Historical Precedents, Contemporary Manifestations: Crisis and the Socialization of Financial Risk in Neoliberal Mexico

INTRODUCTION

How does neoliberalism and financial capital withstand recurrent crises in emerging capitalisms?[1] In any answer the mythical shrinking and so-called depoliticization of the state apparatus are exposed as the most idealistic of neoliberal ideological assumptions. For financial accumulation and crisis resolution the state apparatus is the one institution capitalism cannot do without. Yet you will not find this in Bela Balassa's (1982) classic paper on structural adjustment policies in developing countries. Like most neoclassical economists at the time, he argued quite the opposite. Market advocates pressed for an end to the postwar era of self-named 'financial repression' characterized by what they understood as an all too large and intrusive state (Shaw 1973; McKinnon 1973). Little has changed today as most neoclassical economists and institutions of neoliberalism still fear the resurgence of financial repression as a populist response to the Great Recession (Acemoglu 2009; Rogers 2010; Reinhart et al. 2011; World Bank 2012). It follows, then as now, that faith in the release of market discipline should offer society's best hope for economic growth, stability, and prosperity – however modified by the post Washington consensus' acknowledgement of the need for better market-enhancing institutions. Case study and class analysis reveal quite different understandings.

In emerging capitalisms like Mexico the rise of actually existing neoliberalism and financial capitalism have borne little resemblance to market idealism. Government and state authorities have in practice mobilized immense social, political, and economic resources to resolve recurrent crises without sacrificing market imperatives or the growing influence of financial capital over all spheres of society (Marois 2011). The institutional tools deployed have been diverse, but one of the most significant has been the *socialization of financial risks* – a now generalized

[1] 'Financial capital' is defined as the upper fraction of capitalist owners and the financial institutions under their control that have now attained a dominant position of power globally (see Duménil and Lévy 2004 & 2011).

process by which state authorities diffuse the worst and most costly financial risks onto workers in society through the state apparatus. This generalized process has taken diverse concrete and historical forms as illustrated by the 1982, 1994-95, and 2008-09 crises in Mexico. In 1982 the socialization of financial risk took the predominant form of bank nationalization, in 1994-95 bank recapitalization, and in 2008-09 public guarantees and foreign reserve accumulation. What draws these together? I argue from a historical materialist analytical framework that there is an underlying exploitative class basis uniting these diverse forms of socialization. Far from any distortion of idealized market discipline, moreover, the socialization of financial risks has been constitutive of Mexico's neoliberal and finance-led strategies of development over the last three decades. Therein interrelated questions of the state, fictitious capital, and labor are vital.

The paper's argument is structured in three sections. The first reviews 'socialization' as discussed in the finance and development literature and sets out the parameters of an alternative historical materialist framework. The second explores the historical precedents of socialization in Mexico, specifically the 1982 and 1994-95 crises. The third looks at the contemporary manifestations of socialization during the 2008-09 crisis in Mexico. The argument concludes by drawing attention to the paradoxical role of Mexican workers and popular classes in the reproduction of emerging finance capitalism.

I LOCATING THE SOCIALIZATION OF FINANCIAL RISKS

It is by no means a strictly Marxian proposition to suggest the capitalist state is responsible for managing many diverse social reproductive risks from facilitating productive and infrastructure capacity, to environmental management, to national security (*cf*. Shonfield 1969; Giddens 1990; Beck 1992; Stein 2010). However, in terms of the rise of finance internationally and domestically in Mexico there are

specific types of risk involving complex combinations of foreign currency transactions, exchange rates, short-term capital flows, interest rate mismatches, stock market capitalization, related lending, international loans, and derivative operations to name but a few. These types 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 labor; and as embodying uncertainty since future realization as money capital is never guaranteed. When the realization of financial risk as money is threatened by instability and crisis, socialization can occur. Underneath the surface unequal class relations and the exploitation of labor preside.

The mainstream finance and development literature is not blind to the practice. For example, economists Merih Celâsun and Dani Rodrik refer to Turkey's handling of its 1980s debt crisis a "socialization process" (1989, 754). New institutional economist Stephen Haber describes the 1995 Mexican bank rescue as an "implicit transfer from taxpayers to bank stockholders" (2005, 2342). Others point out that Mexican authorities 'socialized' these financial losses in ways that increased public debt (Ramírez 2001, 657-58; Garrido 2005, 19; 28). One can even find inferences within the international financial institutions (IFIs). International Monetary Fund (IMF) researchers describe the costs of resolving systemic banking crises since the 1970s as 'direct fiscal costs' that increase the burden of public debt (Laeven and Valencia 2010). On the current crisis, OECD economists point out that present and future taxpayers will shoulder the costs of recovery (Furceri and Mourougane 2009). Even the World Bank's inaugural *Global Financial Development Report 2013* makes a passing reference of the need to lessen taxpayers' exposure to the risk of loss (2012, 61). Their acknowledgement, however, is tantamount to exposing a technical problem needing technocratic solutions.

Socialization, too, raises the spectre of moral hazard. According to the orthodox economist Frederic Mishkin, problems of "asymmetric information after the

transaction occurs" create moral hazard; in financial markets, the risk or hazard is that "the borrower might engage in activities that are undesirable (immoral) from the lender's point of view, because they make it less likely that the loan will be paid back." (Mishkin 2004, 33) Moral hazard accordingly distorts naturally efficient markets and is typically perpetrated by corruptible state authorities that subsidize financial risk-taking (Demirgüç-Kunt and Servén 2010, 93; *cf*. Hölmstrom 1979). In practice moral hazard has become a catchall phrase referring to otherwise rational actors falling victim to some form of destabilizing political impositions (Albo et al. 2010, 30). For heterodox economists, moral hazard is also distortionary, but of an ideal-typical state captured by rentier interests. Here moral hazard has become symptomatic of three decades of financial deregulation, liberalization, and innovation that have given rise to frequent government bailouts (Crotty 2009, 575). It is therefore part and parcel of a wider series of failed policy choices that have extended financial liberalization too far, too fast. For orthodox or heterodox cases, moral hazard is an inconvenient aspect of capitalism. The solution is balance of some sort. For orthodox accounts, balance means accepting moral hazard in the short-term and for immediate crisis containment only; long-term intervention is totally unacceptable (Tornell 2004, 425; Demirgüç-Kunt and Servén 2010; World Bank 2012). For more heterodox accounts, the priority is "to stop the panic, to 'save the system today' despite the adverse effects on the incentives of investors" (Kindleberger and Aliber 2005, 22). Moral hazard in the form of long-term extra-market coordination should be tolerated if a well-governed capitalism, itself morally sound, hangs in the balance (*cf*. Stein 2010).

Such assessments of moral hazard interventions, however, miss the constitutive element of socialization to financial capitalism and its associated underlying class foundations. Rather than understood as some deviation, a historical materialist take on the 'moral hazard' of socialization sees it as a reflection of the social logic of capitalist competitive imperatives. This involves rational attempts by

powerful financial capitals to fashion a state apparatus in their own collective interests. Therein, moral hazard (as when state authorities absorb financial risks gone bad) is one specific attempt to claw back the wages paid to workers by capital to the benefit of capital, specifically financial capital.

