

LATIN AMERICAN SCENARIO

THE BURSTING OF THE BUBBLE

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[Following article is based on reflections by Professor Jose Del Corro in response to questions on the current financial crisis in the United States.]

THE hurricane brought down the credit markets, the stock exchanges and the banking system. It is not a temporary economic irregularity, but the precursor of an imminent world recession. A recent *Financial Times* headline affirmed that capitalism was in a state of shock. The bubble has burst. The announcement of an unprecedented capital injection from the US Treasury, the Federal Reserve, and the Washington establishment was not sufficient.

"Its effects are already greater than the New York Stock Exchange crash of 1929," said Fernando Jose Del Corro, journalist, historian, professor at the Economic Science Faculty of Buenos Aires University, Argentina, and a member of the ERCOSUR news department.

"If one translates what the 1929 crash signified, measured in present-day values, it stands at about one trillion dollars," he explains, replying to *Granma International's* email questions on the financial crisis in the United States, the effects of which will not only be felt in that country, "but also in Latin America, Europe and, to a greater or lesser extent, will hit the rest of the world."

Del Corro notes that "today, some \$60 trillion are floating around in 'derivatives' (financial products whose values depend on the value of other underlying financial instruments like commodities, equities or bonds) in a fictitious economy invented by the neo-traders of finance."

But this bursting of the bubble in all its splendor is compounded by what has been happening in the last few years, "taking as a reference the collapse of the British Baring Brothers in 1995, due to its maneuverings with derivatives, and then the cases of Enron, World Com and others in the United States, and even the Italian Parmalat, which did not go bankrupt precisely on account of bad management of dairy products... and even if there are no more crises of the magnitude of the most recent ones, things aren't going to stop there."

"In its time, the United States of President Roosevelt's New Deal began to restore things by injecting money in the timeframe recommended by the Briton John Maynard Keynes, but now what is in excess is money invented by the financial system in conjunction with a significant inflationary process, for which reason there will be much resistance to injecting more liquidity into people's pockets outside of rescuing the banks, as has already been observed.

"Finally, there was a push for the creation of state enterprises like the flagship Tennessee Valley Administration, still the major hydro-electricity producer in the country, and that is incompatible with the current process of modern economic 'feudali-zation.' Nor should it be forgotten that the world integration process is much more profound now, and so the effects move more rapidly from one side to another, and we have to remember that we are talking about more than international trade, but about 'intra-corporative' trade, in which the latter represents more than 50% of transactions on a planetary scale.

"For example, a General Motors plant (now merged with Ford and Chrysler, likewise subsidized with another \$25 billion) in Brazil sells car assembly parts to another in Argentina and then, this latter sells some of the automobiles on the domestic market and re-exports the rest to the first country. It is about

multi-million operations within the same corporation and that is repeated throughout the automobile industry and many, many transnationals. That is why it is almost impossible that anyone can escape unscathed."

BLOWS FROM THE CRISIS

"I don't think that one can talk of the Latin American countries in general as there are profound imbalances in terms of their insertion in the world market and with the US one in particular," comments Del Corro, in the context of the potential effects of the current financial crisis unleashed in the United States on the nations south of the Rio Grande.

"The hardest-hit", he forecasts, "Will be, above all, Mexico and small Central American and Caribbean states with economies that are totally dependent on their exchange with the United States, as much in terms of primary exports as in the acquisition of industrial goods. Moreover, in the case of Mexico, given its joining of the North American Free Trade Agreement (NAFTA). The Mexicans have become highly dependent on the US economy and a sizeable part of its new exports are the result of the maquiladora industry utilized by enterprises originating in the North for paying the lowest wages."

"The recession in the United States," he notes, "is going to hit those industries and, without any doubt, will restrict oil imports to some extent, and Mexico is one of those suppliers".

For South America, "where the giant that is Brazil reigns, the economy will not be exempt from the shocks. In fact, two large corporations: *Sadia foodstuffs* and *Aracruz cellulose* have problems on account of their financial policies. On the other hand, Brazil's industry is already highly 'transnationalized' and that means that remittances to head offices constitute a very significant figure that has put the balance of payments in difficulties. There are sectors, like the automobile industry, where there is a high degree of recession and I return to the example of General Motors, which shut down for one week in Argentina, given that that plant depends to a large extent on its exports to Brazil, where a one-week closure is also announced.

"Nor is Argentina, far less industrialized, immune from the problems, it has a lesser dependency on the real economy of the United States since its buyer markets are, relatively, not put in check by the crisis, as is the case with China but, even so, it is going to suffer the consequences of what is happening in Europe and a possible reduction in steel consumption.

"Some of the poorest nations, like Paraguay, in South America, and in general, Central American states like El Salvador, whose income is very much linked to remittances from the social Diaspora, are going to suffer a decline in those entries, and not only from the United States, but also from Europe, particularly from Spain. It is not by chance that the European Parliament recently passed the Return Directive, which gives it free rein to expel immigrants.

"Meanwhile, Venezuela, which is weaving a strategy of diversifying its hydrocarbon exports, could be less vulnerable to problems related to the economy and politics of the United States."

UNREAL ECONOMY

According to Professor Del Corro, neither Democrat Barack Obama nor Republican John McCain's proposals are "anti-system" and he argues why. "I am not referring to the capitalist system but to this unreal economy. In order to find an easy definition one could say that McCain's is pro-cyclical and that of

Obama, anti-cyclical. Moreover, it is the Republican right that is creating a plan that is suicidal for the very essence of the system in terms of 'ideological' definitions. McCain is proud of having fought in Vietnam and wants to go on spending money in Afghanistan and Iraq and some place else in that region. He has an even harder discourse than George W Bush and would appear not to have understood what the war on Vietnam cost the country given that, in 1971, President Richard Nixon had to devalue the dollar and dispense with its backing in gold, a contribution of General Charles de Gaulle's France. From that moment, the US dollar became nothing more than a piece of paper sustained by the largest economy in the world, which was no trifling thing.

"McCain wants to reactivate the country on the side of making the rich richer and the poor poorer, that's why he is pro-cyclical. As if it wasn't enough for Bush to have cut the taxes of wealthiest. He does not know that history shows that a combination of fiscal deficit and 'feudali-zation' is fatal for empires. That is how the Ancient Egyptian Empire of the Pharaohs fell, and the Imperial Roman Empire a couple of thousand years later. At this stage power is already highly 'feudalized' by the corporations.

"On the contrary, Obama wants to go backward with taxes and charge the rich more again. That's why he is anti-cyclical. That would seem to be more reasonable, but it remains to be seen if he can do it.

"And, to top it all, military costs. The United States currently has 737 military bases in the world and, if that wasn't enough, has just reactivated the 4th Fleet as a 'good neighbor' policy toward Latin America.

"Meanwhile, its consumption of goods is 6% in excess of its production of the same. And nobody is talking about that." □□□

Note : The \$700-billion rescue plan proposed by Bush was approved after this interview. Professor Del Corro has sent a message in which he clarifies : "I warned you, I'm convinced that this is a crust of bread for today and famine for tomorrow".

[courtesy : Granma International, Havana]