European Crisis, Sovereign Debts, and Bankruptcies: Lessons from Latin America

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> "The Euro straitjacket, both the growth and stability pact and the rather mythical all powerful ECB, is not the clue. Both were created by France which bought the support of Germany"
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> "In its long run commitments to fiscal deflation for the sake of abolishing the state deficit and thereby complying with what became the Euro straitjacket, the state in each country abolished every obstacle to the quasi inbred tendency of capitalism to retreat from the real economy"
>
> Alain Parguez, 2011

Abstract

The scope of the European crisis requires a rereading of mainstream economic theory and its impact on the monetary and financial circuits. The sovereign debt and bankruptcies have deepened the global dimension of the current financial crisis. The Latin American external debt crisis during the 1980s teaches what Europe should not repeat. It's a "dèja vu" history.

The objective of this paper is to propose how the current crisis in Europe requires a heterodox reading to discern the course of the global dimension of the fragility of the current financial system, which has developed based on different expressions of financiarization. Financial investors have been especially attuned to interest risks and profitability in the international financial system. Explaining the structural crisis in the euro zone implies understanding the precedents in the Maastricht Agreement. The Treaty created a European Central Bank (ECB) without state input, which is why it would be difficult to consider it as a lender and employer of last resort.

The world crisis caused by financiarization, particularly in Europe, has not only been accompanied by bank insolvencies, but has also raised questions as to whether the weakest countries in the periphery of the European zone

would be able to pay their public debts and remain in the European Monetary Union. Since 2007, bankruptcies throughout Europe have continued to appear and this trend has intensified since the Lehman's Brother's bankruptcy. The social movements against the adjustment programs have changed the political map during the past few years. Financial fragility, unemployment, social demands, non-performing loans, a decline in average industrial production, a mortgage crisis without a solution in sight, and the end of the welfare state define the current scenario. The ECB, International Monetary Fund (IMF) and the European Commission (EC) known as the troika bring back memories to Latin American governments and remind them of the close relation between the Federal Reserve Bank and the International Monetary Fund during the 1980s with the resulting terrible economic, political, and social disasters.

1. The Maastricht Agreement[1] and the European Central Bank

The Treaty of Maastricht and the central bank's role in the European Union are examples of when economic theory becomes reality. Mundell emphasized that a single currency implies a central bank (Mundell, 1961:658). Thus, unlike what was involved in the creation of the Federal Reserve Board and the dollar's role in the United States not only nationally but globally, Mundell's theory has involved, in the case of Europe, developments that have laid the basis for financial fragility, not only in the construction of the euro currency area but in the countries that have lost their monetary sovereignty. The euro as a currency has become dependent on the European Central Bank (ECB) since the beginning of its creation.

For Chapoy, the "... result of an idea promoted by France and the Federal German Republic, through the resolution of the European Council of December 5, 1978, was the creation of the European Monetary System (EMS), which went into effect on March 13, 1979 "(Chapoy, 1993:40). Subsequently, the Delors Report, Economic and Monetary Union (EMU), and the European Monetary Institute (forerunner of the ECB) and the European System of Central Banks were to shape the Treaty of Maastricht (1991).

[1] The Treaty on European Union (TEU) is the main political basis for the entire Union. It was signed in 1992 in the Dutch city of Maastricht.

The beginning of the 1990s are significant because based on the leadership of Germany and France and without the participation of Great Britain, a currency zone was created with fiscal and monetary stringency to design an economic and political strategy to deal with the influence of the yen in the Asian currency area and the influence of the dollar in the rest of the countries.

With the Treaty of Maastricht signed, one of the most important points of the resolution is the rationale for the responsibility of countries to obtain financing through an efficient fiscal policy and the refusal of the ECB to finance budget deficits of the member states of the monetary union. Since the formation of the institutional framework of the European Monetary Institute under Mundell's influence, the foundations were laid for the financial fragility of the European currency. First, the monetary sovereignty of the central banks of the member countries became dependent on a central body called the European Central Bank (ECB). Second, the ECB is independent of the political decision making of the monetary union's member states. Third, the financing needs of the public deficit would be made through private investors. Fourth, only commercial banks would be financed by the central banks. Fifth, the financing of companies and the public administration is forbidden (Guillén, 2011:115).

