http://www.counterpunch.org/2014/10/08/latin-americas-recessions-made-in-the-usa/print

Latin America's Recessions: Made in the USA

The Big Squeeze

by JACK RASMUS

10/8/2014

Three major economies of Latin America—Brazil, Argentina, and Venezuela—entered recession in 2014. And in all three cases their recessions may be subtitled, 'Made in the USA'.

After growing at 5% to 9% in annual GDP rates between 2010-2012, in 2013 all of the 'big three' economies of South America began to slow significantly. Both Brazil and Venezuela GDP grew at only around 1%-2% in 2013, while Argentina's economy slowed from 9% in 2010 to 4%. Economic growth in Latin America's other major economy, Mexico, slowed similarly—from 5.5% in 2010 to only 1% last year.

After slowing to a crawl in 2013, the bottom then dropped out in 2014. Both Argentina and Venezuela economies are projected to decline -2% to -3% this year. And with negative economic growth both quarters this past January to June, Brazil's economy is on track to decline -0.5% to -1.0% in 2014. Elsewhere, Mexico this year continues to stagnant barely above recession levels, while other Caribbean and South American economies, like Peru, also now hover around zero growth.

So what's behind the new recession in Latin America—in particular what's driving the big 3 economies of Brazil, Argentina and Venezuela into recession? What happened to reverse their 5% to 9% GDP growth rates of 2010-2012 so dramatically by 2013? And will the forces behind

that reversal continue and perhaps accelerate in 2015, driving these Latin American economies further and deeper into recession?

To answer these key questions it is necessary to step back a few years to the period immediately following the global economic crash and crisis of 2008-09.

Global Force #1: The $20 Trillion Global Liquidity Injection

The immediate response to the global crash by the advanced economies (AEs)—especially the USA, UK, and to a lesser extent the Eurozone—was a massive bailout of their banking systems. The USA central bank, the Federal Reserve (Fed)—with the United Kingdom's central bank, the Bank of England (BoE) in close tow—have provided a massive, multi-trillion dollar injection of money capital (liquidity) to prevent the near total collapse of the global capitalist banking system.

This bailout and money injection has assumed two forms: zero interest rates (ZIRP) to the private banking system and a policy called 'quantitative easing' (QE), whereby the central banks essentially printed money and directly purchased trillions of dollars of toxic, virtually worthless bad assets held in the wake of the crash by private banks, shadow banks, and wealthy 'ultra high net worth' investors.

In the USA, this money injection by the US Fed alone would amount to more than $15 trillion. In the United Kingdom, another equivalent $2-$3 trillion. And in the Eurozone and Japan by 2014 an additional minimum $2 trillion more.

Monetary policy (QE, ZIRP) became the primary economic recovery policy in the AEs. Fiscal policy in the form of government spending and investment played, at best, only a token role (in USA, UK), a negative role (Europe), or virtually no role at all (Japan).

The USA economy introduced a token 5% of GDP fiscal stimulus in 2009-10, most of which were tax cuts for businesses and temporary subsidies to the US States for one year. The Obama administration's approximate $800 billion fiscal stimulus in 2009-10 was then retracted in 2011 by a $1 trillion government spending cut. More cuts followed. A similar process occurred in the UK. The Eurozone's followed 'austerity' fiscal policies, with not even a token fiscal stimulus, and deep reductions in government spending.

Global Force #2: China's 15% Fiscal Stimulus

In contrast to the AE capitalist economies' almost total reliance on monetary injections, China responded to the 2008-09 crash with a massive fiscal spending and direct government investment program amounting to approximately 15% of its GDP at the time—i.e. three times the size of the USA's initial fiscal stimulus. The composition of China's stimulus also differed. It was mostly direct government investment, whereas the USA's was mostly business tax cuts and subsidies to States—neither of which generated much in terms of jobs and working class wage growth.

China's economy recovered quickly and strongly in the wake of 2008-09, growing in the 10%-14% range. In contrast, with an opposite emphasis putting their banks and investors first in line for bailout, the capitalist AEs recovered only slowly, at half the normal historical growth rates following recession, or not at all—as in the case of the Eurozone and Japan which experienced 'double dip' and 'triple dip' recessions, respectively, after 2010.

This dichotomy in economic recovery policies—i.e. China focusing on fiscal solutions and direct government investment vs. the AEs focusing on massive money injections and token or negative government investment—is crucial to understanding the trajectory of the Latin American economies after 2010 and their current descent into recession today.

