

Global Structural Crisis and South-North Alternatives: A Latin American view *

Pedro Páez Pérez

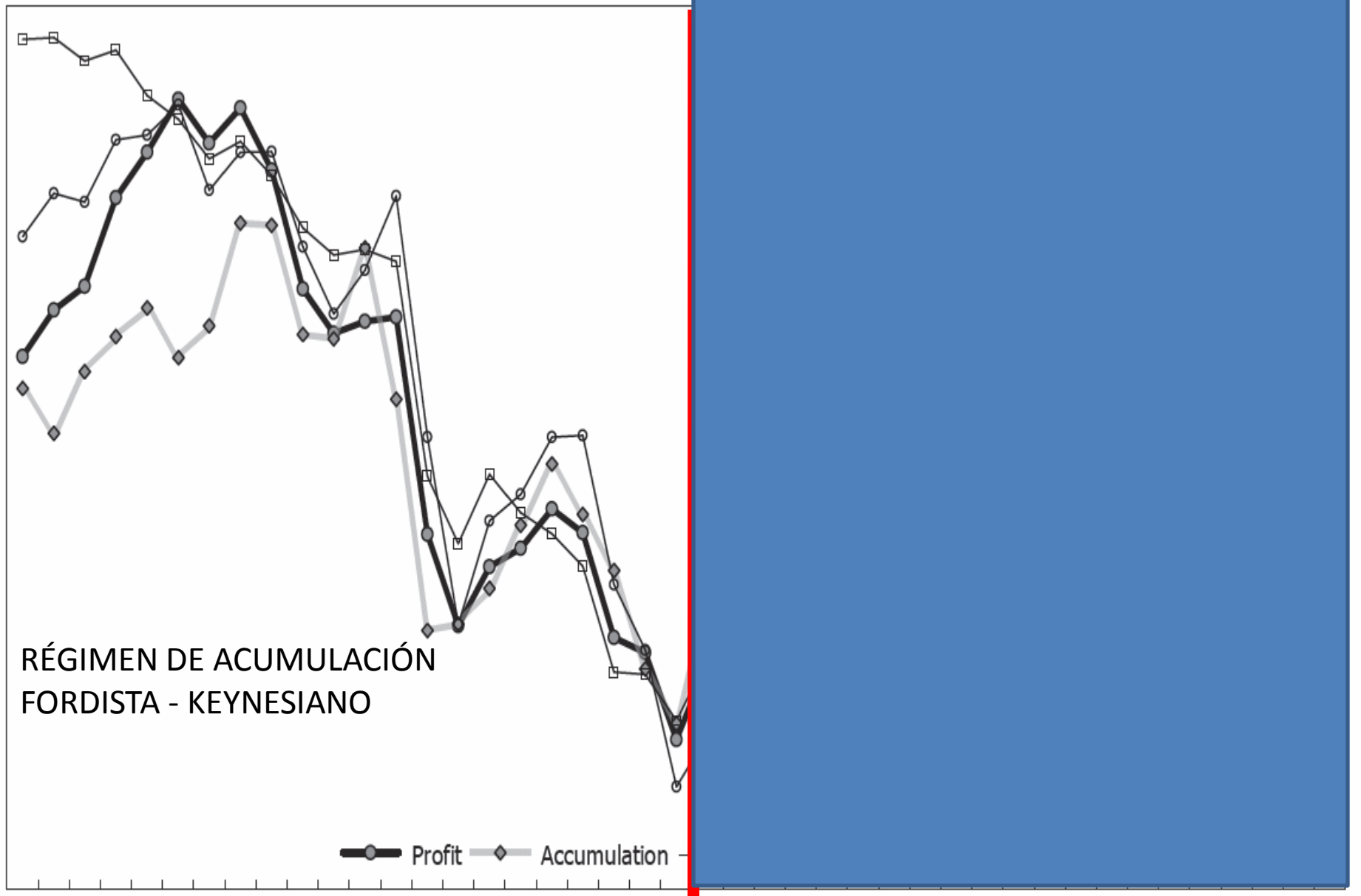
**Chair of the Ecuadorian Presidential Commission for the Design of the
New Financial Architecture**

Rosa Luxemburg Stiftung

Brussels, June 20, 2011

*This contribution represents a personal point of view

De-localization, Income Distribution and Financialization



1961 1963 1965 1967 1969 1971 1973 1975 1977 1979 1981 1983 1985 1987 1989 1991 1993 1995 1997 1999 2001 2003

Moyennes pondérées selon le PIB pour le « G6 » (Etats-Unis, Japon, Allemagne, France, Royaume-Uni, Italie)

Source : OCDE, *Perspectives économiques*, 2003

Tomado de:
Husson, 2007

RÉGIMEN DE ACUMULACIÓN
"NEOLIBERAL"

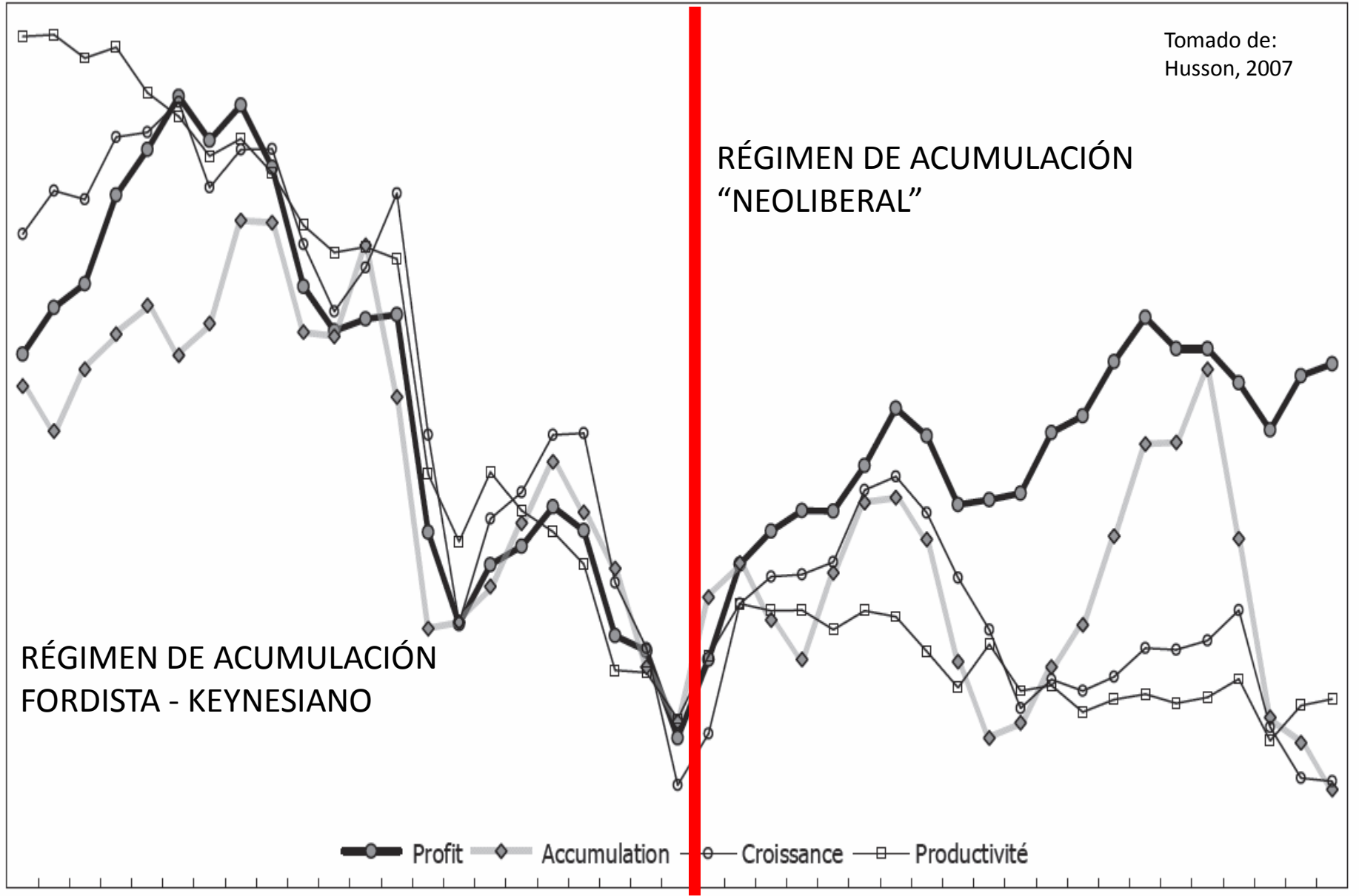
RÉGIMEN DE ACUMULACIÓN
FORDISTA - KEYNESIANO

● Profit ◆ Accumulation ○ Croissance □ Productivité

1961 1963 1965 1967 1969 1971 1973 1975 1977 1979 1981 1983 1985 1987 1989 1991 1993 1995 1997 1999 2001 2003

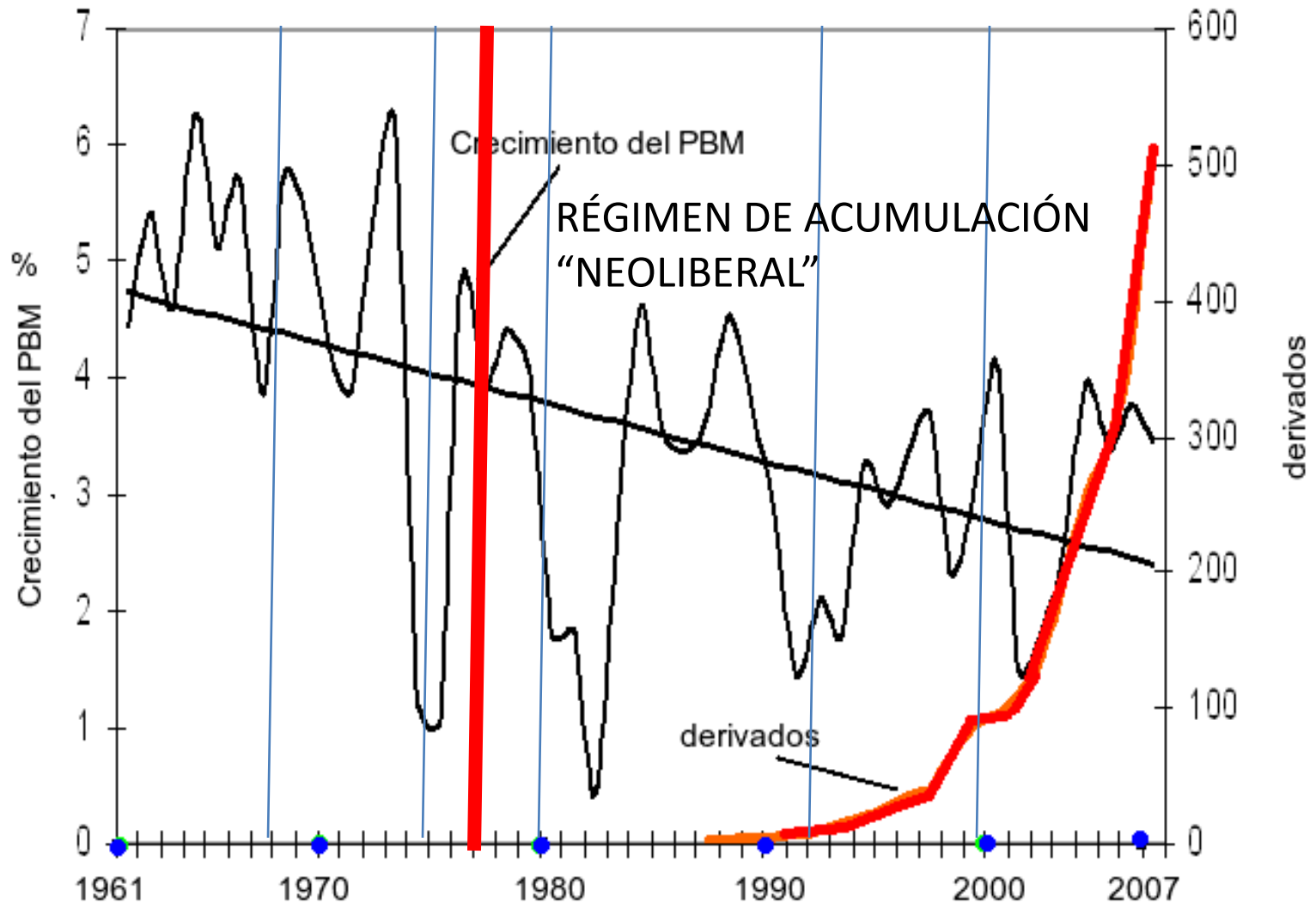
Moyennes pondérées selon le PIB pour le « G6 » (Etats-Unis, Japon, Allemagne, France, Royaume-Uni, Italie)

Source : OCDE, *Perspectives économiques*, 2003



● Tasas de crecimiento real del Producto Bruto Mundial (en %)

● Productos financieros derivados en billones - millones de millones - de dólares



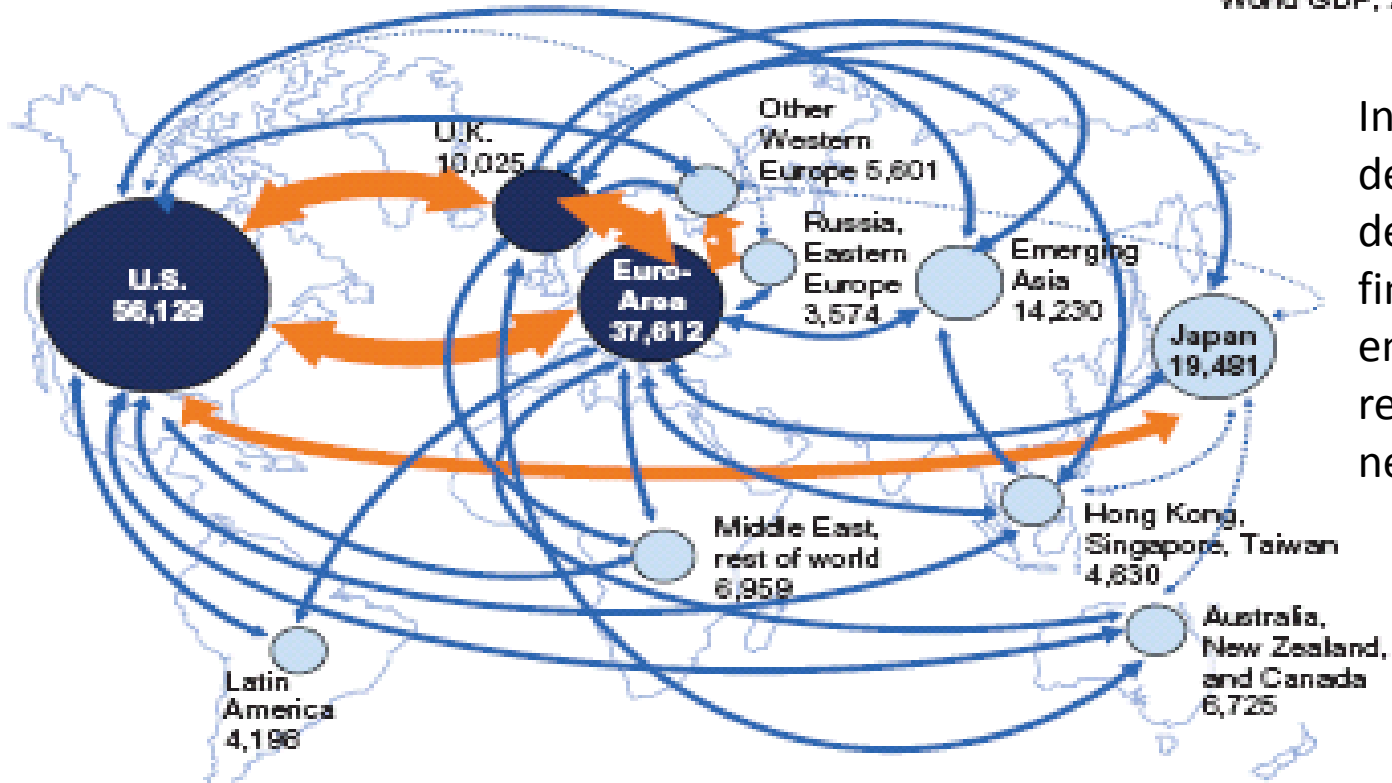
Fuentes: Banco Mundial y Banco de Basilea (BIS)

Tomado de:
Beinstein, 2008

Geography of financial flows: fictitious capital and global imbalances

THE GLOBAL WEB OF CROSS-BORDER INVESTMENTS, 2006

Lines show total value of cross-border investments between regions*
 Figures in bubbles show size of total domestic financial assets, \$ billion

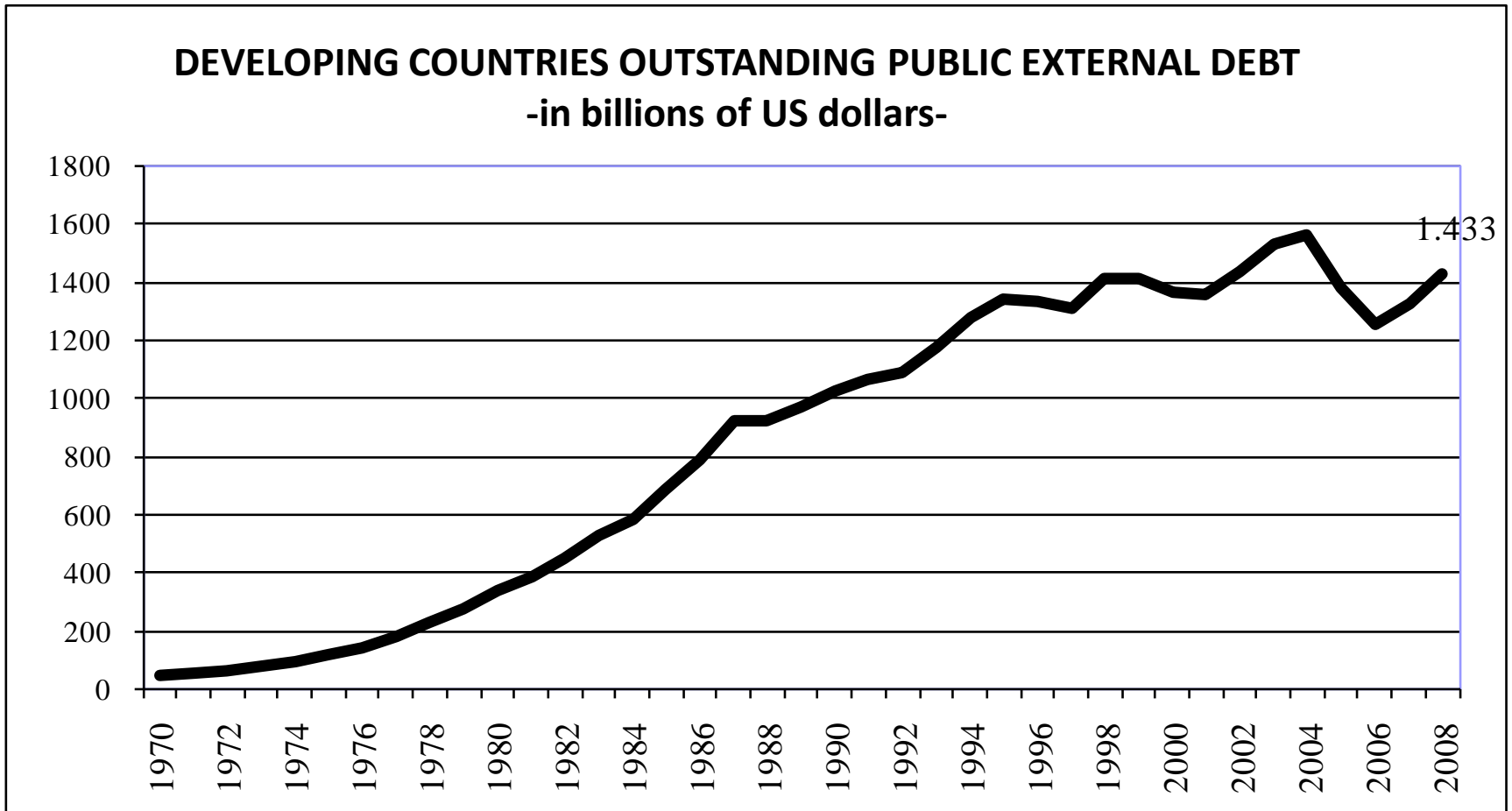


Intercambio desigual y dependencia financiera claves en la recuperación neoliberal