Socialization of Financial Risks through a Historical Materialist Lens

Historical materialism has the analytical tools capable of revealing the exploitative and class-based foundations of socialization.[2] Nevertheless, it is also the case that the socialization of financial risks is under-explored and under-theorized in Marxian terms. Like mainstream scholars, for example, so too have Marxian scholars pointed out that state authorities 'socialize' financial losses in ways that make taxpayers pay (see Bienefeld 1989; Albo et al. 2010, 69). David Harvey notes Mexico's 1982 debt crisis and the government's policy to "privatise profits and socialise risks" (Harvey 2010, 10-11). Susanne Soederberg, commenting on Mexico's 1994-95 crisis, writes "the Mexican bail-out has been socialised, i.e. payment has fallen on the backs of taxpayers (2010, 85). To be sure, socialization in these accounts sits within a wider structural argument but any deeper historical and theoretical elaboration is lacking. As much as in neoclassical or Keynesian terms, how financial risks are socialized needs to be better understood from within a Marxian framework (Harney 2010, 15).

To begin establishing a historical materialist framework, two initial questions need addressing. First, on what institutional and material bases can state authorities actually socialize bad financial risks, especially when the money required to do so often exceeds available state resources? Second, how is this process linked to exploitative capital–labor relations? The answers have roots in the class composition of the *state*, the creation of *fictitious capital* by state authorities, and state authorities'

[2] 'Socialization' is used here in specific reference to financial risks and should not be conflated with Marx's usage found in *Capital*, Vol. I (1990) on the 'socialization of labor' under capitalism or with the 'socialization of production' as an alternative to capitalism (see Devine 1988).

taxation of the working class, which I explore in turn. The classic Marxian-inspired works of Nicos Poulantzas, Rudolf Hilferding, and James O'Conner will help contribute to our understanding of these three elements at the material and institutional levels of class analysis.

An important Marxian intervention has been to demonstrate that far from restricting capital accumulation and market discipline, the neoliberal state and governing authorities have facilitated both (Wood 2003; Jessop 2010; Peck at al. 2012; Topal 2012). In making this intervention, the social complexities of emerging capitalist states like Mexico are not conceptually reduced to ideal-typical sets of strong or weak institutions – and their capacity to enforce credit, property, and contract rights – so central to the research programme of new institutional economics (Haber 2005). Rather, many Marxian and critical social theorists find common ground in capitalist states as social relations, insofar as contemporary states comprise institutionalizations of historically specific class, racial, and gendered power struggles within the wider context of world market competitive imperatives (Bieler and Morton 2003; Sablowski 2011; Muñoz-Martinez 2013). Many, but certainly not all, such interpretations follow in the tradition of Nicos Poulantzas who interpreted 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). The state apparatus and official policy formation represent historically specific institutionalizations of class power struggles that are malleable but also momentarily fixed and formative. The state budget, it follows, should be read as a complex social mechanism that redistributes income within the working class and between workers and capital in ways that can be used by state authorities to maintain social and political stability, expand accumulation and protect markets, and increase profits in the private sector (O'Connor 2009, 163). The socialization of financial risks, accordingly, represents a struggle over state resources and an institutionalization of financial power. Fictitious capital plays a key role.

Hilferding defines fictitious capital as a capitalized claim to or share of future revenue (2006, 128). As Harvey puts it, fictitious capital is created whenever credit is given based on a claim against future labor (1999, 265-6). Understood through Marx's labor theory of value, then, fictitious values precede real values created in capitalist social relations of production by labor and, as such, engender the uncertainty and risk of not being realized as money capital. Fictitious capital, finance, and labor are inextricably and internally connected. Harvey (1999; 2012), among others, has emphasized the quantitative and qualitative importance of fictitious capital to contemporary financial capitalism (also see Glyn 2006). However, the creation of fictitious capital is not restricted to private financial capital alone. State authorities also create fictitious capital through the sale of state bonds. In this case fictitious capital is a capitalized claim to future tax revenue or, as Hilferding puts it, the price of a share in the annual tax yield that pays interest as a type of profit to the investor (Hilferding 2006, 111). Because state authorities can create state bonds *cum* fictitious capital this institutionalized capacity endows authorities with great financial flexibility and enormous material power. Presently state fictitious capital claims figure prominently in all state budgets. Governments are released from the strict limits of collected past and present revenues by being able to draw on and leverage potential future public revenues. While financial capital has historically garnered material support from the state, the emergence of finance-led neoliberalism has enabled state fictitious capital claims to take on quantitatively and qualitatively greater significance.[3]

The material basis of state authorities' capacity to create fictitious capital is not class neutral because it rests in their power to generate recurrent public revenue. According to O'Connor, state authorities can generate revenue in three ways: (1) by creating and running state-owned enterprises (SOEs) and by increasing their returns

[3] For an account of how some of these practices first emerged and evolved in the postwar period, notably in central banks, see Pérez Caldentey and Vernengo 2012.

to the state; (2) by raising taxation or introducing new taxes; and (3) by issuing state debt and borrowing against future tax revenues (2009, 179). In the first example, and as we know since the 1980s, generating state income from SOEs has come under attack by neoliberal reformers, IFIs, and capital (McDonald and Ruiters 2012). Mexico is no exception, having undergone rapid and extensive privatizations (Guillén 1996; Rogozinski 1998; MacLeod 2005). Nonetheless, Mexico's state-owned oil company, PEMEX, remains one of the most significant, if politically contentious, sources of state revenue (contributing about a third to the state budget) that significantly bolsters the Mexican authorities' capacity to borrow (Hiegl 2011).

In the second case, taxation – the oldest form of class struggle for Marx – has become increasingly regressive under neoliberalism and skewed towards broad-based working class sources like value-added tax (VAT) alongside an abdication of any political responsibility to effectively tax the wealthy or international trade.[4] The VAT is regressive for workers, popular classes, and the peasantry because these people must pay a far greater proportion of whatever income they have in tax (Sanchez 2006; *cf*. O'Connor 2009, 209). For authorities, broadening the social base of taxation releases pressure on corporate and commercial taxes in ways favourable to market-oriented development. Rather than strategizing around improving SOE productivity, governments raise sales taxes and cut public expenses. The implications are that governments become progressively reliant on consumption, the ebbs and flows of the market, and, by extension, the structural power of capital. This too helps neoliberal agents reproduce the myth that state authorities are too incompetent to manage revenue-generating SOEs and not-for-profit enterprises (Fine 2008; McDonald and Ruiters 2012). Rather than increasing taxes on capital and the wealthy, SOE privatization, cuts to public services, and VAT increases are

[4] Warren Buffett, one of the wealthiest capitalists alive, agrees. When questioned on taxation he responded, "There's class warfare, all right, but it's my class, the rich class, that's making war, and we're winning." ("In Class Warfare, Guess Which Class Is Winning", Ben Stein, *New York Times*, online, 26 November 2006).

now commonplace. This defines in large part what IMF officials have euphemistically dubbed today's 'age of austerity' in response to the Great Recession (Cottarelli 2012).

The third material source of generating state monetary resources involves issuing more state debt (fictitious capital). Having turned to debt-led strategies of development since the 1980s, indebted emerging capitalist states must constantly be able to recycle existing state debts. This involves demonstrating that the state's fictitious capital claims held by financial capital today can be honoured in the future. So long as state authorities demonstrate this material capacity and affirm their political commitment to repayment, IFIs, ratings agencies, and financial capital deem states creditworthy. The material and political foundations of creditworthiness make it possible for authorities to carry on kicking the proverbial sovereign debt can down the road. Should doubts arise and financial capitals' sentiments shift, it becomes more difficult (and costly) for state authorities to put foot to can. In this sense state fictitious capital is a source of the problem (insofar as state authorities can build up debts owed to the private sector) and a temporary solution to the problem (insofar as rolling over existing debts displaces past debts further into the future, albeit with additional interest payments). This practice embodies very powerful disciplinary implications for domestic policy formation insofar as the interests of financial capital displace those of workers and popular classes.[5]

State authorities can thus generate revenue via SOEs, taxation, and by issuing state fictitious capital. In now exceptional cases like that of PEMEX, SOE revenue can be significant. More generally, however, state authorities – under political pressure from neoliberal advocates, capital, and IFIs – rely more and more on the laboring majority who work, create value, and then pay income and VAT taxes to create fictitious capital. As state fictitious claims mount, freeing up public

[5] On the power of creditworthiness to exact social discipline, in the case of Argentina, see Soederberg 2005. For a comparative Mexico-Argentina study of crisis and social discipline, see Felder and Muñoz-Martinez 2008.

resources to realize past debts becomes a matter of contentious public policy. This takes the shape of class struggle, on which Marx and Engels commented in the *Communist Manifesto* (1848):

> "No sooner is the exploitation of the labourer by the manufacturer, so far, at an end, that he receives his wages in cash, than he is set upon by the other portions of the bourgeoisie, the landlord, the shopkeeper, the pawnbroker, etc."

