FINANCIALIZATION, CRISIS AND LATIN AMERICAN DEVELOPMENT

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The financialization of development financing has not only modified the financial systems and economic policies in Latin America but in other regions of the world in the context of globalization and financial liberalization. The change from a regulated to deregulated financing model not only takes on the prevailing economic theory in the framework of the dominant school of thought, but also in relation to development theory in the writings of Raúl Prebisch, Celso Furtado and other exponents of Latin American economic thought.

In the transition from the practical application of a theory of development which influenced economic policies and that allowed for sustained growth rates in Latin America to macroeconomic policies based on stabilization, development financing got lost in the process. These economic policies based on theories whose central objective has been economic growth and the commercial and financial opening achieved the deregulation and liberalization of the region's productive and financial sectors.

At the same time, the strengthening and deepening of the financial systems, expressed in the process of financialization, led to the severe economic and financial crisis of the 1990s, the beginning of the current decade, and the present period.

Today, in response to the instability and the financial opening, the governments have, at least in the Southern Cone, sought new types of trade agreements in the region and new rules for development financing. In this process, it is very important to focus on development financing. This type of financing is enabling economic growth in countries such as Brazil, Argentina, and Chile.

Therefore, the purpose of this study is the theoretical articulation of development with financing policies that

achieve sustained development with equity. Nevertheless, the process of financialization in the financial markets during the past few decades has been characterized by the unique development of different institutional investors that in the past few years have rapidly positioned themselves in the financial markets. These market participants, known as mutual and hedge funds, are also identified for their participation in the financial crises of the past two decades. They have become major elements in the profitability of the large consortiums and have an important participation in the different public policies implemented in the countries where they are present. That is, the financialization and the financial crisis in the countries that receive these mutual funds through the opening of the capital account and their integration in the financial markets have made them the main factors in countries' development financing. The deregulation and financial innovation of the past few years have placed these types of intermediaries in the center of attention of the financial authorities, especially due to their role in the explosion of the successive financial crises in recent years.

INTRODUCTION

The process of financialization expressed as the process in which the profitability of financial capital through financial innovation surpasses the operations of the monetary system based on the financial institutions created by the system of Bretton Woods led to the development banks and commercial banks in the hands of national investors being its most important participants. Following the collapse of Bretton Woods, financing via securitization became a priority, through mutual funds, hedge funds, pension funds, insurance companies and other non-institutional investors, which became the leading players in financing on a world level. The financial markets imposed themselves on the international financial institutions. On a micro-economic level, the expression of financialization was expressed, by the same token, in social banking, sponsored by non-financial

intermediaries whose profitability through micro-finances expresses the crisis of development financing. On the one hand, although the priority objective of micro-finances was to diminish poverty, on the other hand, the profitability that it represents is an important consideration.

In this very complex process, we are interested in discussing development banking as an alternative to the crisis of financialization, emphasizing the role of the state and of the central bank as guarantor for development financing. Therefore, the questions that should be posed would be: what role do the public banks play?, what is the transformation that development financing should undergo?, what role is played by micro-finances on the national level? The need to reconsider public banking in Latin America can be undertaken through an evaluation of its public and private financial institutions based on the economic growth of the respective countries. By the same token, the process of formulating public policies through the participation of the different actors in a country is important in democratic societies (IDB, 2006).

In this essay we feel it is important to affirm that the axis of growth with development in underdeveloped countries such as the Latin American region continues to be through channeling credit toward the major infrastructure projects. Due to its low profitability, it is difficult for this sector to be attractive to the market forces and to interest private enterprise to invest in it. Generating endogenous growth in the economy through financing economic activities is a priority in boosting economic development. At the same time, it is important to orient the discussion toward the role that micro-finances are playing and their impact on regions' economic development. Therefore, is it important to raise the question of what the role of micro-finances is in the road toward countries' economic development. And furthermore, whether this type of financing really leads to a virtuous circle of sustained development in the countries that depend on micro-finances.

