

Spring 2022

Parallel State Currency: A Mechanism to Expand Sovereignty for Countries with Foreign Debt and Trade Deficits

Angelica Huerta Ojeda

Follow this and additional works at: https://digitalcommons.bard.edu/levy_ms

 Part of the [Economics Commons](#)

Recommended Citation

Huerta Ojeda, Angelica, "Parallel State Currency: A Mechanism to Expand Sovereignty for Countries with Foreign Debt and Trade Deficits" (2022). *Theses - Graduate Programs in Economic Theory and Policy*. 42. https://digitalcommons.bard.edu/levy_ms/42

This Open Access is brought to you for free and open access by the Levy Economics Institute of Bard College at Bard Digital Commons. It has been accepted for inclusion in Theses - Graduate Programs in Economic Theory and Policy by an authorized administrator of Bard Digital Commons. For more information, please contact digitalcommons@bard.edu.

**Parallel State Currency: A Mechanism to Expand Sovereignty for
Countries with Foreign Debt and Trade Deficits**

Thesis Submitted to Levy Economics Institute of Bard College

By Angelica Huerta Ojeda

Annandale on Hudson, New York, May 2022.

ACKNOWLEDGEMENTS

The misinterpretations on this thesis are all personal responsibility.

Thank you to my advisor, Randall Wray, for the exchange of ideas in those moments I reached out for help; my dad who welcomes a clarifying call, to those at the AFIT conference who gave observations and feedback, to Esteban Perez Caldentey who gave some feedback on the first two chapters, and all my friends who helped me to make connections and suggested readings and themes to explore, even if I did not get to incorporate it. Thanks to Elias, Tyler, and Francis for helping me proofread some sections and giving me feedback on my writing.

I want to acknowledge that without all my support system I would have not been able to complete my studies at Bard or Levy. Special thanks to my biological family (Miranda, Carlos, Gloria, Magda, Martha, Arturo, Antonieta and Martha Maurilia) and the family friends that I have chosen as part of my family (Allison, Alina, Shane, Xīn Hua, and Randy). You all have provided me with stability and unconditional support. Thank you for the beautiful friends I made at Bard and Levy who transformed my understanding of friendship, communication, care, and relations within myself and others: (Jillian, Tyler, Génesis, Mishi, Nitin, Luiza, Mila, April, Julius, Flo, Ana, Prabin, Graham, Sebastien, Nischal, Simon, Masha, Iris, Sulayman, Stavros, Tina, Lara, Andrew, Eli, Jack, and Sam). Thank you all for your energy and love.

Very thankful to all my professors for their support, guidance and encouragement. I feel deep gratitude with Randy, Pavlina, Martha, Luiza, and Mila for relating with me on a personal level. I think very highly of you all on a personal and academic level. I want to acknowledge that Economics is such a male dominated field and, as a woman, can be very hostile. Without conversations with Pavlina, Martha, Luiza, and Mila, I would have not made it. It is so important to have female professors and female classmates to relate with.

Lastly, I want to acknowledge myself to fight my own fears, insecurities, and structures on a constant basis. Has been a fun and painful journey. I have enjoyed and grown a lot in the process. Glafira, my psychologist, has helped me to observe the structure that has shaped me, observe the structures I reproduce, and align my actions to my priorities and values.

PLAGIARISM STATEMENT

I have written this project using my own words and ideas, except otherwise indicated. I have subsequently attributed each word, idea, figure, and table which is not my own to the respective authors. I am aware that paraphrasing is plagiarism unless the source is duly acknowledged. I understand that the incorporation of material from other works without acknowledgment will be treated as plagiarism. I have read and understand the Levy Economics Institute of Bard College statement on plagiarism and academic honesty as well as the relevant pages in the Student Handbook.