Today you must add to this list state authorities and financial capital. Recently, Harvey cited this passage to stress that capital, now as then, seeks to claw back the wages paid to labor through the state apparatus in ways supportive of capital accumulation (2012, 53).[6] The use of public taxation to socialize financial risks constitutes an exploitative practice even though it occurs beyond (but not divorced from) the site of production and the extraction of surplus-value by capital. State authorities reduce (read: dispossess) workers' real income via taxation to support financial accumulation strategies. Far from being a one-off aberration or temporary measure, the socialization of financial risks systematically provides for the collective survival and profitability of financial capital. State financial authorities facilitate the transfer of public resources created by labor to financial capital. The socialization of financial risks surfaces as an institutionalized and impersonal form of class-based exploitation and power specific to the current phase of capital accumulation dominated by financial imperatives.

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[6] While beyond the scope of this paper, this problematic leads us back to Marxian state theory and the classic question posed by Pashukanis of why class domination takes the impersonal form of public authority (see Holloway 1995; *cf*. Poulantzas 2000). Galip Yalman points to this paradox vis-à-vis peripheral capitalist states and of their "creating a coherent unity and providing a terrain upon which that unity could be maintained as if this were not, at the same time, a process of class formation *par excellence*" (2002, 32).

There are unmistakable democratic complications within this exploitative capital–state–labor relationship. The socialization of financial risks typically occurs outside the sphere of popular democratic deliberation. This so-called 'de-politicization' (so central to neoliberal developmentalism) has been vital to state authorities' capacity to bridge financial crises, instability, and recovery without threatening the underlying class relations or the overarching structural conditions of capital accumulation. Future generations are made responsible for paying the socialized risks of financial capital over which they had no say (either then or now). We now turn to the question of whether this historical materialist analytical framework holds up in the concrete historical and contemporary expressions of socialization in Mexico.

II HISTORICAL PRECEDENTS: THE 1982 AND 1995 MEXICAN CRISES

What concrete historical forms have the socialization of financial risks taken in Mexico? In 1982 I suggest the predominant form was bank nationalization and in 1994-95 bank recapitalization. Both concrete expressions are linked as essentially class-based and exploitative processes.

The 1982 Debt Crisis and Bank Nationalization

The socialization of financial risk in 1982 took the predominant form of bank nationalization. This form of socialization represents an explicit use of public resources to absorb financial risks gone sour, and it was done without democratic consultation. In contrast to subsequent forms, bank nationalization caused a fracture in state–bank capital relations in Mexico. Moreover, nationalization was politically motivated by an attempt to resurrect some form of state-led capitalism (rather than neoliberalism). Socialization in this instance reflected the legitimation needs of the ruling Partido Revolucionario Institucional (PRI; Institutional Revolutionary Party) to

balance the demands of Mexican workers vis-à-vis fractions of domestic and foreign capital. Such attempts at balance (however imbalanced in fact) would later evaporate in 1994 and 2008-09.

In the 1970s Mexico's state-led strategy of capitalist development had begun to hit economic and political barriers, such as slowing productivity growth and the rise of Reaganism and Thatcherism (Guillén Romo 2005, 260). Part of Mexico's state-led developmental problems also derived from the state's escalating financial difficulties associated with the 1973 'Mexicanization' Law (Foreign Investment Law). The 1973 Law offered official financing for Mexican capital to buy out foreign-dominated firms while restricting foreign ownership to minority control. The Law unintentionally led state authorities to assume control of failing private Mexican firms, and this too would evolve into one political strategy for managing Mexico's deteriorating corporatist social structures and collapse of state-led capitalism (Bennett and Sharpe 1980, 180; Soederberg 2010, 79). By the mid to late 1970s the state sector absorbed about two-thirds of all domestic private bank resources to help cover its financing needs, which constituted a source of escalating conflict between state officials and Mexican bankers (FitzGerald 1985, 227). High inflation (nearing 100 percent increases in consumer prices) exacerbated the legitimacy problems of the ruling PRI. Mexico's rapidly increasing prices had presented workers with a serious problem: their standard of living was falling as they were "systematically denied the opportunity to defend their past material gains" (Barkin and Esteva 1982, 63). With the petering out of the state developmentalism so too came the unfurling of post Revolution class compromises.

The stalling state-led model necessitated ever larger inflows of foreign, mostly US, financial capital. Mexican external debt had doubled from just under $43 billion to just over $86 billion between 1979 and 1982.[7] Over $29 billion of this debt in 1979

[7] Current US dollars (World Bank, International Debt Statistics, accessed online 21 December 2012). In this article, the '$' symbol refers exclusively to US dollars.

was public or publically guaranteed and in 1982 nearly $52 billion. Mexico's progressively debt-led trajectory exposed its society more and more to the threat of external capital shocks. The state's dependency on revenue from PEMEX also took a turn for the worse. The Banco de México (BdeM; 1983) reports that a fall in the international price and export volume of petrol worsened Mexico's current account balance. These troubles came to a head in 1979 when Paul Volcker, Chair of the US Federal Reserve, initiated the Volcker shock – a global interest rate explosion that triggered the 1980s debt crisis. The spike in US interest rates meant that the once manageable developing countries' foreign debt interest rates of 3 to 5 percent became totally unmanageable at levels near 20 percent. In Mexico, as elsewhere, the 1979 to 1982 Volcker shock became the economic catalyst for the political project of neoliberal restructuring.

In this volatile context the outgoing PRI President, José López Portillo (1976 to 1982), found that Mexico's mounting public debts, increasing costs of debt service (equal to about 50 percent of all exports), and domestic economic instability made those who held money capital in Mexico question the future value of the peso exchange rate. Investors led a massive conversion of Mexican pesos into US dollars thereby draining Mexico's then modest foreign reserves (BdeM 1983, 23; 78; 127). The pressure on public finances increased, moreover, due to the repayment of short-terms debts amidst the deepening global recession. Furthermore, state authorities continued compensating for what domestic capital would not or could not do successfully by nationalizing even more failed private firms. The number of SOEs grew from 504 in 1975 to a zenith of 1155 by 1983 (Aspe 1993, 181). In 1982 the federal deficit tripled over its 1981 levels and expenses ballooned by 18.6 percent in real terms (BdeM 1983, 80).

