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The Socialization of Financial Risk in Neoliberal Mexico[1]

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ABSTRACT

Mexico has experienced several financial crises since the 1980s, notably in 1982, 1994-95, and 2008-09. In each case of crisis, the stability of capitalist development and its evolving neoliberal form has depended on the socialization of financial risks. I argue this is when the government and financial state managers can coordinate a response to financial crisis institutionally premised on drawing the worst financial risks into the state to diffuse the costs of risk onto society at large. Few approaches to finance and development have internalized socialization into their understandings of neoliberalism, whereas here the socialization of financial risk is shown as not only class-based but as also necessary and constitutive of the current phase of finance-led neoliberalism.

INTRODUCTION

The late 1970s and early 1980s marked the beginning of a transition towards neoliberalism and more open financial markets globally. Neoclassical economists and advocates of liberalism encouraged this as putting an end to the so-called post war era of financial repression and market atrophy characterized by state interference and political abuses (Shaw 1973; McKinnon 1973; Pazos 1982; Balassa 1982). Ideally, the release of competitive forces would usher in a new era of growth, stability, and prosperity. Inequality and difference would naturally persist, but with the rising fortunes of business and capital all of society would benefit. Yet actually existing finance-led neoliberalism has borne little resemblance to the theory. According to the United Nations' *World Economic and Social Survey*, "instead of increasing investment and growth, capital and financial market liberalization had the opposite effect by increasing volatility and uncertainty" (DESA 2010, 103). Recurrent crises in Mexico have worsened inequality and intensified redistributive struggles (Teichman 2008). After all said and done, neoclassical economists have had to concede that the growth benefits of capital account liberalization have been oversold (Kose et al. 2009). Nonetheless, financial capital today enjoys not only great prosperity despite the global financial crisis but also unparalleled and undiminished economic, social, and political power (Albo, Gindin, and Panitch 2010).[2] How is this so?

The dimensions of this problem are many and complex. I enter into this debate by drawing attention to a specific dimension of neoliberalism and its ever-more finance-led form today, namely the socialization of financial risk at times of

[2] Financial capital refers collectively and in general to money and banking capital, the financial institutions dealing in this form of capital, and the upper fraction of individuals and collectives that own and control these institutions (Duménil and Lévy 2004, 660).

political economic crisis.[3] Looking at the experiences of Mexican society since the 1980s, I do so from the unique and under-theorized vantage point of labour. Furthermore, I understand the socialization of financial risks as part of broader processes of market-oriented neoliberal restructuring of the Mexican social formation. In Mexico and more generally, this restructuring has involved crafting a more enabling environment for domestic and foreign financial capital to profit alongside the defeat of organized labour's and popular classes' capacity to resist neoliberal restructuring and the increased structural power of capital (Glyn 2006; Marois 2008; Harvey 2010). As illustrated below, state elites have developed institutional mechanisms so that when financial capital hits a point of crisis, their risks gone sour can be drawn into the state, but – and this is crucial – in such a way that the costs of absorbing the risks fall disproportionately onto Mexican labour and the popular classes.

Of course, the state apparatus has always been involved in dealing with many diverse and social reproductive risks from facilitating productive and infrastructure capacity to environmental management to national security (*cf*., Giddens 1990; Beck 1992). In terms of the rise of finance internationally and in Mexico, there are many specific forms of financial risks that involve complex combinations of foreign currency loans, short-term capital flows, bankers' related lending, high risk loan operations, and derivatives to name a few. Yet these forms of financial risk share common ground as a means to accumulate future wealth; in their profit orientation; as based in competitive capital accumulation and associated unequal social interactions between capital and labour processes; and as essentially speculative and uncertain since the future realization of the financial risk as profit is not guaranteed (see Harney 2010; Toms 2010; Harvey 2010; *cf.* Hilferding 2006).

[3] 'Socialization' is used here in specific reference to financial risks and is not meant to contradict Marx's original usage found in *Capital*, Vol. I (1990) on the socialization of labour under capitalism. Li (2009) draws on this original conception to debate Minsky's approach to the socialization of risks relative to the allocation of investment.

In what follows, I frame the chief paradox today to be *not* that financial capital has risen to the commanding heights of power in Mexico and internationally despite recurrent financial volatility (though this is vitally important). Rather, the paradox of concern here is that in spite of forming the bedrock of financial capital's stability, prosperity, and power the popular and working classes in Mexico find themselves in the position of being institutionally responsible *for* and politically subordinate *to* the fate of financial capital within its borders. An understudied aspect of this paradox, I argue, can be grasped as a class-based process involving the socialization of financial risks – or when the government and financial state managers can coordinate a response to financial crisis institutionally premised on drawing the worst financial risks into the state to diffuse the costs of risk onto society at large. Without having crafted this institutionalized state capacity over time and through processes of struggle over social resources, the power and prosperity enjoyed by financial capital in Mexico today is unimaginable. In this light, while insufficient to explain the entirety of neoliberal changes since the 1980s, the socialization of financial risks appears as a necessary and historically constitutive of neoliberalism's finance-led form in Mexico today.[4] The argument proceeds by first locating socialization in the literature, second by establishing an alternative analytical framework, and third by exploring Mexico's three conjunctural neoliberal crises, which is followed by a conclusion.

LOCATING THE SOCIALIZATION OF FINANCIAL RISKS

As the global financial system teetered on the brink of collapse in October 2008, the *Financial Times*' vanguard magazine, *The Banker*, made an obvious if no less striking observation: "The [US] state will save the banks, but there will be a heavy

[4] I see this study as complementing other critical studies of neoliberalism and financialization (Soederberg 2004; Guillén Romo 2005; Coates 2005; Lapavitsas and Dos Santos 2008; Saad-Filho and Yalman 2010). On necessary and sufficient causes in historical explanation see Mahoney et al. 2009.

price to pay.[5] Contrary to accounts of financial globalization charting the withering away of the state (Strange 1996), *The Banker* put into print what most have come to know, however unwittingly they or others may be to its admission: financial capitalists need the state today as much as it ever did, and indeed more so. More precisely, *The Banker* posed the problem of governments drawing bad financial risks gone into the state apparatus at times of crisis.

While the precise modalities, terminologies, and normative assessments differ, there is a shared recognition within the political economy of finance and development literature that states have repeatedly absorbed massive costs tied to financial crises not only in Mexico, but everywhere. Acknowledgment, therefore, is not at issue but rather significance. For example, senior International Monetary Fund (IMF) researchers Luc Laeven and Fabian Valencia (2010) describe the costs of resolving systemic banking crises since the 1970s as the direct *fiscal* costs that increase the burden of public *debt* due to the government's intervention. Such government interventions have included acts of liquidity provision, sectoral restructuring, asset purchases and guarantees, guarantees on liabilities, bank nationalizations, and so on – all of which are characteristic of modern bank rescue programs and are costly to the state (Marois 2010). OECD economists Davide Furceri and Annabelle Mourougane (2009) point out that present and future taxpayers have shouldered the costs of the US-based sub-prime crisis resolution, without further elaboration. Stephen Haber's study of past crises in Mexico also acknowledges that the 1995 bank rescue was an "implicit transfer from taxpayers to bank stockholders" (2005, 2342). As we see, and while acknowledging that the general public pays in practice, such interpretations rooted in liberal political economy do not internalize these facts in order to subsequently modify their theorizations of capitalist development or the state. Case in point, Aslı Demirgüç-Kunt and Luis Servén (2009) of the World Bank argue that immediate crisis

[5] "The Banking Crisis: Thinking the Unthinkable", 06 Oct 2008, *The Banker*, online.

containment is not synonymous with permanent deviation – the "sacred cows" of liberal financial policy must not be sacrificed and open markets remain the best solution for development. Certainly, each author suggests certain market-oriented policy reforms, the strengthening of property rights, and enhanced financial supervision. Yet socialization is not conceived of as internal to finance-led neoliberalism for it is merely a distortion of an idealized but as yet imperfectly approximated market discipline by individual state and market actors.

