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ENDOGENOUS DEVELOPMENT AND A SOUTH AMERICAN FINANCIAL ARCHITECTURE

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CONTENTS

For at least two centuries South America has experienced integration processes and their outcome is ambiguous: they present gains and losses. This paper is an exploration of scenarios, a trip to possible futures. It summarizes what seem to be some of the most relevant lessons to learn from some practices of regional integration in Latin America and Europe. It takes into account the current financial earthquake that is shaking the US financial system, flashing seismic waves throughout the economy of world capital. The paper shows that the creation of a new financial architecture for the region. Such a task cannot be fulfilled outside the context of a critique of the exogenous, technocratic development paradigm that dominates the region and most of the world. It asserts that a financial architecture always serves a certain development pattern and policy, therefore is not politically ‘neutral’. The author’s

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main concern here is to outline the vision of an authentically democratic framework for cooperative integration of South America: an endogenous, democratic and sustainable development; and to raise questions related to the current debate about the construction of a South American financial architecture.

1. Premises and Values

I propose seven basic premises for this discussion.

(1) History proves that the capitalist market is unable to regulate itself spontaneously for the common good. The current financial crisis emphatically illustrates this point.

(2) It is a lie to assert that progress and development are translated by unlimited economic growth and accumulation of material wealth.

(3) The democratic praxis in the local, national, regional and global spaces is the only form of organizing power that makes it possible to fulfill the potentials of the Human Being as a conscious, reflexive species. In other words, democracy cannot be a long term project, it has to be practiced because **one only learns democracy by practicing democracy**. Thus, no authoritarian system serves as a pretext to reach democracy "when the people are ready".

(4) True democracy connects each person's freedom with the freedom of social collectives, acknowledging as its subject *the social individual.*

(5) The democratic State is a space of conflict of class interests and, at the same time, in the current evolutionary stage of Humankind, an indispensable institution to orchestrate social diversity and the harmonize common good. This is the other face of the statement that Society must become the main

protagonist of an endogenous development; Society needs an organism serving *the social individual* as the conductor of its diversity, with the capacity to impart coherence and harmony to the whole.

(6) The objective actions to transform reality must go hand-in-hand with the actions to transform human subjectivity. This includes deep changes in each human person's and each human community's mental, psychic and spiritual spheres.

(7) Finally, the true integration of the peoples of South America must go beyond the trade and finance dimensions; it must respect and integrate the continent's cultural diversity, it must welcome the diversity of peoples and collectives, it must maximize the potential complementarities related to the peoples' material and immaterial qualities and resources through the exchange of goods, services, knowledge, solidarity and feelings; and it must integrate proportionality in the socioeconomic relations, as a principle to guide integrative economic policies.

Four essential values are suggested:

(1) **Autonomy**, which implies the empowerment of each country and people for self-management and the possession of productive goods and resources; thus, every integration process, in order to be founded on cooperation and solidarity, must respect the autonomy of each people and nation. This requires an attitude of welcoming human and cultural diversity and the intent to contribute to other peoples' empowerment, as an end and a means for the enhanced empowerment of the whole regional community. This is very difficult if put in the context of the prevailing competitive rationale, but is the alternative path: *to collaborate with the empowerment of others*. This answers the question "Should Brazil make concessions to the smaller countries in the integration process, or should it only care for its own interests?" As if Brazil's own interests were disconnected from those of the other countries of South America!

(2) **Solidarity,** or the awareness of being solidly interconnected with other humans within the community, with other societies, with Nature and with future generations; and the disposition to act accordingly.

(3) **Shared responsibility** with respect to other peoples, the ecosystems and the future generations.

(4) **Sense of community:** integration means building "unity with" other peoples who are different than us, thus going beyond the national community. Then, what would be a community of nations that endeavors to make this integration a true unity with other peoples? There is no community if there is lack of respect for the diverse cultural roots and economic possibilities and resources of each people. Building community means identifying the common problems and the manners to deal with them through concerted action, uniting resources, energy, knowledge and emotion in the endeavor to fulfill the common development project, now regionally conceived.

2. Obstacles and opportunities posed by the globalization of capital

The globalization of capital has imposed the hegemony of the neoliberal project, both in the realm of government policy and in the cultural and moral spheres. Neoliberalism artificially exacerbates individual freedom (consumer, investor, private enterprise, gender, race) while its reduces the power of government to regulate socioeconomic relations. The market is a social relation, but Neoliberalism does not tolerate its regulation. In its name, social and labor conquests resulting from struggles throughout the 20th century were dismantled. The paradigms of 'progress' and 'development' were put forward as equivalent to modernization, economic growth, and unlimited consumption of natural and energy resources. Technical progress is presented as synonym of progress, regardless of the type of technology and its impact on labor, on the national economy and on the natural environment. This gives place to massive lay-offs and disqualification. As a result, subcontracting has become a norm, while capital monopolizes the productivity increases, feeding its greed for growing income and wealth concentration. Deregulated, the financial system went its own way, detached from productive and social investment, swallowing available moneys in a whirlpool of speculation and making the whole world economy highly unstable.