Sensing fiscal weakness foreign bankers reacted by suspending credits to Mexico making it impossible for the (BdeM) to meet foreign exchange demands. The PRI government had lost nearly all capacity to stabilize the economy. In late August

1982 Finance Minister Jesus Silva-Herzog requested a 90-day period during which Mexico would make interest-only payments, as neither the public nor private sector could service their foreign debts (Dussell Peters 2000, 47-8). Unemployment climbed to nearly 10 percent and real wages fell. President López Portillo's last-ditch stabilization response was to erect a system of capital controls and, most dramatically, nationalize the Mexican-owned commercial banks on 1 September 1982 (Tello 1984). The 1982 bank nationalization prevented systemic collapse by explicitly socializing the Mexican banks' foreign debt obligations thus ensuring repayment, much to the relief of US authorities and bank capital (White 1992, 104). Mexican state authorities used fictitious capital claims to compensate the Mexican bankers within the year (and without charging sales tax). Negotiable nine-year state bonds were issued at an interest rate equal to 90-day deposits (Burke 1983, 27; Tello 1984, 17). Socializing the banks' bad debts and paying interest on the fictitious capital indemnification claims would be costly.

The incoming and more pro-market Miguel de la Madrid PRI administration (1982 to 1988) did not pass the socialization costs onto capital via higher taxation. At about half the overall OECD average, Mexican capitalists had successfully institutionalized comparatively low taxation levels by the 1980s. In the range of 14 to 16 percent of Mexican GDP, only Turkey's 13 to 14 percent range was lower.[8] The sizeable revenues generated from PEMEX had enabled the PRI to demand relatively little from Mexican capital. Add to this Mexico's legacy of corporatist state–society relationships, which drew capital, labor, and the peasantry into the state but in ways that capital enjoyed privileged influence over policy formation like taxation (Cardero 1984; Elizondo 1994, 161-3). While bank nationalization represented a momentary fracture with bank capital, domestic capital continued to boost its privileged position within the Mexican state during the 1980s (Barkin and Esteva 1982; Davies 1993). The global transition to neoliberalism further reinforced capital's position of power

[8] Drawn from the OECD Tax Database online, accessed 21 December 2012.

vis-à-vis taxation policy. For fear of industrial relocation, market-oriented reforms across Latin America internalized new competitive imperatives supportive of capital's profitability within one's borders, which included reduced taxation and eliminating trade tariffs (Sanchez 2006, 777-9).

How, then, to cover the public costs of socialization if not by taxing capital? For one, the PRI forced up the regressive VAT, just introduced in 1980, from 10 to 15 percent in 1983. This boosted VAT revenues to around 3 percent of GDP by the late 1980s (Elizondo 1994, 184). For another, de la Madrid's National Development Plan, with support from the influential Business Coordinating Council, spearheaded an initially modest turn to privatization (framed as a way to pay down national debts) (Cypher 1989, 63-4; Rogozinski 1998, 86-9). Finally, state authorities augmented debt-generating resources by accelerating sales of high interest Mexican CETES bonds first issued in 1977. Hereafter dealing in state fictitious capital became a lucrative accumulation strategy. Indebted state authorities channelled ever more public revenues into debt servicing, which grew from less than 6 percent of 1980 GNI to over 10 percent by the mid 1980s.[9] By the mid 1990s the OECD reports Mexican 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; Sanchez 2006, 788).

Contrary to the 'state-led' logic underpinning López Portillo's confrontation with the bankers in 1982, however, de la Madrid utilized the nationalized banks to accelerate neoliberal restructuring and to mend state–capital relations in Mexico (Marois 2008). On the one hand, authorities mobilized the banks to help privatize Mexico's SOEs more rapidly than otherwise possible (Rogozinski 1998). On the other hand, authorities refused to invest in the banks, held down any real wage

[9] World Bank, International Debt Statistics, accessed online 21 December 2012.

increases, and promoted a parallel financial system to compete with the banks. These measures helped guarantee the future privatization of the banks. Still, the pro-market measures seemed incapable of breaking Mexico's slow growth and economic instability. In response US authorities crafted the 1985 Baker and 1989 Brady debt-restructuring plans. The plans issued new debt bonds backed by official US guarantees. The intent was to prevent any substantive break in Mexico's (and other peripheral economies') new market-oriented trajectory and to kick-start renewed bank lending (Cypher 1989, 65-6). The US-backed Plans reduced Mexico's risk premium such that foreign direct and portfolio capital flowed back in and helped to legitimize ongoing market-oriented restructuring.

The 1982 bank nationalization drew the accumulated financial risks gone bad into the state apparatus in order to preserve capitalist social relations. Moreover, the process set an important precedent and induced learning on how state authorities can manage the crises of capitalism via socialization. Henceforth the social costs of financial risk could be displaced onto labor via taxation measures and amortized onto future generations through state fictitious capital creation. The lesson would prove invaluable for the PRI during the 1994-95 crisis.

The 1994-95 Financial Crisis and Bank Recapitalization

With the 1994-95 Mexican financial crisis the socialization of financial risk took the predominant form of bank recapitalization. This occurred, contrary to neoliberal promises of stability and growth, in the context of Mexico's post 1980s market-oriented reforms, which created the conditions of instability behind the 1994 peso and 1995 banking crisis in Mexico (Cypher 2001; Babb 2005). Mexico's destabilizing neoliberal turn came in two politically constructed waves (Soederberg 2004, 37-44). The first wave came with de la Madrid. At this point, neoliberal policy was about enhancing Mexico's debt servicing capacity with new strategies of export-oriented industrialization. While opening up the Mexican economy to foreign capital,

especially American, this strategy further eroded traditional corporatist support for the PRI. This prepared the groundwork for a hegemonic shift within the PRI away from Revolutionary nationalism (Morton 2003, 643). A second accelerated wave came with President Carlos Salinas de Gortari (1988 to 1994). Salinas was keen to assert Mexico as a credible destination for foreign capital. To do so meant offering convincing political commitments to inflation control, limiting workers' salaries, reducing the deficit, closing and privatizing more SOEs, increasing foreign investment, reducing trade barriers, and further promoting exports. The Salinas administration also championed deeper financial transformations, including capital account and domestic interest rate liberalization, increased use of short-term government bonds, lighter restrictions on credit, looser financial group centralization procedures, and, of course, the privatization of the nationalized banks in 1991-92 (*cf*. Álvarez Béjar and Mendoza Pichardo 1993, 42; Guillén Romo 2005, 236-8). The 1994 North American Free Trade Agreement (NAFTA) sealed this restructuring process being, as it was, about institutionalizing the power of capital in the state and tying the hands of future governments to a neoliberal developmental trajectory. Advocates celebrate these reforms as having "transformed the Mexican economy into one of the most open in the world" (Carstens and Moisés 1998, 166; author's translation). Yet Mexico's transformation did not come without complications. The Mexican ruling classes now found their accumulation strategies more dependent on foreign direct and portfolio investment and, consequently, more exposed to shocks in the world market. The volatile combination erupted with the 1994-95 financial crisis.

The BdeM (1996) refers to the 1994-95 crisis as Mexico's worst crisis since the 1930s. Then Managing Director of the IMF, Michel Camdessus, famously decreed it as the first financial crisis of the twenty-first century. Indeed, the magnitude of this crisis would be much greater than previous ones. Moreover, the context had shifted. Whereas in 1982 a state-led versus market-oriented strategy of capitalist development hung in the political balance, by 1994-95 de la Madrid and

Salinas had firmly transitioned Mexican society to neoliberalism, weakened organized labor, and bolstered the power of domestic and foreign capital within its borders. This time the PRI acted decidedly on behalf of capital in general. State authorities rescued the recently privatized private banks in a way that created an unprecedented burden on Mexican workers and popular classes.