Angelica Hawk Ojeda

May 27, 2022

ABSTRACT

Some countries, due to historical events, are within a creditor-debtor relationship and are unable to make full use of their currency. Debtor countries tend to not be fully sovereign -are either dependent on food, energy, or technology- which results in them being reliant on capital inflows. Foreign debt and lack of sovereignty feed each other into a debt trap and create an endless chain of dependency. This essay attempts to explore the possibility that governments with foreign debt and lack of sovereignty, like Mexico, should create another unit of account while keeping the current one. The parallel currency would not be convertible to any other. This would only be accepted to buy national products and to pay some percent of taxes. The intention would be to stimulate import substitution and prevent capital outflows. The creation of a parallel currency would at least help them gain food sovereignty. A parallel currency by itself would not be sufficient, as government subsidies and investments on innovation and technology would also be necessary for the transition to a less dependent and more sovereign scenario. In summary, this essay explores how money and debt have been used to create uneven power dynamics for Latin America in colonial and post colonial times. It next explores the argument for the creation of a non-convertible parallel currency for Mexico to reduce dependency thus creating sovereignty.

Keywords: Foreign Debt, Dependency, Sovereignty, Latin America, Parallel Currency; Food Sovereignty; Job Guarantee

JEL Classifications: O190, G280, N260, Q180, J480, O130

TABLE OF CONTENTS

I. INTRODUCTION	6
II. NATURE, ORIGINS AND PROPERTIES OF MONEY	8
Three Visions: Mengerian, Credit Theory, and State Theory	9
III. CREATION OF CURRENCY, TAXES, AND DEBT FOR PRIMITIVE ACCUMULATION IN MERCANTILE AND IMPERIALIST TIMES	12
Colonial Capitalism (Mercantilism) - Inside a Country	12
Neocolonialism (Imperialism) - Between Countries	13
Debt Trap in the Global South	19
IV. WHAT CAN BE DONE WITH THE DEBT? SOME VIEWS	23
John Maynard Keynes - Views and Solutions on Indebtedness	23
Economic Commission for Latin America and the Caribbean (ECLAC)	27
Contrast Of Views	30
V. LIBERALIZATION IN MEXICO AND THE LOSS OF FOOD SOVEREIGNTY	31
Why to Think About Measures to Expand Fiscal Policy?	37
VI. PARALLEL CURRENCIES	38
Experiences and Proposals for Parallel or Complementary Currencies	40
<i>Greece Proposal: Geuro Or Fiscal Currency</i>	40
<i>Swiss WIR</i>	42
<i>Argentina 17 State Currencies</i>	45
A Case for a Parallel Federal Currency in Mexico for Direct Job Creation and Food Sovereignty	48
VII. CONCLUSIONS	54
VIII. FOR FURTHER RESEARCH	56
IX. BIBLIOGRAPHY	57
X. APPENDIX	62

LIST OF TABLES

Table 1: Key differences and similarities among the cases and proposals	50
---	----

LIST OF FIGURES

Figure 1: Money perspectives Venn diagram	8
Figure 2: Relationships between trade, debt and credit in South America in early imperialism times	15

I. INTRODUCTION

Latin America and the Caribbean, in order not to be colonies, became debtors. In the early 19th century, the colonial rule of Spain was driven out, but European banking took its place. Political independence was gained at the expense of losing economic independence: the newly liberated region was quickly burdened by a foreign debt whose payment was impossible. Two hundred years later, Latin America and the Caribbean remain at the mercy of creditors.

This thesis proposes the creation of a parallel federal currency for Mexico as a viable policy for reducing the foreign debt of dependencies it has with the rest of the world, specially the United States (the creditor country). The currency proposed is modeled on the *cuasimonedas* issued by 17 Argentinian provinces between 2001 and 2002; the Swiss WIR that has existed since 1943; and the Geuro proposal for Greece. The parallel currency is seen to be a mechanism that would allow debtor nations to exercise monetary sovereignty in their parallel currency and build towards a more sovereign country.