At this moment the loss of sovereignty of the countries that form the monetary union was posed. Therefore, the euro zone accepted a central bank that would indistinctively govern monetary policy in the countries comprising the currency area. This was no excuse to finance the public deficits. Based on the modifications contained in the Maastricht Treaty, the countries would resort to financial markets. The countries' public debts would depend on the decisions of the rating agencies and funding would be to achieve the necessary growth standards between countries with asymmetrical economies. Therefore, countries lost their monetary sovereignty when they adopted the euro, a currency that was initially called the ECU[2]. Of course, the Washington Consensus, the economic and financial reforms coupled with the process of deregulation and financial liberalization were aimed at

[2] As of January 1, 1999 the currency known as the euro entered into effect as legal tender, replacing the ECU (with EUR as its code and € as its symbol) with a value of € 1 = 1 ECU. Not all the European countries participated in the start of the euro currency area. The member countries first had to meet economic indicators that would standardize the growth and economic development of their new peers.

preventing the deep crisis of the underdeveloped countries and strengthening the monetary zones on a tripartite level among the great powers at the beginning of the 1990s.

To provide financing to sovereign countries, since the Treaty of Maastricht investors have participated in satisfying the demand for financing from the banks, companies and the public administration of the member states of the currency area. The investment instruments include mutual funds[3], pension funds, and hedge funds.

One of the points that should be emphasized to understand the financial crisis in the euro area was the decision to respect the Stability and Growth Pact that perpetuates and reinforces the Maastricht Treaty criteria [4]on public finances. The convergence measures took effect as of January 1, 1999. There were five convergence criteria: 1) inflation rates in the candidate countries should not exceed the rates of the three countries with the lowest inflation by more than 1.5%, 2) the budget deficit should not exceed 3% of GDP, 3) the gross public debt of the member states should not exceed 60% of GDP, 4) the narrow fluctuation margin of exchange rates within the European monetary system should be respected for at least two years without devaluations or tensions, 5) long term interest rates should not exceed the average of the three member states that have had the best results in terms of price stability by more than 2% (Guillén, 2011:115).

As opposed to the causes behind the economic crisis in the United States, the specificity of the European crisis has its origin in "... a series of policy decisions that shook the real economy. Policies of a predatory nature destabilized the real economy and this damaged the financial structure that sustained it, which explains how we arrived at a capitalism of autonomous finances that violated the law of value "(Parguez, 2010). Based on the famous "Mitterrand conversion" of 1983 (Bliek and Parguez, 2008), "... a permanent shock therapy policy was generated that was focused on reducing public spending and raising taxes on the middle class. The only goal was zero public deficit and quickly generating surpluses to pay the public debt. It is true

[3] Mutual funds are classified as global funds or specialized funds. Global funds include global funds and foreign funds. Specialized funds include emerging market funds, regional funds and country funds.

[4] Between 1999 and until 2002 there was a period of gradual introduction of new bills and coins to enable the public to get used to the euro.

that given macroeconomic laws, no state could achieve that dream due to their negative impact on the real economy, accelerating deflation. These deficits did not have a positive impact, but (possibly) a negative one in the private sector because they affected profit flows due to negative expectations and consequently caused a drop in the multiplier effect of employment because companies were betting that there would be greater deflation "(Parguez, 2010:219).

The collapse of the financing structure and deflation inserted the monetary and financial circuits in the process of financialization in order to make it possible to raise funds. At the same time, the butterfly effect mentioned by Alain Parguez (20011) in his writings had a dramatic impact on the real economy by destroying all their underlying and sustaining relations. Herein lies the true beginning of a new world crisis in which in Europe the predatory policies of the states and the European Union through the ECB come together with the greed of the banks, which along with the financial markets accepted the domination of finances.