In contrast, our framework of alternative integration includes several action fronts. The struggle against the neoliberal form of capitalism is the most immediate, but the long term goal is to overcome the system of capital and establish a socioeconomic system based on ethical consumption, self-managed production, the ethics of enough, fair trade, solidarity finance, and on the values of cooperation, reciprocity and solidarity. Other fronts include: the national and international, deregulated and obsolete financial 'order'; and the monopoly of the dollar as the international trade and reserve currency. It has to be a struggle against all forms of terrorism, including State terrorism. It has to focus not only on a 'fairer' share of the product of labor, but on the democratization of the productivity gains. This is why a labor policy for another integration and another development is an essential chapter of the discussion: it is related to the democratization of property and management of the productive means and resources, and of the distribution of the product.

Capitalism announces that the democratization of income is a reality through the stock markets. But economic democracy goes much beyond merely owning stocks of enterprises whose logic is profit maximization; it implies adopting work, knowledge, ethics and creativity as criteria for the possession of productive goods and resources. The problem is the dogma of private property, which excludes and alienates most for the privilege of a few.

Solutions on the regional level must include confronting the dogma of private property and the consequent privatization of the gains of productivity. With endogenous development we must begin to consider the increasing gains of productivity and their democratization as regional, and not only national targets. The solidarity economy movement addresses the problem creatively, although still peripherally. Much more work must be done locally and nationally, so that the issue can become part of the negotiations concerning a cooperative regional integration.

3. Lessons from Ongoing Experiences: Mercosur and the European Union

The Southern Common Market in South America was to be a successful attempt at subregional integration. It was started in 1991, a few years after military governments abandoned the control of the Southern Cone countries. The new representative democracies were hesitant to adopt an endogenous development path for their countries, even less for the sub-region. Their vision did not go beyond the integration of trade. Later they established a customs union (intra-zone free trade and a common trade policy), which to date is subject to many exceptions, double taxing and other imperfections. Some progress has been achieved lately, like the creation by the Mercosur plus Bolivia and Chile of a Free Residence Area with the right of work to all citizens. But in practice this agreement has not fully worked because of restrictions by some member countries, mainly Brazil.

Today, besides the four founder countries, Venezuela is in the process of becoming a member since 2006 (certain conditions for membership are still to be fulfilled), Bolivia, Chile, Peru are associate members; Colombia and Ecuador are associates because the Andean Community has a complementarity agreement with Mercosur; and Mexico is an observer. The decrease in trade within the sub-region indicates that the Mercosur is in a deep crisis. After a peak in 1997, trade in the region fell to the level of only 10% of total trade in 2006. Regarding trade agreements, the treaty of competitive adaptation Argentina and

Brazil signed violates the norms and the spirit of the Mercosur. This is due to the fact that Brazil wants to make Mercosur a “political forum”, and is resisting to promote higher levels of economic and political commitment because they would oblige Brazil to abide by supranational norms, like in the EU.

Some indicators can help evaluate the enlarged Mercosur (2007): GDP (ppc) = US$ 3,96 trillion; per capita GDP = US$ 9.300,00; IDH = 0,792. Other indicators are missing, though, to illustrate the asymmetries with greater emphasis, like the rate of poverty and extreme poverty, and indicators related to the basic rights of persons and peoples’, among them the right to a healthy and sustainable environment. It is also surprising that the Mercosur lacks a vigorous financial dimension. The only reference in the debate currently led by Brazil is the idea of a Southern Cone currency alternative to the dollar and the national currencies. But this is not enough considering the challenges posed by the current obsolete financial architecture of the sub-region.

In June 2008 the presidents Luiz Inácio Lula da Silva and Argentinean Cristina Kirchner received the proposals to make feasible the bilateral trade between the two countries in pesos or Brazilian reais. The initiative was launched in July 2005 and took almost three years for the elaboration of the system of monetary compensation to be officially applied by the two Central Banks as of Oct. 6, 2008.[2] According to Brazilian government sources, de-dollarized trade between Brazil and Argentina is already happening, albeit the barriers and obstacles raised against it. Alternative monetary arrangements in trade have the advantage of reducing the risk of speculation in foreign exchange markets. Such markets usually nurture highly speculative, casino-