By contrast, institutional political economists have criticized liberal orthodoxy by drawing on Weberian, Keynesian, and Minskian theses that emphasize the inherent instability of capitalism and finance and by arguing that the benefits of financial liberalization have disproportionately benefitted the rich over the poor – especially at times of financial crisis in developing countries (Teichman 2008; Arestis and Caner 2010). As opposed to more aggressive market discipline, institutionalists have emphasized the need for extra-market coordination to avoid financial growth negatively impacting real economic growth and stability. Howard Stein (2010) rebukes the more open financial markets of neoliberalism arguing instead that this practice should be abandoned. James Crotty argues that the deep cause of the current financial crisis "is to be found in the flawed institutions and practices of the current financial regime" marked by financial liberalization and growing moral hazard (2009, 564).[6] In the case of Mexico the rise of financial capital has also institutionalized informal state actions to rescue large financial firms, actions that in turn increase public debt and moral hazard (Garrido 2005, 19; 28). Agreeing these practices should end, institutionalists also point towards crafting an effective and transparent regulatory framework in Mexico so that the efficiency gains of expanded

[6] In an earlier version of this argument, Crotty argues, "the large financial gains of the boom were private, but losses in the crisis were socialized. These bailouts convinced individual and institutional investors that that gains in the boom would far exceed losses in the bust. This created a classic moral hazard problem that contributed to a secular rise in the absolute and relative size of financial markets, as well to increasing inequality" (2008, 10).

market operations can be realized without the “taxpayers having to ‘socialize’ the losses” (Ramírez 2001, 657-58; also see Stallings 2006).

In their empirical, historical, and normative orientation, institutional interpretations take us well beyond the universalist and ahistorical market apologies of liberal political economy (*cf*. Öniş 1991). However advanced the approach, the institutionalist interpretations do not see the socialization of financial risks as something necessarily internal to the current phase of finance-led accumulation. Rather, socialization is part and parcel of a wider series of failed domestic neoliberal policy choices that have extended financial liberalization too far too fast. The result is an imbalance between state and market actors. In the final analysis, socialization is but one of any number of neoliberal and financialization policy errors. Moreover, socialization is not seen as embedded within or constitutive of the unequal class relations defining the current phase of financialized capitalism. The analyses therefore miss patterns of determination, hierarchy, and structural inequality between capital and labour. One is left with a sense of policy voluntarism – one can end socialization and keep competitive capitalism through erecting new policy matrix. The overwhelming social logic shaping the actions and options of government and state elites to socialize financial risks finds little currency in these accounts.

FRAMING A HISTORICAL MATERIALIST INTERPRETATION

For present purposes, the historical materialist interpretation presented here brings forth three analytical tools that differentiate it from mainstream analyses in a way helpful to interpreting the socialization of financial risks. First, it is necessary to begin with an understanding of the world we live and interact in through a theory of internal relations and conceptualization of totality (see Ollman 2003, Ch. 5). As distinct from methodological individualism or ideal-typical constructs, the basic idea is that each part of society or different level of generalization ontologically incorporates in what it is all its relations with other parts up to and including everything that comes into the whole without sacrificing specificity. The most specific levels looks at what is unique about individual agents, agencies, or situations in the here and now. Here we can think of specific firms, their particular owners, as well as the workers and managers employed therein. At another broader level, the concern is with what is general to more people and agencies, their actions, and their products within the time frame of contemporary capitalism. Here we might look to what is happening in Mexican state-society relations, including the specificity of the interrelations between financial capital and labour therein. For our purposes, the highest level of generalization involves what is specific to people, agencies, their activities, and products due to their emergence and functioning within capitalist society, anywhere and at any time. Here we look to such things as the capital-labour relation in general and the production of surplus value in general. To be sure, at times Marx and Marxism look to even more general events, but these wider generalizations move beyond capitalism and, as such, beyond this analysis. The methodological point to be made here is that the socialization of financial risks is understood historically and analytically as part of a wider totality of class-based social relations inclusive of individuals, collectives, and society specific to the current phase of capital accumulation. Moreover, this forms a logical construct referring to the way the whole is present through internal relations in each of its parts. Individuals, collectives, institutions, and structures form part of our understanding of power relations, imperatives, and constraints (*cf.* Greenfield 2004; Duménil and Lévy 2004).

Second, the socialization of financial risk demands an interpretation of the state rooted in social relations.[7] Since the 1980s, the Mexican state's financial apparatus has become the fulcrum around which finance-led neoliberalism has emerged and consolidated. Quite clearly, and in contradiction to the hopes

[7] Harney calls for a renewed study of contemporary risk in light of a Marxian interpretation of the state, particularly drawing on Poulantzas (2010, 15).

embedded in the Washington consensus, the state is the one institution capitalism cannot do without, with even neoliberalism being incapable of eliminating its social functions (Wood 2003, 139-40). While having a rich legacy of its own, Marxian state theory is set apart from other political economy understandings of the state.[8] Capitalist states are conceived neither as black boxes of competing egoistic individuals as in liberalism (Vanberg 2005) nor as autonomous sets of institutions that establish cooperative links between state technocrats and business elites found in more institutionalist analyses (Evans 1995). Nor are the social complexities of modern states like Mexico conceptually reducible to trans-historically comparable sets of strong or weak institutions – and their capacity to enforce credit, property, and contract rights – so central to the research of new institutional economics on Mexico (Haber 2005). Rather, at the most abstract level, capitalist states are understood as social relations insofar as they comprise of institutionalizations of historically specific class, racial, and gendered power struggles. This interpretation follows in the tradition of Nicos Poulantzas who saw the capitalist state as "the factor which concentrates, condenses, materializes and incarnates politico-ideological relations in a form specific to the given mode of production" (2000, 27). Conceived of within a wider totality of capitalist society, this institutionally organized political arena *appears* relatively separate from markets as a form of state-society relations specific to capitalism. Yet states and markets in *essence* remain two expressions of a single pattern of social relations under capitalism (Poulantzas 2000, 17-9).