2. Basic concepts: "regime of financial accumulation," "capitalist money-manager" and "financialization"

a) New players in the financial landscape of the post-Bretton Woods period

Following the breakdown of the Bretton Woods Agreements in 1971, financial instability became a constant in financial markets worldwide. In the world of the developed and underdeveloped countries, recurring monetary, banking, and financial crisis persisted for more than four decades. Aglietta defines them as the crisis of financial globalization (Aglietta, 2001, Vol 2:5). Not only the internationalization of capital became dominant, inserting the national money markets in an international financial market, but it was transformed in what would become financial globalization. The great transformation in the financial circuits of internationalization and financial globalization expressed in the world market through institutional investors, modified the behavior of development financing and with it the objectives of financial institutions and banking systems on a national level.

The global financial space became a single market where for more than two decades, high-risk financial instruments have traded on the basis of profitability afforded by the prevailing interest rates in international markets. The purchase and sale of contracts for financial services grew exponentially over a short period. Not only was the growth exponential, but the purchase and sale of financial operations extended the timeframe for their execution. The business hours for transactions are not defined by day and evening but by a single time schedule. This time schedule for transactions in the securities markets and stock market trading led to a deepening of the financialization of the international financial circuits without such timeframes. At the same time, the role of the central banks was subordinated to the transformation of the financial circuits, ensuring the margin of capital efficiency to the new players in the financial sphere, controlling interest rates and inflation.

Since 1971, the dollar decoupled from the gold standard, thereby breaking the Bretton Woods Accords and transforming the international financial system. New economic actors were to prevail over the decisions of international financial institutions. They were to be represented by institutional investors and rating agencies with the strong presence of the state and the central banks. On the one hand, there was the interventionist state to deregulate and liberalize the economy, and on the other hand, the objectives of the central bank, which were expressed in inflation targets and the deregulation and liberalization of national financial systems, regulating the financial order based on the needs of international financial capital. The rating agencies took precedence over national interests and in accordance with institutional investors. The importance of the rating agencies has surpassed international financial organizations such as the International Monetary Fund (IMF) and World Bank (WB), institutions that were the pillars of monetary regulation in the international monetary system from 1944 to 1971.

This market in which the rating agencies have an influence over national states and operating in infinite time based on financial innovation was instrumental in developing the recreation of the current crisis and the parallel financial system (Giron, 2011). At the same time, the financial instruments resulting from the financial innovation even before the financial crisis allowed for huge profits. The financial instruments traded for their high profitability recreated the financial debt bubble in a period of a credit boom that allowed for a dramatic increase in financial products.

One of the most important characteristics of the major transformation has been the "regime of capital accumulation" with the participation of a minimalist state. What Clevenot indicates on this (2008) is important, when he cites the work of Aglietta (1998) on the "democratization" of financial markets in referring to institutional investors. Workers' pensions were democratized as an example of the democratic task of the state. Pension funds became managed by institutional investors who were able to increase their profitability through the financial market. The transfer of pension funds from the state to the private financial industry unquestionably was part of the financial reform, which in many countries was undertaken in the framework of financial privatization, not only of public banks and public services but also institutions such as insurance companies on an international level, favoring opacity, false earnings management of these funds, and their participation in hedge funds through off-balance sheet transactions.

b) The regime of capital accumulation

Chesnais and Plihon emphasize that "... far from ensuring the rights of shareholders, as the hoax of corporate governance has tried to make us believe, liberalization and deregulation, still questioned by only a few, have resulted a new type of power by managers who own shares, since their position in the company in which they hold securities turns them into "insiders" in the financial game. Financial liberalization for these economic players has a very big maneuvering advantage, virtually outside all supervision "(Chesnais and Plihon, 2003: 7) on the part of the state and the central bank.

The definition of "regime of capital accumulation" is the fictional capital designated by the economic nature of both the securities that result from loans to states or companies, or the financing (usually initial) of company capital, credits arising from the same loans without going through the sphere of production. The securities -bonds and shares- engender rights (it would be better to say pretensions) to participate in the division of company profits, public debt service, or government revenue from taxes.

