EDITORIAL

FINANCIAL MARKETS AND FINANCING DEVELOPMENT: A STRATEGIC DEBATE IN THE FIELD OF HETEREDOX THEORY

Recent developments in the financial markets at the time this issue of the journal went to press have put the topic of financing economic growth and the role of these events back on the table. From a hegemonic perspective, we might look to Milton Friedman's metaphor, "the helicopter money drop." This situation impacts the financial market in which financial intermediaries act as the economic agents through which resources are allocated to finance production. In economies that are well-integrated into the global market, capital flows and mobility will adopt a strategy based on the theory of competitive advantages for the allocation of resources, in keeping not only with supply and demand, but also by virtue of profitability. The opening up of capital accounts has been a key driver for the free mobility of capital, a principle that was taken as a generalized rule for all countries at the beginning of the 1990s and whose effects can be seen in the recurring banking crises (a rule that responded to the rent-seeking behavior of international capital flows).

A country inserted not only in international trade but also in the international financial realm, and which experiences volatility in its capital account, will immediately prompt the central bank to act, either by appreciating or devaluing the currency as compared to the hegemonic standard or raising interest rates pursuant to its rational objectives. The scenario described here differs vastly from the heterodox vision of alternative fiscal, monetary, and financial policy decisions.

Post-Keynesian theory focuses on the role of the central bank's decisions in economic development. Through the management of monetary, fiscal, and financial policy, the central bank influences the economic development of a country. The central bank acts not only as a lender of last resort to capitalize banks, but also as an employer of last resort. As such, money is the central pillar of this development theory and it is important insofar as it is the equivalent through which commodities are exchanged, and also acts as money-credit to drive economic growth. Money is created through the banks in their intimate relationship with the central bank and is subsequently destroyed. This abstraction leads to the reprisal of indebtedness and sovereign debt. But beyond this abstraction, the interest rate becomes important because it is set not as a function of supply and demand, but rather with respect to the central bank's desire to increase or slow down economic growth, which creates a virtuous cycle that can prompt speculative bubbles to emerge with periods of recession and deflation. The creation of money and interest rate management are added to the appreciation or devaluation of the currency in international financial circuits, which can on occasion have a drastic impact through the butterfly effect, in other words, by creating chaos in the financial markets.

The “Black Monday” at the end of August 2015 has not only produced a butterfly effect, as financial assets on the Shanghai stock market plummeted and the effects spread to the European stock market and hours later to the New York Stock Exchange, but has also impacted Latin American countries, where stock markets fell dramatically. The shadow hanging over the stock markets, currency devaluations, and the United States Federal Reserve’s uncertainty regarding whether or not to raise the interest rate have all cast doubt on financialization, or the so-called rentier financial accumulation regime, as well as the orthodox economic theory of “the helicopter money drop.”

Financial and economic reform in the so-called emerging markets is now an urgent matter. Even more important will be to reshape the role of the central bank in these countries. This rethinking of the economic model in Latin America must be a priority, especially after years of high prices for exported commodities. The Latin American region has gone from an import substitution model to a primary exporter, also referred to by some social scientists as an extractivist model, where export prices are determined by the price of raw materials in the financial markets. Whether we are talking about soy, rice, wheat, minerals, or oil, prices are defined as a result of financial speculation. This means that any turbulence in the financial markets will have an immediate effect on the economic cycle and, consequently, a direct impact on public spending decisions made by governments. In the phase of euphoria, the price of raw materials will rise to historic heights, but when panic comes, export prices will go into free fall. Add to this the sudden downturn in securities and corporate stock prices and we will be facing not only a recession, but also deflation. It is at this point in time that the central bank’s policy will determine whether or not we can face the economic cycle and try to resuscitate the patient. The heart of economic, political, and social activity will be in the hands of the central bank, through the monetary, fiscal, and financial policies. The central bank is not only the lender of last resort; the logic of this role in a monetary economy of production is precisely to be the employer of last resort.