Prior to the outbreak of the 1994-95 financial crisis the expectations of foreign investors and domestic elites in Mexico were high (Dussel Peters 2000, 69). The 1990s had thus far seen growth in the range of three to four percent and single digit inflation. Yet foreign debt had accumulated to more than $120 billion since the 1980s and the current account deficit sat around five to seven percent of GDP. Always-skittish foreign capital was becoming more so. To bleed off some of the mounting unease state authorities drew in some of their private exchange risks by converting CETES peso debts into short term US dollar-indexed but peso-payable Mexican state bonds – the now infamous Tesobonos worth about $29 billion by late 1994 (Stallings 187-8). By shifting the terms of the state debts from CETES fictitious capital to Tesobono fictitious capital Mexican authorities socialized the currency risks of financial capital. While briefly stemming outflows, capital flight resumed as the new PRI President Ernesto Zedillo (1994 to 2000) planned to take office in December 1994. Leaked insider information of an impending peso devaluation, followed by the actual devaluation on 20 December 1994, instigated 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 still high interest rates in the US at the time – a safe haven for capital then as it is today – meant extending the Tesobonos was nearly impossible by early 1995 and sovereign default had become a possibility. The Zedillo government responded by floating the value of the peso as foreign reserves fell from $2.3 billion in 1994 to -$1.5 billion in 1995 (Sidaoui 2005, 217). This triggered the so-called

‘Tequila’ crisis that spread throughout Latin America (Saad-Filho and Mollo 2002, 125).

The political options appeared stark: allow Mexican neoliberalism to collapse by making those holding Mexican debt suffer their losses or find means to socialize the financial risks gone bad. Mexico’s PRI government and state officials choose the latter, thus securing Mexico’s neoliberal trajectory and unequal class relations. However, recourse to further privatizations would neither be big enough nor fast enough to raise the needed funds. Officials also found that the issuance of more state fictitious capital had reached the limits of what financial capital would accept as Mexico’s future capacity to pay. However, the exposure of primarily US capital to Mexican debt meant that any default would not simply be a national affair but would create instability north of the border. Fearing the consequences, the US Treasury, Federal Reserve, and Clinton Administration took the lead in organizing an IMF, Bank for International Settlements, and Canadian government $50 billion financial liquidity package in early 1995 (OECD 1995, 160). The foreign resources bolstered the Mexican state’s capacity to socialize the current financial risks. Since honouring American short-term debt was a shared political priority, the first $29 billion passed through the Mexican state to settling the Tesobonos directly in US dollars.

The 1994 crisis also exposed vast quantities of large and intertwined Mexican family and business group debt (corrupt related private lending) to default risk, putting the entire banking system at risk (BdeM 1996, 1). The state’s Banking Fund for the Protection of Saving (Fobaproa), whose institutional roots link back to financial reforms in the 1980s, controlled nowhere near the material resources needed to rescue the banks. Buttressed by the US-led bailout, Mexican state authorities stepped in, framing the socialization of the domestic banks’ bad debts not as bailing out Mexico’s elite bankers but as in the interests of all Mexicans (SHCP 1998, 21). Socialization in this case meant the PRI government injecting US dollar liquidity, recapitalizing the banks with temporary and permanent sources of credit,

and facilitating individual debt restructuring programs (Cypher 1996; OECD 2000). In the process state authorities nationalized sixteen failed banks from 1995 to 1999 to close or immediately restructure them for resale (a process qualitatively different from 1982). The crisis consequently provided an opening for Zedillo to court foreign banks, which he did by absorbing much of the financial risks involved in the sale of Mexico's failed banks (Martinez-Diaz 2009, 64-7). In the end only five of the eighteen banks privatized in 1991-92 for $12.27 billion remained under their original Mexican owners. The shareholders of the failed banks nonetheless received double the amount they invested only a few years prior (Biles 2010, 263). Mexican capital surfaced relatively well, while Mexican workers and popular classes would not.

The BdeM at first estimated the social costs of bank rescue to be about 5.5 percent of 1995 GDP (1996, 8). However, the amount soon grew to 20 percent of 2000 GDP or about $100 billion – an amount nine times greater than that earned from bank privatization. The banks in Mexico have since repaid a portion of the initial rescue supports, but a wide range of the socialized debts carry little hope of recovery today. As Laevan and Valencia note, on average only 18 percent of the fiscal costs from publically-financed financial rescues are ever recovered (2008, 24). The snowballing costs of bank rescue quickly outstripped the institutional capacity and political mandate of Fobaproa, generating uncertainty over Mexico's creditworthiness in international financial markets. In response and despite great public outcry, dissent, and months of political debate, Zedillo with support from the opposition Partido Acción Nacional (PAN; National Action Party) transferred the original and new Fobaproa debts to IPAB (Instituto para la Protección al Ahorro Bancario) in 1998 – a newly created banking insurance fund institution. The political move re-affirmed the state's responsibility to service the interest costs of the socialized debts yearly, if not to fully relieve IPAB of the technical responsibility for bailing out the bankers.

Through the bank rescue and recapitalization, the PRI and PAN had swindled Mexico's majority working poor in the name of economic 'stability' and national

‘solidarity’. The interest payments from Fobaproa constituted “a net transfer of resources from the government to the shareholders of those spheres of society with the most wealth” (Jacobs and Rodriguez-Arana Zumaya 2003, 13). As with the 1982 bank nationalization, this form of socialization entailed underlying exploitative and unequal class relations. In order to honor the socialized debts the PRI government unveiled strict austerity measures including budget cuts, increased electricity and gasoline prices, reduced government subsidies, and tighter monetary policy (Villarreal 2010, 5). Unemployment soared and average income fell. Those workers able to find new employment earned, on average, ten percent less (Pratap and Quintin 2011). This had the effect of depressing overall wages and intensifying competition among workers. However, the impact on society, and workers in particular, does not stop there. The crisis triggered a spike in tax evasion from less than 40 percent of potential income to over 60 percent (Tornell et al. 2003, 55) – most of which originated with business and capital, not workers and peasants. To compensate the Zedillo government increased the VAT (previously reduced) again in 1995 from 10 to 15 percent (*cf*. Pagán et al. 2001). Zedillo’s VAT increase directly pushed a portion of the socialization costs onto Mexico’s majority working poor. The crisis also induced changes in bank profitability strategies. For one, the bankers in Mexico drastically cut operating costs by reducing bank staff levels (Marois 2010). For another, the accumulation strategies became more risk-averse, a measure of which is reduced lending to productive and small- and medium-sized enterprises (Avalos and Trillo 2006; Stallings 2006, 197). The increasingly foreign-owned banks turned to acquiring state fictitious capital claims, collecting fees and commissions, and increasing consumer credit in order to generate record returns (Girón and Levy 2005; Lapavitsas and dos Santos 2008; Demir 2009). Within a few years the Mexican banks recovered from a position of loss to being as or more profitable than other banks in OECD countries (OECD 2004). Resembling nothing of an entrepreneurial renaissance or so-called creative destruction, this return to prosperity

would have been unimaginable without state authorities generating $100 billion in public resources to socialize financial capital's risks gone sour and without then passing these risks onto the bulk of Mexico's citizenry, not capital.

Rather than explicit bank nationalization, explicit bank recapitalization was the predominant form of socialization. Rather than attempting to save state-led capitalism, the intent was to solidify neoliberalism. While differing in concrete form, the socialization of financial risks was equally premised on exploiting Mexico's workers and popular classes through the state apparatus via taxation and fictitious capital creation. What's more, the capacity of state authorities to do so found a new material basis in international collaboration as foreign governments underwrote Mexico's socialization program. However, the 1994-95 crisis also represents a moment of reckoning. The government's laissez-faire idealism pursued prior to 1994 could not continue unmodified without leading to another, and likely more destabilizing, financial crisis. Crafting Mexico as financially open but still subordinate society within the international hierarchy had proven unworkable. Mexican state authorities would have to find new ways to stabilize financial accumulation.

