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Financial Crisis: Democracy and Institutions

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Abstract

The relation between democracy and financial crises is of great importance in the political and economic analysis. It means the existing correlation between the structural economic changes and the political regimes in Europe and Latin America since the crisis arrived six years ago.

In the economic, political and social history of the last years, we can observe how the adjustment measures to balance the budget and to pay the creditors have destabilized democratic regimes. The economic crisis that already points the course of six years within the most tragic and unfolding unemployment rate and social loss of wealth being that has affected economic alternatives. To the point even of put aside the main debates about the economic growth and the economic development.

It is not easy to think that democratic regime support growing unemployment rate, falling incomes of workers and middle classes, failure of small and middle enterprises, weakening of the welfare state, and deterioration of public services. Moreover, it is difficult to understand the alternation in political parties, but that don't change the policies that have created all this mess. The incapability of the parties, democratic regimes and even social movements to change the main direction of the economy during the last so many years, raise so many questions for economics and political science.

Democracy and Financial Crisis are part of the existing correlation between the structural changes and the political regimes in Europe and Latin America in the economic, political and social history of the last four decades. The economic crisis, already points six years. Unemployment rate hasn't been reduced as before the beginning of the crisis behind a social loss of wealth. The new monetary consensus isn't solving the economic growth and the economic development in Europe and even in the emergent countries. On the other hand, the yield fight has influenced the decisions of the International Monetary Fund (the IMF) in favor of the financial markets.

The G-20, since the meeting in London (2009), resurged the Washington Consensus. The goal of this group was to strength IMF performance an international task to clean the toxic instruments around the international financial circuits. To punish the governments that will not answer to the coherent plans of stabilization to reduce the public cost and to order the payment of the debts with the institutional investors.

Our position is the opposite, the dispositions should have centered in increasing the public deficit, clearing the financial shield of the central banks to guarantee the employment. Taking these policies would have resulted in gains for the entrepreneurs and new investments had multiplied the demand.

The dispute of the profits in the financial markets by the institutional investors is affecting setbacks that head the democracy to a deepening of opposite measures to leave out the crisis. The depth and the digging of the economic situation have been developed in a wild circle of dissatisfactions. The obstruction of the stabilizing measures will entail to conscious social movements of the economic change. These will take to the recovery in a long term. Indeed, it is an economic structural crisis, deeper than the 1929's crack.

The purpose of this work is to give a vision of the economic indicators of the European countries and of the Latin American countries as of the first decade of the present century towards it to demonstrate how democracy is a regime that responds to the economic incentives granted by the State in favor of the creation of the wealth for the entrepreneurs and the employment for use for the population.

Financial Crisis: Democracy and Institutions

Introduction

The relation between democracy and financial crises is of great importance in the political and economic analysis. It means the existing correlation between the structural economic changes and the political regimes in Europe and Latin America since the crisis arrived five years ago.

In the economic, political and social history of the last years, we can observe how the adjustment measures to balance the budget and to pay the creditors have destabilized democratic regimes. The economic crisis that already points the course of six years within the most tragic and unfolding unemployment rate and social loss of wealth being that has affected economic alternatives. To the point even of put aside the main debates about the economic growth and the economic development.

The purpose of this work is to give the relation between the economic measures during a period of crisis in Latin American and European countries and their influence in democratic regimes.

It is not easy to think that democratic regime support growing unemployment rate, falling incomes of workers and middle classes, failure of small and middle enterprises, weakening of the welfare state, and deterioration of public services. Moreover, it is difficult to understand the alternation in political parties, but that don't change the policies that have created all this mess. The incapability of the parties, democratic regimes and even social movements to change the main direction of the economy during the last so many years, raise so many questions for economics and political science.

I. Could it be a new ethic pattern in the path of development?

One of the biggest questions that many economics must be asked after the path of the financial crisis is the relation between ethics and economic and political alternatives that the governments have employed to resolve the

financial crisis. The public policies confront the financial crisis rescuing banks and contracting all the social and public services expenditures. Why the governments rescue the banks but also the bankers and don't think about to rescue of the employment? It is true, and the financial crisis rescue cost has been showed, it is cheaper rescue the workers' employment than rescue the bankers. Here it is easy to see the main point, the public policies have been dominated by the interest of the financial sectors. Here there is an ethic challenger in the path of development.