Understanding the state in both its capitalist generality and Mexican specificity is important. The specific form and content of states vary in time and place relative to local specificities, power struggles, institutional differences, and so on while remaining party and subject to the imperatives of world market competitive and the social logic capitalist reproduction. For example, the internationalization of the state since the 1970s in general has been a response of state elites most

[8] On Marxian state theory debates, see Jessop 1990 and Carnoy 1987.

everywhere to mounting world market competitive imperatives (Poulantzas 1974; Picciotto 1991). In emerging capitalisms like Mexico, the processes of internationalization have involved state and government elites restructuring the state in such a way that that the institutions and agencies therein are more and more materially disciplined and institutionally prompted to accept responsibility for managing its domestic capitalist order in a way that contributes to managing continuity in the world market (Marois 2010). At the same time, internationalization since the 1980s has seen these same actors within the state insulating the financial apparatus from domestic political influence to conform to international financial institution norms (notably this has involved central bank independence, inflation targeting, and wider liberal calls for so-called ‘de-politicization’). Such neoliberal policy matrices mediate and support international competitiveness in a way that enables financialization at home and in the world market. This tendency towards the universalization of world market financial and competitive imperatives within the Mexican state, however, is mediated and differentiated by the institutional forms specific to Mexican society and the historical formation of the class compromises necessary for the production of value by labour.

The socialization of financial risk forms a key aspect of this social struggle. The socialization process is understood as struggle because it is over the determination of the social resources collected by and distributed through the state apparatus. As J.S. Toms argues, because powerful social groups in society are able to transfer risks onto weaker groups, which is rational from the perspective of dominant capitals, the institutions of capitalism have developed around this process (2010, 97; 101). More will be said on this below, but the capitalist state’s historically determined and socially legitimated capacity to tax its population is vital to interpreting the socialization of financial risk. Needless to say, a populace engaged in wage labour, creating value, and paying a portion of their earnings to the state forms the material basis of modern capitalist states. The distribution and usage of this tax income (which also has sources in state-owned enterprises and corporate tax) is always a matter of political contestation. In this sense, it is important that the state not be understood as a homogenous actor but as a contested social relation. It is a vulgar account which asserts that state managers and government elites simply act at the behest of individual and collective agencies in society. Rather, what needs explanation is how, as a result of struggle and in light of structured constraints, government elites and state managers take action with respect to the overarching social logic of capitalism, balance of domestic power relations, and in light of competitive imperatives as worked out nationally and in relation to the state's relative position within the hierarchy of interstate relations and world market.

Finally, following on this there is a need to specify how government elites and state managers are in fact able to socialize financial risks at times of crisis, especially when the resources required to do so often exceed available state resources at the moment of crisis. This leads us to the credit system and the concept of fictitious capital. Drawing on the elaborations of Marx by Rudolf Hilferding, the credit system at base pools together the money of many people to channel it for the usage of a few people (2006, 180). Because of this, the credit system enables the creation and circulation of fictitious capital. According to Hilferding, fictitious capital is a capitalized claim to or share of future revenue (2006, 128). Harvey, too, argues fictitious capital is created whenever credit is given based on a claim against future labour (1999, 265-6). This process entails in-built risks because fictitious values precede the real values created in production. Add to this that capital accumulation and the financing of development have become exponentially more dependent on recurrent flows of fictitious capital and, as a result, progressively more 'finance-led'.

The creation of fictitious capital, however, is not restricted to the private sector and their speculative financial dealings, which dominate the literature. Hilferding also suggested that states create fictitious capital through the sale of state bonds – that is, the price of a share in the annual tax yield of a state or a capitalized claim to future tax revenue (2006, 111). The capacity of state officials to create bonds as a form of fictitious capital endows these actors with great flexibility and enormous allocative power. Governments are released from the limits of currents revenues, but may draw on all potential future revenues. The capitalized but as yet unrealized future claims on state revenue engender uncertainty, and therefore volatility, in state finances and the credit system. But there are also unmistakable democratic complications insofar as future generations must pay for debts incurred in the past over which they had no say. As such, the creation of fictitious capital, often incurred outside the sphere of democratic accountability, is the key to socialization and state elites' capacity to overcome recurrent financial crises since the 1980s in a way conducive to the reproduction, even deepening of, capitalism. While this role of the state to act as a lender of last resort is widely recognized, that this capacity is class-based and founded upon labour's capacity to work and pay taxes is not. As we will see in Mexico, this is the essence of socialization of which the 1982, 1994-95, and 2008-09 crises illustrate three salient and historically specific forms.

CRISIS AND SOCIALIZATION IN NEOLIBERAL MEXICO

The 1982 Debt Crisis

Following the consolidation of capitalism in the 1930s – characterized by the spread of wage labour, the more generalized use of money, and modern state formation – the PRI adopted state-led strategies of development by the 1950s and 1960s. The strategies focused on import substitution, capital controls, promoting national capitalists, and the formation of state-owned productive enterprises. Characteristic of the Bretton Woods era, one result was an unequally distributed but rising standard of living for most workers and the deepening penetration of capitalism and market relations into all aspects of society. Although restricted, foreign capital, mostly from the US, could enter Mexico through official lending and long-term coordinated investment projects.

By the early 1970s, Mexico's state-led strategy of development had hit barriers because it proved difficult to break through intermediary stages of production and because of growing financing difficulties associated with the so-called 1973 'Mexicanization' Law. This 1973 Foreign Investment Law offered financing for Mexican capital to buy out foreign-dominated firms while restricting foreign ownership to minority control. Mexican capitalists, however, refused to invest in partnership with foreign capital and were unwilling to prop up otherwise failing firms, of which the state increasingly took control (Bennett and Sharpe 1980, 180). By the mid 1970s, the state sector was absorbing about two-thirds of all private bank assets to cover financing its needs, up from about a fifth from 1947 to 1966, leading to tensions between the state and bankers (FitzGerald 1985, 227). Importantly, the Lopez Portillo government introduced a new consumption tax, a value added tax (VAT) of 10 percent in 1980, as part of its tax reforms to increase state revenues. Due to the range of loopholes for firms and that VAT targets individual consumption rather than business, capital in Mexico did not openly oppose the tax (Elizondo 1994, 175). We will return to the importance of the VAT later.

The breaking point for Mexico's state-led development strategy came with the 1979 to 1982 Volcker shock that instigated a swift rise in interest rates globally that made Mexico's growing foreign debts unbearable. By the second half of 1981, the economy was suffering from high inflation and dependency on the petrol income from the publically owned and controlled PEMEX amidst falling world market oil prices. Public debt expanded to compensate for lost oil revenues, exacerbated by the preceding policy of 'Mexicanization'. Those who held money capital in Mexico began to lose faith in the future value of the peso exchange rate, sparking a massive conversion of pesos into US dollars thereby draining Mexico's international reserves.

Of the near $60 billion in public debt accumulated prior to 1982 by the Lopez Portillo administration, 38 to 53 percent financed this capital flight (Buffie 1989, 155). Unemployment climbed to nearly 10 percent and real wages fell drastically. Foreign banks suspended credits to Mexico making it impossible for the Banco de México (BdeM) to respond to demands for foreign exchange. No matter how profitable it was to hold domestic savings in pesos, the demand for dollars was insatiable. At one point, international reserves were only capable of covering three weeks of imports. The Partido Revolucionario Institucional (PRI; Institutional Revolutionary Party) government had seemingly lost all capacity to stabilize the economy. In late August 1982, Finance Minister Jesus Silva-Herzog announced Mexico could no longer service its largely US-owned debt and requested a 90-day period during which Mexico would make interest-only payments. On 1 September 1982 President Lopez Portillo erected a system of exchange controls to stem the outflow of capital and, most dramatically, nationalized the Mexican-owned commercial banks.

