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Latin America and external financing: the shifting international monetary order

Wesley C. Marshall[1]
Department of Economics
Universidad Autónoma Metropolitana – Iztapalapa (Mexico)
Louis-Philippe Rochon[2]
Department of Economics
Laurentian University, Sudbury, Ontario (Canada)

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[1] wesleycmarshall@gmail.com
[2] lprochon2003@yahoo.com

América Latina y el financiamiento externo: el orden monetario internacional cambiante

Resumen. En este artículo examinamos el cambiante orden monetario internacional y las posibles implicaciones que tendrá para América Latina. En el ámbito teórico, prestamos especial atención a las posibilidades de superar la restricción externa que ha definido las economías de la región, así como a una perspectiva polanyiana del orden internacional. En el ámbito práctico, enfatizamos los roles potenciales del Banco de Sur y del banco BRICS.

Palabras clave: Orden monetario internacional, Restricción externa, Banco BRICS.
Clasificación JEL: F02, G15, H87.

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Abstract. In this article, we examine the changing international monetary order and the possible implications that it will have on Latin America. In the theoretical realm, we give particular focus to the possibilities of overcoming the external constraint that has defined the region's economies, as well as a Polanyian perspective on the international order. In the practical realm, we emphasize the potential roles of the Banco de Sur and the BRICS bank.

Keywords: International monetary order, External constraint, BRICS Bank.
JEL codes: F02, G15, H87.

1. Introduction

The Great Financial Crisis (GFC) and its policy response marked a fundamental change in direction in the evolution of the international order, composed of the balance of power system and the international monetary order (IMO). The operational changes in the North Atlantic's most important private and public monetary institutions that led to the rise of shadow banking and its crisis, and posteriorly in multiple programs of Quantitative Easing (QE), have provoked notable changes in the IMO and its appreciation and treatment, both in the academic and policy world. They also sent initial shock waves through the balance of power system. Shortly into the implementations of QE programs, Brazilian Finance Minister Guido Mantega in September of 2010 accused QE programs of creating a "currency war" (Wheatley, 2010), a view echoed shortly thereafter by the then direct of of the International Monetary Fund Strauss Kahn (Rastello, 2010). From that point on, issues of money have taken center stage in diplomatic relations, particularly with the seizure in recent years of international reserves by countries identified as transgressors of the international order, such as Libya, Venezuela, Iran, and most recently Russia.

John Kenneth Galbraith states that "attitudes toward money proceed in long cyclical swings. When money is bad, people want it to be better. When it is good, they think of other things" (Galbraith, 1975: 3). The same can be said of the international order. During the 1990s, the "new world order" became a topic of debate. In the wake of the collapse of the Soviet Union, President Bush used the term in his State of the Union address on Sep 11, 1991, while *Foreign Affairs* magazine offered the opposite - the "new world disorder" (Carpenter, 1991). In a previous moment of system disorder - that of the two world wars - the term "new order" was often used. Two small but relevant examples are Von Hayek's frequent use of the term in the *Road to Serfdom* (1944: 138, 158, 167, 181, 187), and the term's appearance in the inscription of Franklin Delano Roosevelt's monument in Washington DC: "they who seek to establish systems of government based on the regimentation of all human beings by a handful of individual rulers, call this a new order. It is not new and it is not order".

Returning to the breakdown of the international order in more recent times, Kissinger (2015) published "World Order", while Financial Times editor Martin Wolf has referred to the "liberal international order" (Wolf, 2018a) or the "liberal world order" (Wolf, 2018b), the term that has most stuck. Again, the term "new world disorder" would appear in the financial press, gracing the cover of *The Economist* (2020) as a special report.