III CONTEMPORARY MANIFESTATIONS: THE 2008-09 CRISIS IN MEXICO

Contemporary manifestations of the socialization of financial risks do not preclude historical forms like nationalization and recapitalization. However, the deployment of official guarantees and of Mexico's foreign reserves to overcome the 2008-09 crisis represent a subtler and more structural form of socialization that is no less dependent on unequal class relations. Unlike the two previous crises, the 2008-09 crisis in Mexico was not directly set off by domestic instability. Rather, it was the US-based 2007 subprime crisis that has since morphed into the Great Recession persisting into 2013 (*cf*. Lapavitsas et al. 2010; McNally 2011). Much to their chagrin now, the IMF, BdeM, state officials, PAN President Felipe de Jesús Calderón

Hinojosa (2006 to 2012), and even the Mexican bank workers' union (Fenasib) upheld well into 2008 that the US crisis would have little impact on Mexico, seemingly despite the country's overwhelming dependence on the US economy. Mexico's deepening finance-led neoliberal strategy of development had nevertheless exposed its society to contagion via the post NAFTA interpenetration of US and Mexican capitals into each society (Cypher 2010; Vidal et al. 2011). Mexico, when push came to shove, could not shake off contagion.

The official façade evaporated with the September 2008 collapse of Lehman Brothers. The US crisis rapidly spread globally and the subordination of Mexican society to the US economy became apparent. As with most other emerging capitalisms, capital inflows reversed as financial capital sought 'quality' investments (meaning safe, but low-yielding, US Treasury bonds) (Ocampo 2009, 713; BdeM 2010, 11; *cf*. Painceira 2010, 284). Remittances into Mexico also slowed as Mexican workers abroad were among the first to be laid off. This sudden reversal of foreign capital inflows created a desperate need for foreign currency within Mexico's borders and resulted in highly unstable exchange rates. At the same time trade with the US (accounting for over 80 percent of Mexico's total) fell along with the folding up of domestic construction projects. Global uncertainty and lack of effective demand led Mexican industries to reduce outputs. At first Mexico's GDP growth slowed to 1.3 percent in 2008; it then imploded to –6.8 percent in 2009 (IMF 2010, 19). Over the course of 2009 the peso depreciated 15 percent in real terms. Unemployment increased as real wages fell and the informal sector grew (Freije et al. 2011). By the time a partial recovery materialized in 2010 nearly 65 percent of any new jobs created were at the lowest end of the pay scale (Roman and Velasco Arregui 2011, 254). However you slice it, the 2008-09 crisis hit the majority of Mexicans hard. By contrast, the banks in Mexico remained well capitalized (at around the 15 percent mark), enjoyed a low reliance on external funding, and stayed profitable (BdeM 2009a, 9; IMF 2010, 3). If not the bankers, then who caused financial instability?

The new source of destabilizing financial risks originated with the speculative dealings of Mexico's largest corporations, which led to massive corporate losses in 2008-09 (*cf*. Muñoz-Martinez 2013). The BdeM reports that by late 2008 corporate defaults on interest rate derivatives had amounted to $22 billion and defaults on currency derivatives to $12.7 billion dollars (2010, 29). These derivative losses did not come from Mexican assets tied into to US sub-prime securities. Instead the Mexican corporations had used foreign exchange and interest rate derivatives to feed higher rate and speculative investments in Mexico (BdeM 2009a, 39). The preceding years of exchange rate stability allowed Mexican financial capital to profit handsomely off the difference in rates of return, but the government's devaluation of the peso in late 2008 turned these profits into sizable losses (Vidal et al. 2011, 10). Companies like *Cementos Mexicanos* and *Controladora Commercial Mexicana* lost hundreds of millions of dollars. News of the corporate losses exacerbated domestic instability and contributed to the worsening of Mexico's domestic credit crunch. To counter this source of instability, Mexican officials had to find ways to settle the demand for US currency or face the threat of systemic financial collapse for loss of confidence in Mexico. Two political responses stand out: the extension of official guarantees and the use of accumulated foreign reserves.

Official Guarantees Covering Corporate Speculation

To shore up the creditworthiness of Mexican corporations abroad, state authorities mobilized the state-owned development banks, Nafin and Bancomext, to socialize some of the perceived financial risks of lending in Mexico. On 29 October 2008 state authorities announced that the development banks, typically specializing in industry and foreign trade, together with the Sociedad Hipotecaria Federal would provide up to 50 billion pesos (over $4 billion) in official guarantees. These guarantees would help recycle the accumulated private debts in the local capital markets, in real estate financing, and on corporate securities issued by non-bank financial institutions

(BdeM 2010, 75). Within weeks President Calderón and Finance Minister Agustín Carstens named Héctor Rangel Domene – an executive of many large industrial and financial corporations in Mexico – as head of development banks to oversee the banks' new financial re-orientation (Rodríguez Araujo 2010, 56). Reportedly, the bulk of guarantees covered the external debts of a mere eight of Mexico's largest corporations (Vidal et al. 2011, 10). For its part, the World Bank lauds Mexican authorities' use of the development banks to support financial stability and profitability in ways that ensured "credit decisions are left to private intermediaries" – the Bank's *sin que non* of contemporary development (GFDR 2012, 105). The PAN also negotiated an $80 billion lifeline of precautionary financing with the US Federal Reserve and the IMF to bolster Mexico's own sovereign guarantee (renewed in December 2012). The government's plan and state resources worked (from the vantage of capital) as Mexico's corporate debt practices quickly returned to pre-crisis levels (Muñoz-Martinez 2013).

There are three matters of note. First, the banks' official guarantees do not involves a direct outlay of public resources, unlike nationalization and recapitalization, unless crisis rears up (at which point the social costs would be substantial). Nonetheless, the official guarantees underwrite renewed private financial accumulation strategies on the back of state revenues, taxation, and fictitious capital. Second, state financial guarantees are not infinite but always link back to underlying material and productive capacity. Consequently, the official guarantees offered to corporate finance come at an opportunity cost since equivalent funds were not or could not be directed towards other social developmental options. This political decision reflects both inter-class struggle (as labour lost out to capital) and intra-class conflict (as more industrial based capital lost out to financial). Finally, it is worth noting that the use of IMF guarantees to leverage official Mexican ones must equally be connected back to the contributing IMF member states whose public contributions likewise underwrite (read: socialize) the financial guarantees offered in

Mexico. The use of guarantees is thus subtler and also an increasingly institutionalized and structural feature of contemporary capitalism.

Foreign Reserve Accumulation

The *massive* accumulation of foreign reserves to bolster central banks' 'lender of last resort' capacity is a particularly neoliberal phenomenon subordinated to financial, as opposed to full employment or growth, imperatives. The Great Recession has reinforced this qualitative shift in central bank operations (Pérez Caldentey and Vernengo 2012). The shift is not limited to Mexico but has accompanied the growth in financial flows and recurrence of financial crises in other emerging capitalisms since the 1990s (notably, Turkey, East Asia, China, India, Brazil, and Russia). By 2009 foreign direct investment to all developing countries had reached $600 billion; foreign reserves surpassed $4 trillion.[10] As the US crisis spread to Latin America the former Executive Secretary of the Economic Commission for Latin America and the Caribbean, José Antonio Ocampo, praised the region's sustained build up of foreign reserves because, together with support from public developmental banks, they gave state authorities greater "policy space" to respond to the 2008-09 crisis by, for example, the public financing of exports and rolling over of corporate debts (2009, 716; 721-22). The BdeM (2010) offers a similarly celebratory account praising how authorities were able to tackle the crisis from a position of strength. The policy space provided by foreign reserve accumulation, however, not only maintains financial capitalism but its underlying class relations.