2010-12: Converging Forces Benefit Latin America

With weak or no recovery in their 'real' economies, the AE central banks' massive money injections resulted in much of that money capital 'flowing out' of the AE economies and into China and the emerging market economies (EMEs)—including Latin America.

Some of the money capital inflows to Latin America went into financial market speculation in the stock, bonds, derivatives, real estate, currency markets in Latin America. But as China growth accelerated in 2010 and after, it required more natural resources, more commodities, and more semi-finished goods. Latin America could, and did, provide those to China. So money capital also flowed into real investment in Latin America—in expanding commodities and resources production to meet China demand, into semi-finished goods to be exported to China, and into further developing Latin American infrastructure. This real output growth in turn further boosted financial asset prices and speculation in Latin American financial asset markets.

So two global forces converged in 2010 to the benefit of Latin America: surging China demand and simultaneous AE central banks' massive money injections that mostly 'flowed out' of the AE economies into the EMEs, including Latin America, that funded real investment to increase production to satisfy that China demand.

With their own AE real economies languishing, stagnating, and slipping in and out of recessions, AE private bankers borrowed the trillions of dollars of 'free money' from their central banks and invested that money capital directly offshore themselves to exploit the potential for higher rates of return in China, the EME's and Latin America; alternatively, they loaned the free money from their AE central banks in turn to shadow banks, high net worth investors, and US multinational corporations that did the same.

As the Bank of International Settlements (BIS)—i.e. the bank of central banks—in Geneva noted in its most recent 2014 annual report, that hundreds of billions of dollars annually flowed into Latin America between 2010-2013—between $500 billion to perhaps $1 trillion—providing credit for expansion. Much of that massive money capital inflow now exists as debt on the balance sheets of Latin American business borrowers, debt that will have to be repaid in coming years even as the region's economies now sink into recession. So the credit inflows and corresponding debt build-up in Latin America is primarily private business sector debt—not consumer or even government debt.

The money inflows expanded Latin American economic infrastructure, agriculture output and manufacturing production needed to satisfy the China demand. But as other EMEs grew along with China (BRICS, G-12, Australia, etc.) it generated another layer of global demand for Latin American goods and services. Latin American stock and other financial markets boomed even more along with rising production output, providing still more financial asset speculation. Shadow bankers—i.e. hedge funds, private equity firms, insurance and investment bankers—circled and swooped into the region. The massive money inflows also drove up the currency and real estate values in Latin American countries, offering yet another lucrative financial asset speculation opportunity.

2013-14: Forces Diverge & Latin American Recessions

In early 2013 the above converging forces began to shift and reverse, setting in motion the weakening of Latin American economies today, in 2014. China's rapid economic growth began to significantly slow by late 2012, while simultaneously, in early 2013, the USA Fed central bank announced plans to reduce its massive money capital injections by discontinuing QE and thereafter by raising interest rates.

It is important to note, however, that the common source behind both China's slowing and the Fed's shift to discontinue QE and raise rates is the destabilizing behavior of the global finance capital elite—at the forefront of which have been the ultra high net worth financial speculators and their shadow banks, together sometimes referred to as the 'vultures', if one prefers.

Here's the connection in brief:

The massive money injections by AE central bankers since 2009 have resulted in creating global financial asset bubbles in stocks, junk bonds, foreign exchange, Euro periphery government bonds, and divers other forms of financial asset speculation. By 2013, with bankers and investors more than bailed out by means of the, prior $20 trillion AE central banks' money injections, AE central bankers in the USA-UK announced a shift in policy in the spring of 2013—i.e. to discontinue QE and then to raise interest rates to 'recall' some of the prior massive trillions of dollars of liquidity injection—in order to cool down some of the financial bubbles emerging.

In early 2013, the US Federal Reserve initially announced it would start reducing QE. The immediate result was a crisis in EME financial markets, including Latin America's. In expectation of no QE and higher rates (and in turn a rising US dollar), money began flowing out of Latin America back to the USA and other AEs—into USA stock and junk bond markets, into the UK generating a London area construction sector bubble, and into Southern Eurozone sovereign bonds.

That prospect of accelerating money capital outflow precipitated Latin American currency declines, an initial round of capital flight from the region, a potential slowing of foreign direct investment (FDI) to the region, and rising inflation as the cost of imports accelerated due to the currency declines. Stock markets swooned in turn in response to all this. A number of Latin American governments responded in turn by raising their own domestic interest rates, in an

effort to stem their currencies' fall, re-attract the foreign money capital, and halt the stock market collapses. Their rise in rates only served to slow their economies further.

