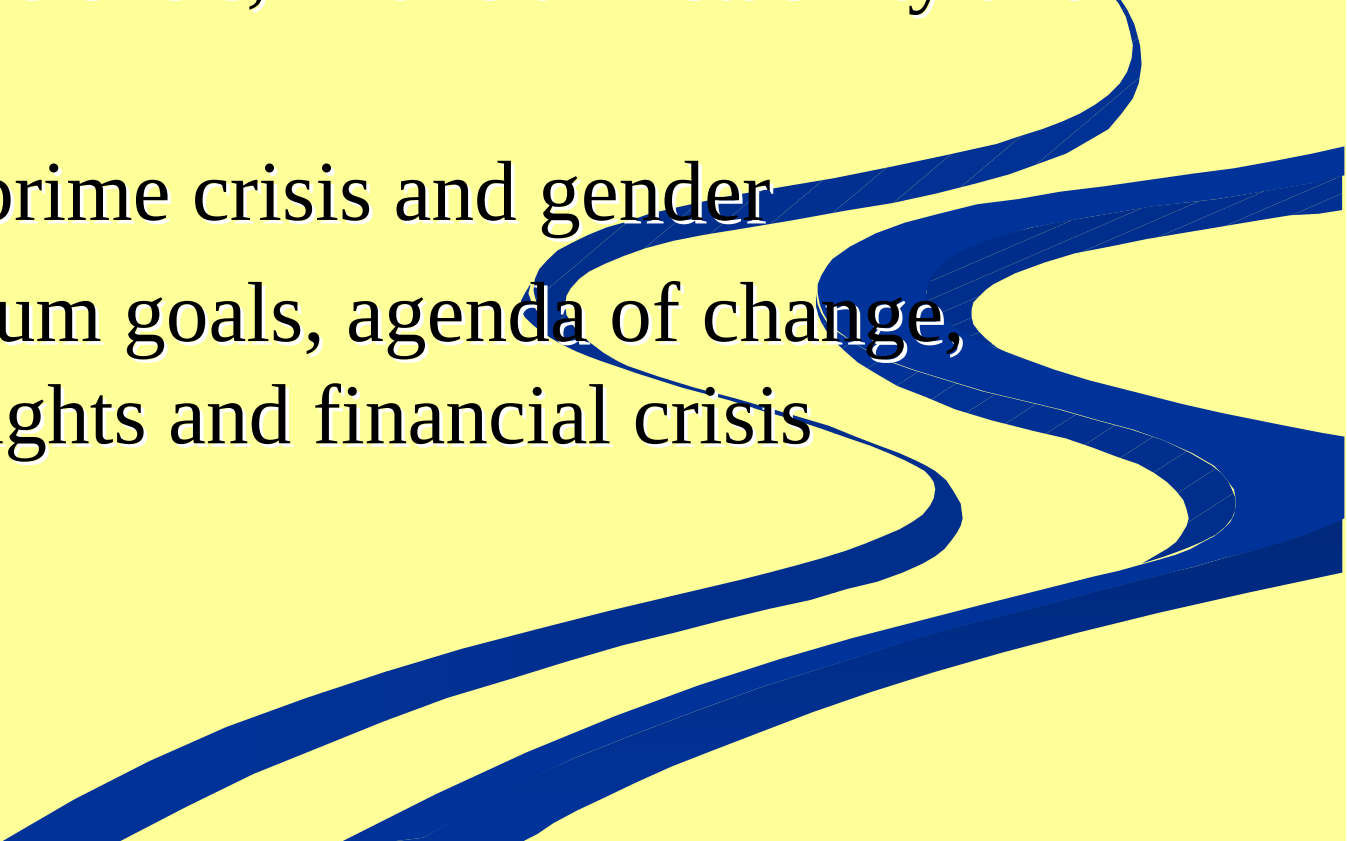
- Under the feminist point of view, the unequal relations between men and women are the result of the market forces and the non symmetric reproduction of power.
- To determine the disadjustments, of the asymmetric relations of power it is very important to divide the analysis in the levels micro, meso and macro

The Global Development Finance Report 2009 The World Bank

- Inflows to developing countries:
- 2007: 1.2 trillion
- 2008: 707 billion
- 2009: 363 billion drop
- Growth:
- 2007: 8.1 %
- 2008: 5.9 %
- 2009: 1.2%
- big economies have prevented systemic collapse, they stress the importance of concerted global action while the crisis is still underway.
- “To prevent a second wave of instability, policies have to focus rapidly on financial sector reform and support for the poorest countries,”

How to understand the crisis??