Sovereignty is an important term for the argument of the thesis. It is commonly understood in the context of a country, or any territory within a country. It implies the ability of an organized political unit, perhaps a government, to decide and provide for themselves without external influence or interaction. Sovereignty is a term associated with autonomy, self determination, and self sufficiency at any level of political organization. The logic goes as follows: self sufficiency on the basic goods and services allows the reproduction and maintenance of the population within the political unit. The self provisioning of the essentials, allows any political unit¹ to resist foreign pressures and influences. Self sufficiency, thus, is a precondition to self determination and autonomy. I refer to sovereignty as the ability of the federal government to provide internally the basics of the population that lives within their territories to be more resistant to foreign pressures.

There are many kinds and levels of sovereignty for a country, among them, I want to emphasize four: food sovereignty, energy sovereignty, technology sovereignty, and monetary sovereignty. All are intertwined and interdependent at some level. Food sovereignty is understood as the ability to provide the basic food for reproduction and maintenance of a

¹ The political unit of interest in this essay is the federal government, particularly the Mexican federal government.

population. Energy sovereignty can be understood as the ability to produce internally, without foreign intervention and pressure, the energy necessary to develop the economic activity of the territory. In the context of the current capitalist system, this involves not only the natural sources that allow the production of energy, but also the machinery and capital to transform the source to energy. While technology sovereignty is understood as the ability to produce internally, within a political unit, the technology necessary to maintain and reproduce economic activity. I would claim that food sovereignty is the most basic and important of all the other sovereignties mentioned above; food is essential for the reproduction and maintenance of the population and any system at the most basic level. For this reason, without food sovereignty there cannot exist other kinds of sovereignty.

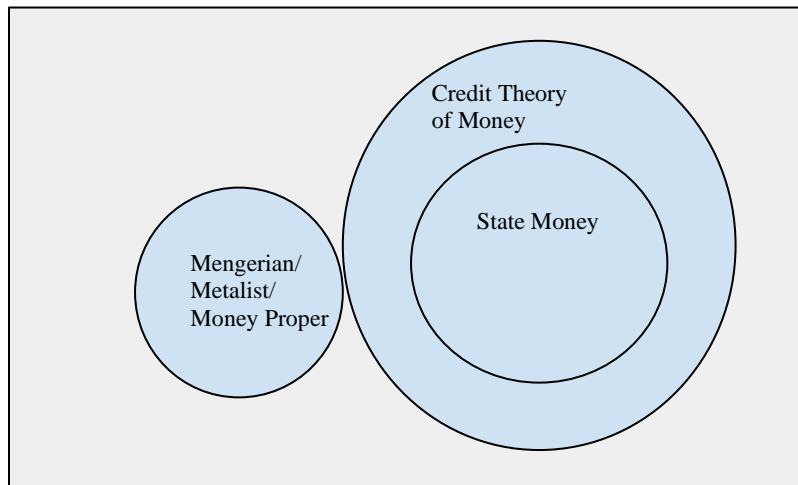
This thesis outlines, in chapter one, three theoretical views of money; most relevant to the policy proposed is the State or Chartalist Money framework. Then, in chapter two, it outlines the history of foreign debt in Latin America and the Caribbean during the colonial and postcolonial periods, in order to illustrate the predatory character of European lending and trading policies there. Afterwards, in chapter three, it evaluates two prominent attitudes toward the management of foreign debt. One of these is that of the Economic Commission for Latin America and the Caribbean (ECLAC), which endorses multilateral cooperation for the purpose of not acting against foreign investment. Rather than attempting to reform the invidious structures of international finance, however, the policy proposals of ECLAC encourage their maintenance, preserving the upper hand of the creditor. The other approach is that of John Maynard Keynes. In addressing the problem of debt after World War I and II, Keynes proposed the debt canceling and the institution of an international clearing union. But debt canceling, though desirable, is not politically feasible, while an international clearing union is subject to the invidious tendencies of large financial institutions. The ECLAC's proposed policies have not been implemented successfully; those of Keynes have not been attempted. Neither approach provides a viable solution. Latin America and the Caribbean remain in debt. The present proposal is made, accordingly, rejecting the complacency of ECLAC's approach while avoiding the impracticality of Keynes'. Further, in chapter four, a brief analysis around how Mexico loses food sovereignty is done. In the last chapter, chapter five, a proposal for a federal parallel currency is made for Mexico, a country with foreign debt, and foreign dependencies. The

institution of a parallel federal currency is at once independent of international financial organizations and practicable.

