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Globalisation

# The impact of the world economic crisis in Latin America

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**Thank you for this invitation and congratulations for this conference. In my opinion, the effect of the world crisis in Latin America pose different types of discussion. The immediate economic effect, the political effect and the social measures required to confront the financial collapse.**

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The crisis has produced in Latin America a generalized collapse of the stock markets and capital out-flights that reduced credit. Commodities depreciation induces recession, unemployment expands, and the cycle of unequal growth, which dominated in the past five years, ends. Moreover, the expectation of a disconnection has been diluted. And the protection of three economic shields in some countries –like substantial reserves, low debt or fiscal surplus – is already not enough. Some economists estimate that the fiscal situation in Latin America looks better than in Eastern Europe. They also estimate also that exports reduction will be easier to digest than in Africa. But 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.

In my opinion, Latin America receives three effects of the global crisis. 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 bad 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.

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. The automobile sector suffers, for instance, the same super plus of goods that hits the metropolitan economies.

But the biggest threat to the region comes from the 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. In the last two months the economic situation in Latin America has seen a financial relief. There is also some commercial relief due to the recovery of the prices of commodities, especially food. However, no meaningful conclusions can be drawn yet from these cyclical movements.

This is the text of a talk given at the Socialism 2009 event in Chicago, July 2009.

### Social impact

But the central problem is the devastating social impact of the crisis. The World Bank predicts that there will be six million new poor in Latin America due to stagnation of the economies, particularly hitting workers in the formal market and the middle class. The situation is more dramatic in Mexico, the Latin American country most affected by the crisis. Mexico faces the collapse of the market which absorbs 90% of its exports, in a context of explosive return of migrants, social tragedies and organized crime. It was also beaten by the swine flu and the subsequent collapse of tourism. The old romance with NAFTA has become a nightmare. Very serious is also the situation of the small Central American countries attached to the inflow of remittances.

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Many economists argue that Latin America can also withstand the hurricane if it adopts proper Keynesian policies. These initiatives are already being implemented, especially in the three major economies of the region, to improve liquidity, expand the public credit and subsidizing the industry. But the true intention of these measures is to rescue the local capitalists with the resources needed by the helpless public.

These guidelines rely on a positive reaction of the powerful. They assume that the flow of government money induce capitalists to maintain the level of activity. But they forget that this decision depends on the questionable preservation of profitability. The plans also seek to support consumption, but without measures of income redistribution.

In that moment the discussions on the adequacy and effectiveness of these measures have won the news. But, in fact, viability depends on the magnitude of the crisis rather than the wisdom of the remedies. Monetary and fiscal anti-cyclical policies have an impact within certain limits. Demand may revive or halt the fall in output in a recessionary environment, but they have little influence on a big depression.

There is a great difference between Latin America and the central economies. United States, West Europe and Japan have the resources to try to limit the crisis. They can rehearse reactivations with the support of the Treasury and print Dollars, Euros and Yens. But Latin America has not these resources. We have weak money at international level. Another example of these differences. In the crisis the central economies increase the fiscal deficit, while our region remains attached to surplus rules. In summary at economic level, the crisis increases all the traditional problems of Latin American economy.

### Political effect

In all the Latin American countries there is a great coincidence in the negatives consequences of the economic storm. But some analysts believe that the current adversity will have positive effects if it repeats what happened in the 30s. They recall that the inter-war debacle created auspicious conditions to the development of the subsequent processes of industrialization.

But they forget that the initial impact of the Great Depression was a painful depreciation of commodities. Import substitution appeared only later, as a result of protectionism and the world war. And it was implemented in a region that was able to stay out of this conflagration. Today any reproduction of the post-war framework collides with the absence of inter-war confrontation, and also with the increased internationalization of the economy.