Despite such attention, the academic world has continued to ignore or demerit the international order and the IMO as a worthwhile object of study. Krugman's stance is illustrative of the point: "global currency issues come across as glamorous and mysterious, so people imagine that they must be important [...] You have to actually work with the numbers to appreciate how little is really at stake" (Krugman, 2023). Fortunately, in heterodox circles, the international order and Dollar hegemony has gained more serious attention in recent years (Polanyi – Levitt and Seccareccia, 2016; Vernengo, 2021; Constabile, 2022; Palley, 2022; Marshall and Rochon, 2023). Seen from the Polanyian - institutionalist perspective of the latter pair of authors, the IMO is intimately tied to the order of peace, and their fortunes rise and fall in tandem. Today's historical junction, roughly at the half century mark of the Dollar Order, finds the global order exposed to both internal weaknesses and external competition, with the GFC marking an inflection point in the monetary order and the war in Ukraine in the order of peace. The parallels between the fall of the Dollar Standard and *Pax Americana* and

the gold standard and *Pax Britanica* of a century ago are clear, and Polanyi's analysis of the latter serves us to understand the former: "we shall try to show that the balance-of-power system could not ensure peace once the world economy on which it rested had failed" (1944: 4-5).

In September 2023, China's Ministry of Foreign Affairs published "A Global Community of Shared Future: China's Proposals and Actions" (Ministry of Foreign Aggairs, 2023), which we will abbreviate to GCSF, that outlines two opposite spirits of the global order. One is a winner-take all and rule of the strong system, whereas the other is one of cooperation rather than competition, and the rule of law rather than the law of the jungle. The strong implication of the document is that the *Pax America* has followed the first path, while with the emergence of China as a global leader, the *Pax Sino* would follow the latter path. The document is released at a crucial moment in which the seams of peace are worn and fraying, and can be seen as a punctuation mark in words for what China has been in action doing since the GFC.

While credit collapsed in the west with the GFC, Chinese public banks launched a massive globally countercyclical credit expansion within the country, and roughly half a decade later, began expanding its capital outwards in tandem with the physical investment projects of the belt road initiative (BRI). But in the post GFC environment, China also began extending finance beyond its borders in the form of central bank swaps between several south American countries. This came at an interesting moment, in which South American countries were making operational the Banco el Sur at a point which proved to be the apex of what was termed the "pink tide".

What can be seen as the internal reaction to neoliberalism and its massive crises at the turn of the century in South America, therefore began to intertwine with China's more external reaction to the GFC - apparently a step too far out of line for the existing IMO, as soon after the pink tide would be rolled back and the Banco de Sur mothballed. However, less than a decade later, with Dilma Russeff acting as the president of the BRICS bank, and among growing calls for a BRICS currency, the possibilities for a more favorable financial relationship between Latin America with the rest of the world are once again raising hopes in the region, and mark another moment in which a brief essay on theme becomes appropriate, particularly as we now have some accumulated experience which can serve as a basis of analysis and possibilities.

After this introduction, the article is divided into three broad sections. The first will describe Latin America's financial relationship with the world, and the second China's rise. The third section discusses the possibilities of the BRICS currency, and is divided into four sub sections. We conclude with some conclusions on the possibilities of Latin American development under a multipolar IMO.

2. Latin America's station in the international order

From the conquest until the twentieth century, Latin America was an appendage of European capitalism with little policy or thought towards economic sovereignty. Countries of the region were first pulled into the mercantilist order by Spain and Portugal, and posteriorly, were transitioned into the gold standard based commercial empire of the *Pax Britannica*. After the breakdown of the gold standard in WWI, LA was an important piece in its brief restoration (Marshall and Rochon, 2023), with most of the region adopting central banks and national currencies for the first time during this period.

It was only with the definitive breakdown of the gold standard at the beginning of the 1930s and the subsequent breakdown of the peace that both in theory and practice the region started making its first incursions into economic independence. On the one hand, Mexico's petroleum expropriation of 1938 set into motion a dynamic of institutional transformation that would be followed in the region - where there were not other similar precursors - under the moniker of import substitution. On the other hand, Latin American economic thinking also began to separate from its European roots, and what would come to be known as Latin American structuralism began forming around this time. Following the changing reality of the times, a new generation of thinkers embraced the idea that depending on foreign powers for economic well being at home was just as dangerous as relying on outside ideas for analyzing local realities. For these thinkers, the key breaking point with traditional economic thinking is that Latin America is a region of peripheral economies that operate with economic structures different than those of countries of the center.

