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Economic crisis

Latin America and the global crisis

- Features - Economic and debt crisis -

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The effect of the world crisis in Latin America requires three types of discussion: the immediate economic effect, the long-run political effect and the social measures required to confront the financial collapse.

Speculations post-disconnection

In the economic arena, the crisis produced a generalized collapse of the stock markets and capital out-flights that reduced credit. Commodities depreciation induces recession, unemployment expands and unequal growth, which dominated in the past five years, ends.

Moreover, the expectation of a disconnection has been diluted and that of avoiding the earthquake shrinks, because it has suffered in advance during the last decade. The protection of three shields –substantial reserves, low debt to GDP ratio and fiscal surplus – is already not enough.

These shields would have probably avoided the limited international collapse prevalent until September 2008. However, the financial collapse had a superior dimension since that date. This time Latin America received the tsunami. It suffers from outside a shock that was already experienced several times. How big will be this blow in comparison with other zones in the periphery?

Some economists estimate that the stock market effect will be larger than in the central economies because of the fragility of the local stock markets. However, they expect that banks will be better managed, given that they have cleaned then balance sheets in previous crises. They also think that financial firms are less contaminated with toxic assets (mortgages) and speculative operations (securitization, derivatives). The limited size of credit reduced the scale of those transactions [1] .

Other diagnosis state that the fiscal situation looks better tan in Eastern Europe. Besides they estimate that exports reduction will be easier to digest tan in Africa, although more important than in Asia. They explain this diversity to the big concentration of revenues from a limited bundle of basic goods [2] .

Nevertheless, the main problem in these evaluations is their ephemeral character. They appear and disappear from journalistic stories with amazing speed. One day, it has Latin America out of the storm, but the next day it has it in the center of the storm.

Some predictions show a suspiciously biased tone. The IMF, as an example, sees that Argentina, Venezuela and Ecuador confront bigger risks of default than Mexico, Chile or Colombia. Those messages are in reality full of resentfulness towards defaulters [3]. No characterization will emerge from those speculations.

Three effects

Latin America receives, firstly, a global over-accumulation crisis that was generated by the concentration of fictitious capital in the financial sphere. Given the reduced scope of personal debts in the region, this effect does not translate for now in banks affected by irredeemable loans.

However, the crack has created a necessity for liquidity in the central economies, which produces considerable funds withdrawals. In particular, foreign banks transfer resources from Latin America to their central offices. Those repatriations are affecting a fourth of the total resources managed by those entities in emerging economies.

Also internationalized segments of regional finance are affects by the global slump. Some private pension funds –attached to the speculative worldwide pendulum – accumulate loss that threats their life (especially in Chile).

Latin America supports, secondly, over-production of goods, which characterizes the current crisis. This surplus was generated by the model of global competition based on reducing wages that was generalized by neo-liberalism. This disequilibrium effect is verified particularly in the most globalized branches of the regional industry. This section suffers, for instance, the same plethora of goods that hits the metropolitan economies [4].

This surplus is breathtaking in Mexico, that exports assembled cars to the US and Brazil, and that suffers employment reduction comparable to the former country. The panorama is equally troublesome in Argentina, despite of the extraordinary profitability that car makers had in the last years.
The industrial adjustment that affects Latin America is imposed by the transnational firms, which re-organize production on a global scale. In this worrisome climate you cannot find praise to neo-liberal globalization, nor to any type of investment. The terrible consequences of the integrated worldwide fabrication –under the principles of competition and profit – start to emerge.

But the biggest looming threat to the region comes from a third-world impact: the precipitous decline in prices of raw materials. This collapse reverses the growth of the last five years, which was supported by a significant improvement in the terms of trade (33% compared to the average of the preceding decade). This situation allowed reaching even higher volumes of exports to external debt in 2006 and 2007.

This trend change now affects trade balances and government budgets. Consecutive growth at an annual 5.5% rate since 2003 is behind. The GDP of 2008 slowed to 3.3% and the 2009 estimates are being adjusted downward.

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[1] The Economist-La Nación “América Latina se prepara para tiempos duros”, 22-1-09.

[2] The Economist- La Nación, Â¿“Emergentes: Â¿caÃ-da o tropezón”?, 20-1-09.

[3] The Wall Street Journal- La Nación, “La sequÃ-a del financiamiento comercial pone en jaque a los mercados emergentes”, 22-12-08.

[4] Hemos analizado esta combinación de sobre-acumulación de capitales y sobreproducción de mercancÃ-as en: Katz Claudio, “Codicia, regulación o capitalismo”(30-12-08) y “Lección acelerada de capitalismo” (4-10-08), http://katz.lahaine.org