The decisions made by the central bank during times of financial turbulence to try to put the brakes on the panic, as well as the choices made during the recession portion of the economic cycle, will be key drivers to revive the economy in the months and years to come. As such, its role will be to set the right interest rate to promote production and economic growth and attract investors to the productive sector. Raising or lowering the interest rate during unstable times will determine the movements of capital flows. To this we add the decisions made for managing the financial policy, either to devalue or appreciate the currency to influence export prices in international trade. Lower tax collection as a result of export prices in free fall will lead to austerity policies, which will entail not only cuts to social spending, but also to channeling more spending towards servicing the foreign debt and paying back creditors. At the time this issue went to press, the cover story of the magazine *The Economist* read, “The Great Fall of China,” with a background of the Great Wall of

China, symbolizing the gradual collapse of the economic indicators of the second-largest economy worldwide.

The article "The Political Economy of Global Labor Arbitrage," by Raúl Delgado Wise and David Martin, seeks to update the central-peripheral country theory studied by the ECLAC and Latin American dependency theorists, underscoring the productive restructuring that began with the advent of contemporary capitalism. The authors expose the "new nomadism" of transnational companies, which, thanks to the recent configuration of global networks, through outsourcing and subcontracting chains aided by the processes of scientific and technology innovation, have exploited the wage differences between countries, further entrenching the asymmetries, as well as polarizing social inequalities all around the world. The authors note that in this new phase, production, finance, and global investment value chains have been created that have permitted capital to take ownership of the most strategic and profitable sectors of peripheral economies, which has led to a situation in which the labor force must confront increasingly centralized capital, altering the correlation of power to the benefit of the international bourgeoisie. Likewise, the *class that lives off of its work* has been weakened due to the major supply of labor resulting from the dismantling of the former Soviet Union, the incorporation of countries such as China and India into the global economy, and the implementation of structural adjustment programs, expanding the *global industrial reserve army,* and driving labor arbitrage. The paper warns us of the consequences of continuing with this new logic of imperialism, which intensifies inequalities through a full-frontal attack on the working class, principally in underdeveloped countries. It demonstrates the role that financial capital plays in this new economic-political scenario, as well as the environmental degradation and ecological crisis derived from the excess consumption of natural resources and their management as speculative goods in stock markets worldwide.

The paper entitled "The Beijing Consensus and the Reprimarization of the Productive Structure in Latin America: The Case of Argentina," written by Luciano Bolinaga and Ariel Slipak, offers an extremely necessary reflection on the way in which economic and political ties between Latin American countries and the People's Republic of China have been shaped. With the rise of the latter country to the ranks of the select group of big players in terms of political influence and economic weight on the global stage, it is natural to expect that China's development strategy would have a major impact on areas such as Africa and Latin America. As such, the "Beijing Consensus" —an expression of China's newfound capacity to exercise its influence over the periphery via the sophisticated apparatus of "consensus" in the construction of hegemony— overlaps with the "Commodities Consensus," which in the Latin American region is manifest in the predominance of growth models that are highly dependent on the extraction and exportation of natural resources. As a result of this peculiar and asymmetrical south-south relationship, the authors demonstrate that the trend towards the productive reprimarization of the Argentine economy is clearly escalating—making special note that the soy sector has swelled in recent times—and worthy of analysis divided into two levels: *a*) a discussion of China's role in contemporary geopolitics and its connection to peripheral countries, theoretically grounded in a multidisciplinary approach with a selected combination of elements from the fields of Political Science, International Relations, and the Economic Sciences, and *b*) a detailed quantitative examination of the essential features of the Sino-Argentine trade relationship. Finally, the work is notable for having calculated the Grubel-Lloyd indices to measure the degree of overlap between exports and imports between the two countries, the existence of an undesirable trade pattern in which Argentina exports primary products or manufactures of agricultural origin with low added value and imports from China a diverse range of consumer goods, machines, industrial inputs, and more high-technology products.