One of the important dividing characteristics between central and peripheral countries is the external constraint - a structural feature of the region that is not shared by central countries. However, the external constraint is different from the other structures that define peripheral economies in that it does not correspond to any aspect of peripheral countries themselves, but rather to outside forces. As its name suggests, the external constraint comes from outside of the region, yet understanding why the external constraint is applied to some countries and not others, and at some times more than others, lies in the largely unexplored realm of the global order, and therefore has been a topic of both confusion and debate, some more genuine than other. Disingenuous confusion was sown in the US and France, with Volcker (1978) and Atali (Bliek and Parguez, 2008), respectively, warning of their countries falling victim to the external constraint. More sincere debate occurred in decades prior among LA structuralists, between the dependency and development schools. The first position is one of political determinism - that the region would not be able to develop only with economic growth, as the second position holds.

A separate but related viewpoint is that of the global order as understood by Polanyi: "In the liberal theory Great Britain was merely another atom in the universe of trade and ranked precisely on the same footing as Denmark or Guatemala" (Polanyi, 1944: 216). Liberal theory maintains the same fundamental omission with countries as it does with individuals - the system and society that they live in. There is always a social order, yet for liberal theory the destiny of an individual or a nation lies entirely in how it plays its hand and not in the hand that it was dealt. Throughout the history of capitalism, the essence of being a peripheral country is that the nation cannot control its destiny. In the periphery, the wealth of nations does not find its ultimate determinant in its people and their morals and capabilities, as Adam Smith suggests.

As we are now in another great turning point in the global order, it is worth taking stock of where Latin American countries are today and their options going forward. We begin with the basic consideration that if Latin America as a region is to work towards development, it will imply great amounts of new physical investment, as under the last half century of financialized globalization, investment has fallen well behind society's needs (Vidal, 2021; Vidal, 2023). The amount and type of investments necessary to fill this gap and to to provide for future needs and projects are not currently available under the current IMO. Again, the external constraint is the condition to be overcome, and again, it lies beyond the control of countries of the region. However, the IMO is not unchanging, and for Latin America, the external constraint has been at times more or less financially constrictive.

With a focus on financial institutions of the region and their historical relationships with the IMO, we can identify four profiles. The first is the colonial model, characterized by underdevelopment with very little financial infrastructure. Before the region's formal independence and the formal gold standard, and for roughly a century beyond the region's formal independence and the establishment of a more formal gold standard, the region had few examples of national currencies and banks, and the little new credit depended on the same global banks that maintained the gold standard. The region's second profile occurs under an IMO that was not designed for the needs of global banks but rather for national productive interests. The Bretton Woods system maintained a stable international currency with limited capital mobility and flows, and for the only time in the region's history, internal productive credit was allowed to thrive through long term financing of long term productive and infrastructure projects provided by public banks. Also, for the only time in its history, Latin America, like other regions, was able to make its only real sustained push towards development. Internal credit combined with stable conditions of international finance define the second historical financial profile.

The third profile occurs under the model of globalized financialization. From the perspective of monetary institutions, it is a return to the first profile. After the 1982 debt crisis and the submission to the Washington Consensus, internal credit structures were dismantled and the great majority of national financing returned to be externally sourced. The consolidated Dollar Standard on a global level - the "Wall Street Consensus" (Marshall, 2012) - removed capital controls, and peripheral countries became "original sinner" countries, unable to finance themselves in their own currency, and subject to the "unholy trinity" when attempting to maintain the stability of their local currencies relative to an international currency whose relative value fluctuated wildly throughout the period. Such changes define the third profile under the Dollar Standard as one of "greater monetary integration and hierarchical currency structures not that dissimilar to the pound sterling-based power relations under the gold standard but even more asymmetrical" (Polanyi-Levitt and Seccareccia, 2016).

Particularly given the purposes of this paper, we must also include a fourth profile, even if it never got off the ground - that of the Banco de Sur, which can be seen as the culmination of a double movement in the region to the period just described. Markets were opened, expanded, and crashed, first as the 1982 debt crisis and later in a series of crises resulting from the Washington Consensus policies that brought structural change and financialized globalization to the region. It was only after this second round of crisis and only in South America where the double movement became consolidated, political and monetary alliances shifted, and the Banco de Sur was created.