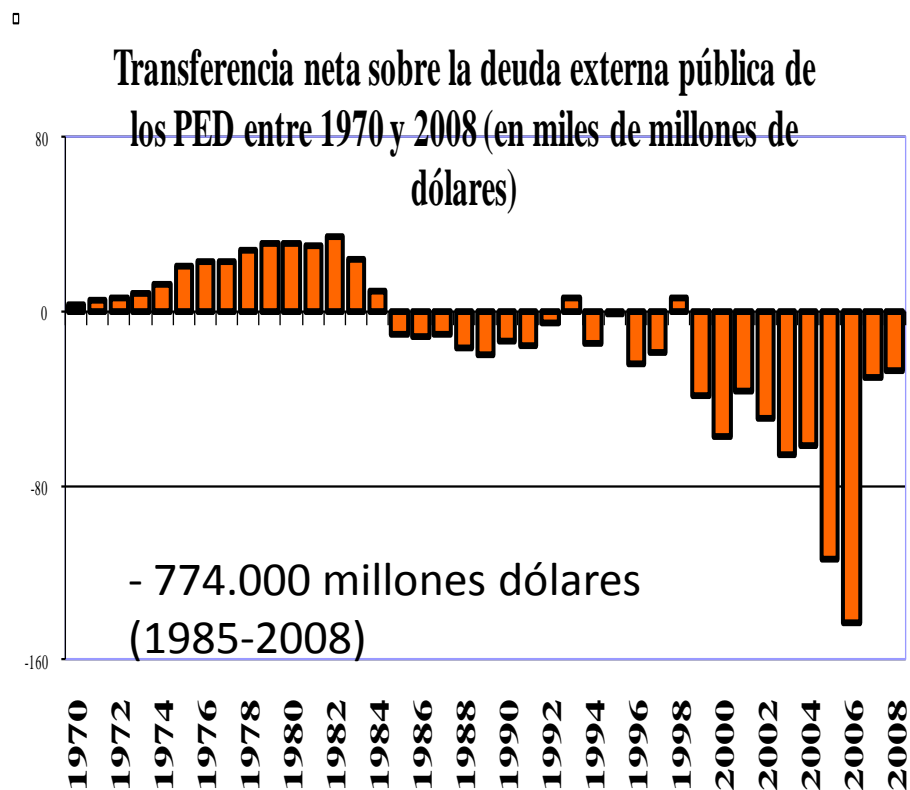
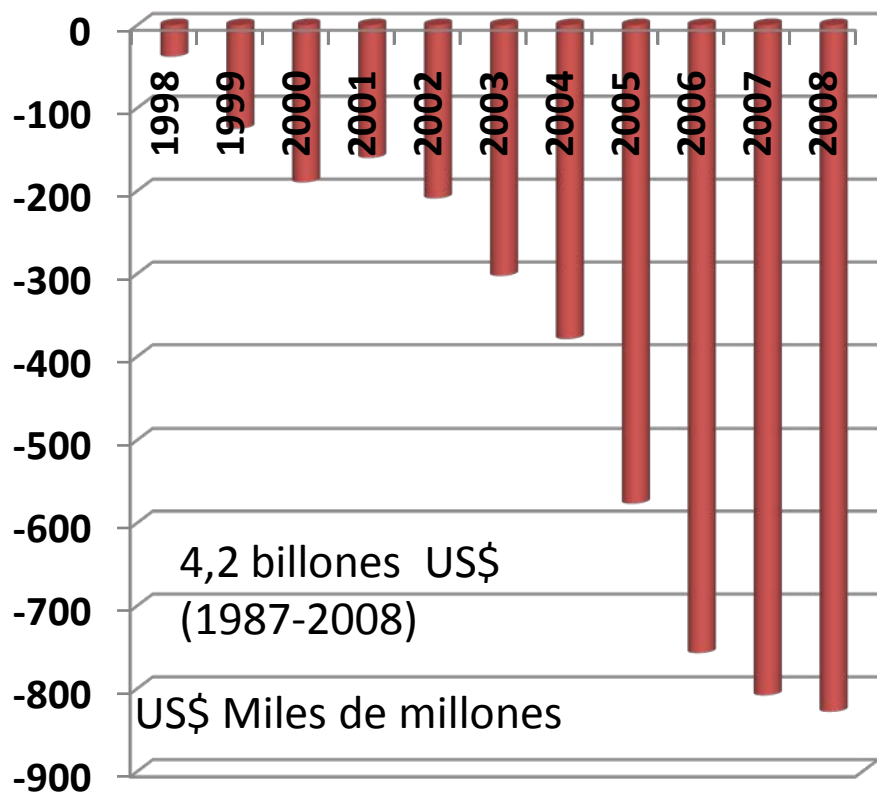
* Includes total value of cross-border investments in equity and debt securities, lending and deposits, and foreign direct investment.

Source: McKinsey Global Institute Cross-Border Investments Database

During the crisis, the South's public external debt has risen in 20%



PROFIT RATES RECOVERY BASED ON NET TRANSFERS FROM THE SOUTH (TRADE, FDI, INTERESTS AND DIVIDENDS)

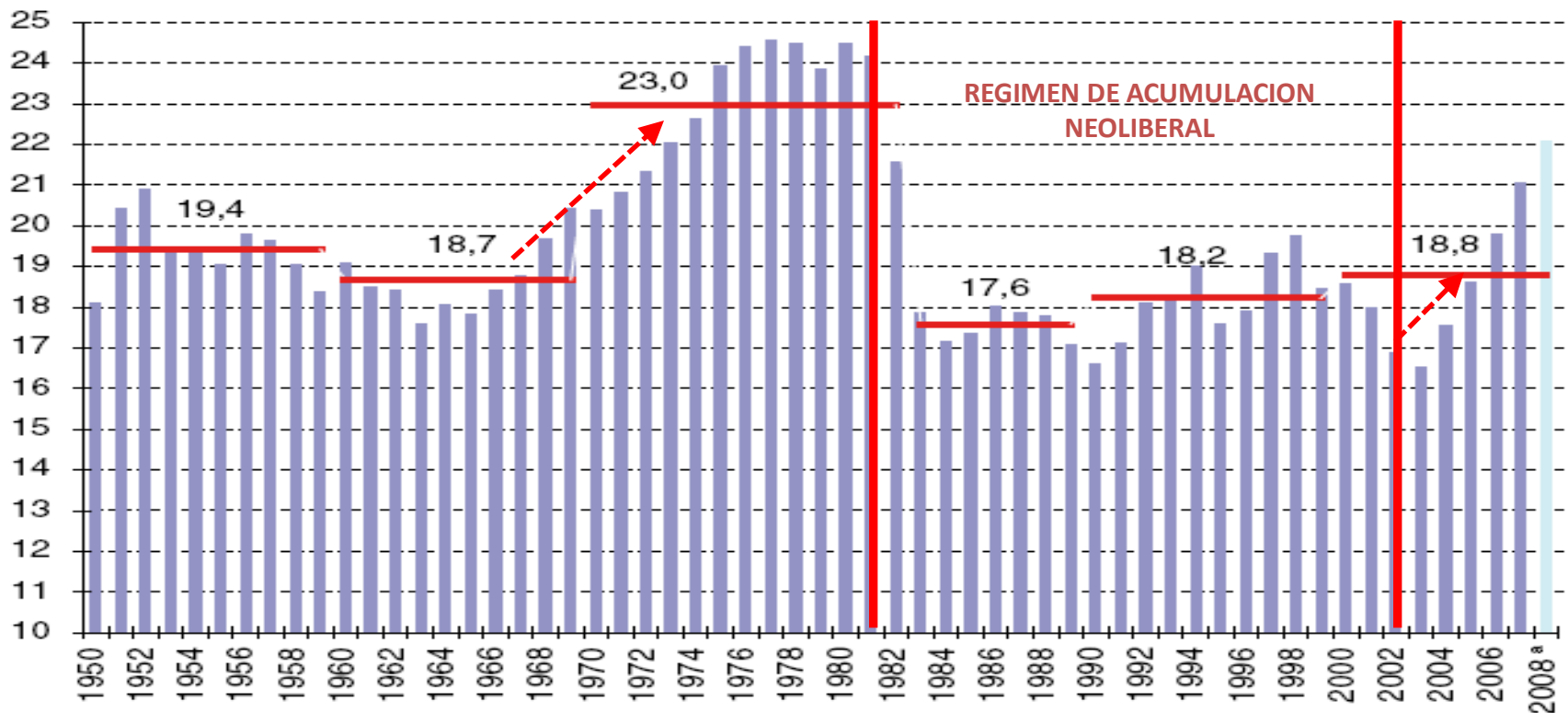


FUENTE: CIFRAS DEL BM

Austerity Policies in Latin America

Significant reduction in the rate of investment (physical, “natural” and “human” capital)

TASA DE INVERSIÓN FIJA
(En porcentajes del PIB)

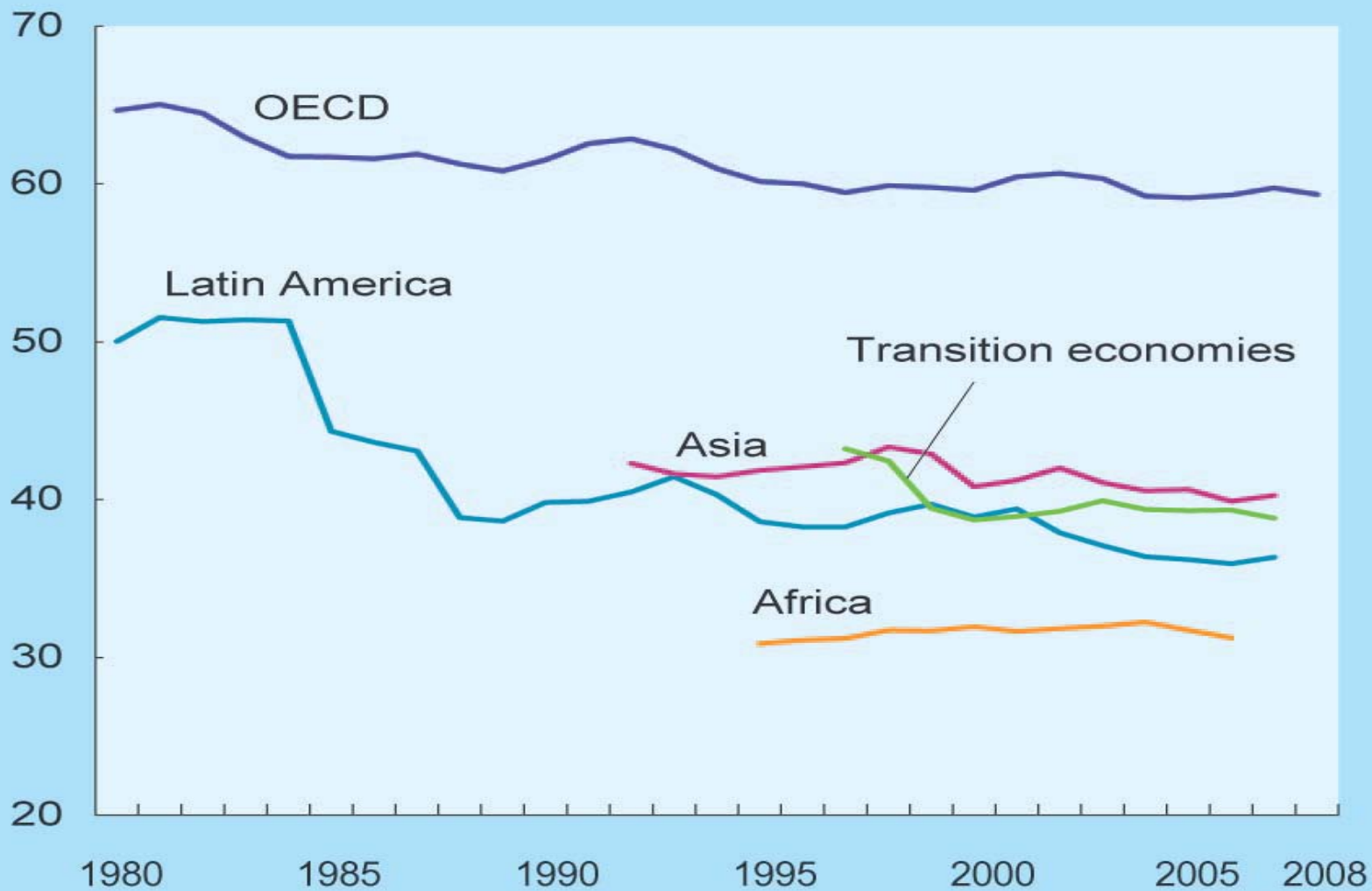


**RÉGIMEN DE ACUMULACIÓN BASADO EN LA INDUSTRIALIZACIÓN
SUSTITUTIVA DE IMPORTACIONES**

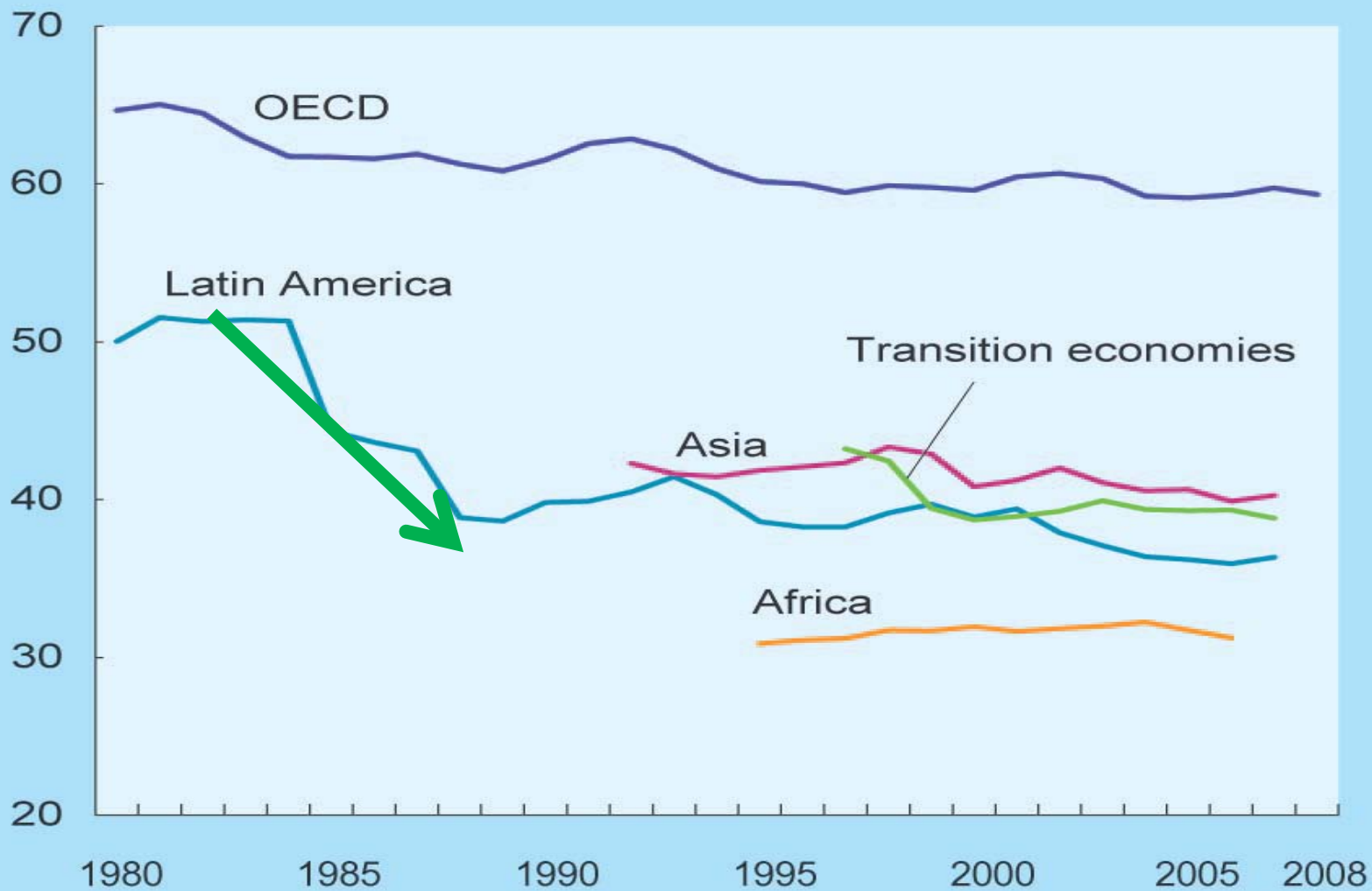
2008^a= Proyectada

Fuente: CEPAL (2008)

Share of compensation of employees in national income, selected country groups, 1980 - 2008

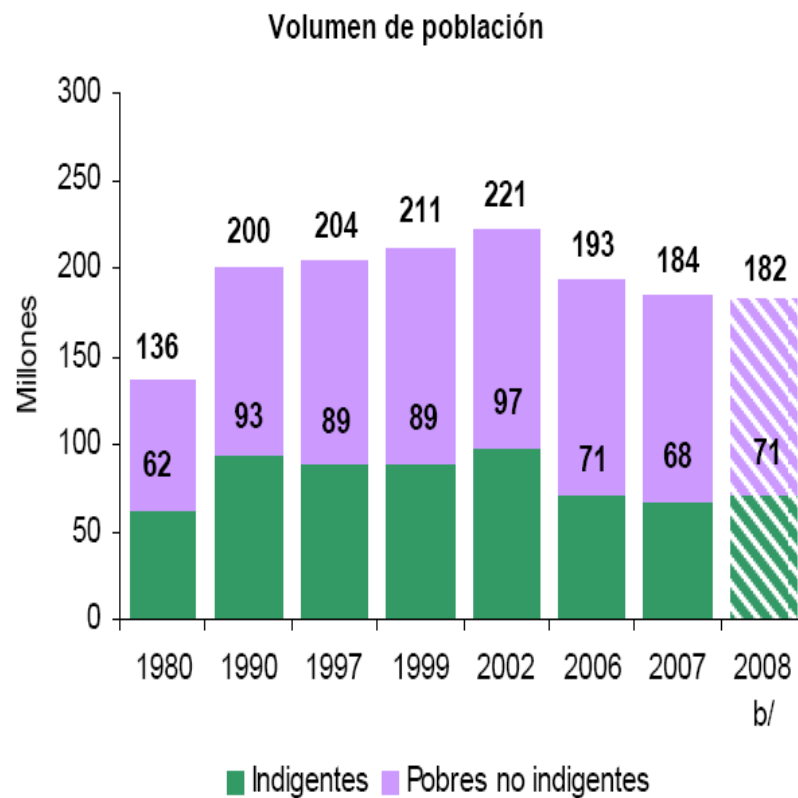
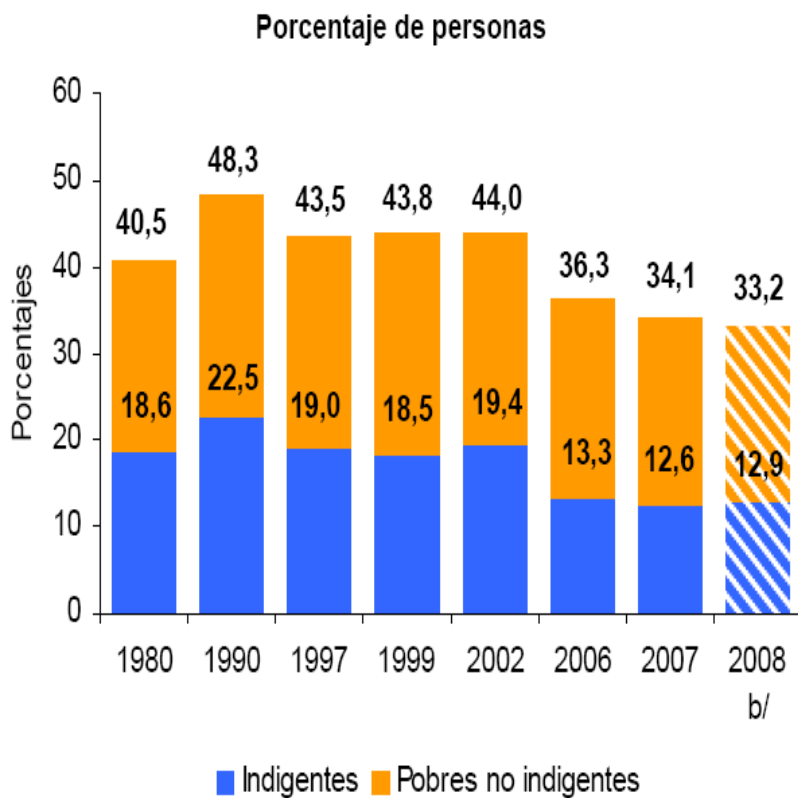


Share of compensation of employees in national income, selected country groups, 1980 - 2008