Seeing, as a human right, the necessary conditions to have an employment, when a person demand the right of an employment for himself converts employment in an *unquestionable* human economic right. So, the relation between employment and ethics is the heart of the economic science, matters in the context of an economic and financial crisis. This relation behind ethics and economic science is more than important, it's not a casualty, and it is a causality relation of an economic view of development and wealth being.

When a person demands an employment the economic environment must give the opportunity to have an employment. Such demand of employment will give not only the opportunity of an income but also the demand of products supplied by the entrepreneurs. At the same time, improving profits will increase public and private investment. In this moment economic ethics is a circular movement that will give the path of growth and development. Without, forgetting the figure of the State as a regulator of the economic and social activities, the participation of it is really very important.

Not all the employment could be generated in the highest level of productivity activities, moreover the productivity rate of different economic activities growth at a very different speed. But the good and services produce by all of these no highest productivity activities are important not only for the economic as a whole, but also for the well being of the population. Then, there are important to have this multiple productivity levels and rate productivity growth, and people employed with decent wages even if its productivity are belong its wages.

II. Is it a relation between financial crises and unemployment?

A new structural changed has involved many people without employment. People are on the streets after being employed for many years. Young and old people that just can't have an opportunity of an employment. Employment is a human right. Every citizen has the right to be employed.

Because decent wage and worthy employ is a human right.

The work have an economic dimension, but also social and cultural. Deny the right to work is deny the life itself. Keep millions of people out of work and of contribution to improving the life of the population, is the worst economic waste, but also it is immoral and criminal againts the humanity.

During the last five years, increasing and decreasing budget deficit has been the principal State aim to resolve the crisis since 2007 until today. The results aren't the best ones. Unemployment rate hasn't reduced as before the crisis,

it is unstable, banks are having profits without lending, the financial shadow system hasn't been regulated yet, and as democratic parliament parties will like to be done.

It means, that economic alternatives confronting the crisis, doesn't show a growth development path. "Stabilizing an unstable economy" isn't being approached, yet. Trying to stabilize the economy is giving place to bring up a destabilization and deflation process inside the productive and financial circuits.

Stabilizing the global economy means abandon the austerity policies. Develop expenditure policies that create full employment for public services, investment in technology and science research, education and health. It looks expensive, but it is more expensive to have millions of person's unemployment year-by-year, submitted in a moral process of degradation of millions of families.

III. What do we have in the soup?

a. "Too big to fail, too big to rescue": after 2007, many governments trying to confront their economic cycle increased their deficits to save their banks. Amazing by the "subprime crisis" governments thought that subprime crisis was as another crisis like in 2001, 1987, 1982 or even 1971. It wasn't another recurrent crisis. As many governments induced high amounts of their money to capitalized their banks and afford a drastic slowdown of their GDP the public budgets increased to rescue the institutional banking investors. The financial industry was blinded by huge amount of money, which was acquired in the financial markets by the governments. In European periphery countries the sovereign debts increased as much as they were needed to capitalize the banks.

b. These measures in the neoclassical economic theory signed were to stabilize the weak economy and their banking system. But, there wasn't any stability and the crisis wasn't control. From 2007 until Lehman Brothers bankrupt many banks were saved by the Central Bank. One of the principal aims of the Central Bank is low inflation behind a tight monetary policy. In the path of restrictive budgets the government can't afford more public easy money. And these measures are impacting in a lot of loss jobs, closing entrepreneurs business and reducing social budgets.

c. The socialist governments such as Greece, Portugal and Spain, which have more social interest for their people, have failed in front the several austerity political measures that were taken to resolve the payment of huge amount of debt. These measures, ordered and imposed by the central European Bank (EB), the International Monetary Fund (IMF) and the European Commission (EC), were decided to be the solution for the crisis since 2008. From 2008 until now, governments were changed by these policies. The path of democracy, demonstrated by social protest, shows the necessity of new government elections, immediately.

d. What are the key solutions of the new governments?

As soon as, the new government was elected, the principal aim of these administrations that have reached in a democracy way during the financial crisis path adopted what the “troika” (EB, IMF, EC) asked the past administrations to do.

e. What do we see?