The important thing is to see that an economic collapse in the center of capitalism does not necessarily extend the range of action in the periphery. The crisis of the 70s showed that the contrary can happen. Initially, that shock coincided with a favorable framework for the Third World. But this course was abruptly closed in the 80s with the neo-liberal offensive. The brief easing of international inequality has been replaced by a new phase of global polarization, which lasted until the end of the twentieth century. This background illustrates how limited and fragile can be a period of autonomy in the periphery.

One the central point for the future of Latin America is the crisis in the United State's domination. These crisis stems from political extra-regional military failures in Middle East and anti-imperialist rebellions in the area. U.S. domination has been very affected at economic level by the failure and the stagnation of Free Trade Agreements.

Moreover, much of the South American governments have taken away from its old subordination to the North, as a result of major political and social upheavals. For example during the last year the United States was sidelined in negotiations to amend the Colombia's military incursion in Ecuadorian territory and the failed right wing coup in Bolivia. It had to suffer further the expulsion of the two ambassadors in Bolivia and Venezuela.

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In my opinion, Obama's policies for Latin America can be explained as a consequence of two processes: the crisis of extreme neo-liberalism that prevailed during the 80s and 90s and popular resistance between 2000 and 2005. For these reasons we see today a change in attitude and a shift in rhetoric of Obama, compared to Bush.

The best fact that illustrates this new context is the decision adopted by the Organization of American States to drop the restrictions that prevented Cuba from being part of that organization. -This decision means a political victory for Cuba. The leaders of that country have correctly argued that they do not want to go back to an organization that always served the interests of imperialism. Nevertheless, the incident illustrates the end of the political isolation that the revolution suffered during the 1990s.

Some analysts estimate that context will force United States to ease its control over Latin America. But in reality, Obama has no plans to implement significant changes in the Latin American region. He will withdraw the prisoners in Guantanamo, but not return the enclave to Cuba. He will get some permission to travel to the island, but without lifting the embargo. He will seek diplomatic approaches to Cuba, but he will avoid acknowledging the imperial defeat. And it is not clear if he will continue to cover the state terrorism in Colombia and the political harassment of Bolivia and Venezuela. Surely Obama will pick a combination of carrot and stick, with more diplomatic incidence than brazen brutality. But he will maintain the imperial policy based on the Monroe Doctrine. And we can see the continuity of this policies in the revival of IV fleet under the pretext of drug trafficking or terrorism, the great military power of the Southern Command in Miami, the military bases of Colombia, in Peru and a novel hypothesis of military intervention in Mexico.

For some analysts, all these facts are regrettable legacies of the past. They believe that Latin America will benefit from structural and inevitable decline of the United States imperialism. I don't share this opinion. The U.S. military still has no rival in sight and is accepted by its competitors. This lack of European or Asian military replacement is particularly crucial. American supremacy is going through a crisis whose end is unknown. It is not written anywhere that will end with the rise of an opponent or recycling one's own leadership. It is impossible to determine, for now, if the U.S. is going through a limited or permanent setback.

It is true that in Latin America the USA power lost some economic gravitation in the last decade compared to his European competitors. But the European Union does not aspire to replace his rival and has been limited to testing their Free trade agreements modelled to FTAA. It is also true that the U.S. has had to tolerate the first commercial foray of China, but these presences threaten less than Europe the traditional American domination. In conclusion, for the moment no data is corroborating the argument of resignation of the United States primacy in Latin America.

### Right and Center-Left

More important for the immediate future is the political strategy of Latin America's right. I think that the conservatives and neo-liberals prepare a counter-offensive in all the countries. They are trying to seize the financial crisis to regain the offensive. With the excuse of attracting foreign investment they propose fiscal adjustment policies. They also say that during this difficult situation it becomes even more necessary to make sacrifices in favor of the capitalists.

We can see many signs of this right-wing offensive, especially through the media that encourages conservative responses of middle classes. The examples of this campaign are the attempts by the Colombian government to stay in power indefinitely, the right recover in the electoral area in Chile or Mexico, the political victories of agro-business in Argentina and the pressures to the new president of Paraguay to resign.