De-industrialization, job precarization and increasing social polarization

AMÉRICA LATINA: EVOLUCIÓN DE LA POBREZA Y DE LA INDIGENCIA, 1980 - 2008 a/

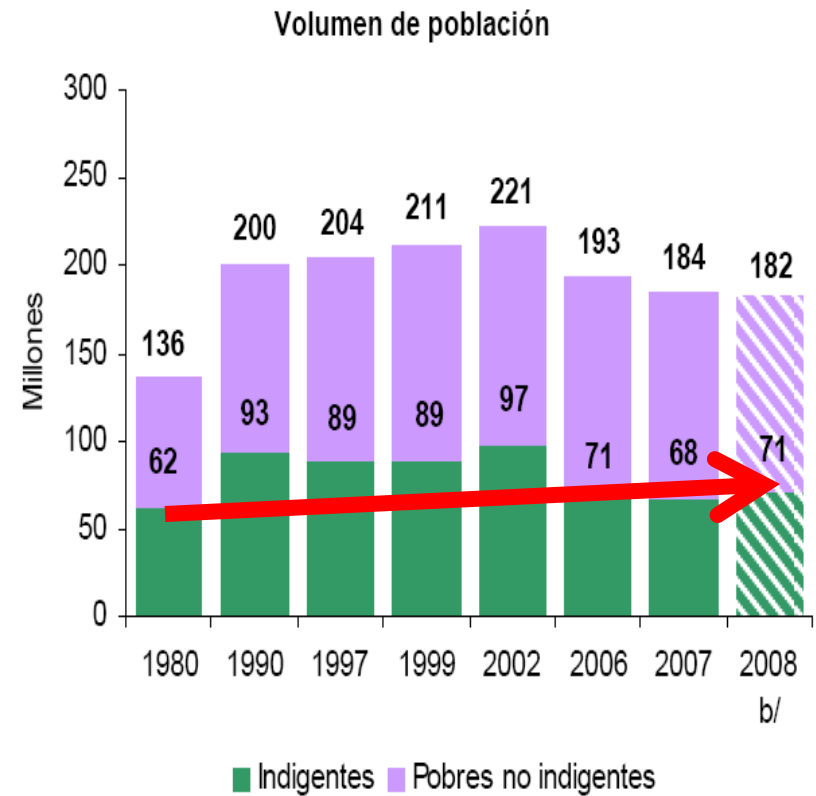
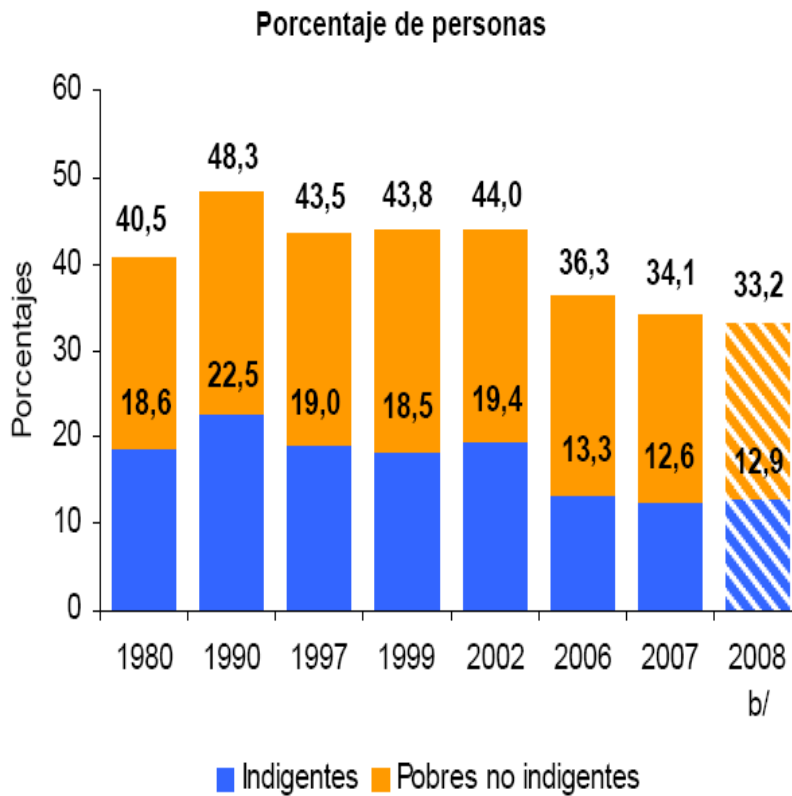


2008b/= Proyectadas

Fuente: CEPAL (2008)

...with a 15% increase in the number of indigents...

AMÉRICA LATINA: EVOLUCIÓN DE LA POBREZA Y DE LA INDIGENCIA, 1980 - 2008 a/

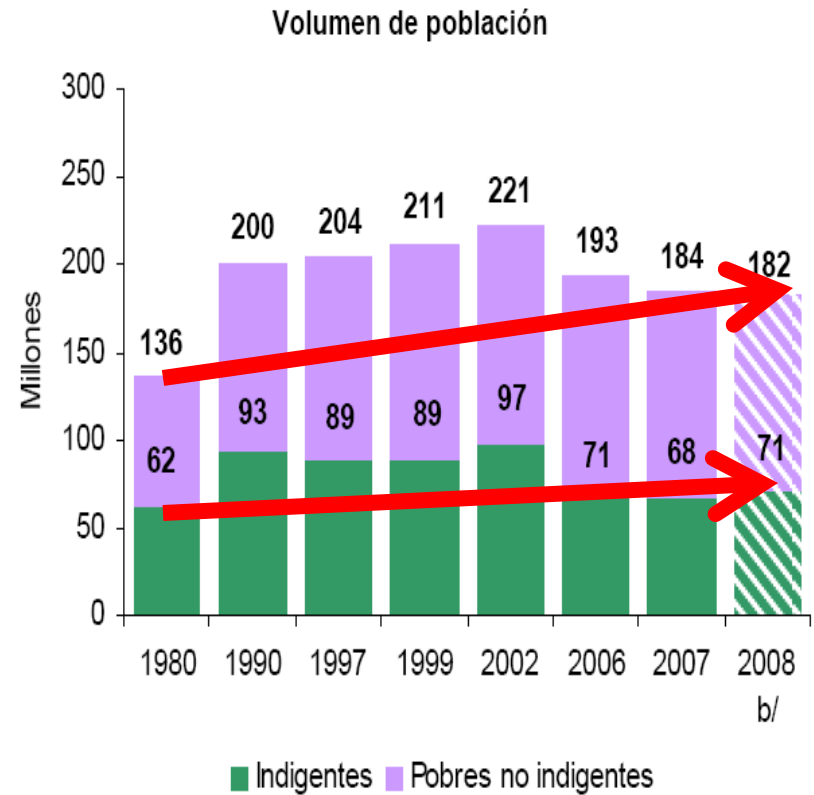
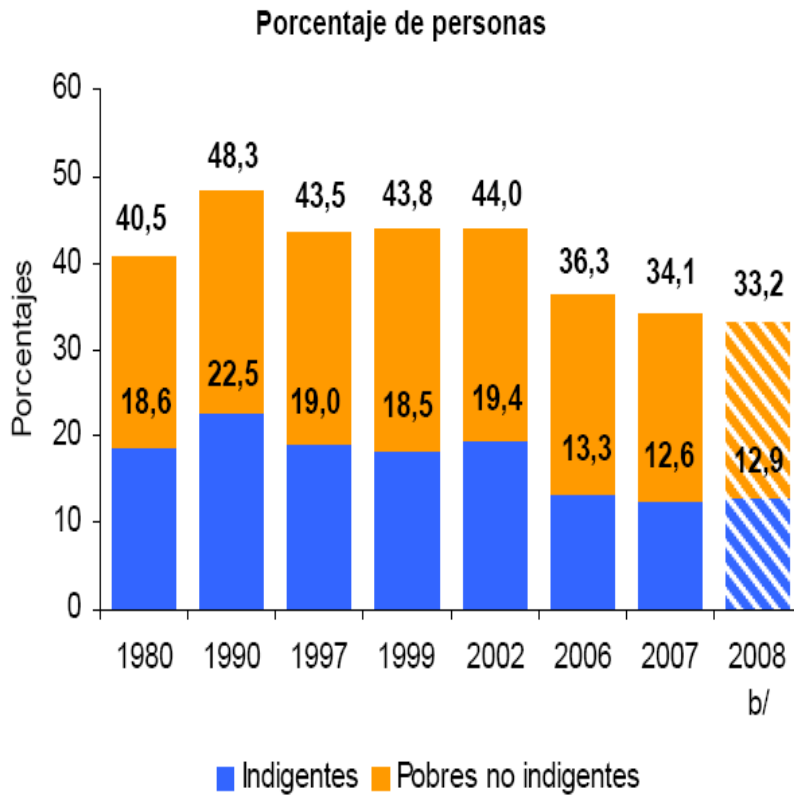


2008b/= Proyectadas

Fuente: CEPAL (2008)

...and 34% growth in the amount of poor people...

AMÉRICA LATINA: EVOLUCIÓN DE LA POBREZA Y DE LA INDIGENCIA, 1980 - 2008 a/

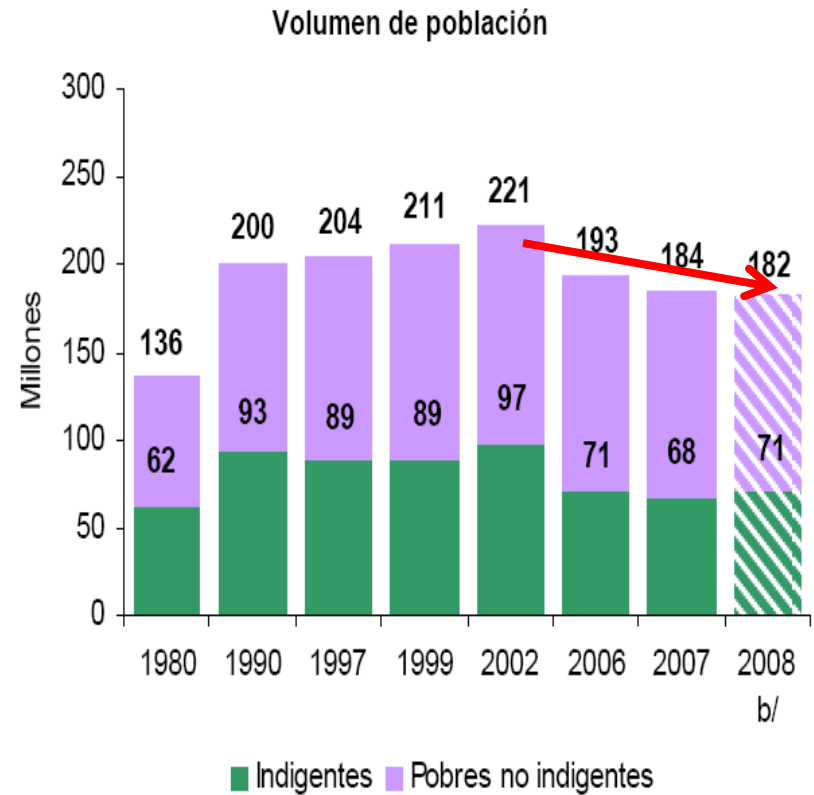
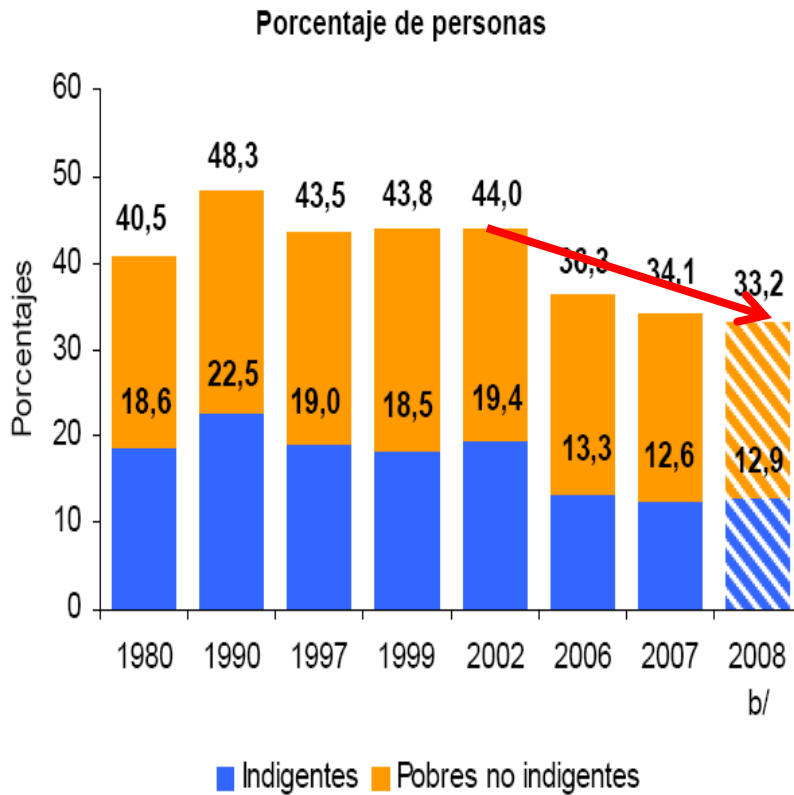


2008b/= Proyectadas

Fuente: CEPAL (2008)

Some mitigation with the progressive governments

AMÉRICA LATINA: EVOLUCIÓN DE LA POBREZA Y DE LA INDIGENCIA, 1980 - 2008 a/

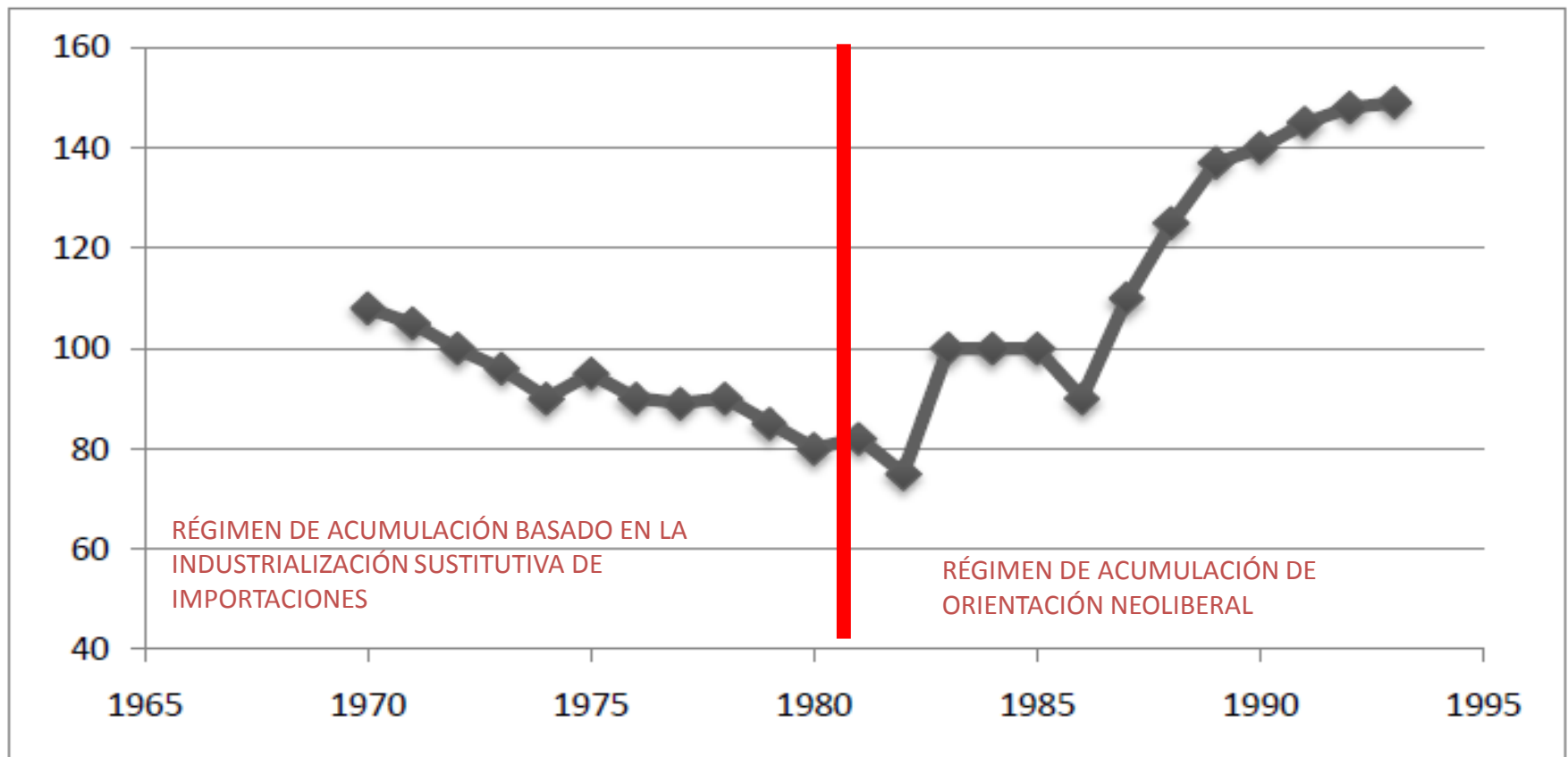


2008b/= Proyectadas

Fuente: CEPAL (2008)

Austerity meant a sharp and continuous increase of poor people

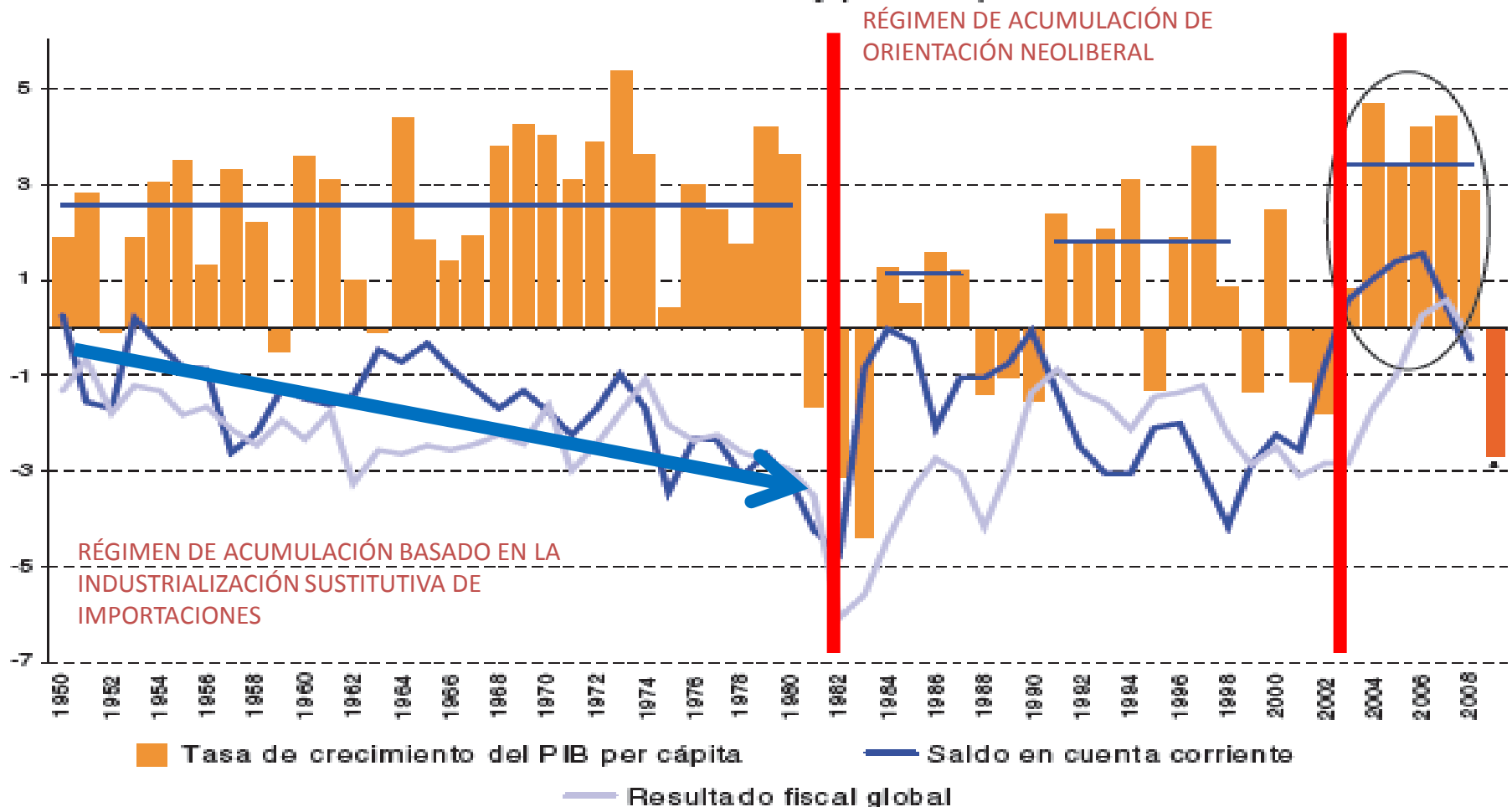
Evolución de la pobreza en América Latina 1970-1995 (millones de personas)



Poorest performance even in their own terms...