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[2] http://www1.folha.uol.com.br/folha/dinheiro/ult91u417681.shtml and http://www.andina.com.pe/espanol/Noticia.aspx?id=ZZuvojVyGOw=

type behavior, generating big gains, usually private, and big losses, often public. Foreign exchange swaps,[3] in Brazil, are among the perverse derivatives created to make speculation easy, despite the high risks involved. It is one of the factors of big losses of private enterprises operating in Brazil in recent weeks.[4]

In 1991, year of the signature of the Asunción Treaty that created the Mercosur, PACS/PRIES organized a seminar with economists, trade unionists, politicians, journalists and churches to discuss alternatives to the Mercosur. The participants produced a declaration entitled “For an Integration of the Peoples of the Southern Cone”. We acknowledged that the Mercosur was contaminated by the interests and strategies of transnational corporations, who can mobilize their capital with total freedom in and out of a space that should be ours. This happens because the Mercosur is not founded on the perspective of a sovereign, endogenous national-regional development. Its national governments have conformed with the notion that the ‘development’ of their economies depends on foreign capital and knowledge. Therefore, they should keep their interest rates high, continue to pay billions of dollars in interests on the debt, and not promote an audit to identify the illegal, the illegitimate and the odious parts of their total financial debt. This choice has proved fatal for their political and economic sovereignty over their respective development processes.

What makes the Mercosur different in nature from the EU is that it is an intergovernmental treaty, whereas the EU chose to build a supranational set of

[3] http://desempregozero.org/2008/06/30/exercicios-com-contratos-de-swap-cambial/

[4] http://aeinvestimentos.limao.com.br/empresas/emp16620.shtm
http://www.economiaemdia.com.br/br/mostranoticias.aspx?id=325169

rules and regulations. Another aspect is that, differently from the EU, the Mercosur has never been committed to set up a progressive policy of overcoming the asymmetries that plague the sub-region.

In the perspective of an alternative integration project, the long term goal is the sovereign, endogenous integration of Latin America and the Caribbean. Strategically, the sub-regional unions are simply steps in that direction.

From the alternative perspective, the EU has strengths and weaknesses. In my view, the main lesson to learn is that the EU was built with a strategic horizon along many decades, in a patient process, step by step, with intensive dialogue and mutual understanding. This process included the transfer of savings and resources from the affluent to the peripheral countries of Europe, as a means to build common patterns of production, consumption, trade, currency and public governance, coherent with the agreed EU principles and norms. And this was done democratically, using public referendums to approve or disapprove the proposed legislations, norms and reforms.

However, the EU was unable to solve fundamental problems that an alternative integration would have, such as social disparities, competition instead of cooperation between regions, countries and firms, low wages and fiscal war to attract private capital, the disrespect for ecological norms, the often inadequate labor and environmental standards and legislation which are applied to the whole region.

The situation of migration illustrates these problems emphatically. Formerly, peripheral European countries, due to poverty and lower quality of life, exported labor to the metropolitan countries. With the expansion of the EU, immigration from lower income countries outside the region became prevalent.

And the EU decided to put stronger barriers against migrants from outside the region. A mixture of racism and unfair labor practices, since the richer countries have historically tolerated the higher exploitation of immigrant labor and the authorities have systematically pretended to ignore their illegal status.

It is worth noting that international trade in general happens not so much among countries, but mainly among corporations; the governments play the role of ambassadors of private and public financial, industrial and commercial capital. Europe is no exception. The ugly face of the EU includes the attempt to impose neoliberal terms on potential Southern partners of trade agreements; and the transfer of monotonous, cheap, unhealthy, polluting work to the Southern hemisphere.[5] The electoral victory of Right wing candidates has led to a social polarization, instead of giving way to improved social and ecological legislation homogeneous in the whole EU.

4. Ongoing Alternative Experiments: ALBA and UNASUR

The first strategy for an alternative integration is the denunciation of the fraud of 'development', the recurrent promise along five centuries that one day the whole world will have the standard of living and the levels of consumption that the highly industrialized enjoy today. This is a lie, a farce that we should systematically unmask on behalf of the general public. Two contradictory paths exist to deal with the issue. One says: let us abolish the concept and no longer talk about development; the other, which PACS espouses and promotes, is to

[5] An eloquent example is the ThyssenKrupp Steel plant being built in Sepetiba Bay, state of Rio de Janeiro, using Brazilian government cheap loans and violating national and international legislation protective of local populations and the environment. For an overview and evidence of such violations, see *Dossiê sobre os Impactos da implantação da Companhia Siderúrgica do Atlântico no Rio de Janeiro*, PACS, November 2008, Rio de Janeiro.

deconstruct and reconstruct the concept. The reason is that development means dynamics, movement, process, permanent construction, evolution and revolution combined. If the term's semantics was distorted, other essential terms in today's political economic vocabulary also were. One example is *democracy.* Should we abandon the concept because its meaning was distorted? Or should we work to update its meaning and creatively put it into practice in our respective sociocultural contexts?