But some analysts exaggerate this tendency. They estimate that the entire political context has become negative. Until now, the right has lost major battles in South America. The coup in Bolivia, failed, the Colombian military attack

to Ecuador failed and the attempt to consummate any trial of regional separatism failed.

I think that is difficult to restore the context of unanimity and pure domination of the right that we saw in the 90s. This right-wing campaign has very doubtful chances of success because in a lot of countries the people recall the devastating consequences of Neo-liberal policies of the 1990s. The outcome of recent elections indicates a contradictory context. The new government in Panama was recovered by the right, but in El Salvador the significant electoral victory was for the Farabundo Martí front. Even Honduras, a country traditionally aligned with the United States, has now developed a very independent foreign policy.

A political fact that is equally important is the conservative regression of the center-left. The most striking example of this conservative turn is Lula in Brazil, who came to government after a long process of accumulation of workers organization since 1980s around the Workers' Party. Lula's government has demobilized, depoliticized the people, blocked all social struggles and sustained previous governments' capitalist policies without any significant variation. Lula has favored specially agro-business. He ratified the expulsion of small subsistence farmers to benefit exporters and landowners. This has generated a deep disappointment and criticism from the Movement of Landless People.

However some analyst in the left propose to support the center-left hoping they will provide in the future some improvements for the people and contribute to growing people's power. But they experience shows that they are wrong. Center-left governments clearly represent interests of the ruling classes and reproduce capitalism.

However some of them say that those kinds of governments will favor multipolar scenarios. They believe that Latin America could take advantage of this change in the geopolitical context, to adopt more autonomous policies. I think that a period of greater dispersion capitalist forces on the planet is certainly a possibility. But it is crucial to stress that by itself it would not benefit popular majorities. Rather it will strengthen the local ruling classes associated with the hegemonic powers. A possible incorporation of new partners in a multipolar scenario would renew oppression and obstruct popular emancipation.

In South America, Brazil is the great candidate to lead this oppressive multi-polarity, because despite the low growth in recent years, Brazilian transnational corporations have been consolidated throughout the region. The main project of these companies -sustained by government funding- is a set of planned highways and waterways. They act with aggressive business diplomacy and that policy has led to numerous conflicts with Bolivia, Ecuador and Paraguay.

It is important also to remember that Brazil led occupation forces that replaced the Marines in Haiti. It ensures that there is a neo-liberal policy, which exacerbates the tragedy of hunger, poverty and emigration, using police methods. These actions have facilitated the entry of Brazilian firms in the Caribbean. Lula repeated the policy developed by Spain in the 90's, to favor the Spanish companies in Latin America. Brazil subordinates even the continuity of MERCOSUR to its leadership.

In many negotiations of global commerce, Brazil abandoned their allies to seek a compromise with developed countries. To be the leader of the South American bloc, Brazil needs to politically neutralize Venezuela and resolve trade disputes with Argentina. In this strategy of the dominant classes, Brazil seeks to fill the spaces created by the crisis of U.S. domination, but without colliding with the first power.

In my opinion in its new role Brazil is playing a dominant sub-imperialist role. The notion of sub-imperialism helps to overcome the simple center-periphery pattern and indicates the variety of relationships in the world market. It indicates the existence of intermediate formations, which some thinkers have theorized with the notion of semi-periphery.

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Lula in Brazil is the most important example of the conservative regression of the center-left. But we can see the same way in others South American governments, like Michel Bachelet in Chile or Cristina Kirchner in Argentina. They acted together with the United States in the preparation of the last meeting of the Group of 20 in London.

They sustained the economic agenda imposed by the United States to hold the dollar and provide funding for the bailout of U.S. banks with resources of the rest of the world. Theirs politics bloc the possibilities of a debate over a collective response to the crisis, that is being developed at the United Nations.