According to Enrique Dussell Peters, the 1982 crisis in Mexico was a crisis of the public and private sectors' inability to service the foreign debt (2000, 47-8). Aside from allowing Mexican capitalism to collapse unto itself, state managers were compelled to draw these debts into the state because the banks had reached a point of technical bankruptcy. At the time, a select group within the government debated a range of other orthodox stabilization measures, some of which had already failed to resolve the crisis. Finally, as argued by one of the architects of the 1982 plan Carlos Tello (1984), Lopez Portillo nationalized the banks in an attempt to rescue state-led capitalism. While the move secured the immediate stability of capitalism in Mexico, it created a rift with the then powerful bankers. Moreover, the Portillo administration was unable to restore rapid growth (although slow growth was certainly not something particular to Mexico among the emerging capitalism during the so-called lost decade of the 1980s).

The incoming pro-market reform Miguel de la Madrid (1982 to 1988) PRI administration subsequently initiated neoliberal restructuring, ostensibly to restore growth but done in a way also to mend state-capital relations. Whereas neoliberal reforms had triggered initial growth spurts in places like Turkey during the 1980s, de la Madrid was unable to pull Mexico out of recession given ongoing global economic instability. State managers thus needed to boost revenues in order to cover the costs of the 1982 debt crisis and bank nationalization (of which the bankers had received swift indemnification from the state). In 1983, de la Madrid forced up the new VAT from 10 to 15 percent then in 1987 he introduced major reforms that beneficially altered the way interest payments can be deducted, effectively encouraging domestic capital to take on higher debt loads (Elizondo 1994, 176). These measures proved unable to resolve the persistence of the 1982 debt crisis. To prevent any substantive break in Mexico's new market-oriented trajectory (and other peripheral economies, especially in Latin America), the US crafted the 1985 Baker and 1989 Brady debt restructuring plans that effectively absorbed some of the risks held by US banks implicated in the debt crisis into the US state while buttressing Mexico's capacity to restructure and renew existing debts (Cypher 1989, 65-6). Entering into these agreements reduced Mexico's financial risk premium such that foreign direct and portfolio capital flowed back in and helped to legitimize the strategy of liberalization. During this time, sales of high interest Mexican government CETES state bonds (first issued in 1977 and 1978 as a form of fictitious capital) financed the fiscal deficit and serviced the debts accumulated. Despite the growing burden on present and future Mexican public finances, the PRI demonstrated an unwavering commitment to honouring foreign capitals' financial risks in Mexico while refusing to pass along the costs of socialization to domestic and foreign capital through higher taxation on business transactions.

The socialization of financial risks, in the context of the 1982 debt crisis, arose out of the expanding role of the post war capitalist state and the mounting financial needs that came with that role, which domestic capital had increasingly refused to provide. Yet the process of socialization in 1982 to resolve crisis also presented a paradox. The socialization of bad financial risks through bank nationalization fractured the historic compromise between state elites and private bankers but nonetheless ensured the continuity of capitalist social relations in Mexico. Individual bankers suffered by losing their banks yet capital in Mexico benefitted collectively. Moreover, and while contrary to the political intentions of Lopez Portillo, socialization *cum* bank nationalization handed the incoming de la Madrid government a powerful tool to help push through a more rapid transition to neoliberalism than may have been otherwise possible (Marois 2008). At the same time, the fiscal consequences of Mexico's failed state-led development strategy and turn to neoliberalism became the enduring responsibility of Mexican society, workers and peasants alike through the honouring of the debt accumulated within the state. Mexican officials could fund mounting debts through state bands, in effect promises to pay in the future based on future state revenues. Due to the historical political and economic structure of Mexican finances, the responsibility would fall disproportionately onto the majority of working, working poor, and the peasantry in Mexico. In effect, the class dynamics of fictitious capital has everything to do with the unequal tax structure of Mexico. On this we must pause for a moment.

In Mexico, domestic elites have historically penetrated the process of public taxation determination to their benefit. While Mexico's corporatist state-society structure has drawn in the capital, labour, and the peasantry sectors into the state, capital in Mexico has enjoyed the most privileged access to and influence over state tax policy formation (Elizondo 1994, 161-3). As a result, the wealthy have been able to avoid taxation through institutionalized loopholes and weak enforcement, but average wage earners cannot easily escape income tax and have therefore borne the brunt of income tax payments.[9] To try and impose significantly higher taxes on capital and the wealthy families in Mexico has been deemed too costly by state elites, should they be willing. Indeed, neoliberal reforms under Salinas have resulted in business paying lower taxes in an attempt to keep them from evading taxes (Elizondo 1994, 171; 174). The market-oriented Fox and Calderon administrations have maintained this business-friendly trend. The capacity of large capitalists to minimize, indeed avoid paying direct taxation, is not restricted to Mexico. As Perelman (2006) reports on the advanced capitalist states, the wealthy have traditionally been able to position themselves in such a way as to not pay or minimize tax while, since at least the 1960s, governments have reduced the rate of corporate taxation with many corporations at times paying no tax at all.

Mexico's specific context perhaps facilitates this problem even more so. By the 1980s, Mexico brandished among the lowest taxation levels when compared to similar emerging capitalist societies. The state revenue generated from oil and PEMEX had enabled past governments to demand relatively little tax from Mexican capital as part of its post war developmental strategy. In the 1960s, for example, the PRI collected only 6.31 percent of GDP in taxation, of which only 2.41 percent was income tax (Elizondo 1994, 162). The introduction of the VAT in 1980 generated additional tax revenue in the range of 2.7 to 3.3 percent of GDP by the late 1980s and early 1990s (Elizondo 1994, 184). By the mid 1990s, the OECD reports federal government revenues at around 15 percent of GDP, of which PEMEX contributed 2.2 percent and other non-tax revenue 1.7 percent. Of specific tax revenues, income tax contributed 5.1 percent and VAT 2.7 percent, with excise taxes and import duties contributing 2.0 and 0.9 percent respectively (OECD 1998, 57). Oil remains a key source of revenue. Presently, the IMF projects PEMEX to continuing contributing 3-

[9] While beyond the scope of this paper, it is worth quoting the IMF on the large size and impact of Mexico's informal sector and the problems this creates in taxation insofar as "taxes are borne mainly by workers in the formal sector" (IMF 2005, 15). This can create certain intra-class conflicts.