An important element is the role of bank credit. This is, without doubt, the other form of creation of fictitious capital. Banks put "economic agents" at the disposal of the public with sums far in excess of deposits (Chesnais, 1997). The ex nihilo money is provided by the bankers themselves in close relation with the central banks and the state. Therefore, it can be argued that cash-credit is important to save, in the strict sense of the world, the continuity of the process of accumulation and therefore of its valorization. "To bridge it is the function of the lender, and he fulfills it by placing purchasing power created ad hoc at the disposal of the entrepreneur" (Schumpeter, 1978:115).[5]

The impunity that institutional investors orchestrated not only violated the sense of capital valorization but also the very role of money and cash-credit. Accepting Schumpeter's thesis in relation to credit is fundamental to understanding the emergence of the accumulation process. In the book The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle, the author says that "... the kernel of the credit phenomenon is the following manner: credit is essentially the creation of purchasing power for the purpose of transferring it to the entrepreneur, but not simply the transfer of existing purchasing power. The creation of purchasing power characterises, in principle, the method by which development is carried out in a system with private property and division of labour. "(Schumpeter, 1978:115). It is therefore very important to return to the concepts that throughout economic thinking have dealt with financial problems. This includes the concept of "regime of capital accumulation" and the concept of "money-manager capitalist" of Hyman Minsky

c) "Money Manager Capitalist" and "financialization"

Hyman Minsky defines "money manager capitalist" and "financial-managerial capitalism" as based in the concept of financial capital as expounded by Hilderfing Rudolf, Thorstein Veblen, and John Maynard Keynes (Wray, 2011). Managerial capitalism with the help of the state and the processes of deregulation and financial liberalization has led to the strengthening of the parallel or shadow financial system in which funds that were previously public became private, with highly profitability. The competitiveness of the securities becomes a priority in terms of the rates of return, generating risks, and distributing large profits. Financial managerial capitalism permeates all international financial circuits seeking the profitability not only of the institutions of the banking and monetary systems of the countries involved but furthermore the scope of the profits allows for a financial investment portfolio created in the financial sphere that infinitely

[5] Schumpeter in this passage is no longer speaking of the process of accumulation in the normal circular flow but where there is a space that allows for the creation of credit granted by banks. In his own words, "To bridge it is the function of the lender, and he fulfills it by placing purchasing power created ad hoc at the disposal of the entrepreneur" (Schumpeter 1968, 107).

increases to later collapse in a sudden drop when the conditions of economic malaise cannot be sustained on their own.

The financial managerial capitalism that Minsky refers to is based on the model of "originating and distributing" securitization in "off balance sheet transactions". That is, securitization that is based on financial innovation created millions of securities that enabled the creation of a credit bubble that was deposited as security for a mass of debtors who did not necessarily fulfill the three Cs[6] according to Davidson (2009). But in addition, there was the speculation in financial instruments such as the derivatives market where the commodity prices do not necessarily reflect the real price of the products but rather the demand for financial instruments referred to as the "alphabet soup" by Roubini and Mihm (2010 .) At the same time, the new definitions of "financialization" accompanied by "securitization" express the reality of the complexity of money not only in the course of the crisis but also in its own origin and the alternatives to be developed to supersede the crisis.

Financialization is a concept that is defined through the concept of "regime of financial accumulation" by Chesnais and/or the concept of "money manager capitalism" as formulated by Minsky. This is financialization that involves the predominance of institutional investors in the financial sphere over financial transactions with credit granted by the central bank. Furthermore, financialization has been accompanied by financial innovation in which the model of "originating and distributing" credit and risk rests with a range of financial products that facilitate the creation of a speculative bubble. For Giron and Chapoy [2009:44-45] "... the process of financialization corresponds to the purchase and sale of assets or securities that can be conducted in orderly fashion in the capital market. The process by which the profitability of financial capital through financial innovation, ... goes beyond the regulatory system created by ... the Bretton Woods institutions (1944). Financial markets imposed their dynamic on the international financial organizations, and financing through securitization took precedence through mutual funds, hedge funds, pension funds,