II. NATURE, ORIGINS AND PROPERTIES OF MONEY

There is not a unified agreement on what money is: what its functions are, and how it came into existence. As noted by Wray, Mitchell and Watts, it is important “to use the term ‘money’ very carefully to avoid confusion.”² Accordingly, this essay distinguishes between three broad views of money and money creation. One is the Mengerian (Metallist or Money-Propert) vision, another one is the Credit Theory of Money, and the third is the State Money vision (known also as the Chartalist). As seen in the Venn diagram below, the State Money vision is a subgroup of the Credit Theory of Money.³

Figure 1: Money perspectives Venn diagram



² William Mitchell, Randall Wray, and Martin Watts. *Macroeconomics*. (United Kingdom: Red Globe Press, 2019), 134.

³ The essay is using Goodhart’s 1998 paper in two of the three distinctions of money. Charles A.O. Goodhart, “The two concepts of money: implications for the analysis of optimal currency areas,” *European Journal of Political Economy* vol. 14 (March, 1998): 407-432.

Three Visions: Mengerian, Credit Theory, and State Theory

The Mengerian vision holds that money was created in the private sector in order to reduce transaction costs,⁴ and that the rise of markets gave rise to money. They believe that money is the most tradable commodity and therefore reduces the cost of transactions. Money has no role in the economy, but to replace what the Mengerians call barter exchange. According to this view, money existed before credit dynamics.⁵ This is suggested, for instance, by Aristotle when he describes usury as a perversion of money's original use:

[U]sury is most reasonably hated, because its gain comes from money itself and not from that for the sake of which money was invented. For money was brought into existence for the purpose of exchange but interest increases the amount of money by itself.⁶

Aristotle recognizes the credit properties of money, but does not claim that that is how and why it came into existence. Like any other Metalist and Mengerian, Aristotle believed money was invented “for the purpose of exchange”. Lastly, the value of money, for the Mengerians/Metalist, realizes the inherent value of the metal used for the creation of the currency.

The Credit Theory of Money, on the other hand, holds that money is a form of credit. It acknowledges that money is a social relation between two entities in the form of debt and credit, these being the two sides of the same coin. The creation of money creates at the same time an asset for one party and a liability for the other. Keynes in the *Treatise of Money* says, “money of account comes into existence along with debts,”⁷ Where there is a debtor, there is a creditor. Money is also seen as an old and imaginary notional unit of account which has no inherent value. The only thing that backs it up as a unit of account is its recognition as a means of

⁴ Keynes, *A Treatise on Money*, 6.

⁵ Keynes seems to express in *Treatise on Money* that Money Proper is an older institution than State Money, but does not make a precise and decisive claim. He also said: “The earliest beginnings of Bank-Money, like those of Chartalist Money, are lost in antiquity. Perhaps Bank-Money, especially in the shape of Bills of Exchange and letters of credit for travellers abroad, may have existed almost as long as Money-Proprietary. For the use of Bank-Money depends on nothing except the discovery that, in many cases, the transference of the debts themselves is just as serviceable for the settlement of transactions as is the transference of the money in terms of which they are expressed.” Keynes, *A Treatise on Money*, 15.

⁶ Aristotle, *Politics*, trans. H. Rackham. (Cambridge: Harvard University Press, 1932), 51.

⁷ Keynes, *A Treatise on Money*, 3.

retiring debts.⁸ This is another property of money.⁹ Another property of money is that its creation is endogenous to economic activity. Randall Wray writes, for example:

Money is a balance sheet item, or a unit of account, which finances a flow of spending. It is created as one transfers purchasing power from the future to the present, and can be held in an uncertain world as insurance to meet expected and unexpected payment commitment because it is the generally recognized form of purchasing power and the universally recognized means of retiring debts.¹⁰

This approach does not involve an assumption about whether money emerged in the private sector or in the public sector.