Under the goal of creating a common financial space able to provide the financial conditions necessary to allow for the region's production to grow with both local credit and financial stability, we supported the Ecuadorian proposal (Marshall and Rochon, 2009), which basically replicated the original design of the Bretton Woods system, replete with a lending bank and a central bank and a Bancor-like currency. The logistics would be fairly simple, with each national currency convertible to the regional currency for international transactions, as is the case with the Dollar today. It would simply add a new international currency for the member countries. As with the original Bretton Woods system, the central bank would make sure that regional imbalances are kept to a minimum, while the regional development bank would finance projects. In terms of the IMO, such a proposal would in essence carve out a monetary space within the existing system. In order to attenuate the external constraint, the

Banco de Sur did not propose any change to the IMO, but rather to establish a new monetary space.

As we move towards what could be a new IMO and the possibilities of Latin American countries within it, taking stock of where we are currently at does not only include the considerations of Latin America, but also the conditions that will define the new IMO, namely the Chinese project.

3. China and the two traps

The arrival of China as a global power has certainly interrupted the global order and put its guardians on the highest of alerts. Recently, the US secretary of state State Anthony Blinken, referring to China, stated that "I think they want a world order, but the world order that they seek is profoundly illiberal in nature; ours is liberal with a small "L." And that's the fundamental difference. The world that we hope to shape looks very different from the world that they might prefer (Blinken, 2023). With its meteoric rise to the fore of the international order, China has alternatively and frequently been accused of applying debt traps and falling into the Thucydides trap.

China is undoubtedly proposing an alternative global order, both through actions and words. Within this context of a direct clash of interests, all claims should be held under maximum scrutiny, and the scrutiny of historical facts becomes a principle basis of this judgment. Yet the narrative surrounding both projects and their histories is also relevant, and in this sense, claims of China applying debt traps are the easiest to discard. Brautigman (2019) describes how despite the many claims by the press and politicians of "debt trap diplomacy", the claim is not backed by fact: debt loads are not designed to be overburdening on these productive loans, nor are there any apparent political conditions for the loans.

Yet in the facile arguments against Chinese debt trap diplomacy, the meaning of a debt trap is often lost. Owing more than is immediately available to pay does not necessarily signify a debt trap, which should be seen rather as using debt as a weapon in order to extort conditions from the debtor. As money in itself can entice, but not coerce, a debt trap also implies physical force. The *Pax Americana* is certainly guilty of applying debt trap diplomacy. Under the gold standard, the terminology for debt trap diplomacy was gunboat diplomacy, and Latin American ports were periodically taken by foreign powers when debts were not paid, and the principal source of foreign revenue - custom houses - were taken by force. Updated to more recent times, when Mexico could not pay its dollar debts in 1995, the NY Fed utilized its Exchange Stabilization Fund to lend dollars, largely via swap arrangements, to the Banco de México, with foreign sales of Mexican oil pledged first to the lender (Selected document, 1995).

When the debt trap of 1982 was sprung, the Washington Consensus was presented as the list of conditions of extortion - timely payment of debt, sale of state assets, and the opening of the economy. Even the author of the term while claiming that such terms would be favorable to the region ceded the point that debt payments could not logically fall under such arguments (Williamson, 1990: 8). In the following three generations of WC reforms (Correa et. al, 2009), structural reforms have modified the region's financial institutions to suit the export of capital, rather than its creation and activation for local production. Any attempts to the contrary are systemically blocked. In most of Latin America, the sources of credit and money creation have been made unavailable to individual countries now for

decades. Fiscal responsibility laws prohibit budget deficits; independent central banks of the periphery not only cannot engage in QE type monetary expansion, but also have to "sterilize" the inflow of foreign currency; and both public and private national banks have seen their presence greatly marginalized.

The "internal "elements of the external constraint do not only correspond to shifting markets and institutions, but have also included formal directives that limit investments, such as the International Monetary Fund letters of intent along with its Chapter IV consultations (Volcker, 1978; Ministerio de Economía y Producción, 2004). As mentioned, several South American countries reached currency swap agreements between their central bank and China's in the early to mid 2010s (Marshall, 2017; Vanoli, 2018), at the high point of the pink tide and optimism regarding the Banco del Sur. Yet a series of of soft coups (Déniz and Marshall, 2018) was able to keep Latin America within the confines of the dollar monopoly and its administrated scarcity of dollars. For students of Latin American history, the the motives behind accusations of debt-trap diplomacy are transparent: the defenders of the *Pax American are* simply projecting their sins onto a competing project.