[6] The three Cs would be collateral, credit history, character. That is, the debtors in receiving loans do not necessarily meet the criteria of having collateral and a credit history, according to Davidson (2009, 21).

insurance companies, and other non-institutional investors that became the players in global financing "(Giron and Chapoy, 2009a: 44).

d) Cash-credit and "big government"

The discussion of cash credit is framed in two main lines within economic thinking. These two currents are opposing points of view, represented by the monetarists and the post-Keynesians. Therefore, the view of money from the hegemonic way of thinking hardly concurs with the post-Keynesian vision of a monetary economy of production.

First, to place the theoretical debate on the role of money in the economy on the table is of vital importance for the application of economic policies on a monetary and financial level that emerge to deal with the economic cycle in both in its uptrend as well as its downtrend.

A second step is to understand the role of money in the field of economic policy specifically in relation to monetary policy and fiscal policy. Therefore, the central bank and its role as lender of last resort takes on added importance not so much in terms of managing interest rates but rather in relation to the marginal efficiency of capital that narrowly meets the conditions of confidence and future scenarios for institutional investors in the course of the economic cycle.

3. "Deja Vu": Lessons from Latin America

During the 1980s, over indebtedness in Latin America [7]opened up a process of economic adjustment and simultaneous renegotiations. Argentina, Brazil and Mexico were the detonators, unleashing the full extent of the liquidity crisis and various stages can be identified in their attempt to resolve the foreign debt. This involved a strategy to reduce the debt and achieve economic growth, which ranged from "rescue loans", a "race against time" in the renegotiations to postpone payment and allow time for the large transnational banks to cover bad debts, "structural adjustment with growth" or cross-conditionality of the IMF, World Bank and the Baker Plan, which promised loans for 20 billion dollars to the 15 countries with the most debt and created a new mechanism called the "market options list" as a way to

[7] In 1978 countries such as Peru, Jamaica, Nicaragua, and Bolivia has renegotiated their debt, but as Giron correctly pointed out (1995: 41) the problem became apparent with the moratorium declared by Mexico in 1982.

transform debt into bonds, after discounts, and the implementation of the Brady Plan, the renegotiations and restructuring of external debt and debt-swaps.

The Brady Plan was proposed at the end of the 1980s once the Mexican government raised the idea that no debtor could continue paying its creditors unless there was economic growth. The Venezuelan government implemented a severe adjustment program in 1989 under IMF guidelines, disrupting the existing social order. In response, the U.S. Treasury Department introduced the Brady Plan, which would be implemented for the first time in Mexico in early 1990, then in Chile, Costa Rica, and Venezuela. In Venezuela, the neoliberal policy failed, while Argentina and Mexico renegotiated their debt with the Paris Club in 1989 and 1991 for 4.15 billion dollars in the case of Argentina and 2.40 billion dollars in the case of Mexico.

The Brady Plan was an international strategy for debt management that incorporated its own elements for a market solution because the initiative was aimed at a direct and comprehensive reordering of the financial and institutional resources of the international public sector in the private market in order to alleviate the debt service of the most indebted countries. The main objectives were to reduce the transfer of funds abroad by reducing the principal and interest, and channeling new credits to encourage national economies (Giron, 1995:110-112). Mexico, Argentina, and Brazil were the major negotiators of foreign debt under the Brady Plan, although other Latin American countries such as Chile (1990), Peru (1995) and Uruguay (1991) also adhered to this strategy.

In 1990 Mexico entered into an agreement for 48.00 billion dollars with the creditor banks and the result was as follows: 1) 47% of the total (22.56 billion dollars) was subject to a reduction in its interest rate from 9.81% to 6.25% (reduction of 7.75 billion dollars for par bonds), 2) 41% of the total (19.68 billion dollars) was exchanged for bonds at a discount of 35% of their value (this exchange of debt for discount bonds represented a decrease of 7.20 billion dollars), and 3) 12% or 5.76 billion dollars corresponded to new loans (ECLAC 1990:112). In this case, the signing of the Brady Plan and the renegotiation of the debt with the Paris Club contributed to the reduction of principal, interest, the entry of new financial flows, and the signing of NAFTA. All these factors influenced the country's growth.