The State Money view falls under the Credit Theory of Money insofar as State Money is a form of credit and denominated in a notional unit. The only difference is that this particular kind of money, State Money, is seen to have come into existence together with States or sovereigns at least four thousand years ago.¹¹ State money is different to other kinds of money from the Credit Theory because State money is a more widely accepted unit of account that extends beyond use in particular, and small, markets. Its specific properties are that State Money came into existence together with (State) taxes (or other obligations) and use of force. Theorists that subscribe themselves to the State Money view, illustrate with anthropological evidence that the mechanism of imposing taxes in the state and colonial currency together with the use of force were the mechanisms that allowed the ruler to consolidate their power and, at the same time, the imposition of taxes ended up monetizing the economy and creating markets.¹² A liability was imposed in a new currency and the people had to find ways to get this specific asset to offset their liability. In this sense, theorists under the State Money view claim that taxes drive money. And since taxes and money were created by the States, or colonizers, there is a shared framework that money is a creature of the State.

⁸ This paper holds that the initial mechanism that makes the currency be accepted as the universally recognised means of retiring debts within a country has come together with coercion and the decision of a sovereign to make that specific unit of account the one and only acceptable means of payment. However, the sovereign or government can, as Keynes says, always re-edit the dictionary to its interest.

⁹ It is a debt denominated in a notional unit of account.

¹⁰ Randall L. Wray, *Money and Credit in Capitalist Economies: The Endogenous Money Approach*, (Vermont: Edward Elgar Publishing Limited, 1990), 13.

¹¹ Keynes, *A Treatise on Money*, 4.

¹² They do not deny the existence of very small markets before modern times, but they claim that four thousand years ago there were no market exchanges in a unit of account as accepted as we have today.

The Chartalist view of money (State Money), under the Credit Theory of Money, is more useful for the purposes of this paper since the current factors that constrain the political and monetary sovereignty of most of today's countries can be traced back to the creation of colonial or state currencies, and modern states. Today's (State) currency -at least in former colonies- emerged not to facilitate transactions, but as a form of credit¹³ to create creditor-debtor relations. Money, therefore, does not benefit everyone: the losers tend to be the debtors and the winners the creditors. The analysis of money, thus, matters very much— it is essential for understanding uneven power dynamics between countries. The State Money perspective also provides a framework where changes to what thing corresponds to money (*the unit of account*) are allowed.¹⁴ In this sense, if the current unit of account of a country is not serving the public purpose it could always be modified by the government so it can meet its purposes. Money, afterall, is a creation of the State.

The public purpose is understood in this essay as the implementation of public policy that is intended to benefit the population as a whole or a considerable proportion of it. The public purpose can be seen in microeconomics as a public good, whose social benefits offset the negative externalities of the whole actors of the economy. A public good can range from a public park, to the implementation of a free health care system. A macroanalysis can consider the public purpose, anything that their framework considered beneficial to the public. This particular essay wants to frame food sovereignty and full employment as two policies that benefit the people of a country .

Practically, modifying the thing that corresponds to money might not be politically simple for debtor countries. Afterall, debtor countries have been configured in the world order to serve the centers of power (creditors). Other forces, usually foreign, play an important role in constraining their fiscal and monetary space. This constraint happens in the form of free trade agreements, unequal terms of trade, and the creation of dependencies to the centers of power. If debtor governments are constrained politically and economically to re-edit the dictionary (their already existent unit of account) then the government may create another unit of account, over which it could have full control. If this were done, the given State could manage the institution

¹³ Its existence always comes with a liability. Wray, *Money and Credit in Capitalist Economies*, 13.

¹⁴ See first pages of Treatise of money. Keynes said: “[The State] ... claims the right to determine and declare what thing corresponds to the name, and to vary its declaration from time to time when, that is to say, it claims the right to re-edit the dictionary.” Keynes, *A Treatise on Money*, 4.

of money in a way that corresponds to the needs and interests of the people that compose the State.