In recognition of the growing crisis in the region, the USA Federal Reserve quickly reversed itself and declared QE taper was not on its immediate agenda. But that declared phony 'halt' was only temporary. The Fed postponed action only until the USA resolved its October 2013 government shutdown confrontation between parties in Congress. Once over, the Fed again began reducing QE and has done so every month, ending altogether by December 2014. However, of greater potential impact for Latin America is the growing drift of the US Fed toward raising US interest rates.

With no QE to fund money capital inflows to Latin America, and the prospect of higher US interest rates that would recall even more money capital back to the USA and AEs, problems of capital flight, declining currencies, rising import inflation, slowing FDI, as well as rising rates in Latin American economies returned even stronger by year end 2013. By 2014 the problems were of sufficient severity to push the region's main economies into recession.

Simultaneous with the money capital reversal engineered by the US Fed and AE central banks, China also began slowing its economy in the spring of 2013 in an attempt also to 'tame' its own shadow bankers and financial speculators—aka 'vulture' hedge funds, private equity, etc.—who were creating destabilizing bubbles in its own currency, in regional construction, and in local government investment markets.

In May-June 2013 China reduced spending and its money supply growth to cool off its economy and check the speculative bubbles. But the policies slowed its real economy more than tamed the speculators. So it initially backed off, like the Fed had, in the summer of 2013. It introduced a mini-stimulus thereafter to restore growth. This stimulus—along with the Fed's temporary reversal of QE in the summer of 2013—had the effect of temporarily cushioning Latin America's drift toward recession in mid-2013. But China's mini-stimulus in summer 2013 was not enough, and the China economy subsequently slowed further again. Once growing 10%-14% in 2010-12, China's economy is now growing by less than 7% by most independent estimates. That slowing has in turn significantly reduced China demand for Latin American resources, commodities and semi-finished goods.

The combination of China demand slowing and AE money in-flows about to reverse precipitated once again by late 2013 a slowing of Latin American economic growth, and exacerbated related trends of declining currency values, declining stock values, capital flight, slowing FDI into the region, and rising import costs from the currency declines that are generating inflation as well.

Latin America's recession today is thus largely the consequence of USA monetary policy shifts and slowing China growth and demand. But beneath that surface, the even more fundamental force behind both these apparent trends is the growing desperate efforts of global governments, in both the AEs and China, to somehow check the destabilizing behavior of global finance capitalists and their speculative investing in financial asset markets globally that threatens yet another global financial market implosion in the near future.

A Fundamental Contradiction

The essential point of both the China and USA Federal Reserve policy reversals of 2013-14—policy reversals that are now driving Latin America into recession—is that both policy shifts have their fundamental origins in the financial destabilization behavior of the global finance capital elite. The folks that gave us the 2008-09 financial crash and are in the process of creating yet another. The shift by the US Fed is clearly a response to try to head off further financial asset bubbles that have been building. Not as obvious is that China's economic slowdown is also being driven, in significant part, by its efforts to reduce the influence of global financial speculators that have been destabilizing its foreign currency and local real estate markets where bubbles have been growing as well.

Indirectly then, the vulture finance capitalists, the global finance capital elite, the shadow banks and their 'ultra high net worth' mega-wealthy investors, are responsible for the slowing of Latin American economies in 2014.

A key contradiction in the global economy today is that, as AE central banks reduce money injections to slow financial bubbles, and thus avoid another financial crash that would drive the global economy into another depression, by raising interest rates in a global economy already slowing everywhere AE central bankers may in fact prematurely precipitate just the same outcome.

A Political Postscript

It should also be noted that certain recent USA government policies have also been exacerbating Latin America's emerging recession. The USA is taking advantage of the emerging recessions in Latin America to put additional economic pressure on two of the region's most important economies: Argentina and Venezuela. This further destabilization suggests that the USA may be 'turning' again toward a focus on Latin America in an effort to reassert its hegemony in the region and to roll back the progressive developments and governments there that have arisen in recent years. But how the USA is now attacking both Argentina and Venezuela—i.e. by defending the vulture capitalist hedge fund billionaires in the case of Argentina debt payments and by working with US multinational corporations to artificially create a dollar shortage and runaway inflation in the case of Venezuela in a USA effort to still further destabilize the slowing economies of both countries—is the subject of a subsequent essay and analysis.