In 1992-1993, Argentina restructured 21.00 billion dollars in medium and long term debt, and 7.80 billion dollars corresponding to interest payments. The debt restructuring was carried out under the following modalities: a) discount bond swap for 35% of their value, b) swap paying LIBOR + 13/16% above LIBOR c) swap for 30-year bonds paying a fixed maximum interest rate of 6%. This agreement represented an immediate 1.50 billion dollar reduction of the debt plus interest savings. In addition, the government restructured another batch of debt as follows: a) swap with international commercial banks for 20.00 billion dollars in medium and long term debt for 30 year par bonds, b) swap involving 7.00 billion dollars for discount bonds at 65% of their value, paying interest above LIBOR + 13/16%, c) 13.50 billion dollars were exchanged for par bonds paying 4% interest in the first year and 6% in the sixth year; d) a 700 million dollar cash payment was made to eliminate 8.00 billion dollars in back interest and cover the rest with bond issues at floating rates (Giron, 1995: 111-112).

In 1994, Brazil issued bonds valued at approximately at 43.00 billion dollars under the Brady Plan, a measure that helped to restore its access to capital markets while it was trying to curb high inflation rates and overcome the economic recessions. In 2006 the Brazilian government repurchased all Brady Bonds issued in 1994, in an operation that covered the 6.64 billion dollars corresponding to the nominal value of the securities.

4. Europe repeated the Latin American errors

Giron (1995) raised the question in her book *Fin de Siglo y Deuda Externa: Historia Sin fin* , as to whether the structural changes in Latin American economies and the renegotiation of external debt of debtor countries to some extent corresponded to a new articulation of the capitalist system as a result of a new international division of labor in which the financial circuits and the world economy sought a restructuring of transnational capital so that priority sectors of developing countries would play a role in the international accumulation process different from that established in the postwar period. The priority is now to ask ourselves whether the public debt haircuts in Greece and the generalized application of stability plans in the PIIGS economies, in order to attempt to reduce fiscal deficits, will enable these countries to resume the road to growth without facing risks of insolvency or putting into question both alternative solutions to the debt as well as Greece's remaining in the European Union and the European Community itself.

The PIIGS economies are passing through situations that Latin America experienced in the lost decade of the 1980s. The accumulated value of the public debt requires the transfer of resources to creditors, generating a de-financing and economic decline difficult to reverse in the short term, and which involves the adjustment of economic policy, leading to the diversion of resources from the creation of infrastructure, public services, education, and health on the one hand, and the productive sector on the other. Thus, the structural features of the peripheral European economies are being transformed as occurred years ago with the Latin American nations, unemployment and the social indicators worsen, and poverty rates reflect the pauperization of the middle classes and the economic destitution of the formerly poor sectors to degrees previously unknown in Europe. In this sense, the human development index shows that between 2009 and 2011 the living conditions of the inhabitants of the periphery in the Eurozone stagnated, thus indicating that these economies have not raised the level of goods and income to cover basic and complementary needs.

In Mexico and Latin America, financial investors posted huge profits during the debt refinancing process by taking advantage of financial opportunities that gave them the two initiatives presented by the U.S. government to resume the path of economic development, alleviate the impact of external debt, and enable some countries to again place securities in international capital markets. The Baker Plan was the first to be used to ease the burden of the most exposed commercial banks. Then came the Brady Plan to complete the cleanup, associating investment funds with the emergence of a secondary market for problematic securities. Thus, the commercial banks restored their profits, including the bonds degraded to their original value in their balance sheets and transferred the repurchase agreements with the greatest risk of default to marginal holders.