The article "External Constraints on Growth in Argentina: The Role of Industrial Manufactured Goods," by the authors Marta Bekerman, Federico Dulcich, and Darío Vázquez, analyzes the relationship between the productive structure, growth, and the sustainability of a balanced balance of payments in Argentina during the post-convertibility era. It mentions the importance of the structuralist position, which parses the interaction between the economic structure of a country and its pattern of international insertion, through an analysis of the deteriorating terms of exchange based on Prebisch (1986), complemented with studies by Braun and Joy (1968) and Diamand (1972), regarding the impact of primarized specialization on the economic cycle, which leads to external restrictions that cause cyclical stop and go movements. In addition, the Post-Keynesian analysis of Thirlwall (1979) explains that a long-term sustainable economic growth rate depends formally on the ratio between the export growth rate and the income elasticity of imports. The authors show how changes in the current account in the post-convertibility era point to signs of structural change in Argentina, a reflection of the relative equilibrium in the balance of goods and a strong decrease in import volumes, whose primary effect was to push income upwards and subsequently push up imports, bringing with it structurally negative behavior, due to a strong dependence on imported capital goods and inputs. In other words, the macroeconomic regime changed in the early 2000s, transforming the degree of liberalization reflected by the foreign trade in goods and services, which went from representing 18.8% of the gross domestic product in 1996-1998 to 31% by 2011-2013. This deepened the relationship between foreign trade and activity level, especially through the trade balance in goods of industrial origin, which generate the majority of the gross value of production and employment, but also displayed a marked deficit in the trade balance. During the post-convertibility era, the Argentine productive structure opened up markedly, deepening the relationship between foreign trade and activity level. This imbalance displays an inverse relationship between foreign trade and employment, in which only a small set of sectors with low added-value products managed to grow. The paper concludes that manufacturing performance in the post-convertibility era did not manage to reverse the historical trend of technology dependence in the Argentine industry.

The authors Marina Yesica Resalde, Daniel Hugo Bouille, and Leónidas Osvaldo Girardin contributed the article “Limitations for Renewable Energy Development in Argentina,” which strikes up a debate about the new renewable energy sources (RES) needed for developing economies to embark on a path to growth. Through a critique of the economic policy in Argentina, the paper demonstrates how renewable energy development has historically run up against obstacles over the past four decades. The factors that have hurt the energy sector include high levels of indebtedness, rising inflation, the convertibility regime, privatizations, and market deregulation, which have permitted the vertical disintegration of productive chains. Moreover, in the post-convertibility era, given the freezing of energy prices and the major component of subsidies in the sector which had a negative impact on the energy field, especially with regard to control of natural resources, the participation of private enterprises in exploration and exploitation were signs of the lack of sustainability that has led to energy problems. Some wind power, photovoltaic, and biomass projects have been managed thanks to a few joint initiatives between the provinces and national government agencies with the participation of external financing; however, as revealed by the authors, this situation is due mainly to the environmental conditions related to the energy policy, as well as factors related to governance and weak regulatory frameworks, not to mention economic and financial aspects, which remain the principal limitations for the sector, as well as the absence of long-term planning policies, which constitute boundary elements that impact the decisions made by actors tied to renewable energy sources.

“The State and Energy Reform in Mexico,” by Marco A. Merchand, works up a rigorous analysis pursuant to the hypothesis that the State operates to the benefit of foreign capital, commodifying natural assets, by turning them into private property. The Mexican State has driven accumulation according to the logic of the global value chain in diverse activities, such as the energy sector, including oil and other geostrategic resources, over the past three decades. Foreign capital has availed itself of public and private goods located in national, regional, and local spaces. The paper warns of a broader capitalist accumulation strategy based on predatory mechanisms that seek to turn life-giving elements and the commons into highly profitable products. To ensure this process, the State has relaxed the laws, losing state sovereignty over many sectors in the process. The reforms made to Articles 27 and 28 of the Constitution, the Agrarian Law, the Program to Certify *Ejidal* (Communal Property) Rights and the Ownership of Plots (Procede), the Hydrocarbons Act (Article 33), and the Law for Regulatory Bodies, have entrenched the extractivist energy model, which entails exploiting oil, gas, wind, solar power, mining, and even water resources. As a result, the energy reform has prompted accumulation by dispossession, legally backed by the constitutional reforms and energy bylaws. To conclude, the author reviews the energy exploitation models in other countries such as Bolivia, Ecuador, and Norway, and discusses the activities of transnational companies in exploiting the natural heritage, and the environmental harm produced by these extractive activities in the short and medium term.