What is interesting about these two converging experiments?

ALBA (Bolivarian Alternative for the Americas) articulates four countries – Venezuela, Bolivia, Cuba and Nicaragua. However, in the 5th ALBA Summit in April 2008, 12 Latin American and Caribbean Presidents were present. This is a sign that interest in the experiment is expanding beyond its current members. They signed a series of agreements of cooperation in areas as vital as trade in gas, oil and energy, education and health. Solidarity is ALBA's main differential with regard to other integration processes in the continent. This is a crucial aspect in the construction of alternative regional integration. The terms adopted by Venezuela to export oil are extremely favorable to the smaller countries of the region. The treaties intentionally adopt the principle of proportionality in international trade, having a bias on behalf of economically weaker countries and social classes. Within ALBA barter in goods and services is common, as well as exchange using prices proportional to the size of the economies involved. Human and social development have been a stronger motivator than the mere search for profit making and economic growth. In ALBA regional interactions based on cooperation and solidarity are happening! Its protagonists are governments and social organizations, and not transnational enterprises, as is the case in other integration processes in South America.

Another decision taken in the 5th ALBA Summit was an agreement among the four member countries to exit the ICSID (International Center for Settlements of Investment Disputes), which is a center for the resolution of conflicts between private firms and governments, and is part of the World Bank group in Washington DC. Bolivia had already left ICSID and the other ALBA countries are now committed to do the same.

UNASUR is an attempt, mainly by Brazil, of preempting the South American Community of Nations. It was created in 2008, with the participation of 12 South American countries, including the Guyana and Surinam which, generally, do not involve themselves with continental initiatives. UNASUR is supposed to serve as “a space of concerted action for integration”; aiming “to build a South American identity and citizenship”; and to maintain “unlimited respect for sovereignty, integrity and territorial inviolability of the States”. Based in Quito, Ecuador, UNASUR will have a Parliament in Cochabamba, Bolivia. Promoted by Brazil, UNASUR tends to reinforce the continent in front of the North American geopolitical power, but also runs the risk of serving the corporate interests of the large corporations based in Brazil. The Brazilian government seems to conceive UNASUR as a space of struggle for continental hegemony. On the contrary, ALBA is conceived on the basis of “one for all, all for one”. While in ALBA the Venezuelan government creates the Oil Fund to finance food and energy sovereign and security projects, the proposal of a South American Security Council seems more important to Lula’s administration, who also suggests the creation of a common Central Bank and a regional currency. Within UNASUR there is a clear confrontation between two positions: Brazil tries to win support for the Security Council as a priority, while others insist that the priorities should be food and energy.

Among the positive goals of UNASUR is “to build a participatory and consensual space for integration and union of its peoples in the cultural, social, economic and political spheres.” The founding document does not refer to commercial integration, it prioritizes political dialogue, social policies, education, energy, infrastructure, finance and the environment, aiming to eradicate socioeconomic inequality, to build social inclusion and citizens’ participation, to strengthen democracy and reduce the asymmetries in the framework of stronger sovereignty and independence of the States. These terms are expressed in Article 2 of the founding document.[6] However, because UNASUR was put together by Brazil’s initiative, the Lula administration seems to have a project of regional hegemony. Thus, we must acknowledge the political ambiguity of UNASUR. And the nationality of the corporations who may influence the region behind the cover of the States does not really matter: today Brazilian corporations are transnational like those of the Northern countries, competing for the same interests and presenting the same profit-oriented behavior. The advantage of the Brazilian corporations in the region is that they are backed by a huge State development bank, BNDES.

5. Democratic-participatory development planning

When we hear reference about alternative development, it is usually related to more State presence in the planning and management of

[6] See http://www.rebrip.org.br/_rebrip/pagina.php?id=1894 for the Declaration on behalf of UNASUR, Brazilian Network for the Integration of the Peoples (REBRIP).

development; modernization, unconditional technological progress, large infrastructural projects, centralization of the means of production and financing; are all in the agenda. It even includes massive foreign capital as an indispensable partner.

Frankly, this is no alternative development. It is capitalist State-led 'development', rather than market-led 'development'. It forgets the multiplicity of the territories and of the subjects involved. Do we want to build in South America the same unequal and asymmetrical economic and social base, subsidiary to the international markets, and subservient to the strategies of global corporations and to the interests of stronger economies and nations, harmful to workers and to the environment? A brief overview of the risks of a global crisis embodied in the dominant development paradigm reinforces this point.