3.5 percent of revenue until at least 2015 with income tax revenue between 8-10 percent (of which VAT is no longer disaggregated) (2010, 35). Throughout the 1990s and into the present date, Mexico's tax to GDP ratio has stayed around the 15 percent mark and remains among the lowest in the OECD. However, the neoliberal solution has not been to tax business. The Fox PAN administration passed a range of pro-corporate tax measures in 2005, including a reduction in the corporate tax rate to 28 percent by 2007; by contrast, proposals to reduce the VAT to 12 percent were rejected (OECD 2005, 135). Instead, tax reforms to broaden the base of the VAT have been advocated by international financial institutions (IFIs) (OECD 2009, 60). Yet for labour, the working poor, and peasantry, the VAT is a regressive tax that falls disproportionately on the poor because they pay a greater proportion of whatever income they have to tax, which is hidden from them in the price paid for goods and services. VAT in effect is taxation by stealth, and an institutional mechanism increasingly used under neoliberal strategies of development to the benefit of business. As even one neoclassical researcher recognizes, "a tax on consumption and a tax on labor income are positively related, as both shift resources away from labor" (Meza 2008, 1252). The point being that in Mexico a large and growing proportion of state revenue is drawn from the majority of Mexicans' income and consumption, a majority composed of the working class, working poor, and peasantry. At the same time, the other significant source of state income comes from PEMEX, a state-owned enterprise arguably 'owned' by the majority of Mexicans albeit controlled by state and government elites. These recurrent revenues form the material basis of the Mexican state's capacity to socialize financial risks through fictitious capital creation, which has become institutionalized since the 1980s. Indeed, without the majority of Mexicans working and paying tax (income or consumption) and without the revenue from PEMEX, the creation of state bonds to cover the risks of financial capital in Mexico is simply impossible. In this reasoning, there is a definite material basis to socialization that is rooted in the class dynamics of capitalism and the capitalist state. We can now proceed to how socialization changed form, but not content, in the 1994-95 peso crisis.

The 1994-95 Financial Crisis

Consistent with neoliberal strategies of debt-led development, through the late 1980s and early 1990s the PRI undertook important transformations to open up the financial system and bring an end to the so-called era of financial repression. The measures included capital account and domestic interest rate liberalization, lighter restrictions on credit, easing financial group centralization, and, of course, the privatization of the nationalized commercial banks. The 1994 NAFTA, signed as a Mexican and Canadian government response to US protectionism, included initial protections for Mexican banks from foreign bank penetration but also institutionalized greater competitive pressures internal to the domestic financial sector (Guillén Romo 2005, 98). Yet contrary to the official promises of stability and growth by neoliberal technocrats and PRI elites in Mexico, the market-oriented reforms undertaken in fact created the conditions of instability leading to the 1994 peso and the 1995 banking crises (Cypher 2001; Soederberg 2004; Guillen Romo 2005; Babb 2005). Reminiscent of today's discourses around the global financial crisis, the BdeM (1996) called the 1994-95 crisis Mexico's worst crisis since the 1930s. Then Managing Director of the IMF, Michel Camdessus, famously decreed the peso crisis as the first financial crisis of the twenty-first century.[10] Unlike in 1982 when the form of capitalist development hung in the balance, the 1994-95 crisis emerged from firmly within neoliberalism, and must be understood as such. Constrained not only by deep political and ideological commitments to neoliberalism, but also by new patterns of debt-led capital accumulation that had arisen since the 1980s, institutionalized

[10] This is a bit of a misnomer since Turkey had already suffered a similar, if less severe, financial crisis months before.

relations of power that had favoured capital over labour, and by its special relationship to the US, Mexican state managers and political elites again acted to socialize the new financial risks of the 1994-95 crisis as a pragmatic response intended to preserve the continuity of neoliberal strategies of development in Mexico.

Prior to the outbreak of the 1994-95 crisis, the expectations of foreign investors and domestic elites in Mexico were high (Dussel Peters 2000, 69). President Carlos Salinas (1988 to 1994) was in the running to head the World Trade Organization, the IMF lauded Mexico as a successful reformer, and annual growth had averaged near four percent from 1988 to 1994. Yet an armed Zapatista uprising in Chiapas met the coming into force of Salinas' secretively negotiated NAFTA on 1 January 1994 signalling underlying social unrest. The year was also a presidential elections year, again a typically destabilizing process. The assassination of PRI presidential candidate Luis Donaldo Colosio and of a PRI secretary general further heightened social tensions. Financially, Mexican debt had continued to accumulate since the 1980s making already nervous foreign and domestic capital investors more so.

To bleed off some of the mounting unease among investors, Mexican state officials drew in some of the private exchange risks by converting CETES peso debt into short term US dollar-indexed but peso-payable Mexican state bonds – the now infamous Tesobonos worth about $29 billion by late 1994. While briefly successful in stemming outflows, capital flight resumed as the new President Ernesto Zedillo planned to take office in late 1994. Leaked insider information of an impending peso devaluation, followed by an actual devaluation on 20 December 1994, instigated massive and sustained capital flight, a foreign currency liquidity crunch, a sharp contraction in economic activity resulting from fiscal austerity, and a jump in domestic interest rates (OECD 2002, 88). Even at rates near 25 percent, the relatively high interest rates in the US at the time – a safe haven for capital then as it is today – meant extending the Tesobonos was impossible by early 1995 and sovereign default became a possibility. The Zedillo government responded by floating the value of the peso in the market as international reserves fell from $2.3 billion in 1994 to -$1.5 billion in 1995 (Sidaoui 2005, 217). The resulting 'Tequila' crisis spread south impacting the financial stability of countries like Argentina and Brazil (Saad-Filho and Mollo 2002, 125).

Short of allowing neoliberal capitalism to collapse and leaving those holding Mexican debt to absorb their own losses, Mexican state authorities could not resolve the costs of the crisis on their own because the creation of additional fictitious capital had reached the limits of what global financial capital would accept as Mexico's future capacity to pay. However, the exposure of foreign capital, primarily American, in Mexico meant any losses to capital would not simply be a national affair but would create instability in the world market. As a result, the US Treasury and Federal Reserve took the lead in organizing an IMF (which alone contributed $18 billion to the rescue, its largest loan to date), Bank for International Settlements, and Canadian government $50 billion financial liquidity package in early 1995 (OECD 1995, 160). Since honouring short-term debts was a political priority, the first $29 billion went to settling the Tesobonos directly in US dollars (Sidaoui 2005, 217). The initial bail out enabled President Zedillo to overcome the worst of the peso crisis, but the now privatized banks remained in an unsustainable position.

The 1994 devaluation had also caused the peso value of the Mexican banks' foreign denominated debts to rise abruptly, which immediately exposed vast quantities of large and intertwined Mexican family and business groups' debt (related loans) to default risk putting the entire banking system at risk (Banco de México 1996, 1). The state's Banking Fund for the Protection of Saving (Fobaproa), moreover, controlled nowhere near the capital resources needed to rescue the banks. Nor was the historical conjuncture the same. Unlike in 1982 when the Lopez Portillo administration was open to state-led strategies of development, neoliberal state elites in 1995 excluded bank nationalization as too 'costly' – arguably in monetary terms but most surely in terms of Mexico's international reputation as a model neoliberal reformer (SHCP 1998, 26-7). Having staked everything on market-oriented reforms, not even a crisis of this magnitude could shake the PRI's commitments to neoliberalism. Facing a political and social maelstrom in a context of already waning support, the PRI still had to legitimize the public costs of rescue not as saving a few private bankers, but as necessary for the benefit of all Mexicans (SHCP 1998, 21).