AMÉRICA LATINA Y EL CARIBE: TASA DE VARIACIÓN DEL PIB PER CÁPITA, SALDO EN CUENTA CORRIENTE Y RESULTADO FISCAL GLOBAL

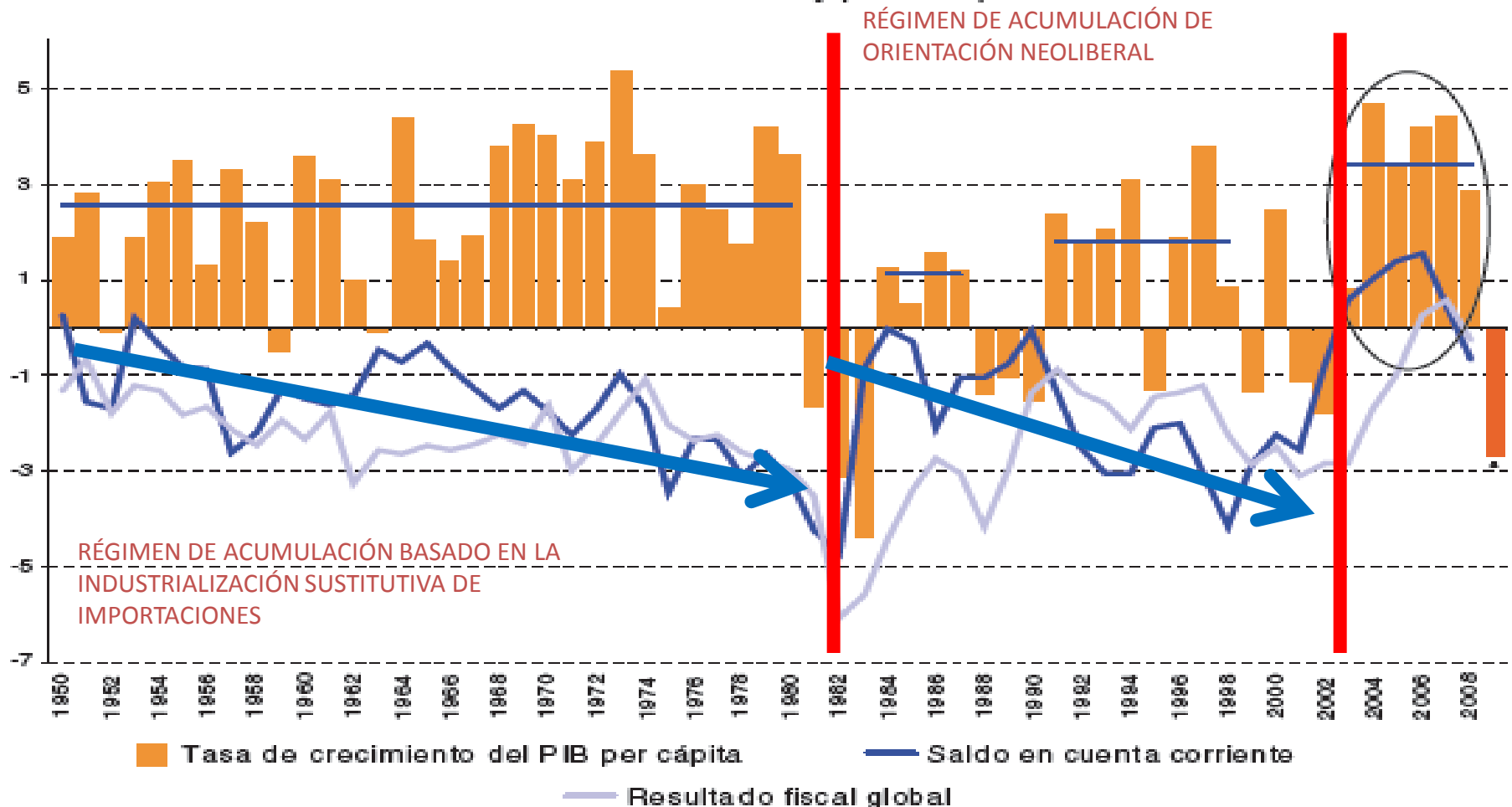
(En tasas de variación anual y porcentajes del PIB)



Poorest performance even in their own terms...

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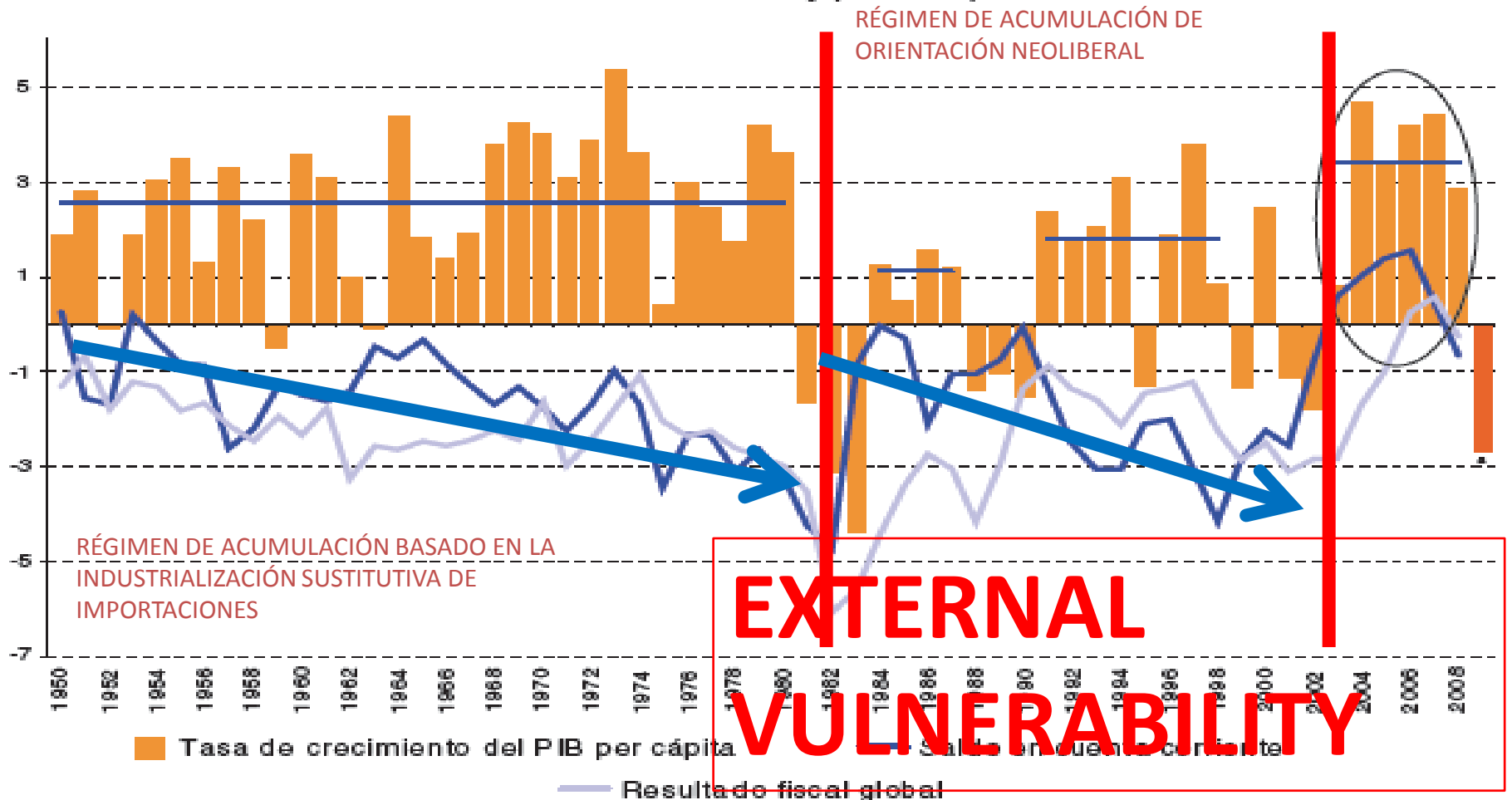
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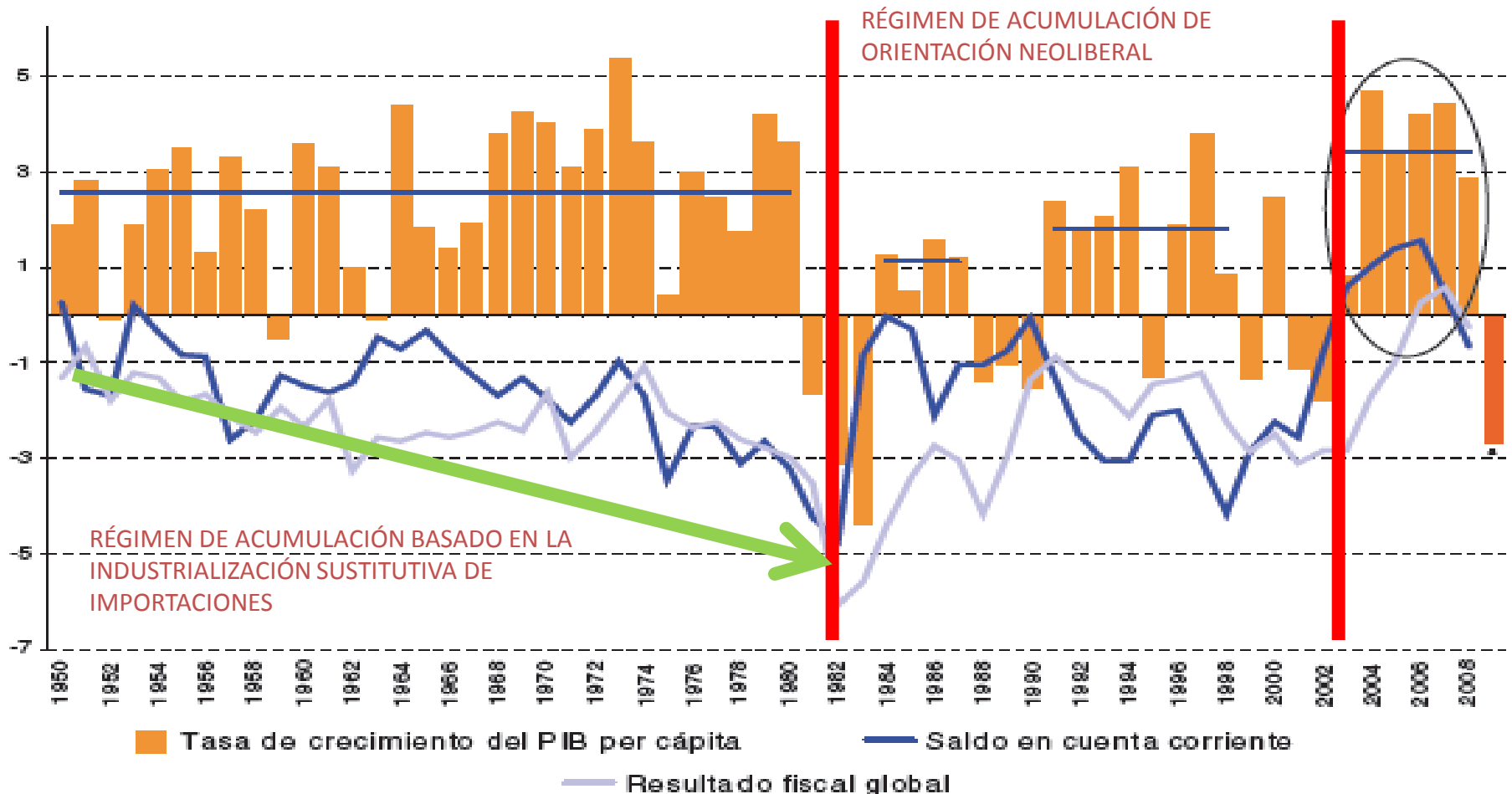
(En tasas de variación anual y porcentajes del PIB)



...with higher levels of vulnerabilities

AMÉRICA LATINA Y EL CARIBE: TASA DE VARIACIÓN DEL PIB PER CÁPITA, SALDO EN CUENTA CORRIENTE Y RESULTADO FISCAL GLOBAL

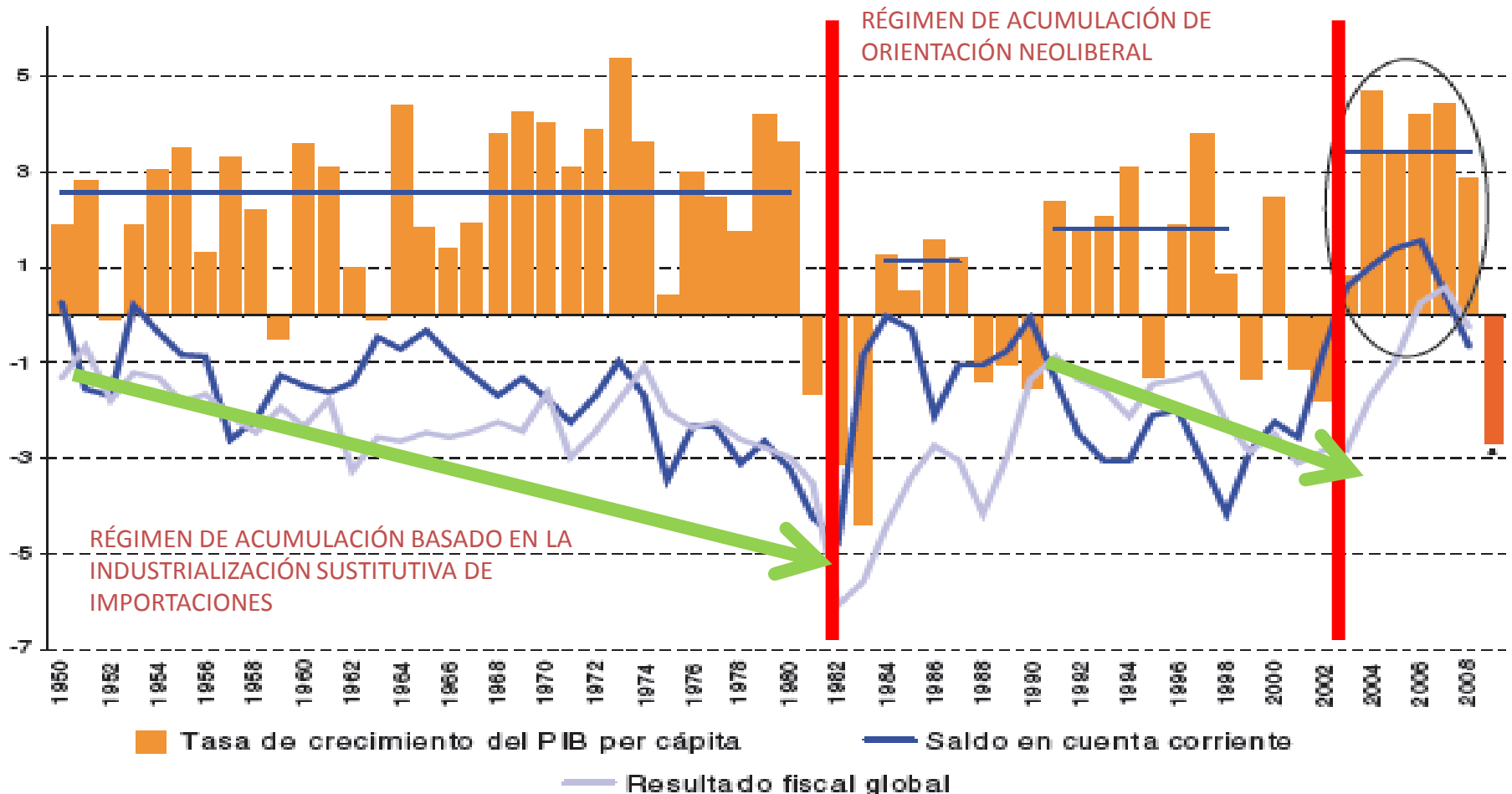
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...with higher levels of vulnerabilities

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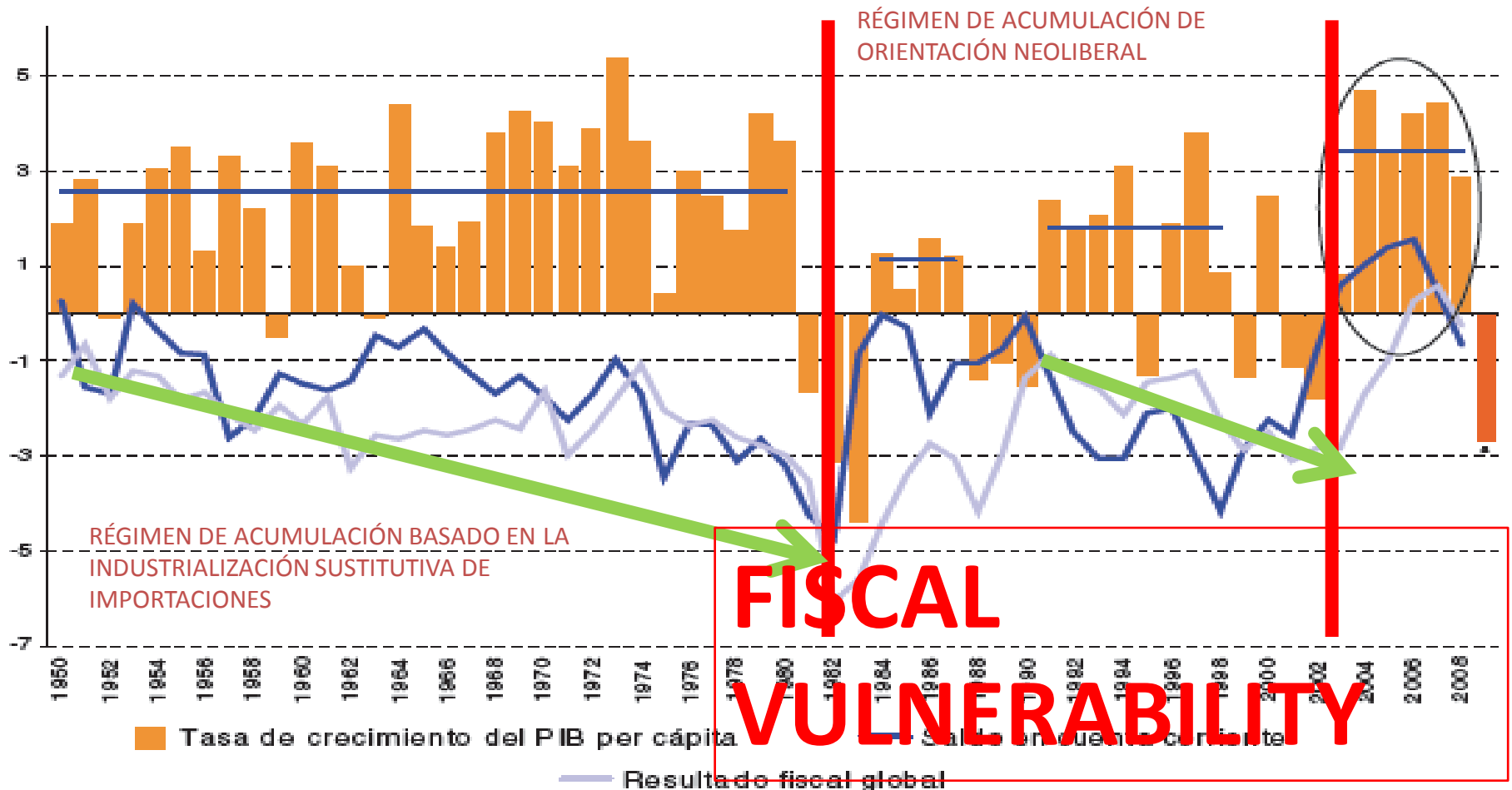
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...with higher levels of vulnerabilities