The US mortgage crisis proved to be only the top of the iceberg of a decadent, irrational and unsustainable global financial architecture.[7] The measures being discussed to overcome the crisis are palliative. There is a composite risk that the financial crisis may stir a socioeconomic crisis – overproduction with deflation, related to serial bankruptcy of banks and enterprises, massive unemployment, collapse of people's purchasing power, food and energy shortages, a sharp reduction of international trade, a global liquidity problem, massive migrations, and the temptation to resort to war as a means of averting a systemic collapse. All this may come at a great human and ecological cost, but it may also give place to an upsurge of consciousness, with

[7] For an extensive account of the global financial crisis, see Arruda, Marcos, 2008, *Lucrar sem produzir - a primeira grande crise financeira do século 21*, monograph, PACS, Rio de Janeiro.

the emergence of new actors, new social and environmental relations, which will force an inversion of political economic priorities.

Another factor of risk is climate change. Acceleration of global warming has been exponential and carries a double risk: it can create a disastrous wave of heat in the central regions of the planet, melt the ice caps, which increases the absorption of the sun rays and raises the level of the oceans, largely extinguishing the sea flora and fauna; it tends to reduce access to pure fresh water, damaging forests and soils, changing the life cycles or leading to the desertification of extensive areas. It can also give place to growing cold weather resulting from anthropogenic aerosols, solar spots, possible changes in the Planet's axis, and inversion of sea currents.

Still another factor is the drying up of fossil energy sources before humankind develops sufficient renewable energy forms to replace them. If this happens, the Earth may in a few decades become an energetic desert. Then, maybe, humankind will learn how to use solar energy to make life viable again. All this to say that development must be reconceived in the context of these risks.

The point is that we must reject the dominant development paradigm. And the need to establish participatory development planning is a crucial part of it. The only way to do this is to move towards a *rupture* with the past. Integrate from the past all that is good to humans, to society and to Nature, break the inertia and go beyond: build new social relations and new institutions that give new meaning to the words *development, progress,* and *democracy*. In our continent, Venezuela, Bolivia and Ecuador are showing the way.

6. Another Development

What other development? First, to rescue the meaning of development as related to a being's qualities, attributes, resources and potentials. Thus, no one can develop no one; at the same time, because all being are interconnected and rely on all elements of the surrounding environment, no one develops oneself alone. Second, we must acknowledge the need to make a shift of development towards the local space and territory where people and communities dwell. They are the only true subject of their own development – individual and collective. Therefore, they must rescue their right to self- and co-manage development which has been historically sequestered by Governments and corporations.

The alternative solutions to the global threats are not only global in nature, but both local and global. They will be effective only if they involve other actors with another system of values. The value of relationship and community must become fundamental to human survival again.

(1) Redefine development as a right of each person, community and people. Explicitly recognize each and every citizen's right to develop her/himself in the territory where they live and work, in their own country and region, or in the region they choose to settle down. Forced migration due to political, social, military, environmental factors illustrates the failure of 'development'. Development should go from the local to the national and the global level, and back to the local. Development should be from inside out (endogenous) and again inward. The adjectives *sovereign, endogenous, democratic, ethical, solidarity-based, gender-balanced, sustainable* do summarize its most relevant attributes. Let us overcome the illusion that development is no longer related to

territory because it is now globalized, and that global enterprises are the only legitimate agents to make it happen. This fallacy grants self-centered, unpatriotic corporations the power to be predators of the world in the name of progress. The planetary development we yearn for is one that respects the sovereignty of each person, community and people, one that respects Nature and combines them in flows of relationship that unify the whole without sacrificing the diversity, autonomy and singularity of each part. We can apply this reasoning to globalization as well as to regional integration.

(2) Development must be driven towards the reduction of the work necessary for the mere physical survival of the human being. This can happen only if the gains of productivity are shared, not concentrated. The enjoyment of the fruits of surplus work – whether in the form of money or time - is a human and a social need and right. More money allows for more consumption or saving. More time gives place to work aimed at developing the upper potentials of the person, the community or the people[8]; that is, time to development immaterial wealth. The democratization of the gains of productivity depends not only on the good will of entrepreneurs, but also on public policy, legislation and market regulation. It has a radical impact on income and wealth deconcentration. An emancipatory regional integration must affirm that development is the reduction of work connected to the mere physical survival. This will demand a redefinition of the system of exclusive property of productive goods and resources. The democratization of that property will guarantee, beyond mere subsistence, the right of all people to the products of their labor, and to the production and reproduction of life.

[8] According to Karl Marx, these potential are "...."