With now a decade of historical experience, two aspects of China's expansion stand out. One is its sheer size and scope. In developing infrastructure throughout the global south, something that the *Pax Americana* has offered little of in its neoliberal phase, accumulated BRI lending is estimated at around a trillion dollars (Kynge, 2023). The same *Financial Times* report highlights the second aspect, debt forgiveness:

> the scheme made China the world's largest bilateral creditor, but the figures suggest it has become a financial millstone for Beijing and its biggest banks. About $78.5bn of loans from Chinese institutions to roads, railways, ports, airports and other infrastructure around the world were renegotiated or written off between 2020 and the end of March this year [...] This is more than four times the $17bn in renegotiations and write-offs [...] in the three years from 2017 to the end of 2019.

We can find no instances in Latin American history in which debts were written off by the creditor countries. Latin American countries have defaulted and even defied their creditors, yet no debts have been forgiven. In a telling moment of the division of the world order between creditor and debtor regions, the Dawes' loans and other loans of the 1920s were written off in the Great Depression for European countries, but not for Latin American ones, which finished paying them off in the 1960s (CIA, 1985). Indeed, the very wording of the above quote belies the Chinese debt trap narrative, as it is impossible to reconcile the notion of a "financial millstone" with "debt trap diplomacy". If China had the interest, it certainly has the power to extract debt payments.

The issue of the Thucydides trap is more complex, as it has no modern historical comparison, and does not entirely depend on China's will. China can unilaterally decide whether or not to conduct debt trap diplomacy, but it cannot alone avoid the Thucydides trap. The mentioned GCSF discusses the issue:

> By building a global community of shared future, emerging countries and established powers can avoid falling into the Thucydides trap, find the right way to get along in mutual respect, peaceful coexistence and win-win cooperation, and build common ground and achieve common development for different civilizations and countries with different social systems (Ministry of Foreign Affairs, 2023).

Ten years into China's BRI, its claims of approaching financing from the perspective a "developing county", "committed to win-win cooperation and common development", and "to help recipient countries expand their capacity for development", find little contradiction in fact. Yet as indicated by the above Blinken quote, there are divergent perceptions of China's

rise, and whether the Thucydides trap is to be avoided depends in large part on the current holders of the global order. From their perspective, the two traps are presented as inevitable: even if China hasn't sprung the debt trap, it will, and even if a rising superpower declares its ascent peaceful, it will inevitably lead to world war. These are treated as iron laws of the international order, in which might makes right and economic well being for some can only be guaranteed by the exploitation of others. Yet just because these conditions have applied to the past does not mean that they must apply to the future.

However, as the *Pax Americana* unravels and global war becomes ever more likely, any degree of optimism is generally treated as naiveté. It indeed may be, yet it would be much more dire to ignore a realistic international route towards shared peace and prosperity. Such a clash of attitudes are certainly not new, and Polanyi described them by means of literary analogy exactly a century ago in another moment of breakdown in the international order: "it is a feature of one of Dickens' characters that he is consumed by infinite distrust when he senses even the slightest trace of idealism, but is ingenuous to the point of gullibility when he suspects that somebody is up to something bad" (Dale, 2016).

In today's intellectual climate in which the IMO is rarely discussed or even acknowledged, and in which the dark pessimism of a collapsing conventional thinking contaminates even heterodox thinking, there are few who openly acknowledge and understand China's role in the emerging multi-polar global order. James Galbraith, who was chief technical adviser for macroeconomic reform to China's State Planning Commission from 1993 to 1997, and chaired the board of Economists for Peace and Security, from 1996 to 2016 is an important exception and guide in this sense (Galbraith, 2021; Galbraith, 2022).