The economic, political and social development plans of these new governments elected in democracy are very well correlated with the principal financial markets objectives'. The principal economic measures that were taken are based on several adjustment measures. Reducing the public budget, creating less employment and decreasing the income of people. Indeed, many entrepreneurs are losing their profits, some are closing and few others are moving to other productive markets such as the emergent countries.

IV. Latin America: history of years of pain, profits and hopes.

Since the 70's several recurrent crises had happened until dictatorship regimes arrived and erased the industrial and substitution model. Changing the structural paradigm was the principal aim of these regimes with the support of the IMF. To change the structural paradigm the dictatorship regimes were the alternative to a decade characterize by the social protest movements between the seventies and eighties in South and Central America. Blood years of pain and economic disaster. When democracy arrived the parliament of these countries adopted the Washington Consensus measures as the battle to improve growth and development. In Latin America, the 80's named as the lost decade; inflation, devaluation and huge amounts of capital were exported to the banking transnational industry. The 90's, the hope decade, volatility of the GDP rate and the banking crises were one of the most important characteristics of these years.

The impact of these measures increase social movements and the expression were new political parties that finished the Monetary Consensus in Argentine and set a path of social and democratic governments in Chile, Brazil, Argentine. Others', such as in Venezuela, Bolivia, and Ecuador are trying to transform their social policies in a more drastic way but employment hasn't increased as it were supposed to do it. If we think that democracy arriving will change¹ the economic decisions and improve a different model. We are blind to one of the most principal change to finish with poverty and reach development.

V. Instability and fragility the main consequences of the Latin America insertion into the internationalization of the monetary, financial and productive circuits of the international world production economy.

¹ Venezuela (1998); Brasil (2002-2010); Argentina, (2003); Uruguay (2004); Bolivia (2006); Chile (2006-2010); Ecuador, Nicaragua; Paraguay (2010), El Salvador (2011).

Now, at least, during the noughties (2000-2009), the emergent countries in Latin America had been favored by their high commodities prices in the financial markets that had induced social policies, reduced poverty and increase income and rate employment. The GDP growth rate of Latin America during this period isn't aware of the European crisis.

However, the strength of Latin American growth is linked to the recovery of export prices and huge flows of capital and direct and portfolio investment. The reversal of these flows and prices and the trend towards global depression during the last months, is rapidly slowing growth and that bring out the structural problems: the enormous social and economic inequality; the small state involvement in the economy; and, the underdevelopment of the institutions of economic security, such as unemployment insurance, universal healthcare and free education.

VI. Reflection

Democracy and Financial Crisis are part of the existing correlation between the structural changes and the political regimes in Europe and Latin America in the economic, political and social history of the last four decades. The economic crisis, already points six years. Unemployment rate hasn't been reduced as before the beginning of the crisis behind a social loss of wealth. The new monetary consensus isn't solving the economic growth and the economic development in Europe and even in the emergent countries. On the other hand, the yield fight has influenced the decisions of the International Monetary Fund (the IMF) in favor of the financial markets.

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2011 Global Employment

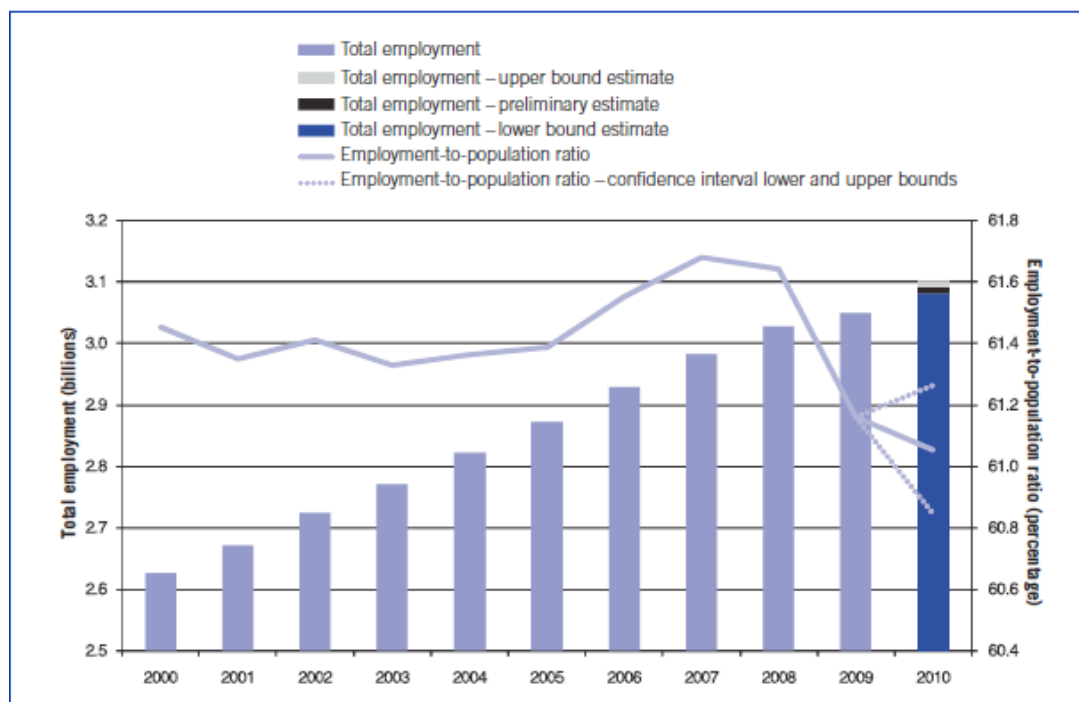
Percentage of workforce surveyed in 148 countries and areas