This same restructuring strategy is what has been put into practice in the PIIGS since May 2010 when the Stabilization Fund was created, which is what the European Central Bank (ECB) used to repurchase the defaulted securities from the banks, with heavy subsidies of the interest rates, and that in the first quarter of 2012 has been expanded and strengthened in the Greek debt swap agreement accepted by private investors, mostly banks. The reduction in bank portfolios, debt haircuts, reached 53% of the nominal value of the bonds, i.e., losses of close to 75%. According to the European Banking Federation (FEB), the banks took some time, not enough, discounting this depreciation.[8]

In the case of public debt in the PIIGS economies, the current financial situation of European transnational banks (German, French, British, and Spanish) and institutional investors is much more serious than was the case in Latin America in the 1980s. This situation being faced by financial circuits and investors in Europe is due to companies' insolvency, a danger that has not receded with the "stress tests" that were performed to simulate situations of economic collapse; the explosive nature of the debt of the peripheral

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[8] Greek bonds held by private investors are worth 21.5% of what they were, following an agreement to restructure the country's debt. The pact between Greece and investors through which the latter agreed to a 53% haircut or reduction in the nominal value of bonds will therefore translate into actual losses of 78.5% for all banks and mutual funds that have Greek debt securities. This is because the final loss not only contemplates this theoretical 53% haircut, but calculates the real current value of the bonds received in the swap exchange taking into account the term, interest rate and other factors.
This final 78.5% loss is deducted from the result of the credit default swap auction that set the value of Greek bonds at 21.5%. The insurance companies will pay, therefore, 78.5 cents for every dollar in Greek bonds that were held by the insured investors, especially hedge funds, which will add up to a payment of about 2.50 billion dollars (1.89 billion euros) in total for this agreement, according to different market valuations.
Default insurance will be activated because the investors that had this coverage had refused to voluntarily assume the debt reduction and were forced to do so. Athens managed to reach agreement with the large international banks for a 53% reduction on all Greek debt held by private investors, involving some 206.00 billion dollars, through a bond swap that exchanged the existing bonds for others. The agreement with the creditors cut the Greek debt by 100.00 billion euros. This measure is linked to the injection of 130.00 billion euros in loans by Eurozone countries and the International Monetary Fund, (IMF), which contributed 28.00 billion euros.
The vast majority of private creditors accepted the losses, but investors with debt securities worth 25.00 billion euros rejected the deal and were forced to accept it. Greece forced them to do so by activating some collective action clauses (CAC) which imply that if the holders of at least two thirds of the debt subject to the agreement agree to the haircut, the rest will be required to follow suit.
The International Swaps and Derivatives Association (ISDA), an organization of hundreds of financial groups that sets the rules of the game in these derivatives ruled that there had been a "credit event" or de facto default in Greece, once the CAC were activated, which has led to the CDS being paid out.
Available online at:
http://economia.elpais.com/economia/2012/03/19/actualidad/1332172593_453126.html, retrieved on March 19, 2012.

European countries due to the magnitude of the fiscal imbalances (despite everything and even though Spain and Italy are promoting fiscal consolidation measures), but above all because the banks have not been able to transfer their credits (loans, guarantees) to third parties. These conditions have led the European Parliament to ban short selling transactions of default insurance linked to sovereign debt, the so-called Credit Default Swaps (CDS)[9] - and to tighten rules on the short selling[10] of stocks and bonds.

Due to the previously mentioned reasons, as a result of the high degree of indebtedness of the first world countries (France 81% of GDP; Germany, 80%; Japan, 220%; United States, 91%) that prevent the PIIGS debt from being easily managed, the debt has become a time bomb for developed economies. The G-20 conditioned an increase in IMF resources to help the Eurozone, while the European Union was obliged to strengthen the rescue fund for indebted countries, from 500.000 million to 700.000 million euros

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[9] Recently the European Parliament (October 2011) banned short-selling CDS transactions; previously there was no EU standard that regulated such operations. CDS are derivatives that cover the risk of a payment default on the part of a country or a company. They were directly related to the outbreak of the global financial crisis in September 2008. Within CDS transactions, the most risky are those undertaken through "short selling", i.e., without the investors having corresponding bonds, and therefore they benefit from the coverage without really being exposed to the risk of default. It is precisely these swaps that the new European regulation prohibits, with certain exceptions since the European Security and Markets Authority (CESR) can authorize such operations within 24 hours before they enter into effect. The justifications for their approval include situations in which the sovereign debt market "is not working properly" and when the ban could have a negative impact on sovereign CDS. Another argument for their authorization can be that interest on sovereign debt has risen or is already too high, or that the restriction affects the amount of bonds that can be traded.