As global peace teeters, two scenarios are left for the global order. One is that we fall into the Thucydides trap; yet as a nuclear apocalypse renders all efforts useless, any further consideration on the matter is also useless. Under the possibility of a multi-polar order - the only one that we can really make any plans for, the design of financial architectures that can best serve the economies of the region to move upward in financial profile and to assuage the external constraint becomes priority.

A multipolar world could assume any number of forms, as could Latin America's role within it. Again, we are in completely uncharted territory, as history has never seen two opposing and competing IMOs coexist. One frequently discussed possibility is the cold war redux. Within such a possibility, Latin America would be pulled between two poles of influence. However, the Soviet Union was never very active in financial expansion, much less creating and maintaining an alternative IMO. Furthermore, it would seem much less likely that the emerging IMO will feature national retrenchment than a new regionalization. From our point of view, the most promising perspective for the global periphery would be a system of many financial poles, in which former colonial regions such as Africa and Latin America could operate with relative regional autonomy, and individual countries could seek development goals in cooperation with their neighbors. This would indeed be a historical first, but no nation colonized by a European nation ever rose to become a world power before China, either. To insist, we are in uncharted territory.

4. A BRICS currency - alternative IMO

In early 2023, the idea of a BRICS currency began to circulate among politicians and the press (Sullivan, 2023). The often-termed BRICS bank, officially the New Development

Bank, has been mentioned in the debate as a logical actor for such a new currency issue. The bank was created in 2014 and began operating by 2016, albeit in a very limited capacity. In many ways, this initiative can be seen as the successor of the Banco del Sur, whose structure and overall goals still remained under debate when it was shelved. Much like the Banco del Sur was a reaction to an international system that devastated the region's finances, the BRICS bank is also best seen as a reaction to the Dollar Standard's failings, yet on a global level. Likewise, the BRICS bank can also be seen as a carveout of the current system, yet opposed to the Banco del Sur, whose reach could only be regional, if the BRICS bank were to become fully operational, it would mimic the Bretton Woods design and global reach. More than a carveout it would be an alternative IMO. If China is to work towards the lofty goals set out in the GCSF, a new monetary order featuring a new currency, a central bank, and a public works bank would be the optimal institutional pairing for the dual task of maintaining global peace and the global economy.

As we now examine, ruptures in the IMO cause much consternation in the world of academic theory, and much debate. Undoubtedly, there will be many political and logistical points of contention in such a construction, but there will also be many illegitimate arguments. We get to these first.

4.1. Anticipating criticism

Several criticisms of the Euro, both before and after its birth, will likely resurface in the debate over an expanded BRICS bank project. One will be that of monetary geography. Many have argued that the Euro was never an optimal currency zone, but that was not its flaw. Currency zones do not have to exist in physical geography, but rather only in the geography of ledgerdomain. Eurodollars were never dollars held in Europe, and companies do not have physical headquarters in the Cayman Islands. It is all the social creation of accounting and its further social creations. Along the same lines, the protests of those who would say that a new currency issue its not backed by anything would find little support in reality, as it would be an argument against all fiat currencies. The Euro is simply regional fiat, and that has never been its problem either.

The core problem of the Euro lies within its flawed spirit and design (Parguez, 1999), and its flaws have manifested themselves both on the political and operational level. On the one hand, the Euro was designed to be financially restrictive rather than expansive, as the regional central bank has no corresponding regional treasury for regional fiscal policy or a development bank for regional credit policy. On the other hand, its structure requires countries to sacrifice their monetary sovereignty to the regional authority. As we emphasized (Marshall and Rochon, 2009) the Ecuadorian Banco del Sur proposal would allow all member countries to keep their own currency and monetary authorities; they would only add and a regional central bank and a development bank.

The proposal for the Banco del Sur drew criticism for a supposed reduction of national monetary sovereignty, for the fact that member countries would have to have their national currencies pegged to the new regional currency. Yet such critiques were insincere, as the Banco del Sur would simply add an additional layer of monetary institutions without replacing anything. Within the sequence of institutional construction, it would only be once a structural counterbalance to the global dollar monopoly and the external constraint was erected and enhanced sovereignty achieved, that currency valuations would have to be collectively decided and coordinated between member countries. Arguments for a loss of monetary sovereignty would follow the same path with a BRICS bank, but they would be even more

absurd because we would talking not about a regional system, but rather an alternative IMO. Yet whether it be a regional system or an IMO, the comparison between the Euro project and the Banco del Sur is instructive in showing how the spirit behind a project of monetary integration is reflected in its design.