New indicators of wealth are needed at the local, national and regional level, to frame development in the perspective discussed above. Indicators that contemplate other forms of wealth besides money and profit. They are being developed in a variety of countries that include Bhutan, Canada, England and France.[9]

(3) The concrete recognition, in the context of an alternative integration, of the right of peasants, workers and native peoples in their social, cultural, ethnic and gender diversity, to be the protagonists of their own development. This is a challenge especially to politicians and governments, but also for the peoples. How to build pluralist development, one that respects and integrates in diversity each group and sector, the national and regional projects in harmony and accord. A complex challenge, but not impossible to confront successfully.

(4) The need for a democratic, participatory planning of development. Here another translation movement is demanded: from planning as a strictly technical corporate exercise, aimed at profit accumulation and its remittance to the countries of origin or the fiscal havens, to a planning process that begins at the community level and gradually involves the territory and the biome, the municipality, the nation, the continent.

(5) Keynes taught us that without the control of its own finances a country (or region) will not have control over its own development. South America faces the challenge of a new financial architecture. It cannot simply be a sum of the financial sectors of the member countries. We should note that there is much talk about a new financial architecture, and the reason is that the

[9] For an overview of Bhutan's Gross National Happiness government policy, see *Rethinking Development – Proceedings of the Second International Conference on Gross National Happiness*, 2007, Centre of Bhutan Studies, Thimphu, Bhutan.

existing one is collapsing. But how new the agents who talk about it intend it to be is unclear. A cooperative integration of South America certainly demands a different concept and practice of development and a financial architecture that truly serves both.

7. What Financial Architecture for South America's Endogenous Development?

I made the point that a new financial architecture is not an end, but only a means for innovative development.[10]

> "Integral development (…) understood as a socioeconomic process necessary to guarantee the eradication of poverty, ecological equilibrium, the improvement of the quality of life with social justice, independence, sovereignty and respect for the cultural identities." (Maria Hernández-Barbarito).

The question is what architecture to build, and how civil society will influence the definition of another architecture. Let us outline three general elements of the new architecture, and five specific ones. The general elements are:

(1) Chronic negative net transfers: There is a **net transfer of capital** stubbornly unfavorable to Latin America. In 2005 it was worth US$ 123.1 billion. The indebtedness process is at the root of this phenomenon, although it is not the only factor. A political economic shift is necessary: that the continent's capital and resources stop being massively transferred to the rich classes and

[10] This chapter owes much to the proposals advanced by Venezuela, Bolivia, Brazil and, most important, Ecuador, on behalf of a cooperative and sovereign integration of South American nations.

nations, but rather stay in the continent and serve to nourish the integral development of its peoples. We have a fivefold policy proposal about the public debt:

a) It is urgent to orchestrate at the regional level a process of **public debt audits** in each of the countries of the region, following the example of Ecuador, in order to identify aspects of illegality and illegitimacy, promote collective negotiation on the common aspects and bilateral negotiations about specific aspects. Public overindebtedness crosses all socioeconomic problems of Brazil and of all the other South American countries. Without solving the problem of endless overindebtedness there is no path to endogenous development and no chance of an alternative integration process.

b) Interruption of the mechanism of conversion of foreign debt into internal debt, and concerted renegotiation of the current internal debt stock.

c) Definition of a common platform and a concerted strategy of negotiation with the financial creditors, envisaging the cancellation of the external debt of the countries with high poverty incidence and, for example, the partial reimbursement to private and public lending agencies by the IMF, with the reactivation of the Special Drawing Rights as a possible international currency to replace the US dollar.

d) Recognition by Brazil, Argentina and Uruguay of the historical debt with Paraguay for the imperial Triple Alliance War against Paraguay in the mid-19th century, that destroyed more than half its population, and of the obligation to make reparation; by Brazil and Argentina in relation to unfair prices for the Itaipu hydroelectric energy; by all countries of the continent with respect to the native peoples and the victims of slavery; by Brazil with respect to various countries (Ecuador, among others) which built perverse debts with Brazil, such as those related to the purchase of weapons to clamp down popular dissent; by those who maintain with them unequal and disproportional trade relations.

e) In the context of peoples' integration, it is important to work for the creation of an international debt arbitration tribunal, to whom countries would resort with the results of their debt audits in case bilateral negotiations do not have a satisfactory outcome. Such an independent, democratically representative institution would be empowered to try the debt, obliging creditors to take their part of the responsibility for inadequate, unfair, risky and even odious debts.

(2) Creation of a Latin American Arbitrage Tribunal alternative to ICSID (International Center for Settlement of Investment Disputes/World Bank), in order independently to solve disputes between enterprises and governments in Latin America, respecting the sovereignty of nations and peoples.

(3) Construction of a **regional juridical framework and a regional legislative system** aimed to ensure regional democratic governance. UNASUR is already creating a South American parliament. The continent should develop a body of regional laws and regulations. The UNCITRAL system of the United Nations, which regulates capital flows in the form of the law, including supranational law, should be a reference.