- Crisis and vision from the south-south
- Latin America and its recurrent instability.
- Crisis in the accumulation process
- Crisis of the primary model of exports
- Crisis of the hegemonic economical thinking
- Crisis of the financial accumulation pattern

- Gender and crisis: development of the recession
 - From the “American way of life” to “good living”
 - Economic crisis, financial instability and gender
 - The subprime crisis and gender
 - Millennium goals, agenda of change, human rights and financial crisis
- 

Why the economy is unstable?

- The ghost of John Maynard Keynes and the fragility in the macroeconomy
- Hyman Minsky
- “Minsky moment” the time when a financial freakiness turns into panic



The recurrent financial instability

-

Gender and crisis: Global development of the recession

- Decrease of the income of women “home chiefs”
 - Decrease of the remittances
 - As months go by the projections from Cepal and the IMF have worsen the Latin-American perspectives
 - Power and Millennium goals
 - Poverty
 - Inequity
 - International Trade
- 

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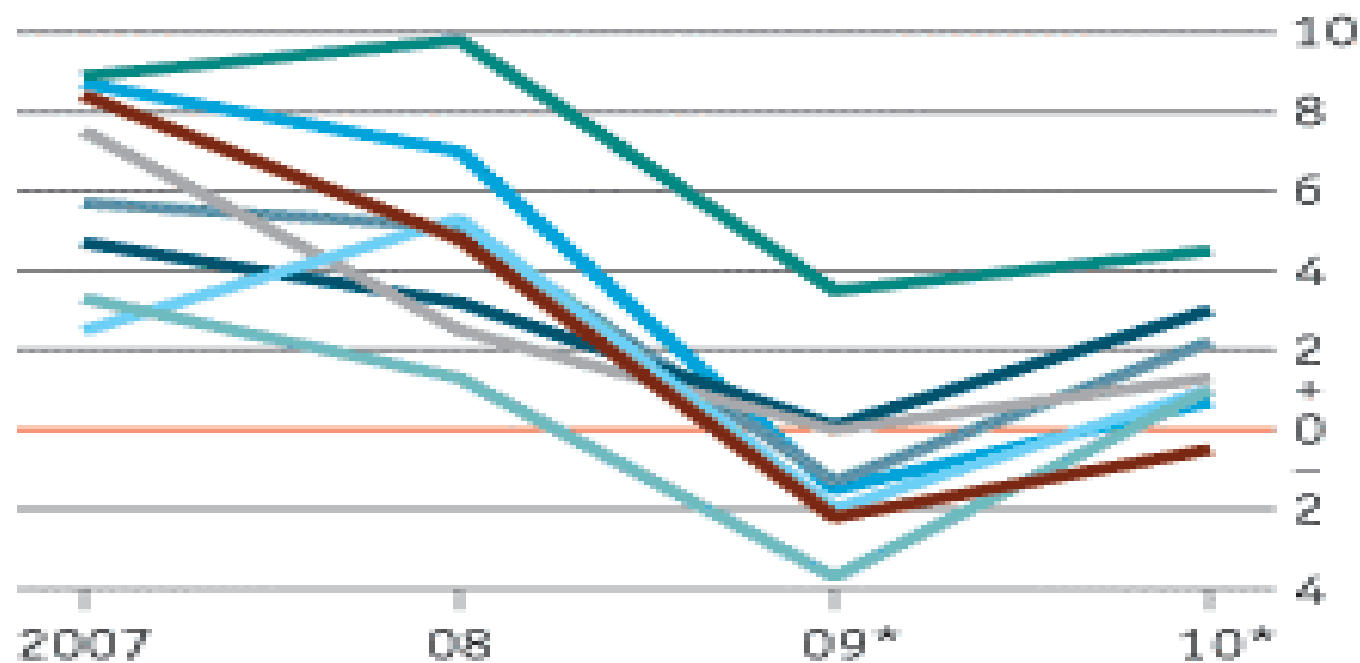
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Brazil	Mexico	



Source: IMF

* Forecast

Economic crisis financial instability and gender



The subprime crisis and gender



Millennium goals, agenda of change, human rights and financial crisis



Keynes “ghost”

- Rescue measures
- **Fiscal measures**
- **Green economy**
- **And... the gender perspective?????**
- **Keynes offers us the best way to think about the financial crisis**





From “American way of life” to “Good living”







'It is a gloomy moment in history. Not in the lifetime of any man who reads this paper has there been so much grave and deep apprehension; never has the future seemed so dark and incalculable. In France, the political cauldron seethes and bubbles with uncertainty. England and the British Empire are being sorely tried and exhausted in social and economic struggle. The United States is beset with racial, industrial and commercial chaos---drifting we know not where. Russia hangs like a storm cloud on the horizon of Europe----dark and silent. It is a solemn moment and no man can feel indifference, which happily no man pretends to feel in the issue of events. Of our own troubles, no man can see the end.'

- Harpers magazine- October 10, 1857.