But above all, the center left governments sustain the IMF as the institution that should be responsible of the financial reorganization of the world. They do so with the illusion of reforming the agency, when the only possible progressive politics is to close the IMF and build another institution from scratch.

I think that there is a social underling transformation in the dominants classes that explain all this political regression, especially in Brazil and Argentina. This change was a transformation of the old national bourgeoisie -promoters of the domestic market- in local bourgeoisie, who prioritize export and partnership with transnational corporations. This multinational turn of the dominant classes has been consolidated in the last two decades. It is a mistake to see South America like a neo-colonial region similar for example to several regions in Africa. And it is incorrect to see the main local ruling classes as a puppet of the empire. They act as groups with own interests and strategies, in a framework that differs substantially from the old semi-colonial status.

### Radical nationalist governments

But in the left it is important to see another change. In my opinion, the most interesting political shift in Latin America is the consolidation of radical nationalist governments, in Venezuela, Bolivia and Ecuador, particularly in the electoral field. They won fifteen elections in Venezuela, three in Bolivia, and five in Ecuador.

These governments differ from center-left administrations (Tabaré, Cristina, Lula, Bachelet) at three levels: they use popular mobilization, conflict with imperialism and the ruling classes and seek measures of income redistribution. In Ecuador, Bolivia and Venezuela there have been devoted important democratic advances through new constitutions, adopted after strong electoral disputes against the right. In Bolivia, for example, the church was separated from the state and foreign military bases were prohibited. Governments of these three countries is trying reformist economic policies, based in public investment and the improvement of purchasing power.

One keys aspect of these measures are Venezuela's nationalizations that try to go towards the industrialization of the economy, in the absence of a national bourgeoisie. It is important that Chavez calls to the mobilization of workers in order to exercise worker control of the nationalized enterprises. But the radical nationalist governments face major dilemmas. They maintain popular support, but some concessions to capital tend to produce fatigue. For example in Bolivia, the speed of social transformation in the agriculture is very slow. It was chosen to incorporate several demands to the Constitution of the oligarchy (especially the non-retroactivity of the limits on land ownership). In Venezuela the social inequality is recycled and the corruption was recreates. In Ecuador there has been tension between the government and the indigenous movement.

But I think that the global crisis opens an opportunity to overcome the wear with new impulses, reinforcing a regional political-axis with Cuba and revitalizing the Bolivarian Alternative for the America (ALBA). This association introduced early solidarity exchange, reaffirmed anti-imperialist actions and raised social reforms.

It is time to overcome these difficulties radicalizing nationalist processes. The priority of course is to neutralize the right and prevent the return of the Conservatives. But it is also essential to avoid a freeze on social transformations,

which stabilizes the layer of oppressors germinating within the popular processes. We have to avoid involution of the popular political processes such as what happened in Mexico after the revolution. I think that the radicalizing nationalist processes are the most progressive perspective for these countries, but it will be a very diverse and contradictory process. We have to understand this complexity and avoid the sectarian posture. This position ignores the differences between Lula and Chavez, dismisses progresses of radical nationalism, abstains from participating in elections and above all does not define a viable path for building socialism. I believe that the best way for the development of the left is the convergence of socialism with revolutionary nationalism that led to the triumph of the Cuban revolution. We have a strong tradition of Latin American Marxism that explains the theoretical foundations of this convergence based on the life and experiences of thinkers and activists such as the Cuban Mella, the Peruvian Mariategui and the Argentine Che Guevara.

### Social struggle

Finally it is very important to underline the importance of the social struggle. The future of our region depends on this battle. In any coming scenario people will suffer harsh blows if they fail to strengthen their resistance to capital. This conclusion is the main lesson of the financial collapses the region suffered during the past decade. These debacles led revolts that allowed accumulating some significant political and social experiences.