The specific elements of a South American financial architecture are: (1) An endogenous development bank. (2) A South American macroeconomic stabilization fund. (3) A strategy of monetary convergence. (4) Democratic management of regional monetary and fiscal policies. (5) Green mechanisms.

(1) An endogenous development bank.

The South Bank was created in January 2008 to serve such a purpose. Cooperative integration demands a regional development financing tool, founded on democratic principles, with transparency of operations and an egalitarian structure of decision making. PACS, as a member of the Jubilee South Network, has actively participated in this debate and collaborated in the elaboration of the two letters of social movements to the Presidents of the countries that created the South Bank. The official debate reveals the political complexity of the initiative. The diversity of intentions and interests among the founding countries makes it difficult for member countries to agree on the Bank's nature and purpose, the system of decision making, and the financing policies. The Brazilian government wants this to be a supplementary bank to the existing multilateral or national banking agencies (among them the Brazilian BNDES); and that the deciding power should be proportional to quotas of capital invested by member countries, arguing that the power should be proportional to the risk. Other countries, like Ecuador, propose a strong development bank, capable of gaining a protagonist position within continental finance; they question that linear, narrow understanding of risk, insisting that the proportionality of risk should be related to the size of the economy, rather than to the gross amount invested. One billion reais invested by Brazil in the South Bank are not at all equivalent, in terms of risk, to one billion reais invested by Bolivia, for example: taking the size of its economy as the reference, Bolivia runs a much bigger risk!

Organized civil society endeavors to influence decisions in the construction of the South Bank, hoping it will be technically competent to evaluate the economic feasibility of projects to be financed, but also its social and environmental feasibility; hoping it will choose to invest in socioeconomic endogenous development projects, giving priority to those food and energy sovereignty and security; and hoping to make the South Bank an authentic service to innovative national and regional development and a cooperative regional integration. For the South Bank it is crucial to conceive economic and technological development as means to serve social and human development. Financing is not a random, purely technical operation: it serves a developmental purpose of one kind or another. In our case, endogenous development planning is the framework for adequate financing policy. There is no alternative integration and democratic socioeconomic governance without participatory development planning. That is, development planning is a responsibility that goes beyond government representatives and must actively involve all stakeholders.

So, taking endogenous development planning as the broad political economic framework, the new financial architecture needs "an endogenous development bank" that make investments feasible to that end. This approach, of course, is currently a matter of contradiction and even antagonism among South Bank member countries.

(2) A macroeconomic stabilization fund

This fund would be responsible to coordinate regional monetary and financial policy, in response to the guidelines of the regional endogenous development plan. First and foremost this fund should develop regulations that put an end to the current wave of financial speculation that has converted global finance into a high risk casino. The neoliberal reforms of the 80s have spread capital markets around the world; financial speculation is driving investment away from production and from public investment, and is causing regional and global instability and so much harm to the development of economies and peoples. In the 30s, an act – *the Glass Steagall Act* - was approved in the USA that separated commercial and investment banks, allowed the government to collect part of the bank deposits, and created a Federal Insurance Company to guarantee deposits in the Federal Reserve. During some years banks were forbidden to play with financial speculation. The Peruvian economist Oscar Ugarteche suggests we use it as a reference to design regulations for the South American financial architecture.

Gradually the banks found ways to avoid these rules and in the wake of the 1999 financial crisis the Act was extinguished. In the context of today's crisis, investment banks are merging with commercial banks, and federal governments are acknowledging the need to reestablish State regulations on financial institutions and transactions. Contrary to the prevailing doctrine of Neoliberalism, they are also transferring massive amounts of public funds and making significant fiscal concessions to private banks and financial firms.

The South American financial architecture must start from these lessons and draw away from the blind dogma that the market regulates itself. It must understand that all stakeholders of financial flows must share the management of financial resources. It must incorporate the decentralization of finance and money. It must acknowledge the right of communities to create complementary currencies that enhance their purchasing power and their capacity to produce and consume locally.

The distribution of the stabilization funds should be subject to decision by all countries and not only two or three stronger ones. They should serve the needs of the economically weaker countries first, in an innovative perspective, that of the *systemic regional efficiency and productivity*, besides the efficiency of each member country's economy. In this context, stronger economies will often give up privileges on behalf of weaker ones, in the name of efficiency of the region as a whole.

(3) Monetary convergence

Two aspects about *monetary convergence*. First, trade using national currencies is being started by Brazil and Argentina. Second, Brazil proposes the use of national currencies in intra-regional trade as a strategy for the creation of a monetary union, both in UNASUR and in ALBA.