[10] Short selling is when investors sell stocks with the expectation that they will decline in value to buy them later at a lower price and profit the difference. To sell short, both in the case of shares and sovereign debt, an investor must have borrowed the corresponding financial instrument, have entered into an agreement to lend or have an agreement with a third party whereby the latter confirms that the transaction is specific and that they have taken steps to ensure that the investor can have "reasonable expectations" that the agreement will be executed.
In the case of European sovereign bonds, there are special arrangements for notification to regulators, and these have to be made only if there are important net positions in European Union sovereign bonds.

plus an additional reserve of 240.000 million euros available for emergency situations. The latter will only be in effect until mid-2013.

However, the application of the Brady Plan to the Greek or European situation is nothing but the implementation of deflationary policies often counterposed to the continuation of refinancing programs. The idea is to sustain the debtor with new bond issues in the expectation of easing the future debt burden. Although such plans appear to provide greater consideration to debtors, these initiatives are based on the same demands for privatization, cuts in social spending, and modifications to pension policies. Far from reducing the financial burden, these programs outsource the weight of the debt from the debtor country to the banks. It is therefore wrong to assume that this refinancing will be more palatable if applied in conjunction with measures of financial regulation, control of financial speculation, or the elimination of tax havens. Nor will Greece obtain a breather by simply reducing interest rates, if payments to creditors remain in effect. The debt is so monumental that not even with continued growth of 8% annually for 20 years, will Athens succeed in reducing its liabilities to the initial parameters of the European Union. Therefore it appears that, as in the cases of the indebtedness of Latin American countries, Greece is only putting off the final declaration of insolvency.

5. Crisis and alternative projects

The breakdown of the Bretton Woods Accords when the dollar decoupled from the gold standard given the dollar liquidity in the markets, set the basis for the current financial crisis by establishing a parallel or "shadow" financial system in which institutional investors minimize the capacity of the banks and international financial organizations. New economic players such as pension funds, hedge funds and the rating agencies for four decades will be the privileged domain for the distribution of profits. The minimalist state and central bank policies fit into this dynamic.

Finally, the origin of the current crisis has been termed by Wray as the Minsky moment[11] (Wray, 2009). However, the roots of the crisis in the end

[11] It is called "Minsky moment" or "Minsky moment" when investors reach such a state of euphoria that banks and lenders extend credit even to dubious debtors. At this moment, different financial instruments are created to participate in the euphoria with profit returns greater than the productive field. The need to profit for profit’s sake rests on speculation

analysis have a close relationship with what Minsky called "money manager capitalism". This situation corresponds to the state in which capitalism is dominated by the high leverage of funds that seek to maximize capital return in an environment of high financial risk. For Minsky, there are two financing "regimes": the first consists in achieving stability and the other regime is where the economy is unstable. "The second proposition is that “stability is destabilizing,” so that endogenous processes will tend to move a stable system toward fragility" (Wray, 2009:4).

The crisis of the capitalist system undoubtedly originates in the dispute over profitability and the necessary distribution of earnings. From a strong state with an interventionist approach to the economy through economic and financial regulation, the distribution of wealth was transferred based on its gestation in the financial sphere. Therefore, the violation of cash-credit in a monetary economy of production in the long run breaks with the equilibrium in financial markets. A minimalist state, a deregulated economy and a central bank controlling inflation are unable to rearticulate the sphere of production and circulation based on job creation and a welfare economy.

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that induces a Ponzi effect until reaching its peak. From that point on, some begin the exchange of financial instruments for cash and risk becomes reality with the drop in company stock prices. Right at this moment comes the outbreak of panic and with it the collapse of financial institutions.

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