At the peak of the 2008-09 crisis in Mexico, the BdeM responded by increasing US dollar liquidity in domestic markets. This meant selling off, in less than 72 hours, a major portion of Mexico's accumulated foreign reserves – a record 11 percent or nearly $9 billion. Mexico's Central Bank Governor Guillermo Ortiz and

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[10] International Monetary Fund (IMF), World Economic Outlook, February 2011, ESDS International, (Mimas) University of Manchester.

Finance Minister Carstens did so under the argument (indeed, neoliberal social logic) that the PAN government had to help protect the finances of companies in Mexico by enabling the repayment of their foreign debts.[11] The foreign reserve sell off would climb to $11 billion over 10 days, to over $15 billion by the new year, and then to over $31 billion by mid 2009 at which point the sell-offs halted as stability loomed (IMF 2010, 9). The use of reserves helped to avoid domestic collapse and, by extension, help protect Mexico's corner of the financial world market. And the reward for Mexican authorities stepping in? Financial capital punished Mexican society with higher interest rates on public debt (up by 0.5 to 1.0 percent), contributing to the possibility of a new sovereign debt crisis (Muñoz-Martinez 2008, 19; OECD 2009, 23; IMF 2010, 11).

The colossal corporate derivative losses had revealed new domestic vulnerabilities that had implications for financial capital's assessment of foreign reserve levels in Mexico, as in other emerging capitalisms (*cf*. BdeM 2009, 39; Painciera 2010). In stable pre-crisis times financial capital had been satisfied with Mexico's reserves. Once crisis struck in late 2008, however, foreign capital and IFIs suddenly questioned if Mexico's reserves were sufficient to cover foreign currency outflows (read: capital flight) (IMF 2010, 9; 29). That is, had Mexican state authorities over time amassed sufficient material resources to protect financial capital? Capital flight suggests no. Yet, as the IMF concedes, the shift in sentiment stemmed not from a break in Mexico's fundamentals but from "relative risk perceptions" (IMF 2010, 9). It is worth pausing to review the build up of reserves in Mexico.

In the wake of the 1994-95 Mexican crisis state financial authorities adopted a market-determined exchange rate (floating peso) to facilitate more liquid financial markets – understanding that this would require higher levels of foreign reserves given anticipated volatility (Sidaoui 2005, 218-9). According to the Deputy Governor

[11] See 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.

of the BdeM, José Sidaoui, reserve accumulation would safeguard stability by (a) increasing Mexico's capacity to service foreign debts; (b) offering positive creditworthiness signals to foreign financial capital; (c) enhancing the state's capacity as lender of last resort in foreign currency to Mexican banks; and (d) demonstrating capacity to combat speculative pressures on the peso (2005, 219; 226). In practice, this constituted a break with idealized Washington consensus precepts of a minimal state by constructing a more robust financial apparatus. Moreover, foreign reserve accumulation would help authorities avoid the drastic actions of the past, like bank nationalization and recapitalization, if and when crisis struck. Foreign reserve accumulation would become the material fulcrum around which state authorities *could* privilege financial imperatives. By the time PAN President Vicente Fox came to power in 2000, Mexico was poised to open a new phase of financial accumulation premised on the internalization of foreign bank capital (which assumed control of 85 percent of the sector by 2002).

Mexico's expanding financial insurance war chest underwrote this finance-led restructuring. By 2001 Mexican authorities had socked away $38 billion in reserves and by 2002 $48 billion – levels that BdeM official Sidaoui acknowledges were more than adequate at the time. Yet by 2005 authorities had further increased foreign reserves to $69 billion. Sidaoui suggests authorities then considered slowing down reserve accumulation because "the financial and opportunity costs induced by the rapid inflow of reserves had exceeded the benefits" (2005, 229). Nevertheless, authorities continued to shore up financial imperatives by increasing foreign reserves to over $85 billion by the time the 2008-09 crisis crossed the border into Mexico. Following the record sell-off of reserves to defend the peso (and by extension domestic corporate finances) and with the fading of the crisis by mid 2009, the BdeM immediately acted to once again bolster Mexico's financial image internationally. By July 2010 the PAN had brought foreign reserves to a record level of over $100 billion. In late 2012 foreign reserves surpassed the $165 billion mark, or more than triple

what the BdeM understood as adequate only a decade earlier. This comes with a social cost.

The IFIs acknowledge the mounting fiscal costs of reserve accumulation. For example, in March 2010 the IMF suggested "the need to take due account of the costs and externalities of reserve accumulation" (2010b, 3). Until recently, however, there have been few attempts to quantify these costs. The work of economist Dani Rodrik is an exception. Rodrik writes (2006, 254):

> 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.

That is, Mexican state authorities must offer higher rates of interest for its peso denominated state bonds (fictitious capital) because Mexico sits lower within the international hierarchy of states. The US can offer the lowest rates of return on its state bonds because it sits atop the international hierarchy and US Treasury bonds carry effectively no risk.[12] The difference absorbed by Mexican society comprises the *social cost of self-insurance*. In mainstream understandings, self-insurance is a means of warding off future crises and of minimizing country risk for investors in the name of development (De Beaufort and Søndergaard 2007, 15-17).

The exact social costs of reserve accumulation are difficult to calculate, as both Rodrik and De Beaufort and Søndergaard qualify, due to uncertainty over rates of interest, definitions over what should be included, and so on. Rodrik, however,

[12] On the benefits of peripheral reserves held in US bonds for the US economy, see Duménil and Lévy 2004 and Lapavitsas 2009, 115.

estimates that the average social opportunity costs of the rise in reserves since the 1990s is equivalent to around one percent of annual GDP for developing countries (2006, 254). Given Mexico's 2008 GDP at $1085 billion the opportunity cost for holding foreign reserves for this year would be in the range of $10.85 billion. De Beaufort and Søndergaard provide a low and a high cost ranging from $3.5 to $11.1 billion annually (2007, 26). However imprecise, these studies agree that the social costs of foreign reserves are growing and socially significant. To put this in context, Rodrik cites Mexico's flagship anti-poverty program, PROGRESA, which received only 0.3 percent of GDP in 2004 (2006, 261). The government's 2008-09 crisis recovery program, part of which was intended to support workers through employment programs, garnered less than 0.3 percent of GDP (Freije et al. 2010, 41). Not only at times of acute crisis does financial capital benefit disproportionally to workers from the state budget.

Provided by, Not for the Working Poor

It is explicit in the political defence of official guarantees and foreign reserve accumulation that what is good for financial stability is good for all Mexicans. Class is not part of the calculus. There are good reasons to be sceptical. As Mexico's experience illustrates, reserve accumulation is by no means a rock-solid guarantee against sudden capital reversals in emerging capitalisms (Painceira 2010). Moreover, at times of instability, the social costs attributed to reserve accumulation are magnified with potentially devastating knock-on effects for public finances (*cf*. De Beaufort and Søndergaard 2007, 28). The same must be said for official guarantees of private financial dealings. To be sure, Mexico's official guarantees and accumulation of foreign reserves are subtler forms of socialization. Despite their subtlety, they are deeply institutionalized and increasingly structural practices that unambiguously benefit financial capital. These financial supports depend on the state apparatus and revenues generated domestically. Research suggests that mounting

public debts are related to reserve accumulation (Painceira 2010; Vidal et al. 2011). In Mexico gross public sector debt, which includes reserve accumulation and the ongoing socialization of IPAB debts from the 1995 bank rescue, has 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). Public resources drawn from PEMEX also go to building up Mexico's reserves (as opposed to other public investments).