As is well known, the government subsequently injected US dollar liquidity, helped to recapitalize the banks with temporary and permanent capital resources, and helped to restructure individual debt programs (Cypher 1996; OECD 2000). State managers also had to take over sixteen banks from 1995 to 1999, closing and/or rescuing then reselling them once the bad loans had been cleaned up. Only five of the 18 banks privatized during 1991-92 for $12.27 billion survived under their original private owners. While the banks repaid some of the temporary rescue measures, a wide range of bad debts drawn into the state carried little hope of recovery by Fobaproa and the BdeM, ultimately Mexican society.

The class-based benefits accruing to capital in Mexico are palpable. As Gerardo Jacobs and Alejandro Rodriguez-Arana Zumaya write, "the payments from Fobaproa have constituted a net transfer of resources from the government to the shareholders of those spheres of society with the most wealth" (2003, 13). To help finance this transfer of wealth via the financial apparatus, the PRI negotiated additional debt management agreements with foreign countries and, because money resources in the form of state revenue are easily fungible, aggressively reduced fiscal spending to free-up public resources to be directed into the collapsed banks. Modest recovery signs appeared and access to international capital markets improved by late 1995. The Zedillo administration had saved the banking system and avoided systemic collapse "but at a significant cost to the public treasury" (OECD

2002, 89). Yet the alpha and omega of the costs of preserving Mexico's neoliberal developmental orientation were not limited to 1995, but continued to accumulate.

The BdeM at first estimated to cost of bank rescue to be about 5.5 percent of 1995 GDP (1996, 8). By 1996, the cost rose to 8.4 percent of GDP and then to 14.3 percent by 1999 (Guillén Romo 2005, 247). In 1998 dollar terms, the rescue was worth $60 billion, a figure five times greater than the total receipts for bank privatization just six years prior. As noted, the mounting rescue costs outstripped the institutional capacity and political mandate of Fobaproa, generating uncertainty for Mexico in financial markets. In response, and amidst great public outcry, dissent, and months of political debate, President Zedillo with opposition Partido Acción Nacional (PAN; National Action Party) support managed to transfer the original and new Fobaproa debts to IPAB (Instituto para la Protección al Ahorro Bancario), a newly created banking insurance fund institution in 1998. At the same time, the political move re-affirmed the Federal state's responsibility to service the growing debt yearly, if not to fully relieve IPAB of responsibility for bailing out the bankers.

It is also important to signal, as mainstream writer Tornell et al. document, that there was an immediate and drastic spike in tax evasion in the aftermath of the 1994-95 crisis, from less than 40 percent of potential income to over 60 percent (2003, 55). While they do not elaborate on who, one can posit from incidents of capital flight, the greater capacity of business to avoid taxation, and capital's corporate ties to government that the greater proportion of this evasion most likely belongs to business and capital, and not the poor and peasants (though one might say evasion can occur through the deepening of informal labour, but it is unclear whether this can be considered tax evasion). What can be said with certainty is that while income tax revenues declined with the 1994-95 crisis, VAT revenues remained constant despite the collapse of purchasing power by average Mexicans. This is because, as the OECD reports, the Zedillo PRI administration increased the VAT in 1995 from 10 to 15 percent, having fallen to 10 percent in 1991, to offset the drop in consumption and imports (OECD 1999, 76; also see Pagán et al. 2001). This constituted one institutional mechanism of pushing the costs of crisis directly onto Mexican society, and disproportionately onto the majority poor.

The 1995 and 1998 moments of socialization rescued the Mexican banking sector (without which, the sector and bank owners would have collapsed). Within a few years of the crisis, the banks recovered from a position of loss to being as profitable as most other banks in OECD countries. Yet the severity of the 1995 crisis had rendered the financial authorities and banks rather risk-averse (Avalos and Trillo 2006; Stallings 2006, 197). Instead of engaging in speculative and fraudulent 'related' loans as before the crisis and instead of directing capital towards productive enterprises or small- and medium-sized ventures, the increasingly foreign owned banks in Mexico have became interested in acquiring public debt certificates, collecting fees and commissions, and increasing consumer credit (Lapavitsas and dos Santos 2008). Their profitability strategies have also involved reducing operating costs, notably the cost of labour in banks (Marois 2010a). As such, the 1995 crisis and subsequent state and government elite responses represent a moment of reckoning within neoliberal Mexico. Neither the Mexican state nor banking market could approximate the laissez-faire ideal pursued prior to 1995 without it leading to deeper financial crisis – Mexican society was realizing a Polanyian moment of self-protection within neoliberal capitalism. Being a financially open economy came into contradiction with the historical reality of Mexico's still subordinate and peripheral position within the international hierarchy of state-market power relations. Henceforth, Mexican state financial managers would have to find ways of crafting a more stable process of finance-led neoliberal strategies of development without sacrificing the flexibility and profitability of financial capital so core to their political commitments.

The 2008-09 Crisis

In contrast to the 1982 and 1995 crises, the 2008-09 crisis is unique because the trigger mechanism originated not from within Mexico but from the US-based 2007 subprime crisis that morphed into a world financial crisis persisting into 2010, particularly in peripheral Europe (see Lapavitsas et al. 2010). The impact on Mexico has also been unique because the banking sector has not been the locus of financial distress. Indeed, well into 2008, the IMF, BdeM, state officials, and even the Mexican bank workers' union (Fenasib) upheld that the sub-prime crisis would have little impact on the banks in Mexico, seemingly despite the country's overwhelming dependence on the health of the US economy. This façade collapsed as Lehman Brothers collapsed in mid September 2008. The crisis' impact on the Mexican productive economy became unavoidable, and this too would affect the financial sector. International flows of capital into Mexico evaporated, trade with the US (about 80 to 85 percent of Mexico's total) fell dramatically, domestic industrial output plummeted, and remittances into Mexico slowed. According to the IMF, GDP growth slowed to 1.3 percent in 2008 then nose-dived to -6.8 percent in 2009. Over the course of 2009, the peso depreciated 15 percent in real terms (although this actually enhanced Mexico's competitiveness by reducing competitive pressure from Chinese manufactures into the US) (2010, 19).

In early October 2008, financial capital in Mexico, if not the banks themselves, also went into a tailspin, to which Mexican state financial managers responded aggressively. The BdeM sold, in less than 72 hours, a record 11 percent of its international reserves (nearly $9 billion). At its zenith, Bloomberg reported that the "Central bank Governor Guillermo Ortiz and Finance Minister Agustin Carstens are pumping dollars into the market as part of an effort to prevent the global crisis from eroding the finances of local companies."[11] The figure climbed to $11 billion

[11] Michael J. Moore and Jens Erik Gould, "Mexico Sells Record $6.4 Billion in Bid to Stem Peso's Rout", *Bloomberg.com*, 10 October 2008, accessed online on 17 October 2008.

over 10 days and then to a total of $31.4 billion by mid 2009 when the sell-offs halted (IMF 2010, 9). The PAN government quickly negotiated an $80 billion lifeline of precautionary financing with the US Federal Reserve and the IMF to stem the fears of financial capital in Mexico.