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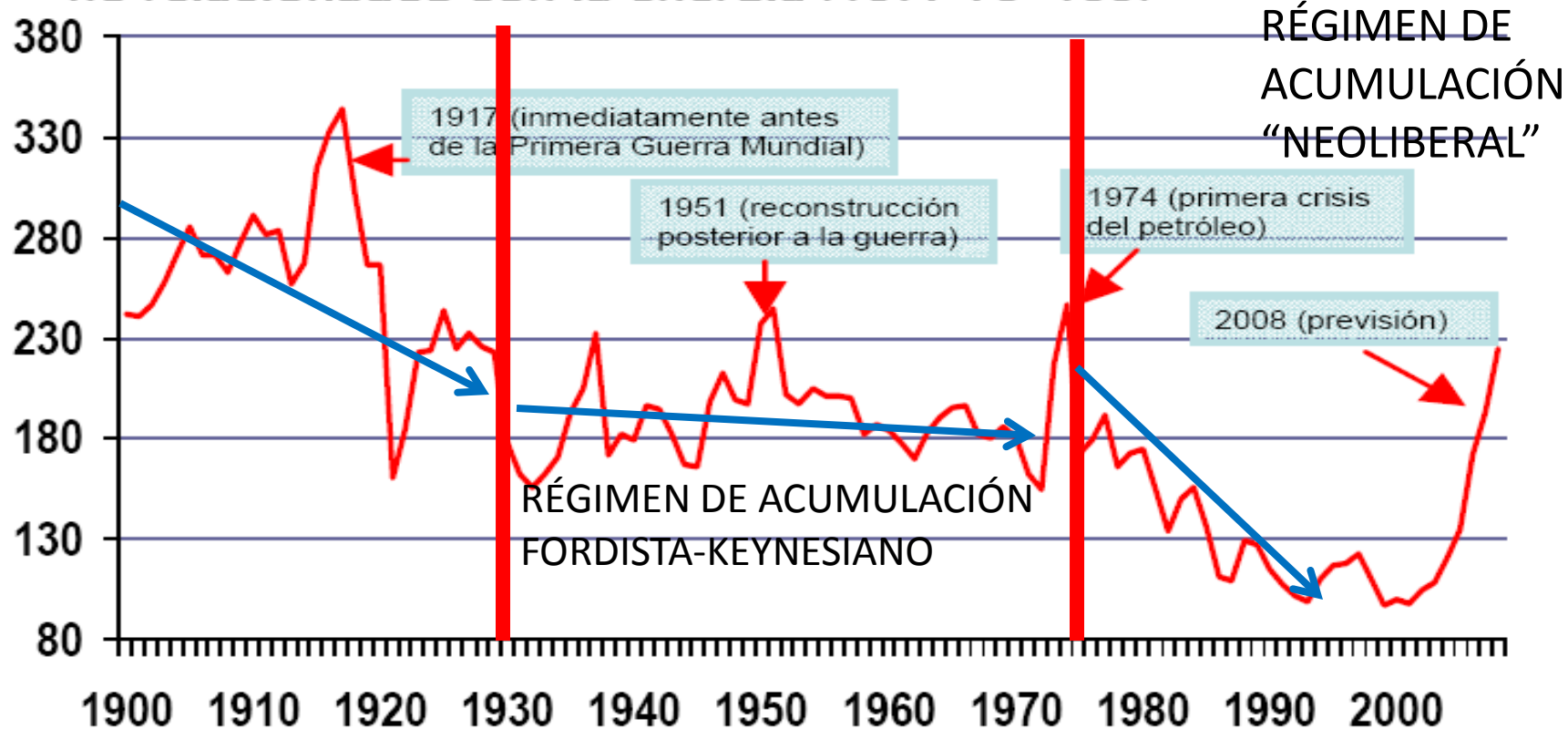
(En tasas de variación anual y porcentajes del PIB)



More dependent from the international markets

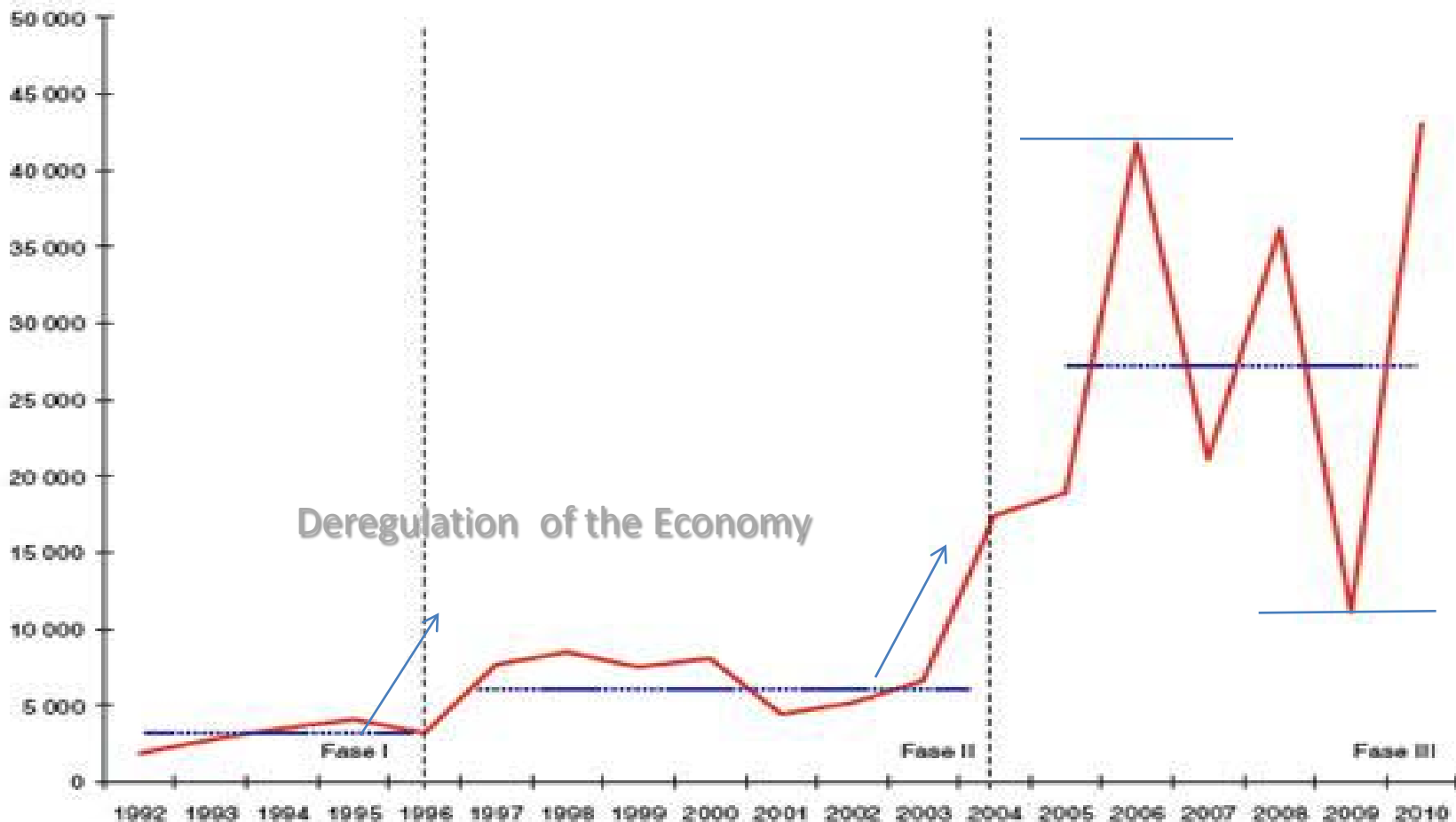
Terms of trade 1900-2008

Índice de precios reales de los productos básicos no relacionados con la energía (1977-79=100)



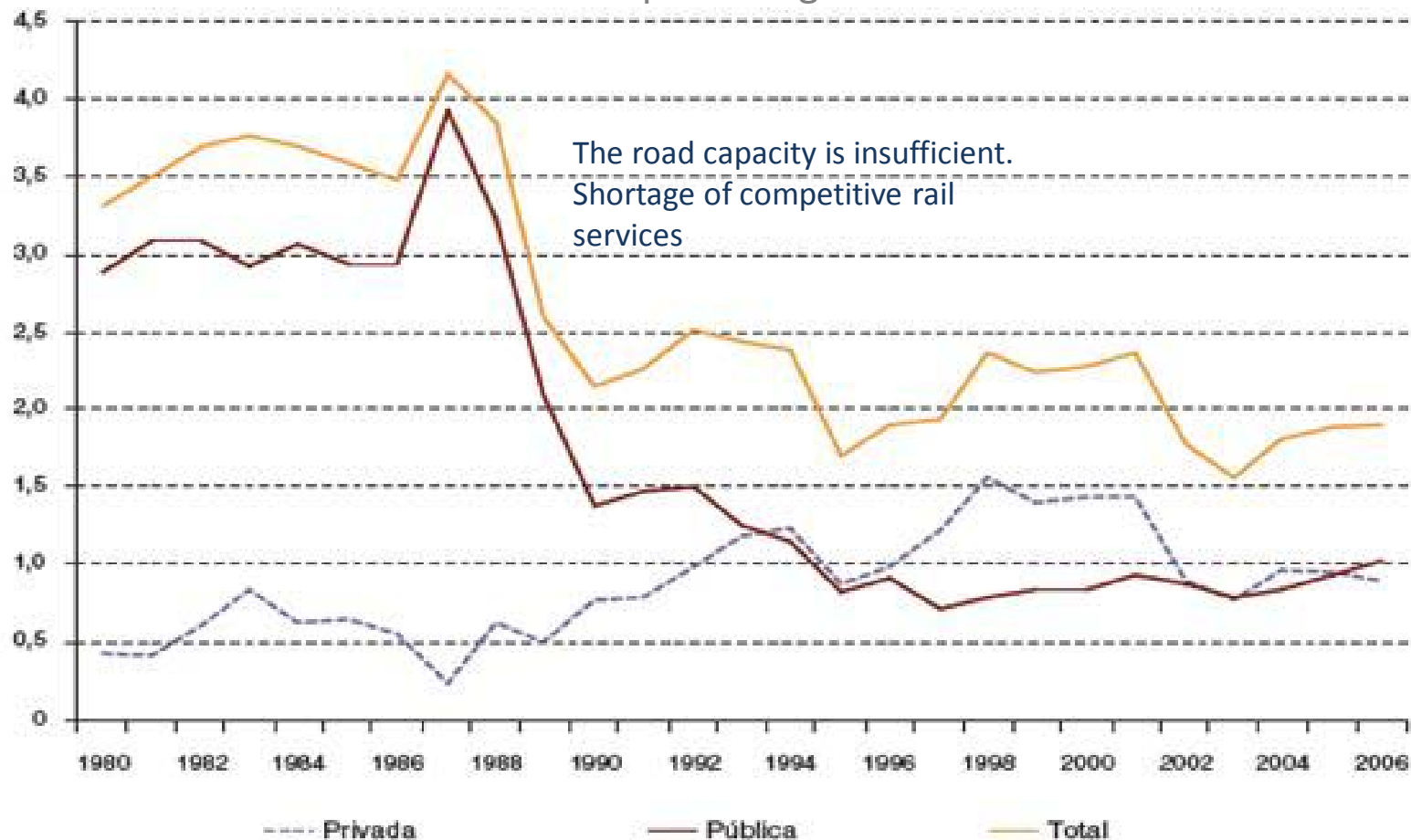
...And the outflow of resources

Net outflows of Latin America and the Caribbean: foreign direct investment
(In millions of US dollars)



Investment in infrastructure

Latin America *: investment in infrastructure 1980-2006
As a percentage of GDP



* Argentina, Brasil, Chile, Colombia, México y Perú

Deepening of the crisis:
Europe in the historical crossroad

Crisis deployment

- All policies reinforce the vectors of crisis and anti-democratic power concentration
- Demolition experts: a planetary garage sale and limitless dollar emission to buy in it
- Since March 2009 a new phase of crisis explosion: without solving the previous vectors, new structural factors acting in a recurrent and feed-forward way

Deeper insolvency

- From insolvency problems based on over-pricing of financial assets to generalized destruction of basic mechanisms of income generation
- From subprime to prime, alt-A, option A, etc; from residential real state to commercial real state...
- Job destruction, real wage reductions, budget cuts, contracts drought

Deeper global imbalances

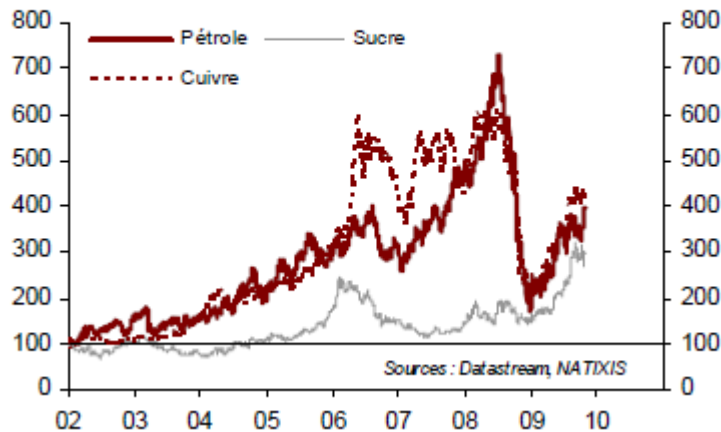
- From a contraction in global trade (in prices and quantities) to the destruction of the basic mechanisms of market functioning: speculation has gravely distorted global price system in this new extremely fragmented chain of long distance production
 - Exchange rate misalignments (carry trade, international reserves accumulation, volatile capital movements)
 - Prices not longer express costs structure nor seasonal scarcities: consequences on inventory formation, investment decisions, credit worthiness, etc

“Beggar thy neighbor” in a context of austerity and speculation

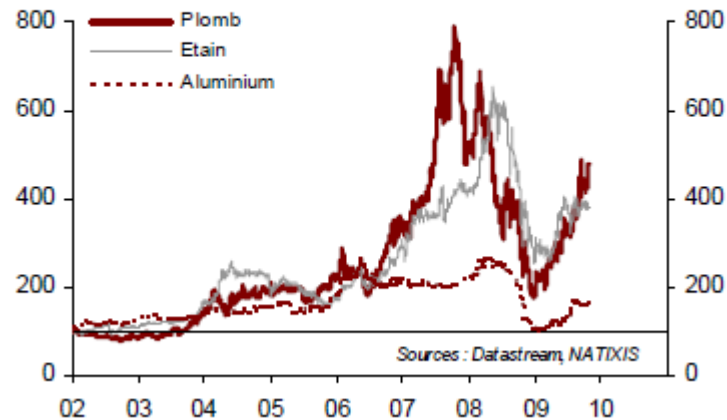
- Breaking out of the euro could not result in an improvement of the European situation. More than three decades of negative effects in the South due to continuous devaluations demand alternative perspectives. The heavier cost of a debt denominated in hard currency requires further adjustments in monetary and fiscal policy and new devaluations and the increasing uncertainty and restrictions in the domestic markets made unviable a big proportion of productive projects, provoking more unemployment.
- Besides, the trillions of euros for the bailouts and the structural “bubble-ization” of the international markets of energy, food and exchange rates has distorted the key relative prices in such a way that most of the traditional mechanisms will be ineffectual for many years regarding the correction of macroeconomic disequilibria, more so if the domestic economy has a limited feedback with respect to technological dynamics in gaining productivity

Speculation in food, energy and precious metals...

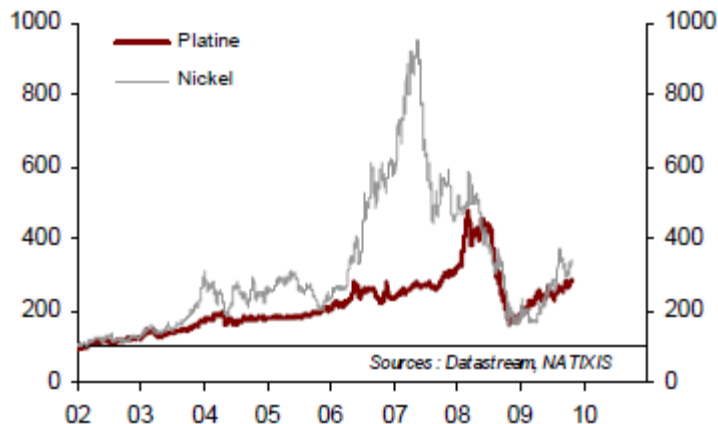
Graphique 10 a
Prix spot des matières premières en dollars
(100 en 2002 : 1)



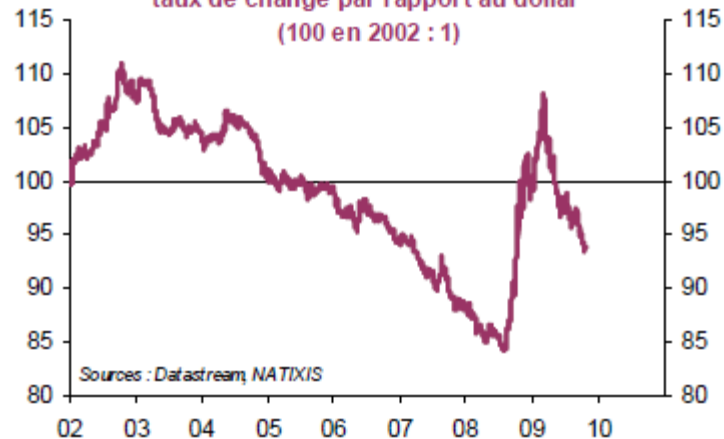
Graphique 10 b
Prix spot des matières premières en dollars
(100 en 2002 : 1)



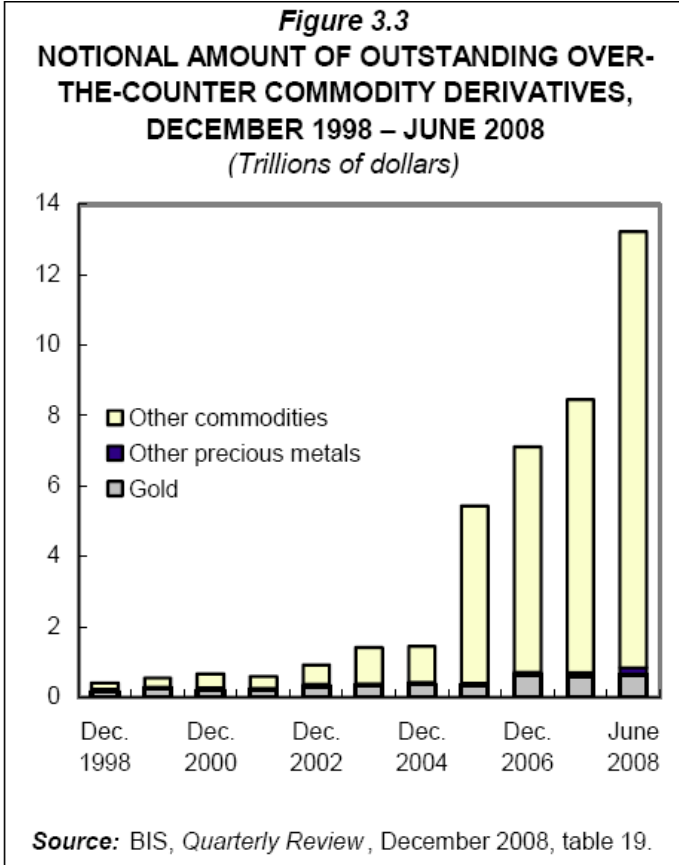
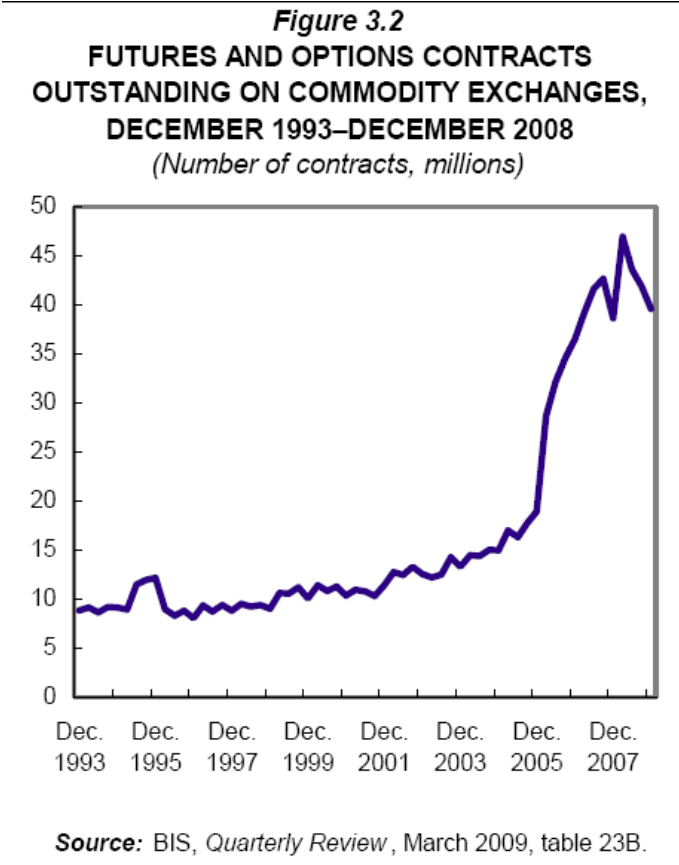
Graphique 10 c
Prix spot des matières premières en dollars
(100 en 2002 : 1)