At the level of the international monetary order, a new BRICS currency would add an additional layer of monetary institutions without replacing anything. It would not end the Dollar Standard, but rather offer an alternative. In this scheme, the establishment of exchange rates will be a political decision, but it is a decision. Today, all countries under the Dollar Standard are explicitly forbidden from having a national political voice in monetary affairs, as legislation granting central banks their independence formally transfers democratic process to market control (Marshall and Rochon, 2023). Political decisions under regional compromise are certainly better than no agency in the decision at all.

Under the lens of monetary sovereignty, or of the financial profiles that we have outlined, one can easily compare the structure of the Dollar standard with the proposed multipolar order. In the first case, the ideology of competition consistently hides the reality of monopoly. As emphasized by Karl and Kari Polanyi, laissez *faire* is always planned, and as seen throughout Latin American history, it is also always enforced. Alternatively, much like the Banco de Sur proposal, the Chinese proposal outlined in the GCSF is to allow all countries to develop as they see fit, with a recuperation of sovereignty under a new multipolar world order. To insist, there is to date no final structure for this IMO, yet if the structure is to be reflected the goals laid out in the GCSF, it would have to follow to some fairly close degree the structures discussed.

4.2. Legitimate political and technical considerations

Seen from the Latin American perspective, the lessons of the two phases of the dollar standard - the Bretton Woods one and the neoliberal one - offer some simple conclusions. The first system is based on a national circuit of productive credit with a stable international currency and little flow of international capital, with the public banks leading the effort for the expansion of national credit and national development. The second is based on an international circuit of asset backed financial capital, led by investment banking, defined by the instability in prices of major currencies and frequent crisis, and that promotes capital flight and the underdevelopment of the region (Parguez, 2010).

It is only with the proper institutional design that conditions of financial stability and the creation of national productive credit can be reached. Yet a correct institutional arrangement still leaves much space for debate regarding the details of its operation. In these cases, we would reiterate our belief that the spirit and principles of the project should guide its design. For example, the GCSF says that it wants sovereignty for all. We argue that the realization of the monetary sovereignty of a country would be to have a robust domestic banking system that can fully satisfy the country's demand for productive investment. Yet monetary sovereignty would also imply the ability to form regional agreements - we have highlighted the Banco del Sur here - that would allow participating countries to simultaneous protect themselves in a bloc against outside financial forces. Therefore, whether a Banco del Sur could be compatible with a BRICS bank would certainly be a point of legitimate debate.

Taking the perspective of a central bank is helpful for situating the debate. Conceptualized as the meeting point between foreign and domestic finance, between the international and national currency, and between foreign banks and national banks, the independent central bank of the Dollar Standard has as clear and limited a mandate as ever:

maintain the price of the Dollar and its exclusivity as the only international currency. It is little more than what Polanyi analyzed regarding the Gold Standard in the *Great Transformation* (1944).

Breaking the dollar monopoly is arguably done by seeking the greatest diversity of currencies. The pairing of the foreign global bank with the independent central bank in the periphery has implied not only the consistent export of capital, but also the scarcity of the dollar and the exclusivity of the ways in which investment projects can be financed. Such a narrow system has proven to be both insufficient for credit creation and also highly unstable. For the credit system of an individual country, the greatest allure of a new IMO would be to be able to diversify external sources of funding while at the same time restoring the diversity of banking that existed before the great concentration of banking that has occurred on a global level in the last half century. Again, from the point of view of the central bank, expansive credit policies can be maintained from without and within. The principle of diversity should guide stability and define sovereignty as more choice and more stability.