A monetary union means the fusion of currencies into one; the Euro is an example, but it was the result of years of construction, after more than a decade of intermediary instruments. South America should not create a new currency for tomorrow without paying a high price, especially in the political sphere. It would help consolidate the current asymmetries and would give space for the stronger economies to control the currency. The EU taught us that a gradual process of overcoming the asymmetries is a condition for a monetary union that is favorable to all, and not to a few only. Another alternative, proposed by Peru, and by Bolivia and Ecuador five years ago, was a South American peso. The wisest proposal seems to be a monetary unit that contemplate a basket of the currencies of the 10 countries of South America, who are already articulated;

the unit should be used flexibly to establish a stable intra-regional trade dynamics, and also to issue bonuses that would allow a flow of resources on behalf of the most needy.[11] (Ugarteche, 2008) This will oblige the definition of a regulated exchange rate band – not a 'free' market band, as is currently the Brazilian band. A coordination of exchange rate policies will be necessary, as an important element of the new financial architecture, moving towards as much exchange rate regulation as possible by the various member countries. Political obstacles do exist, however.

(4) Stabilization fund

There is debate whether, for the purpose of the *democratic management of regional monetary and fiscal policies*, South America needs a Central Bank or is the macroeconomic Stabilization Fund the institution to fulfill those purposes? A Central Bank will only make sense if it is not autonomous from the governance agencies who are responsible for the elaboration and the orchestration of the endogenous development plan. Certainly it would have an important role to play in this case, but there should be complementarity, not overlap between the Central Bank and the Stabilization Fund. In the long run, as the economies become more cooperative and complementary, the trend is that the need for a 'stabilization' fund will be superseded. Meanwhile, the financial governance institutions we are referring to should develop a relatively homogeneous system of interest rates, suppressing usury and rationalizing the financial transfers among members countries, thus avoiding the threats of exchange rate instability and of financial speculation. This may sound absurd to

[11] Ugarteche, Oscar, 2008, "**La Unidad Monetaria Sudamericana (Ums): Una Segunda Aproximación",** Programa de Apoyo a Proyectos de Investigación e Innovación Tecnológica (Papiit) de la Dirección General de Asuntos del Personal Académico, UNAM, México.

neoliberals, but the Brazilian 1988 Constitution did establish a 12% per year limit to interest rates, with the precise intention of reducing the risk of commoditization of money, which would certainly facilitate the development of a casino economy… as it did, for the Constitutional article was never implemented.

(5) Green mechanisms

These may be financial or non financial mechanisms. They can play an important role in financing endogenous development, and are already being implemented in some countries, like Ecuador. The Ecuadorian decision to leave Amazonian oil in the underground and negotiate carbon credits in exchange for unexplored oil implies that the *total* (financial, social and ecological) *cost* of exploring that oil would be bigger than the benefits it could generate. Ecuador will use those resources to create a socioeconomic investment fund. Of course that decision may change with time, since the peak of global oil production is now being reached and the third world oil shock is quickly approaching, and, this time, may be irreversible.

Summing up the challenges. First, the *ethos* of 'development' and 'progress' is a fetish. However, it has become an unquestionable paradigm for the elites of the region, but also for the leftist sectors. There is a sort of consensus about what development is, equating it with modernization and technical progress at any cost, and having as its core the 'free' market – another fetish – and the big corporations, rather than the human being, the domestic and communal consumption and production units. This dominant concept implies the death of plurality: the same technologies, the same level of consumption, the same products, the same advertising industry, the same unquestionable 'truths'. Second, it is exogenous, it comes from abroad. If the North has advanced more than we in the South, why not adopt their development pattern and imitate them? Thus, any left party today who reaches State power calls exogenous development "the only available path". Spain and Ireland are examples in Europe, Brazil, Uruguay and Peru, in South America. Exogenous development proved to be alienating, homogenizing, impoverishing and destructive of Nature. And third, consumerism, unlimited industrialization and exploitation of the scarce natural resources until they vanish. Unfortunately, many trade unions and people's organizations are also imbued with this ideology.

In the sphere of trade, barriers in the North continue and present a serious obstacle to competitiveness of the Southern countries, economies and blocks. Also, the fact that our economies are more or less dominated by foreign enterprises and follow their global corporate strategies aimed at profit maximization, rather than aimed at sovereign, endogenous development projects of our own. It should be stressed also that there is a conflict between the dominant, exogenous focus on export oriented growth – oil, minerals, grains, biomass - and a sovereign, endogenous development project, with emphasis on food, energy and natural resources sovereignty and security.

This paper is preliminary and must be expanded and deepened. If it serves to motivate colleagues to joint forces with their knowledge, whit and commitment I will feel it was worth the effort of writing it.

Rio de Janeiro, November 2008