Graphique 14 a
Ensemble des émergents y c Russie + OPEP :
taux de change par rapport au dollar
(100 en 2002 : 1)

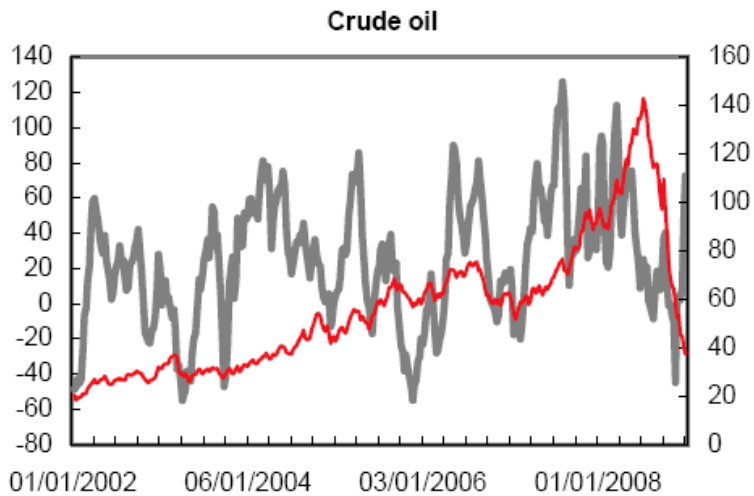


Food crisis and “new” fragilities in the financial markets

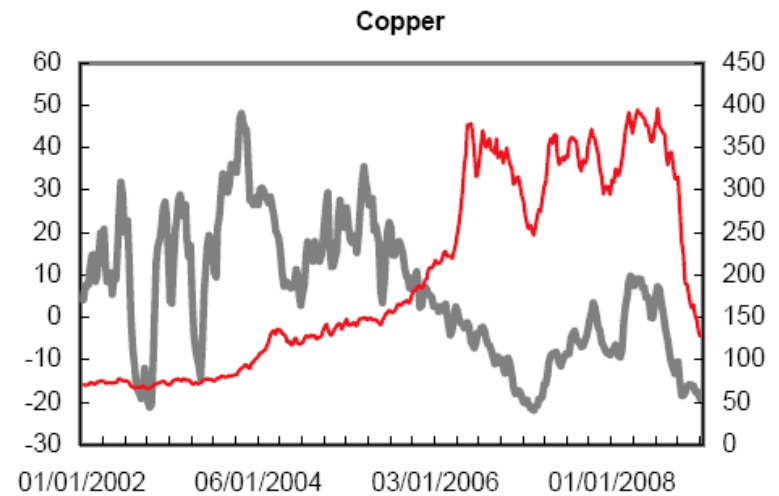


More bubbles

COMMODITY FUTURES PRICES AND FINANCIAL POSITIONS, SELECTED COMMODITIES, JANUARY 2002–DECEMBER 2008

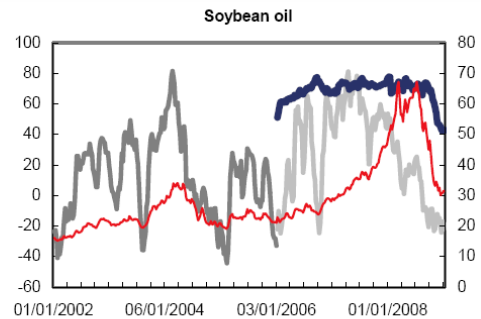
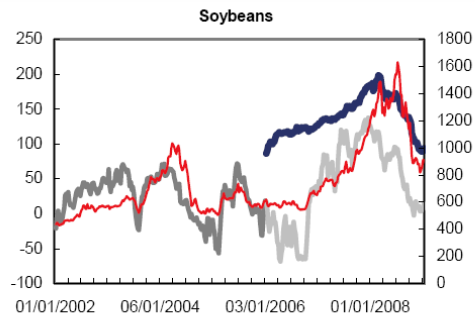
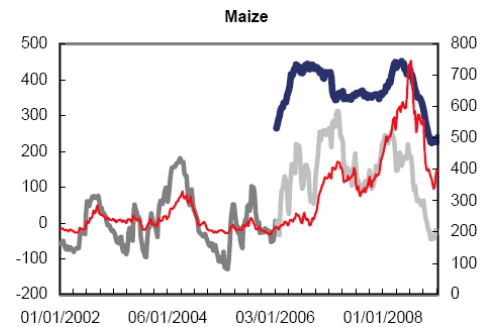
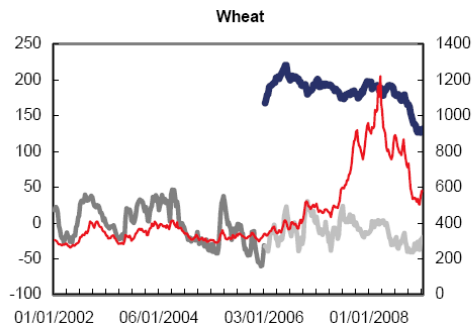


— Net long non-commercial positions,
'000 futures contracts (left scale)
— Price, \$/barrel (right scale)



— Net long non-commercial positions,
'000 futures contracts (left scale)
— Price, cents/lb (right scale)

...fed by the Fed



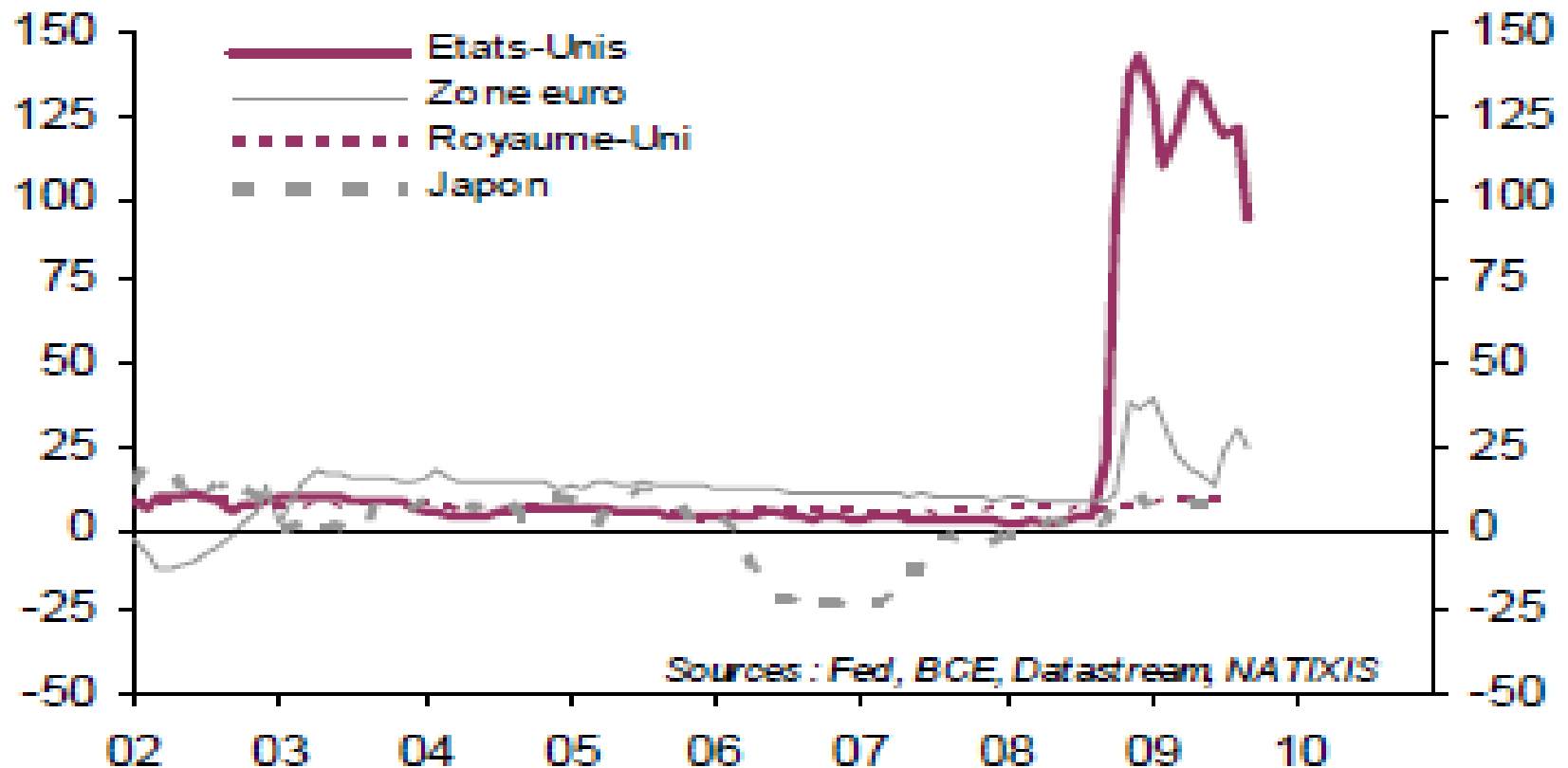
— Net long non-commercial positions, '000 contracts, left scale
— Net long non-commercial positions excl. CIT, '000 contracts, left scale
— Net long CIT positions, '000 contracts, left scale
— Price, cents/bushel, right scale

— Net long non-commercial positions, '000 contracts, left scale
— Net long non-commercial positions excl. CIT, '000 contracts, left scale
— Net long CIT positions, '000 contracts, left scale
— Price, cents/lb, right scale

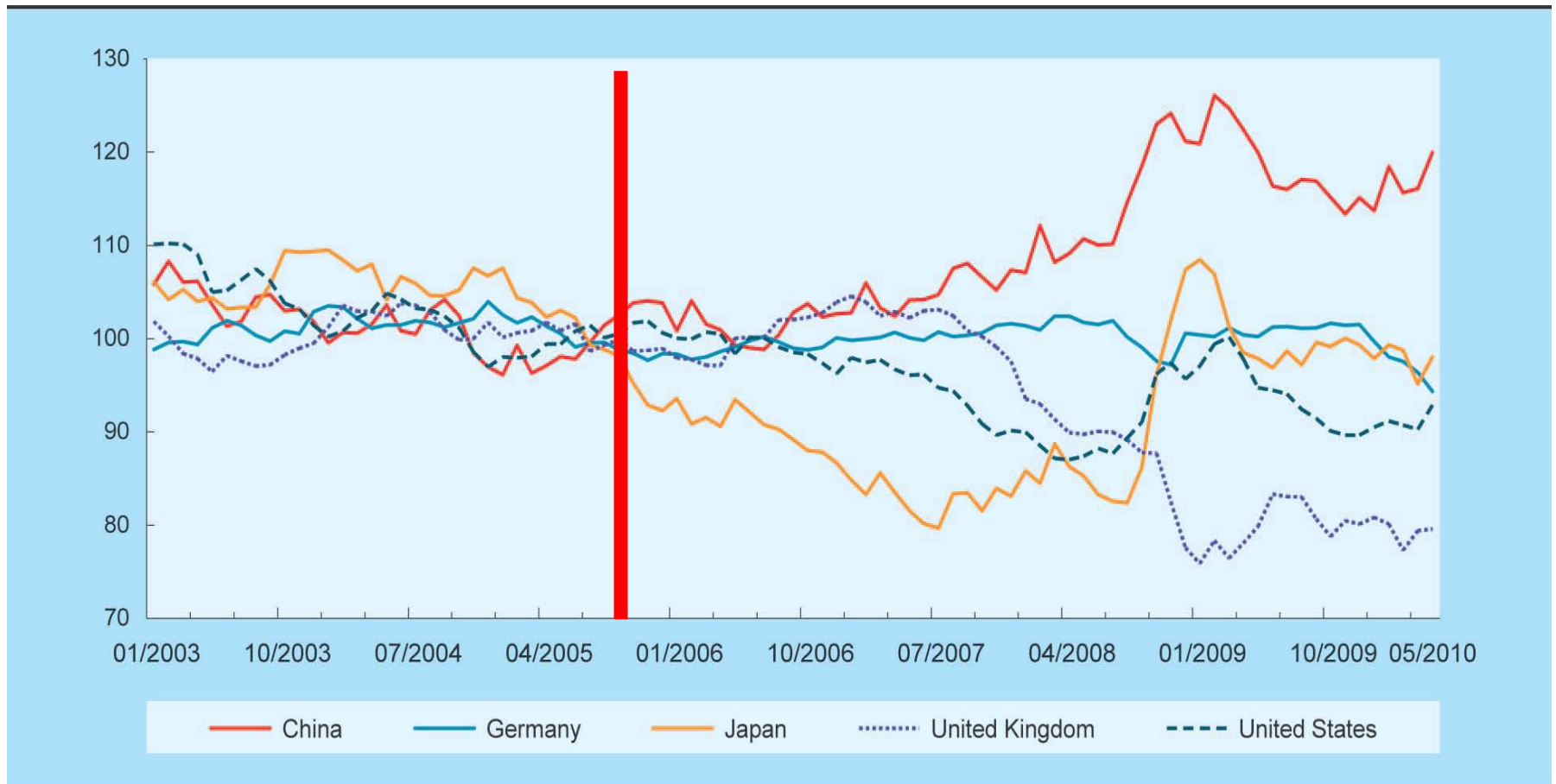
Macroeconomic asymmetry and capital centralization

Graphique 2

Base monétaire (en monnaie locale, GA en %)



Real effective exchange rate, Jan 2003 - May 2010



The Ecuadorian Proposal for a New Financial Architecture

Urgent planetary agenda

- Donation of North's SDR to attack emergent famine, extreme poverty and environmental crisis tasks (responsibility in financing global public goods, breaking US monopoly of international liquidity)
- Moratoria and audit of the external debt
- Blocking blackmailing power of the IMF
- Banning short selling and speculation in the food and energy markets
- Tobin tax

Further priorities

- Assuring universal right to work and each country's real capabilities of counter-cyclical policies
- New South-South cooperation
- Convergence towards a new Bretton Woods:
 - Bloc regional monetary arrangements (regional SDR) + global SDR as lender of last resource
 - Capital controls and financial re-regulation
 - Free excess international reserves for development

Sovereign System of Credit instead of more debt slavery

- Bank of South is part of the New Regional Financial Architecture (including also a common, non-exclusive currency and an alternative to the IMF) that aims to a new type of Latin American integration process based in the reconstruction, under the 21st century capitalism, of a sovereign system of credit. That means, to create the institutional and economic conditions that would allow to recycle the domestic resources and to potentiate the credit of the nations towards neglected priorities in terms of food, health care, energy, knowledge production, regional infrastructure and the financing of the diverse inner logics of the popular economy (small and medium size enterprises, cooperatives, indigenous communities, self-employees, etc.)
- That would reverse the paradoxical “flight to quality” of billions of dollars from the domestic savings of our countries and our communities towards the real focus of infection in Wall Street, London and all the related global network of tax heavens. The New Financial Architecture would provide a different structure of incentives that would reduce uncertainty and risk for both public and private regional actors in order to free resources for productive investment, welfare and full employment, without the current desperate need for external savings.

New Regional Financial Architecture



A new-type-of-
development bank

New Regional Financial Architecture



A new-type-of-
development bank



New Central
Banking
(network)

New Regional Financial Architecture

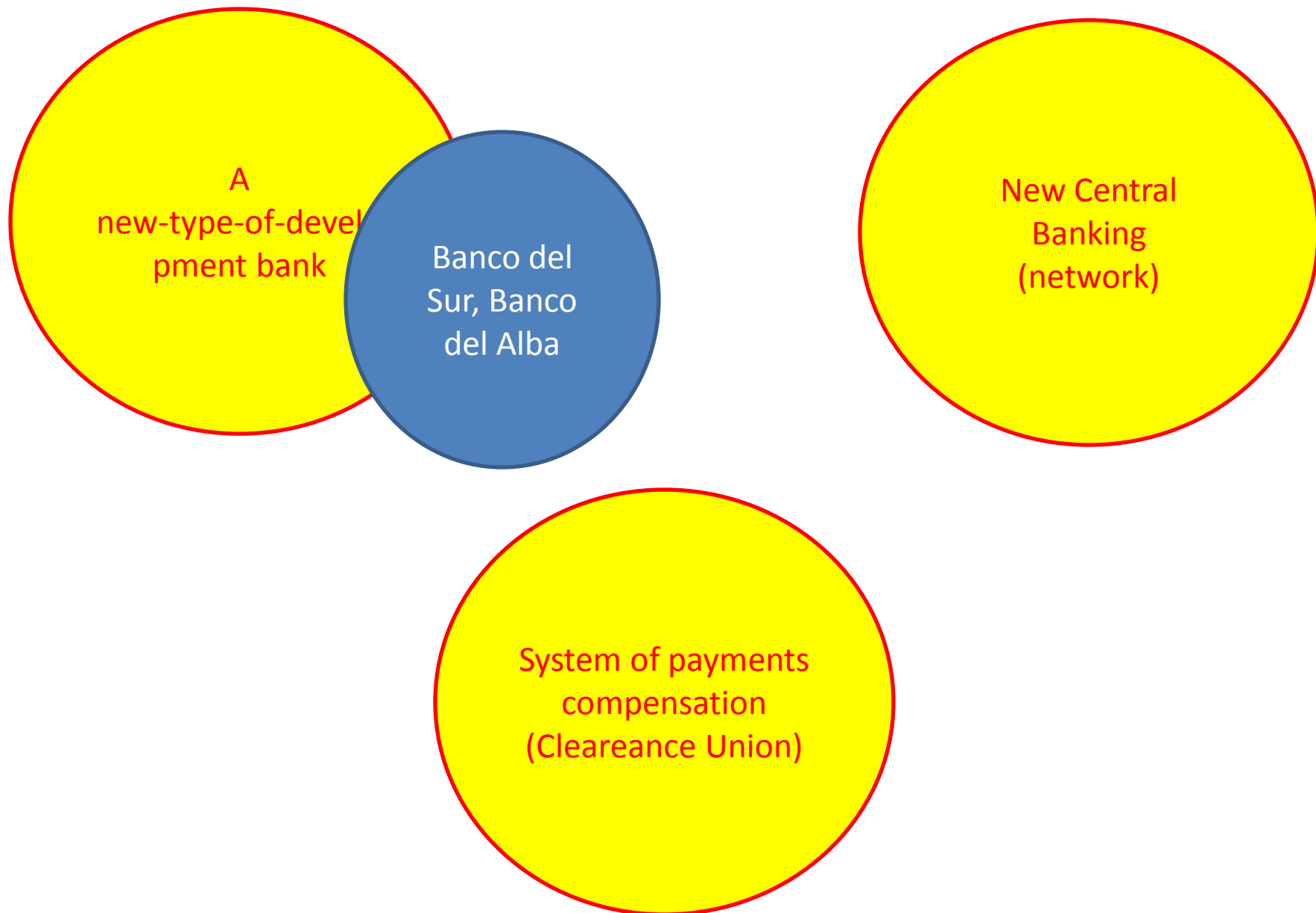


A new-type-of-
development bank

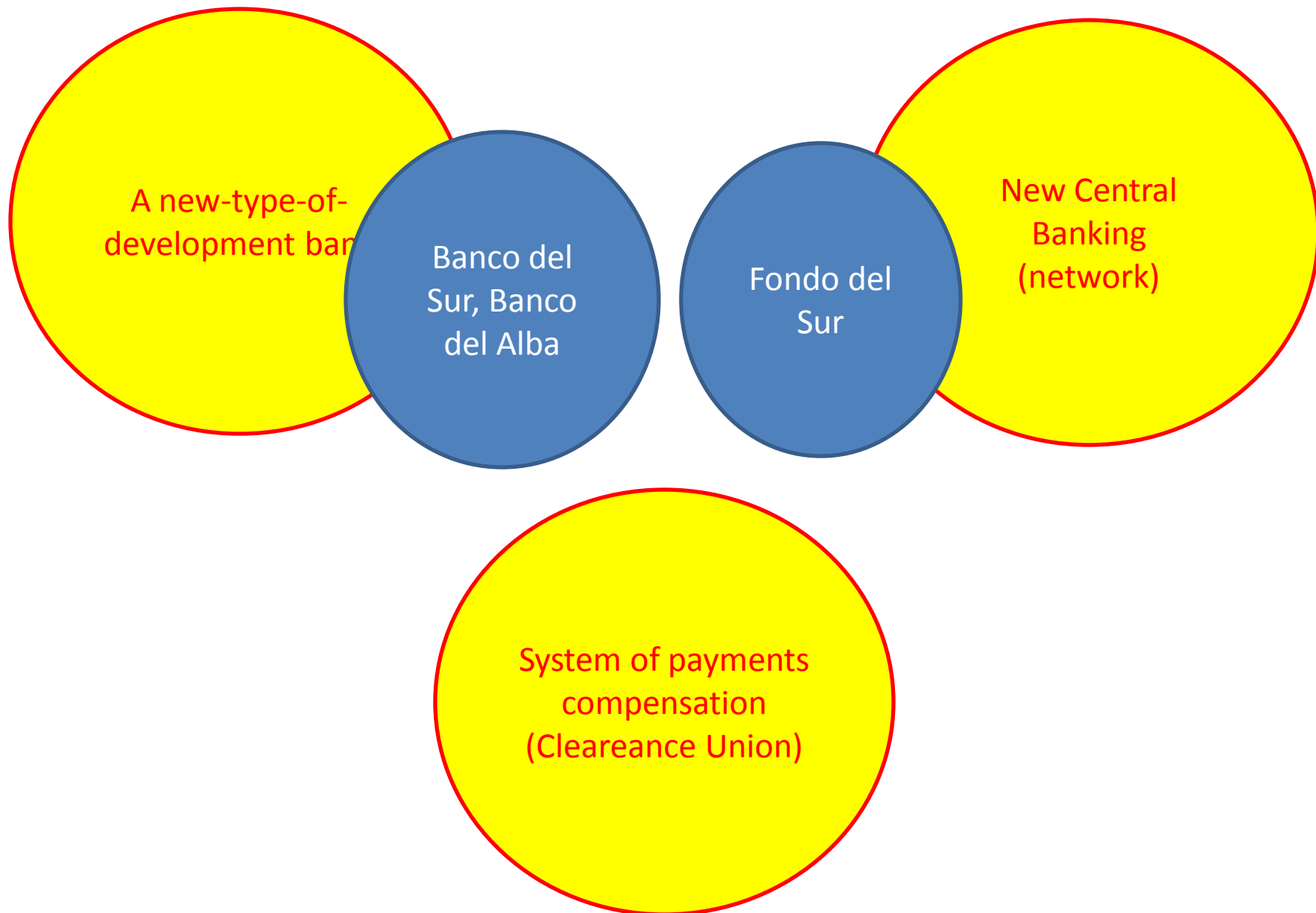
New Central
Banking
(network)