According to officials, however, the banks in Mexico remain well capitalized (at around the 15 percent mark), enjoy a low reliance on external funding, and benefit from enhanced supervision since 1995 (BdeM 2009a, 9; IMF 2010, 3). Indeed, the source of financial distress resulted from massive losses in Mexican corporate derivatives, which unleashed sharp and unexpected pressures on Mexican finances. The derivative losses did not come from Mexican assets tied to the US sub-prime securities. Rather, some large Mexican corporations had used very risky foreign exchange and interest rate derivatives to feed higher rate investments in Mexico (BdeM 2009a, 39). The preceding years of exchange rate stability had allowed Mexican capital to profit handsomely off the difference in rates of return, but the late 2008 peso devaluation turned profits into losses. Companies like *Cementos Mexicanos* and *Controladora Commercial Mexicana* lost hundreds of millions in their foreign currency operations. While their lucrative carry trade had come to an end, their speculative financial operations impacted Mexican society by, for example, increases in the interest rate on the public debt (Munoz-Martinez 2008, 19). Having fronted the resources to stave off crisis, moreover, the Mexican government has been rewarded with higher borrowing costs due to increasing public debt (cf. OECD 2009, 23; IMF 2010, 11). Investor uncertainty as to the extent and breadth of the losses exacerbated already prevalent instability, a drying up of US markets for credit in Mexico, and to a domestic credit crunch. The lack of foreign resources also triggered a shortage of US dollars in Mexico.

As much as the 1995 crisis exposed the risks of laissez-faire approaches to peripheral banking, so too have corporate derivative losses revealed a new type of financial vulnerability for emerging capitalisms like Mexico.[12] While in 'normal times' the international community had been satisfied with Mexico's international reserves, once crisis emerged reserve levels appeared more "modest" relative to other emerging capitalisms like Turkey and Korea (IMF 2010, 9; 29). As the crisis unfolded in 2008, foreign capital and IFIs questioned whether Mexico's build-up in reserves was in fact sufficient to cover foreign currency flows (read: capital flight) as long as stress remained on the Mexican economy. The IMF concedes that the shift in capitals' sentiments stem not from a break in Mexico's "fundamentals" but rather from "relative risk perceptions" tied to Mexico's US dependence and, more acutely, to its international reserve levels (IMF 2010, 9). That is, were reserves enough to defend local companies' finances?

The build-up of Mexican reserves from their nadir of -1.5 billion in 1995 has been nothing short of fantastic. In the wake of the 1995 crisis and the adoption of a market-determined exchange rate (floating peso), state financial managers strategically pursued more liquid financial markets. International reserve accumulation was understood as a necessary policy objective to facilitate this liquidity (Sidaoui 2005, 218-9). The logic behind the policy decision involved crafting a financial apparatus able to respond to the demands of financial capital. Reserve accumulation achieved this by (a) signaling Mexico's capacity to service foreign debt payments; (b) offering positive signals to foreign investors and international rating agencies so as to earn lower country risk assessments (i.e., large reserve stocks often means lower external financing rates); (c) enhancing the state's capacity to respond as a lender of last resort in foreign currency to Mexican banks; and (d) demonstrating capacity to intervene in markets in such a way as to end speculative pressures on the peso (Sidaoui 2005, 219; 226). By 2001, the state had socked away $38 billion; by 2002, $48 billion. Sidaoui notes that research conducted by the

[12] The BdeM note that other emerging capitalisms like South Korea, Brazil, Indonesia, China, and so on also suffered from derivative speculation (2009, 39; cf. Panciera 2009).

BdeM at this time suggested its reserve levels were more than adequate. Yet the PAN government continued to amass reserves that neared the $69 billion mark by 2005. Then at this time, according to Sidaoui, state financial managers moved to slow reserve accumulation because they deemed that "the financial and opportunity costs induced by the rapid inflow of reserves had exceeded the benefits" (2005, 229). Regardless, reserves reached over $85 billion by 2008. Following the record sell-offs to defend the peso and with the fading of the foreign exchange crisis by mid 2009, the BdeM restored reserves to above pre-crisis levels at nearly $95 billion (IMF 2010, 17). In July 2010, reserves reached a record level of over $100 billion with official projections for this to surpass $120 billion by 2011, or nearly triple what the BdeM believed adequate less than a decade earlier in 2002. It is worth noting that gross public sector debt, which includes reserve accumulation and ongoing IPAB debts from the 1995 rescue, increased from 38.3 percent of 2006 GDP to 44.6 of 2009 GDP where it is projected to remain until 2015 (IMF 2010, 34; 40).

Unlike the more visible public costs tied to bank nationalization and bank bailouts, the socialized costs of international reserves are more hidden, if not unnoticed. In its 16 March 2010 Public Information Notice, the IMF acknowledged that a number of country directors "pointed to the need to take due account of the costs and externalities of reserve accumulation" (2010b, 3). Indeed, in his important study economist Dani Rodrik (2006) has attempted to quantify the "social costs" of international reserve accumulation (cf. Panciera 2009).

> Each dollar of reserves that a country invests in these assets comes at an opportunity cost that equals the cost of external borrowing for that economy (or alternatively, the social rate of return to investment in that economy). The spread between the yield on liquid reserve assets and the external cost of funding – a difference of several percentage points in normal times – represents the social cost of self-insurance. (Rodrik 2006, 254)

To put this on other words, the Mexican state must offer higher rates of interest for its peso bonds because Mexico sits much lower within the international hierarchy of states. The US offers much lower rates of return because the US sits at the top of the hierarchy and Treasury bonds carry effectively no risk.[13] The difference absorbed by the Mexican state is the "social cost of self-insurance". As Rodrik qualifies, the measurable costs of this difference are technical and difficult to calculate due to uncertainty over exact rates of interest, definitions over what should be included, and so on. Given these caveats, Rodrik calculates that the average social costs of the rise in reserves since the 1990s is equivalent to around one percent of annual GDP for developing countries (2006, 254). This is a conservative estimate since the one percent only applies to the 'increase' in reserves since 1990s, not the entire social cost of international reserves.

The exact determination of the social costs of reserve accumulation is beyond the scope of this paper. However, one can arrive at a good enough sense, based on Rodrik's estimate and OECD GDP figures for Mexico, to understand in dollar terms that reserve accumulation does not come cheap. For example, Mexico's 1995 GDP was $246 billion, 1999 GDP $484 billion, 2004 GDP $1046 billion, and 2008 GDP $1085 billion in current prices. At an estimated one percent of GDP, the costs of holding international reserves for these years are in the range of $2.46, $4.84, $10.46, and $10.85 billion for each respective year. According to another BdeM estimate, the cost of reserves held from 1997 to 2002, when they were a fraction of today's levels, neared 78 billion pesos (roughly $7.8 billion) (Sidaoui 2005, 225). The BdeM sum is short of the estimate provided by Rodrik's figures, but nonetheless substantial. To put the matter otherwise, and in a political context of struggles over social resources, Mexico's federal government flagship anti-poverty program,

[13] On the benefits of peripheral reserves held in US bonds for the US economy, see Duménil and Lévy 2004.