THE PIECES OF THE PUZZLE

In the framework of the economic development of the Latin American countries, development banking played a key role in the context of the Bretton Woods system. These institutions established the bases of Latin American economic development even before the Washington Consensus, which deepened the process of privatization and foreign takeover of development and commercial banking. However, some institutions remained in operation and today they are symbols of economic growth in countries such as Argentina and Brazil. At the same time, access to financing for a large part of the Latin American population lagged behind in the past thirty years, which led to an expansion of social banking to fill the void, which neither development nor commercial banking satisfied in terms of the population's need for credit. Given a financial crisis that will have an impact on the world financial system and specifically on the recently privatized banks now in foreign hands, the question is whether development and social banking would be an alternative for economic growth in the countries of the Latin American region. What role would public banking play in response to a run in the commercial banks? At the same time, it would be worthwhile to ponder whether social banking in relation to the financialization process has an alternative for including those excluded from credit and savings, in other words, the sector without access to banking services. Finally, another question should be posed, namely, will the central bank again become the lender of last resort in the search for development financing in the current context of financial crisis? That is, if the commercial banks that are subsidiaries of foreign banks end up in crisis, what would happen?

The development banks are "… financial intermediaries whose objective is to optimize the allocation of financial and technical resources to support areas or sectors of the economy that the state considers strategic or a priority in the process of the country's integral development" (Gil Valdivia, 1986). They are banks that are distinguished for granting credits "… with preferential interest rates in regard to the market levels, as an instrument to channel investments

toward specific sectors or priority or important activities for the country's development" (Zorrilla, 1984). As such, the economic development of countries such as Argentina, Brazil and Mexico in the period of import substitution cannot be understood without the intervention of the development banks. These banks were part of Latin American "developmentalism", supplying the funds from multilateral and bilateral international financial institutions for infrastructure projects. Today the Banco do Brasil, the Banco de la Nación, and the Banco de la Provincia de Buenos Aires are main participants in the development of the Brazilian and Argentine economies during the current decade.

Social banking is a type of banking system that satisfies the needs of those excluded from the institutional financial system from the point of view of savings and credit. The institutions that grant credit to entrepreneurs are, to begin with, to be found in the Third Sector and the social economy. The principles of social banking, in addition to seeking profitability in the loans granted, include social profitability. In the 1980s, so-called social banking began as a social force in the region in response to the financial problems and the crisis of the financial institutions, which created a need to attend to those without access to the formal financial channels. At the beginning, it arose in the form of cooperatives, foundations, NGOs, to later adopt the modality of cooperative savings and loan associations, popular financial companies, and micro-credit or micro-financial institutions. The slogan of the new wave of micro-financial institutions was to reach the poor before the poor came to them. There are solidarity-oriented networks through which many millions of dollars are administered around the world with high profitability. Many commercial banks have even begun to enter the micro-financial market. Such institutions range from savings and loan cooperatives to foundations and money order companies that send remittances. Social banking is an issue under debate in terms of the impact that it has had on boosting the revenue of the sectors that do not have access to the financial channels. However, there is the other side of the coin, for which it is important to define the concept of micro-finances. First of all, there is a difference

between micro-finances and micro-credits. Micro-credits refer to loan operations involving small micro-businessmen, basically small family-run businesses. Micro-finances refer to the entire range of financial services, which include micro-credits, small-scale savers, remittance transfers, and minor insurance operations. In the broad range of literature that is available concerning micro-finances, there is a very close relationship between programs aimed at reducing poverty and micro-finances. Small businessmen who access micro-finances are, in general, employees and employers who lack a credit history, who do not belong to the formal economy, and/or who cannot document their revenue. In general, all those economic agents that do not enter the formal channels of financing are candidates for the financial channels of micro-finances (Berger, 2006:3).