Daniel Romo wrote "The Cantarell Oil Field and the Mexican Economy," which highlights the economic importance of major oil fields around the world, including Cantarell, a Mexican complex, which is a cluster of smaller oil fields: Akal, Nohoch, Kutz, Ixtoc, Chac, Balam, Takín, Ek, Sihil, Kambesah, and Után. The production performance at Cantarell and its evident decline are the focus of the study, which shows how after commencing exploitation at the end of the 1970s, Mexico ended up contributing 45% of global production at one point in time. Cantarell has played a major role in the oil and non-oil production platforms of Mexico. In the early 1980s, thanks to its productivity and high international oil prices, Cantarell helped drive investment in national industry. However, the fact that oil has constantly had to prop up Mexico's weak public finances and that an additional tax burden was imposed on Pemex starting in 1983 are both circumstances that reduced oil investment, especially in exploration, refining, and petrochemical projects. In 1996, Pemex implemented the Cantarell Optimization Project (POC), in 1997, it launched the Productive Infrastructure Investment Projects with Deferred Expenditure Registration program (PIDIREGAS), and in the 2000s, expanded the portfolio of oil and natural gas exploration and exploitation efforts at the complex. Despite these measures, Után is not producing, production at Akal is declining, and at the end of 2013, it was reported that the total amount of hydrocarbon reserves had been reduced by 53% with respect to 2002. Finally, the paper concludes that the substantial oil proceeds derived from Cantarell, which amount to approximately 445 billion dollars as of 2013, have underpinned the country's economic growth, but that its operations have been subject to short-sighted government and corporate decisions. In this way, inefficient administration has contributed to its rapid decline and the challenges it currently faces, including the following: how to increase knowledge about the profiles of the fields, deal with damage to the formations in crude deposits, and improve management of contact with water.

Francisco Ballina wrote "The Competitive Advantages of Numerical Flexibility in Micro, Small, and Medium-Sized Companies in Mexico City," which hypothesizes that *organizational flexibility,* and in particular, *numerical flexibility,* permits companies to derive a competitive advantage to face a dynamic environment dominated by major companies. This paper is the result of research whose major objectives included: *a*) quantify the economic benefits and returns for MSMES that implement numerical flexibility in Mexico City; *b*) identify sectors, company sizes, activities, and delegations with the highest frequency of these practices; and *c*) describe the fiscal and labor laws that regulate outsourcing in Mexico. Numerical flexibility for employees (which refers to a company's capacity to adjust its human resources depending on demand) is an essential part of the capacity to adapt to a constantly changing environment, and consists of both distance flexibility and contractual flexibility.

The former refers to subcontracted workers and freelancers who operate for the company and the second refers to temporary workers, part-timers, interns, etc. Outsourcing, which refers to subcontracting staff through an intermediary, is the means to achieve this numerical flexibility. The author describes the regulatory framework of the Federal Labor Law (LFT), which grants employment protections to outsourced employees to prevent employers from using outsourcing to avoid labor or tax obligations. The study looked at 983 micro, small, and medium-sized enterprises in Mexico City, determining whether they had used numerical flexibility models either through distance or contractual flexibility over the past two years. The findings reveal that numerical flexibility in MSMEs is rather limited, because the percentage of these companies that had engaged in distance flexibility was only 26.8%, while the percentage that had used contractual flexibility was only 40.8%. The sectors that most used distance flexibility were construction (53.1%), computing services (42.5%), and travel and booking agencies (37.1%). Those which had least used this type of flexibility included agroindustry (14.3%), commerce (15.1%), and the automotive industry (18.8%). The boroughs in Mexico City with the highest representation were Miguel Hidalgo (40.8%) and Gustavo A. Madero (40.3%), where professional services prevail. By contrast, the boroughs of Milpa Alta (6.1%) and Azcapotzalco (6.7%) were those with the lowest frequency of use. The study revealed that the distribution by number of employees showed that medium-sized companies (53.2%) tended to use outsourcing more than small (31.4%) and micro enterprises (19.7%). Finally, there was a correlation between the use of outsourcing/freelancers and productivity indicators (18.417) and market share indicators (15.053), although less evident for profitability indicators (6.172).

The reviews section recommends the following books: *The State, Capital Reproduction, and Class Struggle: The Economic/Political Unit of Capital,* by Jaime Osorio, reviewed by Alejandro López Bolaños; *Historical Development Trajectories: Theory, Analysis, and Applications to National Cases*, by Miguel Ángel Rivera Ríos, reviewed by Mario Humberto López; *Development Today: Towards the Construction of New Paradigms*, coordinated by María del Carmen del Valle Rivera, reviewed by Álvaro Ureta; and, finally, *International Financial Architecture: A Genealogy of 1850-2008,* by Óscar Ugarteche, reviewed by Monika Meireles.

Alicia Girón
Journal Editor
UNAM, September 2015