PROGRESA or Oportunidades, received about 0.3 percent of GDP in 2004 (OECD 2005, 142).[14] Anti-poverty in Mexico thus receives less than a third of the annual social resources dedicated to international reserves based on Rodrik's one percent measure. Putting aside the public costs of building and maintaining the ever-expanding state financial apparatus needed to service finance-led neoliberalism, even a conservative estimate of the socialized costs of reserves demonstrates the weight of political commitments to sustaining financial confidence in Mexico.

The social costs of reserve accumulation are particular to the current phase of accumulation and the increasing prevalence of financial crises since the 1990s, and therefore cannot be easily understood in neoclassical terms as revealed preferences. In a more critical moment, Rodrik acknowledges that emerging markets are compelled to increase the liquidity of foreign reserves to ward off financial panic and stem sudden reversals in capital flows (2006, 254). Less critically, Rodrik remains unsure whether or not the "insurance premium pays for itself" and generally sees reserves as a reasonable response of governments who attempt to maintain competitiveness without restricting capital inflows, but he does concede that "[d]eveloping nations are paying a very high price to play by the rules of financial globalization." (2006, 254-5; 261) More radical scholarship posits this hierarchical and unequal relation as one of imperialism, insofar as developing countries are forced to hold reserves that result in the poor net financing the rich countries (Lapavitsas 2009, 115). Indeed, Rodrik treats the 'social' costs of reserves not as social at all and even less so as a problem of power between financial capital and labour, but as a technical problem to be solved by developing countries.

The building up and use of international reserves to support foreign and domestic financial capital in Mexico is nothing less than an expression of the power

[14] Rodrik also refers to PROGRESA (2006, 261). The program targets the poorest households with direct cash payments for education, health services, and even basic food consumption and also helps to fund infrastructure such as water drainage and sewerage, electricity, rural roads, housing improvements, and so on. For a critique of Progresa programming, see Teichman 2008).

of financial capital over labour – one that assumes the technical expression of international reserve accumulation but is in essence a new institutionalized form of the socialization of private financial risk. So too is international reserve accumulation is an expression of the continued subordinate position of emerging capitalist states like Mexico that have had to adjust to new financial and competitive imperatives associated with the rise in financial crises since the 1990s. State managers and government elites have done so in such a way as to have labour, through the state and its capacity to tax, bear the costs of insuring against the collapse of the same finance-led neoliberal strategies of development they are pursuing from immanent crisis and collapse.

CONCLUSION

All to often the changes evident in Mexico today are taken as part of a seemingly inevitable structural shift towards more open and competitive markets characteristic of neoliberalism (e.g., Minushkin, 2005). In the bulk of these accounts, the drawing in of financial risks and diffusing them onto society are taken in stride and have been given short change insofar as it is treated as a necessary but passing aberration or as a poor policy formation creating moral hazard. With the exception of Rodrik, few attempt to give the socialization of financial risk historical or theoretical depth in terms of its actual social basis.

By contrast, the socialization of financial risk has been shown as necessary and constitutive of the current phase of finance-led neoliberalism. Each form of the socialization of financial risk, while specific to the conjuncture, stands out as part of a common set of seemingly pragmatic responses by Mexican government and state elites to financial crises. This has been internal to three decades of neoliberal reforms that have led to the opening up Mexico’s financial system, the internalization market-oriented competition, and the internationalization of the state marked by the

1982, 1994-95, and 2008-09 crises. Based on the newly institutionalized capacity to create fictitious capital, state elites draw in these risks not simply at the behest of financial capital, but because supporting financial capital at home coheres to the deepening social logic of capitalism internationally wherein labour now forms the weaker link in the capital-labour relation. As Özlem Onaran (2007) demonstrates not only in the case of Mexico, but also in other emerging capitalisms like Turkey, Brazil, Korea and so on, the effects of neoliberalism and financial liberalization have not resulted in benefits for labour, either in terms of job creation or higher wages. Quite the opposite, insofar as financialization has intensified downward pressure on wages [*cf*. the notion of competitive austerity (Albo 1994, 147-8)]. Under the imperatives of finance-led neoliberal development, Mexican workers are squeezed from below insofar as they must outcompete their counterparts everywhere else in the world and from above as they form the basis of the Mexican state's capacity ensure the financial risks of an ever increasingly powerful financial bloc composed of domestic and international capitals. Labour in Mexico thus underwrites and bears the costs of financial risk disproportionally to any gains they receive in return.

Here again lies a paradox of finance-led neoliberalism. Financial capital is dominant, but materially and institutionally dependent on labour both to create and realize the value circulated as financial flows and to absorb the risks and costs that come in the form of recurrent crises. Labour is subordinate to financial capital, but essential to its survival. Yet the labouring classes in Mexico have not been able to systematically organize in their own interests, even at moments of crisis when financial capital is most vulnerable and the costs to labour are greatest. The result is that Mexican workers are caught in a Sisyphusian struggle to provide for financial capital. This contradiction, embedded within the class-based processes of socialization, is constitutive of the institutionalized form of finance-led neoliberal strategies of development in Mexico. The experiences of Mexico, by extension, are formative of the international financial system that has also developed enormous capacity to draw together all people's money for use by a few while at the same time individual states have developed the enormous capacity to socialize the financial risks of a few by drawing on the present and future taxes of the many.

Further research is required to understand the generalizability of the Mexican case, but other research suggests some commonality at least among middle-income countries (Marois 2010). Indeed, looking to the ongoing Eurozone crisis and the Irish banks, the *Financial Times* signalled in late November 2010 that any bailout would likely involve a multi-billion dollar loan to the banks, high fiscal costs, further cuts to the public sector, an increase in the VAT, cuts to the minimum wage and state subsidies but, notably, no increase in the corporate tax rate.[15] Furthermore, what can be understood more broadly is that any resolution to the contradictory place of labour in finance-led neoliberalism will not come from such high-level international forums as the Group of Twenty meetings. Indeed, the pillars of reform penned in the late June 2010 Toronto Summit Declaration come nowhere near altering the constitutive role of socializing financial risks at times of crisis. Rather, any substantive alternative requires the restructuring of state financial apparatuses and the reinstitutionalization of power relations to the benefit of labour, not simply tinkering at the policy margins. As Leo Panitch and Martijn Konings (2009, 83) write:

> Instead of advocating the kind of top-down re-regulation initiatives that merely re-install financial hegemony, what is needed is to probe – intellectually and culturally, as well as politically – whether this crisis could provide an opening for the renewal of the kind of radical perspective that advances a systemic alternative to global capitalism.

[15] Barber, Tony and John Murray Brown, "IMF-EU focus on Irish Banks", *Financial Times*, 19 November 2010: 6.

Such renewal will come from labour negating its contradictory role in sustaining finance by breaking with the social relations of power that have historically enabled the socialization of financial risk. The first step is the substantive democratic capturing and restructuring of the state and the financial apparatus. It is this, or renewal will not come at all. The task is organized labour's to resolve.

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