So too does taxation continue to play a role. In Mexico, as in other emerging markets, the government's response to global competition has been to ease business taxation (Sanchez 2006). For example, PAN President Fox's developmental strategy 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, the PAN rejected proposals to reduce the VAT to 12 percent (OECD 2005, 135). Likewise, international institutions advocate tax reforms that broaden the state's social basis of revenue, typically by extending the coverage of VAT (OECD 2009, 60). A defining feature of neoliberalism is that, on average, capitalists and corporate managers have been able to avoid paying taxes under the liberal guise that taxes on the wealthy suppress entrepreneurial drive (Perelman 2006).

However unwilling to pay for it, financial capital nonetheless depends on access to state resources to support their accumulation strategies. Here the VAT still proves useful. Mexican workers and popular classes find it difficult to escape taxation in general, and especially VAT, and therefore bear the brunt of tax payments. When crisis hit in 2008-09 the PAN increased the VAT from 15 to 16 percent as a signal of credibility to foreign capital. This increase fell directly and disproportionately on the workers and popular classes. As James Cypher rightly admonishes (2010), "to slap a regressive tax on Mexico's impoverished masses is a telling sign of a nation suffering from a profound level of moral and intellectual bankruptcy". But this is more than moral bankruptcy. It is rather an expression of the structurally unequal social relations of power between Mexican labor and financial capital, both foreign and

domestic, as institutionalized in the state apparatus. Public revenues systematically flow from labor through the state to financial capital. With money capital representing the common capital of all capitalists, so too does this entail a clawing back of the wages paid to labor by capital.

Are there indications that the socialized costs of official guarantees and foreign reserve accumulation have benefited the majority of Mexicans? Not really. Aside from such nebulous ideas as 'revealed preferences', orthodox economists cannot explain why developing countries even pursue open financial markets since unambiguous evidence of broad-based benefits is elusive, crises are endemic, and growth benefits oversold (Obstfeld 2009; Laeven and Valencia 2008; Soros 2009; Kose et al. 2009). The United Nations' *World Economic and Social Survey* characterizes financial capitalism as having "increasing volatility and uncertainty" (DESA 2010, 103). Across the developing world, heterodox critiques point out that financial liberalization has exacerbated social inequality, especially at times of financial crisis (Teichman 2008; Demir 2009; Arestis and Caner 2010). For most Marxists, this phase of capital accumulation has shifted capital–labor relations in ways beneficial to financial capital (Albo et al. 2010; McNally 2011; Duménil and Lévy 2011). This is the case in Mexico. Three decades of financial and neoliberal restructuring has left Mexican society with the highest income inequality in the OECD, the worst ranking for poverty prevention, and the second worst rating for the OECD's enigmatic 'social justice' measure (2011, 9; 18; 32). Mexico's pro-market and pro-financial political stance has not brought job creation or higher wages for workers in Mexico, just as in other emerging capitalisms like Turkey, Brazil, and Korea (Onaran 2007 & 2009). This is despite increased Mexican worker productivity levels. From 1980 to 2010 the real value of minimum wages collapsed by 70 percent, contract wages by 50 percent, and manufacturing wages by 20 percent in the Federal District while the overall share of productive workers' and nonsupervisory employees' wages in GDP fell from 35 percent in 1982 to 23 percent in 2009 (Roman

and Velasco Arregui 2011, 249). Neither has this intensification of labor's productivity imperatives led towards economic convergence with the US. Since the 1980s Mexican 'prosperity' has diverged from US levels, despite a decade of sluggish convergence between 1997 and 2007 (OECD 2009, 105). Even if calibrated according to this period the OECD states, in all seriousness, that convergence would "still take a very long time", that is, about 1,848 years (2009, 107).

The emergence of Mexican neoliberalism has been provided *by* the majority of working poor in Mexico (insofar as so much of the costs of transition and crisis resolution have been socialized). However, neoliberal strategies of development have not provided *for* them (insofar as the poor remain as destitute and oppressed as ever). This analysis supports a critical, class-based interpretation of the rise of 'neoliberalism' in the 1980s as the defeat of organized labor's capacity to resist market-oriented structural adjustment; of neoliberalism's metamorphosis in the 1990s to a more 'finance-led' form defined by state and government elites crafting institutional capacity to absorb and manage the accumulation risks of foreign and domestic financial capital at times of crisis; and of how these processes have now consolidated as 'emerging finance capitalism', or the fusion of the interests of domestic and foreign financial capital in the state apparatus as the institutionalized priorities and overarching social logic guiding the actions of state managers and government elites, often to the detriment of labor (Marois 2012, 14-15).

CONCLUSION: THE TITHES THAT BIND

One does not get emerging finance capitalism in Mexico today without the recurrent socialization of financial risks, which itself cannot occur without the institutionalized subordination of workers and popular classes to financial imperatives. This unequal power relation exists because financial capital has won the political battle around establishing policy matrixes that enable state authorities to push the costs of financial

risks gone bad onto society – be it in the form of bank nationalization, recapitalization, official guarantees, or foreign reserve accumulation – via state fictitious capital, working class taxation, and budget allocations. These socialized costs constitute the contemporary tithes that bind Mexican workers and popular classes to financial capitalism through the state apparatus. This seemingly impersonal institutionalized relationship of power claws back a portion of the wages paid to labor in support of further capital accumulation. State authorities draw in these risks not simply at the behest of financial capital but because supporting financial capital at home corresponds to the deepening social and structural logic of financial capitalism internationally wherein labor forms the weaker link in the capital–labor relation. Far from any idealized emasculated neoliberal state, the socialization of financial risks necessitates a muscular state apparatus that is politically insulated from popular democratic control. A historical materialist analysis is uniquely positioned to reveal the underlying class-based and exploitative nature of socialization, which remains methodologically hidden in the mainstream finance and development literature. Additional case study research should be undertaken from within this framework.

A historical materialist analysis, moreover, exposes a fundamentally troubling social paradox. While forming the material bedrock of financial capital's stability, prosperity, and power Mexico's workers and popular classes find themselves in the position of being institutionally responsible *for* and politically subordinate *to* the fate of financial capital. Financial capital is dominant despite being structurally dependent on labor to (a) create and realize the values circulated as financial flows and (b) absorb the risks that come with financial accumulation. Paradoxically, Mexican workers and popular classes have not been able to collectively organize in their own interests even at moments of crisis when financial capital is most vulnerable and the socialized costs greatest. The vast majority of Mexican society is caught in a Sisyphusian struggle. Mexican workers are squeezed internationally by capital's

global outsourcing strategies, flexibilization demands, productivity imperatives, wage constraints, and by having to outcompete their worker counterparts everywhere else in the world amidst structural unemployment. At the same time domestic state authorities have crafted institutionalized mechanisms by which workers' wages support an increasingly powerful and globally mobile financial bloc composed of domestic and foreign financial capitals.

Class analysis thus reveals the essential problem, and it can also point toward some *necessary*, if not *sufficient*, conditions for radical change (for popular struggles are always mediated by local circumstances such that there can be no automatic or theoretically predetermined courses of social change) (Devine 1988, 130). Yet because class exploitation constitutes the basis of the socialization of financial risks so too must class mobilization be present to break workers' paradoxical subordination to financial capital. It is pure fantasy to imagine financial capital will be willing relinquish its benefits simply for matters of 'good governance'. This raises hard questions of class strategy, organization, collaboration with activists, and taking state power – questions that have been partly abandoned in Latin American struggles (Borón 2012). Nonetheless, some form of collective labor movement, given their access to resources, organizational capacity, and sole capacity to shut down the financial sector and banks, must figure prominently in propelling forward any anti-capitalist change (Gindin 2002, 9). Should such a political challenge fail to materialize, people must prepare themselves for continued institutionalized subordination and deeper rounds of austerity in the name of financial stability and prosperity. To this I see no alternative.

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