The decline in development or public banking and the mushrooming growth of social banking cannot be understood without considering what is today known as the "financialization" of the financing channels.

Financialization is a process that became strengthened with the end of "The Golden Age" as Crotty has termed it (Crotty, 2004). Epstein refers to financialization as "the increasing importance of financial markets, financial motives, financial institutions, and financial elites in the operation of the economy and its governing institutions, both at the national and international level (Epstein 2001, p.1)." Epstein even says "… I define finacialization as a pattern of accumulation in which profits accrue primarily through financial channels rather than thorough trade and commodity production (see Arrighi, 1994)." What is the most important evidence for financialization or how should this evidence be evaluated? Palley (2007:26) adds that the process of "… financialization has changed the structure and operation of financial markets, and most existing theoretical studies of financialization examine how these changes (particular regarding credit availability) impact macroeconomic outcomes and the business cycle…. financial markets are at the heart of the financialization process, and this suggests there is an urgent need to restore effective control over these markets."

To provide greater clarity on the question of the influence and control that financialization has in its relationship with organization and production and the relation of wage earners with the means of production, it is important to quote the theoreticians of Boyer's regulation theory (Boyer, 1986) and Chesnais (2000)). This system "...has arisen from liberalization and deregulation in the triple environment of the financial scene, trade, and productive investments. For this reason, it is a globalized system, although it should not be forgotten that this globalization is selective and hierarchical, and that the previous economic and social trajectories of the countries have given way to very varied forms of integration. And it should be defined as a system dominated by finances for numerous reasons: its origin and its consolidation have taken place to the extent that the degree of financial concentration has been reinforced. As of 1980-1981, the financial investors have gotten the governments to apply policies that guarantee them high interest rates and tremendous security in the collection of all revenue tied to loans" (Chesnais, 2000:46).

THE FINANCING INDISPENSABLE FOR DEVELOPMENT

Developmentalism, an issue of academic, ideological, and political debate during the postwar period and until the mid-1970s, represented a current of critical thought during the past century. This question resulted in a school of economic thought from the Latin Americas perspective that emphasized the heterogeneity of the countries and the different forms of insertion into the international market. The relations of the empires with the different economic and social formations of the colonies as well as with the development of capitalism and the need for natural resources permeated each country in Latin America albeit with different characteristics. Nevertheless, the IDB argues that "...for a long time, institutional capacity was perceived mostly as an "unexplained residual." Development was conceived of as mainly a function of capital accumulation, with the implicit assumption that institutional capacity would follow resources. Institutions were viewed as the formal organizations in

charge of implementing policies and projects" (IDB, 2006:24). In part, this study recognizes the process of capital accumulation from an institutional viewpoint, but does not include other categories such as "dominant classes" and "power structures" that were involved with financing investments to satisfy the needs of the expansion of capitalism as a hegemonic and imperial mode of production. By not recognizing this heterogeneity in the countries concerned, Washington Consensus measures were imposed that were a failure in nations such as Argentina and Bolivia, to mention just those alluded to in the previously referred to IDB study. Therefore, the differentiation in public policies in consensus with the different actors is a necessity in order to achieve success in growth and economic development. In this regard, the BIS publication points out that "... all this suggests that economic and social development is possible whenever policies are adopted that are framed within a reasonable range but that can de adapted to the problems and circumstances of each country, without adhering to a single model in particular" (IDB, 2006:289).

Therefore, to achieve development, the role of financing is very important. To begin with concerns in relation to credit and the exclusion of financing for economic development implies reaching the foundations of growth in underdevelopment in our countries. The international financial institutions have published two studies worth mentioning. The first, Finance for All, published by the World Bank (2008) and the second, Outsiders?: Changing patterns of exclusion in Latin America and the Caribbean (2008) published by the Inter-American Development Bank (IDB).