	% Unemployed	% Underemployed	% Employed full time for an employer
Worldwide	8	17	42
Middle East and North Africa	22	32	35
Sub-Saharan Africa	17	32	22
Americas	12	23	51
Europe	11	18	58
Former Soviet Union	7	14	60
Asia	5	13	40

Non-Arab expats were excluded from the sample in Arab Gulf countries.

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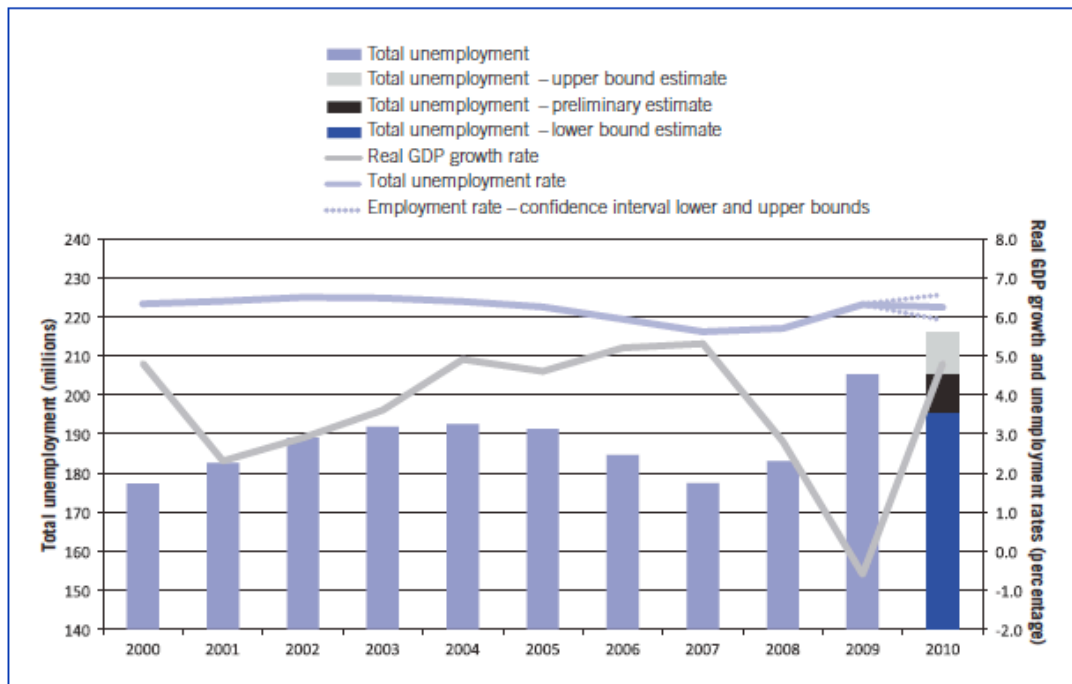
Global Employment Trends 2000-2010



* 2010 are preliminary estimates.

Source: ILO, *Trends econometric models*, October 2010 (see Annex 4).

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