For the guardians of the new IMO, the question is therefore of how much freedom of choice would be given to individual countries or regions. In more practical terms, could a country, let's say Brazil, be a member of the BRICS bank and the Banco del Sur? Again, using principles as guides, it would seem that more freedom the better. If the goal of monetary sovereignty is to allow countries to do what is their best interests, this would mean that a country could participate in whichever and however many monetary spheres it desires. If a Latin American country found it in its best interests to maintain itself more within the confines of the Dollar Standard, it would not be at loggerheads with neighbors who choose to move further away from the Dollar Standard. Technical considerations would certainly have to be managed if multiple regional currencies arise, yet if the rules and the institutional process are well formulated, there should be no technical limitations to full national monetary sovereignty in this sense.

If questions of degrees of freedom represent one area of legitimate debate in the spirit and design of a new IMO, the other big question that we can identify is one of depth of the project. In previous arguments in favor of the Banco del Sur, we identified several fields in which the regional scheme that we have discussed here can project itself inward (Marshall, 2010), improving the credit conditions of member countries. Working in conjunction with the region's remaining public banks, which have proven to be important anti-cyclical institutions, in their ability to counterbalance more pro-cyclical foreign banks (Marshall, 2013) and to support small businesses in moments of crisis (Marshall, 2007), among other aspects, the Banco de Sur could provide an anchor for the transformation of the region's financial strengthening.

While such projects remain a dream, we can still dream bigger. As we have argued elsewhere (Marshall and Rochon, 2022), a program of full investment has never properly been undertaken, although the monetary basis of it has already been rolled out in the form of QE programs. In order to design a full investment program designed not to assure the accumulation of assets but rather meaningful employment to all in socially and ecologically sound production, all we would have to do is switch out the treasury department for public banks, and public banks can sell all necessary bonds to the central bank. If we added a regional central and development bank under the Banco de Sur, similar possibilities would open up at the regional level, while the same would be true at the international level under a similar BRICS institutional agreement. We do not describe these dreams so that they live in the real of fantasy. Rather, they are all institutional arrangements that find no technical

reason not to be implemented. By showing what is possible, we can more clearly grasp the motives and implications of doing nothing. Looking forward, we can imagine a web of joint international, regional and national projects that involve different currencies and banks, depending on practical considerations. This would ideally include a green currency (Marshall, 2022). Again, all of these layers would be additive, granting greater stability to the interlocking systems and monetary sovereignty to individual countries.

5. Conclusions

From the perspective of Latin American development, a full move towards development and overcoming the foreign constraint will require a development of its capacity for endogenous financing. Monetary sovereignty will be reached when countries can finance the projects that their nations deem necessary. Yet effective monetary sovereignty also implies the institutionalization of a form of practical economic thinking at the service of a national or regional project that is currently absent in most national administrations and state institutions. Conditions of monetary sovereignty can certainly be worked towards within the region, but arguably can only be fully achieved by something that the countries of the region have no control over - a transformation of the IMO.

Many are rightly suspicious of the idea of China arising as LA's savior, and they are backed not just by history but by the understanding that development is always an endogenous process and that money must be endogenous to the process (Rochon *et a*l., 2023). Latin America will not develop as an appendage of China, just as it could not as an appendage of Spain, England or the US. Adam Smith is not wrong - a nation's development ultimately depends upon its people. To achieve national financial sovereignty therefore implies a country that can consistently and effectively create and distribute credit, something that requires ideology, a state apparatus, and a national or regional project. For these reasons, the Banco de Sur continues to present itself as the key institution that, if added, can catalyze forces to meet the monetary conditions for national development.

We close with a final insistence. The above fears that legitimately exist from the Latin American perspective can be allayed with the appreciation of the IMO as an institution in all of its depth and complexity. Taking into account in our analysis, the question shifts from one of whether China can be Latin America's savior, or whether it can create and lead an alternative IMO under which all nations can pursue their own paths to development. If this can happen, China would be the savior of the global south, and therefore the world. We unfortunately do not find ourselves in optimistic times, yet if China continues to fulfill its role as the leader of a global double movement to regulate the expansion of capitalism that has now enveloped almost all of the world, it would not be the first time in history that the IMO can be regulated more by society than by markets, as this happened before with the Bretton Woods system. In the prudent spirit of pray and prepare, Latin American countries would do well to maintain focus on the Banco de Sur as a key institution in the efforts to gain monetary sovereignty for the region and to create the institutional conditions to accommodate the monetary expansion necessary for true processes of development.

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