Finance for All enters into a contradiction when it states that "... well-functioning financial systems are essential for economic development" (World Bank, 2008). Thirty years later to affirm that healthy financial systems are a priority would seem to be heresy when it was the International Monetary Fund (IMF) and the WB that, in order to put an end to the countries' banking institutions, insisted on the privatization of the commercial banks and the cancellation of public development banks in the 1990s under the banner of

making the international financial system more efficient. The development of the financial systems is exclusive because in the framework of financialization the objective is the integration of the financial markets and the profitability obtained in the financial channels. Today we cannot speak of solid banks and even less of the crisis of structured finances when on a daily basis we see the need to save the financial industry. We still have not finished expressing our admiration when this WB document argues that "…Without inclusive financial systems that provide broad access, however, poor individuals and small enterprises have to rely on their own resources to invest in education or take advantage of promising growth opportunities" (BM, 2008). It is the state that should be interested in financing public services be they on the level of education, housing, water, electric power, etc. And, it is the state that, through the financial, fiscal and monetary reform, will have to attend to the development agenda and not the competition of private bank institutions.

Concerned over those excluded from access to banking services, the second IDB document (2008) pinpoints access to credit as a development issue. On the basis of a study by Tejerina and Westley (2007), whose research was based on a national survey of households, with questions fielded on savings accounts and loans obtained in the preceding year, the results showed that only 15 percent of low-income households in Latin America and the Caribbean have savings accounts. According to the same study, credit was provided through "regulated financial institutions", such as banks, as well as "non-regulated financial institutions", which refer to different types of credit cooperatives and non-governmental organizations in most of the cases. The "informal" category includes all the sources of credit that are not considered financial institutions, such as savings associations and revolving credits (ROSCA), moneylenders, and family members (IDB, 2008:197). The IDB study affirms that "…the explosion of microfinance institutions in the region is often described as a response to the high transaction costs of banking with formal institutions. While these institutions have been extremely successful in extending access to credit to small businesses

and the moderately poor, success in reaching the most marginalized populations has been more mixed" (2008, 2001).

Therefore, development financing implies a public banking system that deals with the financing of public services but also the regulation of social banking. Even though micro-finances have been satisfying the needs of a previously unattended to niche through more visible financial channels, its importance and growth should be noted. The impact of micro-finances, its scope, and its profitability should be made clear.

PUBLIC BANKING IN RELATION TO THE CRISIS OF STRUCTURED FINANCES

Today, public banking represents the primary factor in the implementation of public policies to promote development with equity in the countries of the Latin American region. That is, the public credit institutions, faced with an increased participation of the commercial banks, have been putting aside activities that had served to lay the basis for capitalist development in the region. Meanwhile, social banking has been allowing the large part of the population that does not have access to credit to obtain financing. In the arena of the debate on development financing and credit, it is important to discuss the role that public banking or development banking and social banking play in the process of the financialization of the institutional financial intermediaries and the crisis of credit expressed through the "credit crunch" that threatens the financial system.

Development banking was accompanied by the international financial institutions and agencies. These include bilateral financial institutions such as Eximbank and multilateral financial agencies such as the World Bank and the Inter-American Development Bank. Their strength resides in the support they received from the state in the framework of the developmentalist process that took place over a period of three decades following the Second World War. Their weakness occurred in the framework of the collapse of the

Breton Woods monetary system and the deepening of the Washington Consensus. The fading fortunes of development banking and the strengthening of social banking changed the map of financing in the different countries. Public banking declined with the foreign debt crisis of the 1980s and there was subsequently a strengthening of the privatization and foreign control of the commercial banks. Deregulation and financial liberalization gave rise to the institutional intermediaries and other bank and non-bank intermediaries.

What role is the social banking system playing through micro-finances for the sector that does not have access to the formal financial channels? "Without inclusive financial systems, poor individuals and small enterprises need to rely on their own limited savings and earnings to invest in their education, become entrepreneurs, or take advantage of promising growth opportunities. Financial sector policies that encourage competition, provide the right incentives to individuals, and help overcome access barriers are thus central not only to stability but also to growth, poverty reduction, and more equitable distribution of resources and capacities." (World Bank, 2008).