Uprisings in Bolivia reversed a long rightist cycle, demoted several neo-liberal presidents in Ecuador, raised a marked polarization in Venezuela and led to the historic uprising of 2001 in Argentina. They also generalized the battle against privatization, for nationalization of natural resources and for democratizing political life.

The oppressed of Latin America are aware of the dramatic rescue of the capitalists and must be prepared to confront the aggression that accompanies the new social relief of bankers. The conjuncture is showing a lower intensity of popular resistance, compared to the big stage of popular uprisings that occurred between 2000 and 2005. But there was a significant rise in Guadeloupe and Martinique in the Caribbean and we have seen in the last week the struggle of indigene in Peru.

But the popular resistance needs a program of social measures to confront with the economic collapse. It is important to know that in the last months some social movements, political organizations and the radical economists discuss alternative proposals, at several meetings in Caracas, Buenos Aires and Belem. These programs reject the regulation and state control measures that socialize capitalists' losses. Call for mobilization to monitor how public resources are used. The proposals that have been outlined prioritize the maintenance of employment, the prohibition of dismissal, the distribution of working hours without affecting wages and the nationalization of factories closing or firing workers.

These measures are necessary against government complicity with employers cutting jobs. State brokering negotiations to reduce wages in exchange for preserving employment, is another face of the ongoing social outrage. Three measures under discussion are particularly acute. First, the nationalization without compensation, of any kind of financial system. The objective of this measure is to ensure control of credit in the current explosive situation. The rescue of the bankers should be replaced by the expropriation of their property. States must recover the cost of keeping the banks in operation, absorbing the properties of its shareholders and directors. Ecuador's new Constitution, which prohibits the state to take private debts, provides a basis for this action.

The second vital step is the suspension, revision or cancellation of the external and internal debts. While the crisis clears billionaire liabilities in the central economies, Latin America continues to pay. The terms of systemic risk in use in the U.S. for re-calculating the amount and timing of obligations, is not implemented in the region.

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It is time to follow the path that began Ecuador, to implement a comprehensive audit aimed at determining the actual liabilities of the fraud. If implemented in a consistent manner, that suspension of payment of unlawful debt will have a huge impact on the region. It will replace repeated default by a sovereign decision to place creditors in the dock.

The third measure imposed by the crisis is the nationalization of oil, gas and mining. This would preserve the resources that Latin America needs to protect from the global tremor. This road has already been initiated by Venezuela and Bolivia. But nationalizations are taken with much hesitation and using erroneous indemnity payments. In the middle of falling prices of raw materials such outlays can be fatal. For example, the payment of compensations to the owners of the nationalized enterprises has been so far very negative, until now has had a cost of 15,000 million dollars.

In conclusion, I think that the global crisis changes the general perception about what drastic measures usually are. In the midst of a collapse that has cracked the neo-liberal ideology, no one is scared by calling to nationalize or suspend debt payments. It is time to take advantage of this to protect the population of Latin America, by making blunt decisions.

### Socialism

Final conclusion. Latin America played a leading role in the resistance against neo-liberalism, but the current crisis poses another challenge: to take an advanced role in the battle against capitalism. This system is responsible for the current disaster and its continuity requires further suffering of people. Only one way of eradicating exploitation, waste and inequality will counteract poverty and unemployment. This path requires anti-imperialist and anti-capitalist action. The answer will be effective if it facilitates a transition to socialism, as opposed to all projects to regulate capitalism. Statism in vogue tends to recreate the crisis, after arduous rescues borne by the population.

Only a socialist perspective will enable an economy to the service needs of the people with democratic forms of planning to reduce (and subsequently removed) the traumatic upheavals of the capitalist cycle. The future of socialism will not save any connection with the failed experiences of bureaucratic totalitarianism of the twentieth century. It will launch collective self-management that is needed to forge an egalitarian society. Finally I would like to say congratulations again for this conference. In this kind of activities we began to work together, Latin American and North American peoples, in our common battle for socialism.