System of payments
compensation
(Clearance Union)

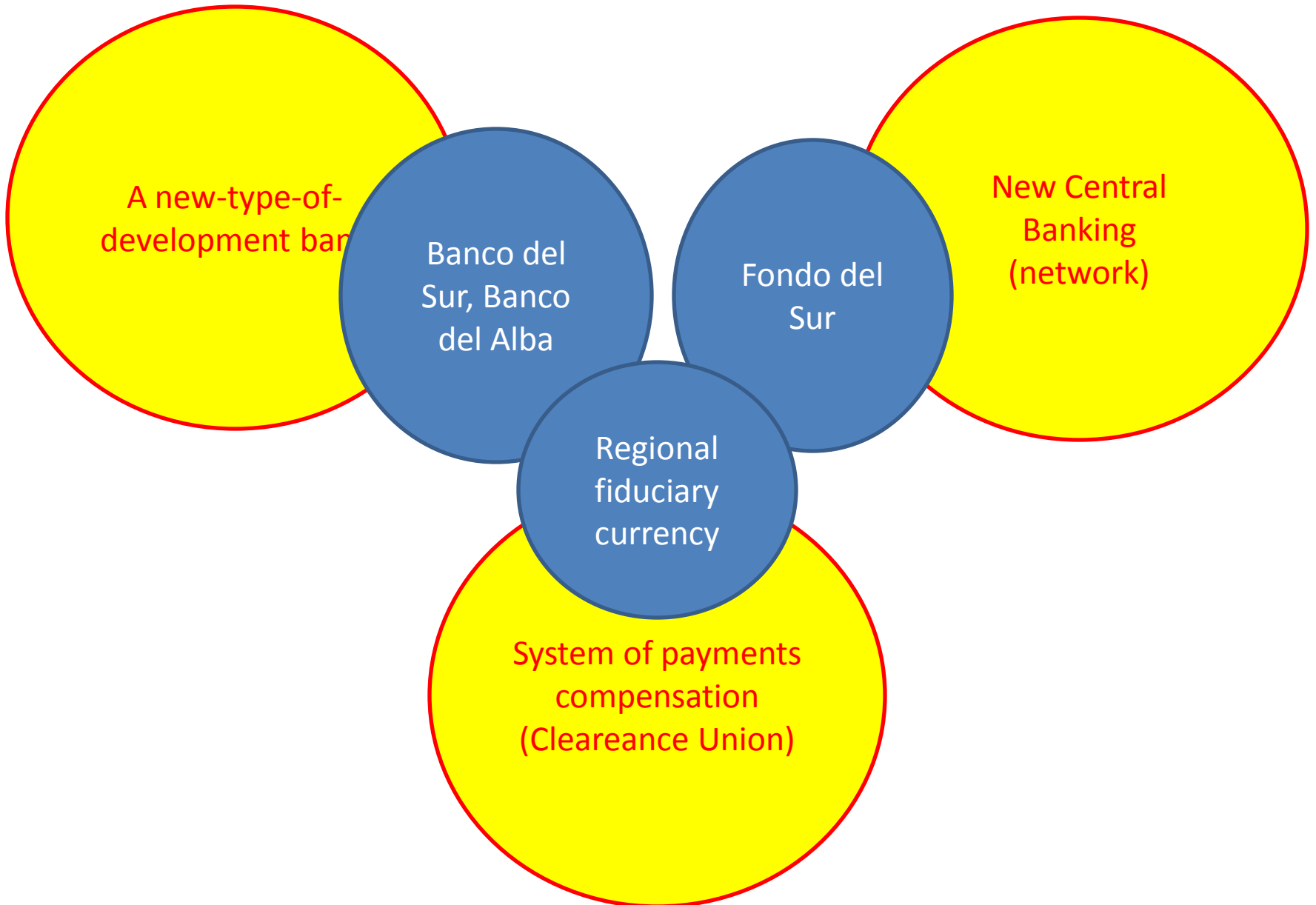
New Regional Financial Architecture



New Regional Financial Architecture



New Regional Financial Architecture



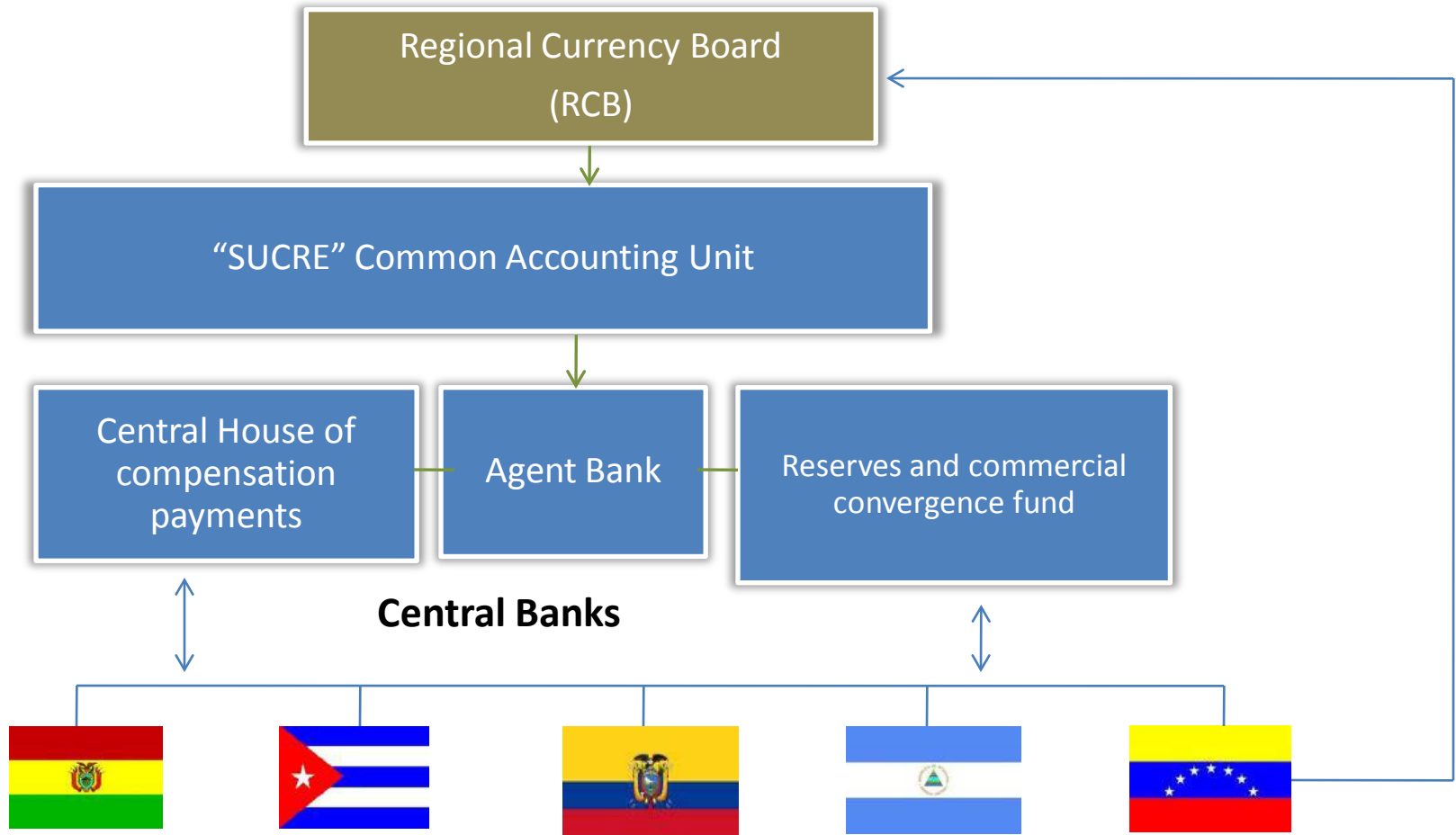
SUCRE

Sistema Unitario de Compensación
Regional de Pagos

Unitary Regional Payments Clearing System



“SUCRE” Structure



Nicaragua has not ratified yet the Convention but we are looking for an agreement between RCB and Central Banks (or other entities) that may allow this country to join. Other countries could join using this figure

SUCRE

Characteristics

- Savings in foreign currency for international payments.
- Inclusion of new actors (popular economy) into overseas trade flows.
- It promotes the convergence to get to a commercial equilibrium
- Reduction of financial costs (compensation costs).

Objectives

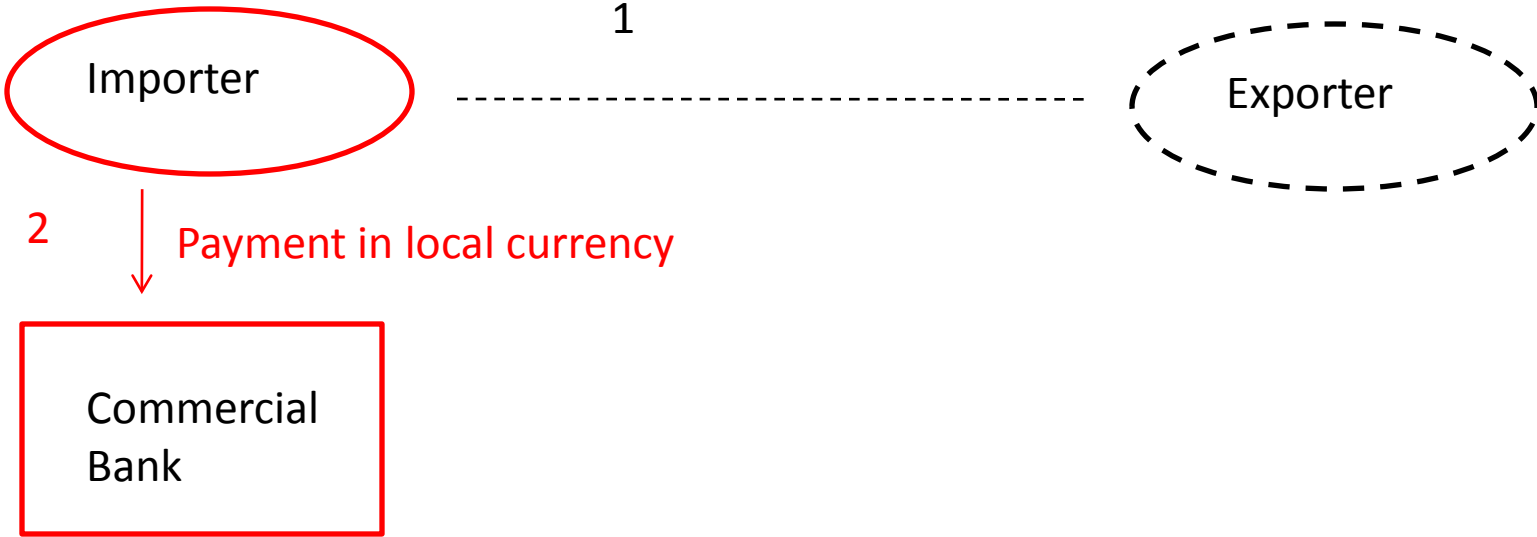
- To promote the expansion of intraregional trade, guided by a productive complementarity, making easier international payments.
- Protecting the region from global financial shocks.
- To contribute in reducing the trade and economic asymmetries of the members.
- Promote a new and effective process of regional integration

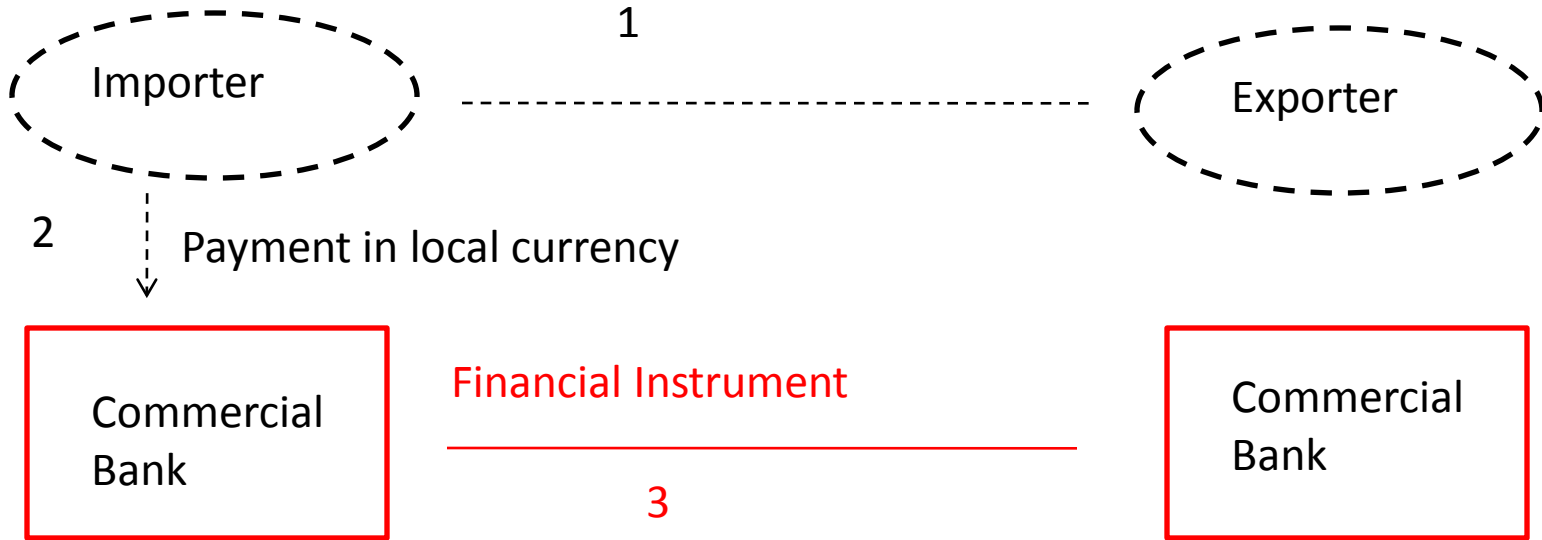
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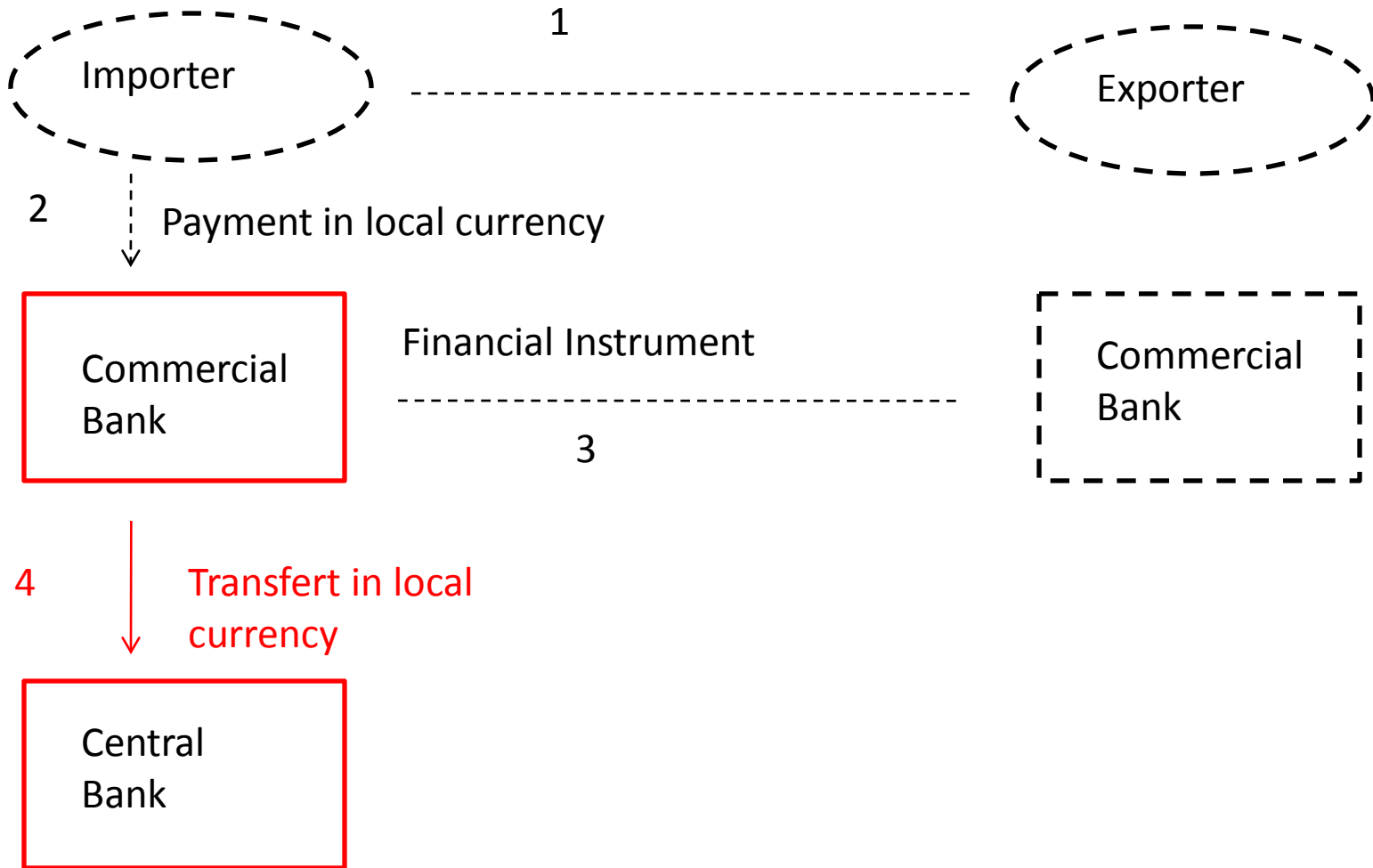
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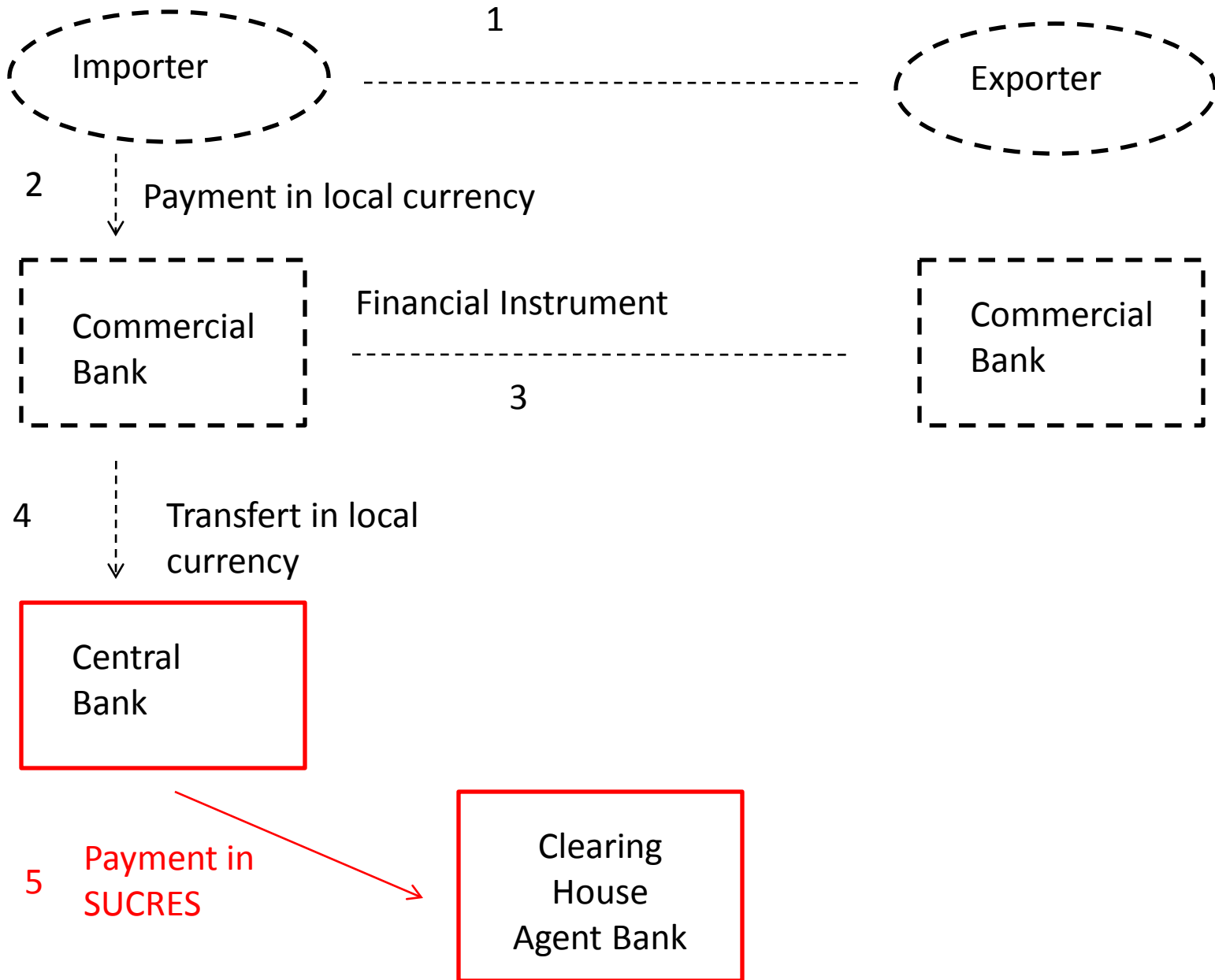