Can public banking resume leadership in development financing in the framework of the Monterrey Consensus?, What will the role of public banking be in relation to the crisis in commercial banking

CONCLUSION

In response to the unleashing of frequent financial crisis experienced in the context of globalization, it has become necessary given the financialization of development financing through formal and informal financial channels to design public policies that achieve development through public banking.

That is, over the past thirty years, Latin America has faced a theoretical and political confrontation in relation to the theory of development as expressed in texts by Raúl Prebisch, Celso Furtado, and of other exponents of Latin American economic thought. In moving from the practical

implementation of the theories of development that allowed for sustained rates of growth for Latin America to monetarist economic policies, authorities lost sight of the need for development financing. These economic policies based on theories whose central objective has been economic growth and the trade and financial opening achieved, through the deregulation and liberalization of the productive sectors of the region, success for some countries but for others a clear failure. The deepening of such policies was expressed in economic crisis experienced in the 1990s and the beginning of the current decade. Succinctly put, the economic, political and social frustration was dismal. The success of the Washington Consensus was quite insignificant in relation to the experience in other southeast Asian countries and even China.

In response to the financial instability, the economic opening, and the rise of social movements, the governments -at least in the Southern Cone countries- in implementing their monetary, fiscal, and financial power have sought new types of commercial agreements in the region and new rules for development financing. In this process, it is very important to center the debate on the financial institutions for development financing. Financing is allowing the economic growth of countries such as Brazil, Argentina, and Chile. Therefore, the objective of this study is the theoretical articulation of development with financing policies that achieve sustained development with equity. Nevertheless, the process of financialization of the financial markets during the past few decades has been characterized by the unique development of different institutional investors rapidly positioned in the past few years in the financial markets. These actors, such as the main bank financial consortia and other financial intermediaries such as mutual funds and hedge funds, have stood out due to their participation in the financial crises of the past two decades. They are key participants in managing the financial profitability of the recipient countries of the large bank consortia. But they are also very important due to their participation through the different public policies in the countries that they are present in. That is, the financialization and the financial crisis in

which the main actors have sought profitability have prevented an increase in development financing in the countries involved. The deregulation and financial innovation of the past few years have placed these types of intermediaries in the center of attention of the financial authorities, especially due to their role in the eruption of the successive financial crises in the past few years and in the evolution of the collapsed financial institutions. To clarify this idea somewhat, we could say that both public as well as nationally owned commercial banking passed into the hands of the foreign financial consortia. That is, the process of internationalization took place in the framework of the economic reforms.

In this analytical framework, it is important to place the main public banks in Latin America as well as the new intermediaries that today fulfill a priority role in social banking. At the same time, there were public banks that were saved from being privatized and today fulfill a strategic role in countries' economic development. In other countries, public banking ceased to exist, giving way to social banking. From these experiences in social banking, funding and financial institutions were born, which have taken shape in private and public financial institutions. Micro-finances is here to stay in the region. Therefore, it is quite valid to pose questions on the role of public banking and the new social banking in development financing. But it is also very valid to question and evaluate public banking in Latin America in function of the economic growth of the respective countries. That is, the axis of growth in underdeveloped countries such as the Latin American region continues to be the channeling of credit toward the major infrastructure projects that the private sector does not invest in and which helps to generate endogenous growth in the economy. At the same time, micro-finances plays a priority role on the road to the financial growth of households that do not have access to the institutional credit granted by the commercial banks. Micro-finances is and can be the instrument to increase household living standards. However, its profitability rates are higher than those of the commercial banks in terms of the loans granted. Therefore, the search for new alternatives through

public banking and the regulation of so-called social banking in Latin America is important for countries such as Mexico, which is far from having the growth rates of nations such as Brazil, Argentina, and Chile.

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