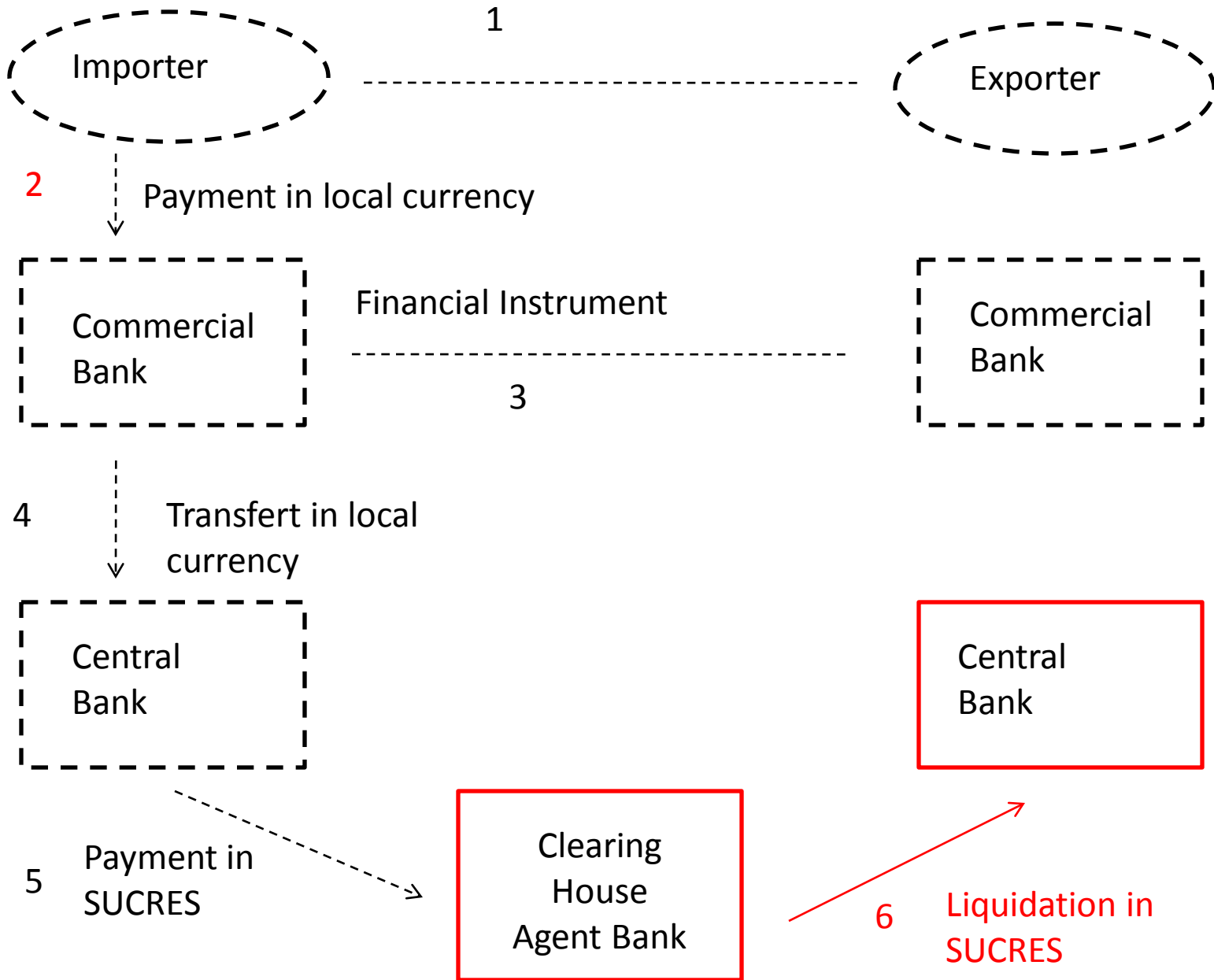
Exporter

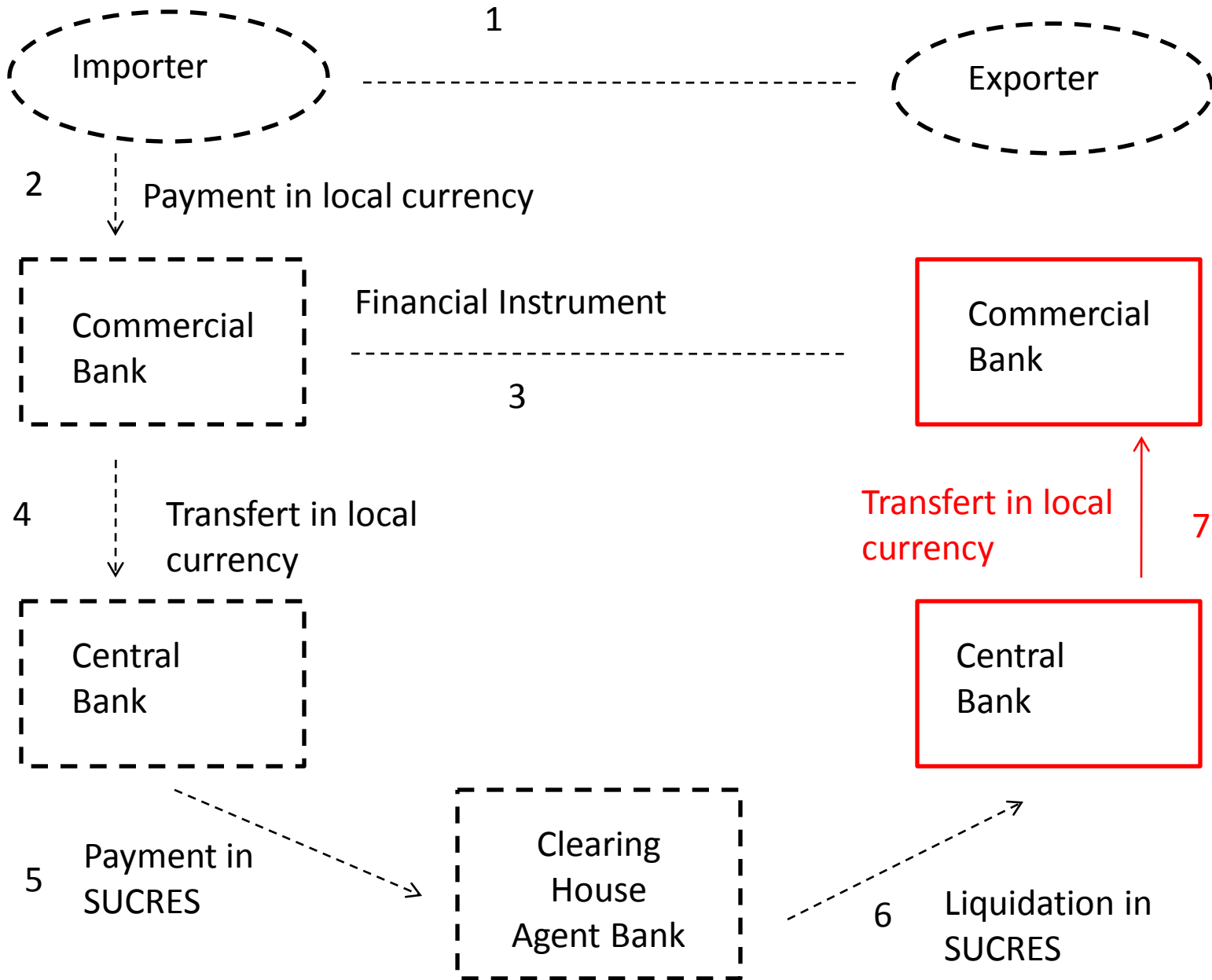


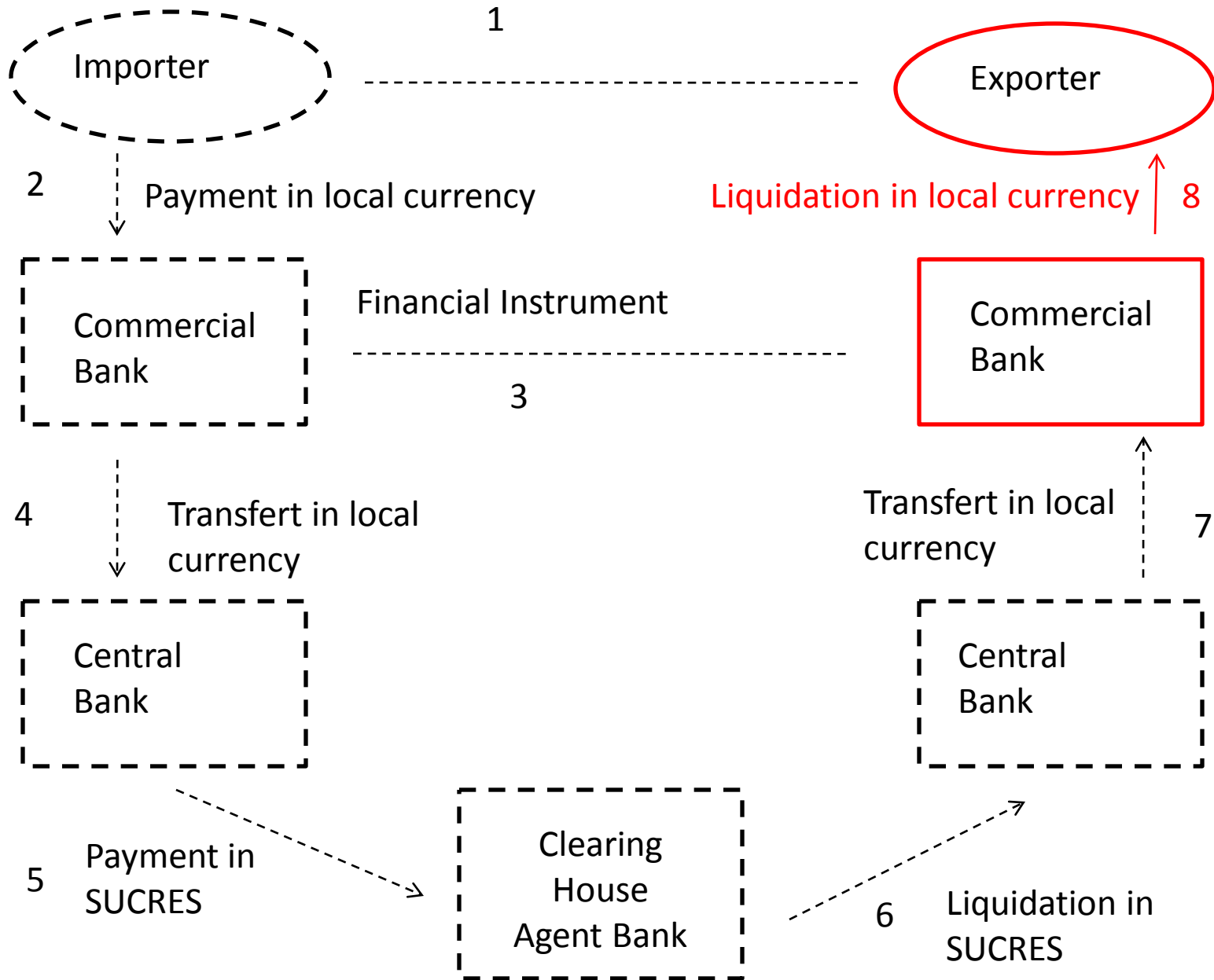


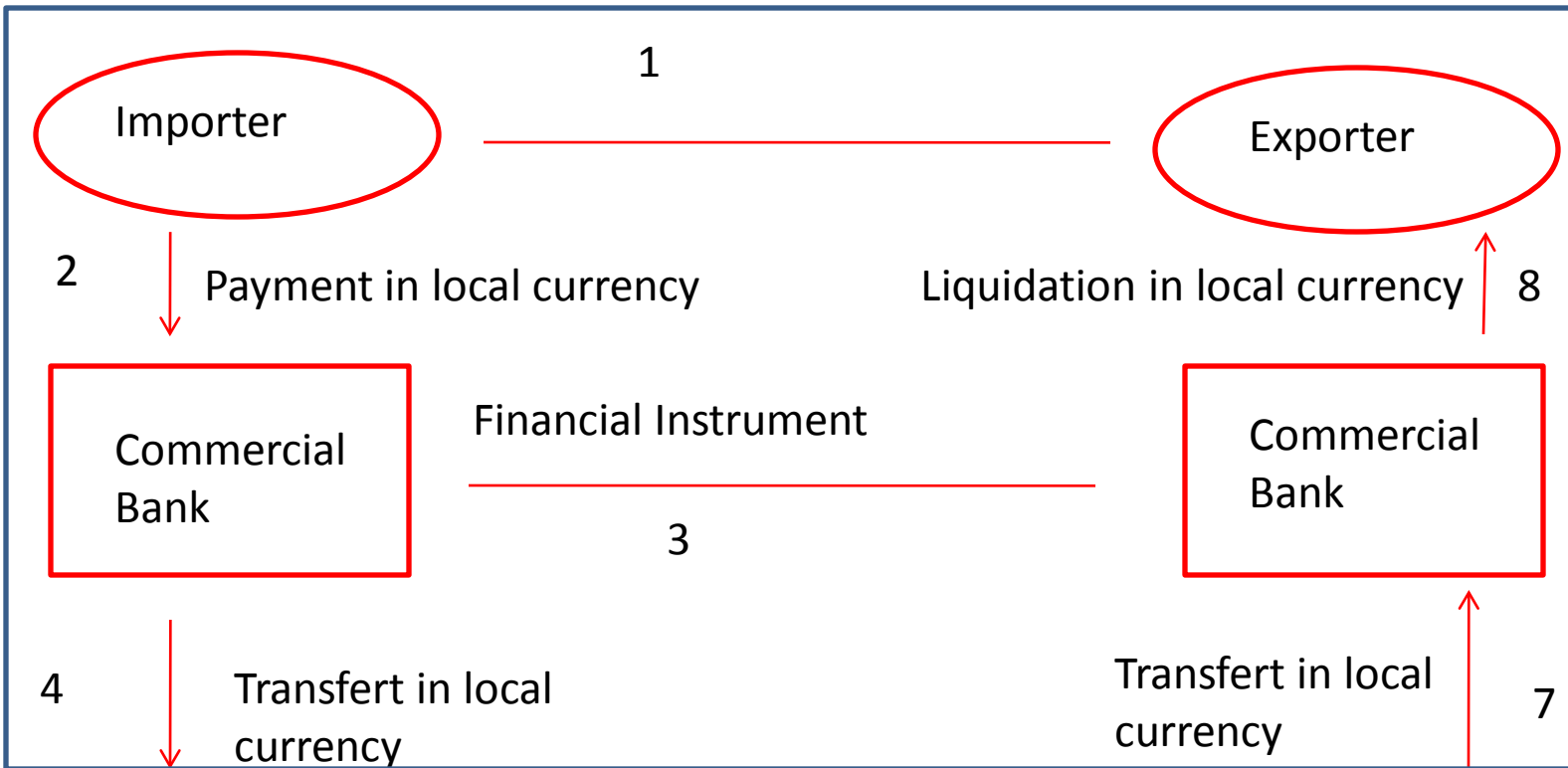




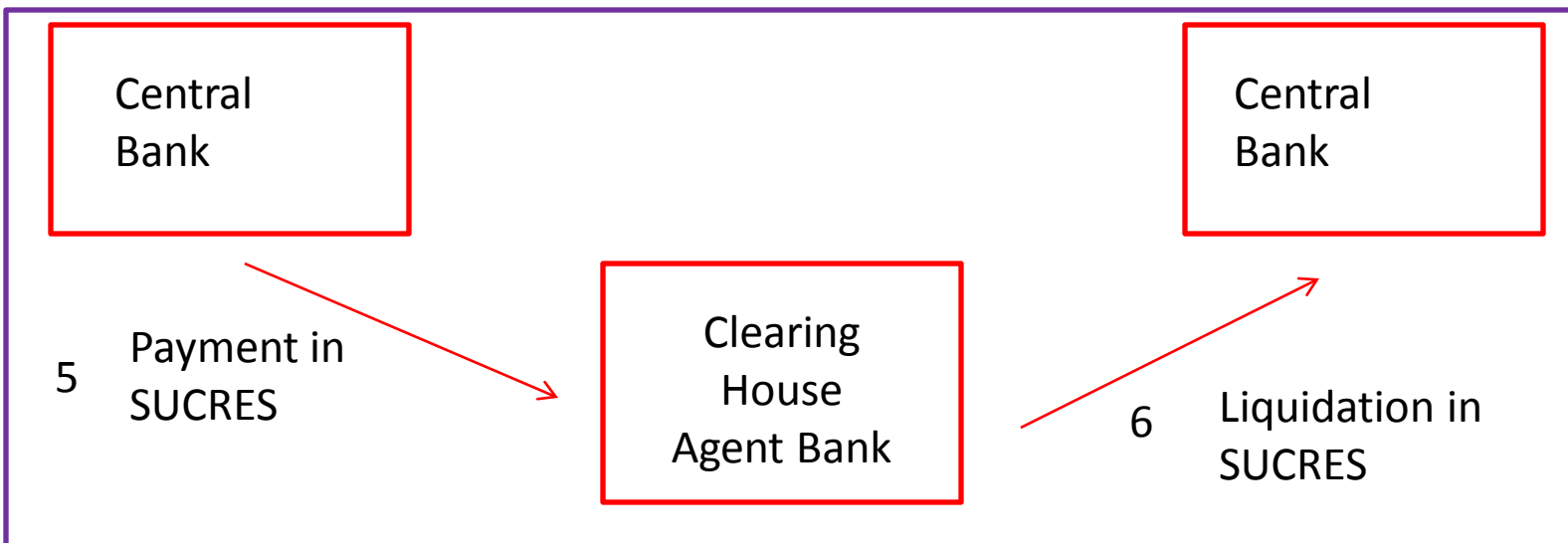








Payment
In
Local
currency



Payment
In
SUCRES

Towards a new type of South-North Relationships

Europe – Latin America: New Perspectives

- Opening negotiations within the new integration process: UNASUR and CELAC
- A flexible geometry of negotiation
- Trade for development as one of the chapters in a much more integral agenda, including issues on environmental crisis, migration, science and technology, payments systems, infrastructure investment and strategic political cooperation

Thanks