The State Money framework is important for acknowledging where the current uneven structures come from. It gives the possibility of reimagining other ways of political and economic relations between countries if those mechanisms (debt) that feed the current structure were to be dismantled. As the following lines illustrate, the current uneven power dynamic between countries is constructed on money relationships. The only way to be autonomous in the construction of policy and to serve national interest, and not foreign, is by the disentanglement of the debtor-creditor dynamics between countries.

The following pages explore and illustrate the role of money in the construction of uneven power dynamics in colonial (mercantile) and postcolonial (imperialist) times. Money, debt, and conditions on debt have crafted the whole economic structure.

III. CREATION OF CURRENCY, TAXES, AND DEBT FOR PRIMITIVE ACCUMULATION IN MERCANTILE AND IMPERIALIST TIMES

The economists Michael Hudson and Mathew Forstater illustrate how money and debt have been created through time to construct power dynamics within a region or country, and between countries.¹⁵ Below, it is shown how properties of money have been used by colonizers and imperialist countries to create power dynamics in their favor and further their economic interests.

Colonial Capitalism (Mercantilism) - Inside a Country

Colonizers were not able to construct the power dynamics that benefited their process of capital accumulation until they imposed taxes. Forstater illustrates this process and dynamic with a citation from the French historian Catherine Coquery-Vidrovitch, who describes mechanisms that allowed capital accumulation by French colonizers:

¹⁵ Other authors that suggest these dynamics are Stanley and Stein and Carlos Marichal. Because of time, they are not incorporated in the analysis.

Initially the French imagined that if they would only create new needs for the Africans, the indigenous people would go out to work. When this did not happen, the French introduced taxes so as to make Africans earn wages. (Coquery-Vidrovitch, 1969, pp. 170, 171).¹⁶

Taxes imposed in a colonial currency, which was created out of nowhere, forced the peasants¹⁷ to transition into wage work. For the colonizers, taxes were the perfect mechanism that allowed them to have labor that would extract resources and produce those goods they were economically interested in. As Forstater suggests, it was the creation of an unavoidable liability together with the use of force, and fear of that force, that pressured and obligated the people to transition from subsistence crops as a form of living into monetized activities and life.

The preservation of power by the colonizer was continued partially through time, according to Forstater, by the maintenance of low wages relative to the tax burden so the locals (in this case Africans) would work enough to pay their tax obligation.¹⁸ George Padmore, an activist and journalist cited by Forstater explains it clearly:

While taxation is high, wages are very low. It would not do to pay the Natives too much for they would not work a day more than it was absolutely necessary to get tax money. So employers pay the minimum in order to exploit their labourers as long as possible. (Padmore, 1936, p. 67)¹⁹

Taxes, which exist together with State Money, have been used as a political instrument to create and maintain power dynamics in colonial times within a specific region or country. The following section shows that the power dynamics developed in colonial times are ongoing. While some of these relationships have changed, few have been banished completely. Whatever their current form, they continue to rely on the credit and debit nature of money.

Neocolonialism (Imperialism) - Between Countries

Independence was achieved in South and Central America between 1808 to 1826 while slavery was abolished, in the same region, by 1824.²⁰ Independence for other countries was recognized

¹⁶ Mathew Forstater, "Taxation and primitive accumulation: the case of colonial africa," in *The Capitalist State and Its Economy: Democracy in Socialism*, vol.22, ed. Paul Zarembka (New York: Emerald Group Limited, 2005), 58.

¹⁷ Those that lived from subsistence production.

¹⁸ Forstater, "Taxation and primitive accumulation: the case of colonial africa," 61.

¹⁹ Forstater, "Taxation and primitive accumulation: the case of colonial africa," 61.

²⁰ See: UK Parliament, "RECOGNITION OF THE INDEPENDENCE OF SOUTH AMERICA," HANSARD, 1803–2005, 1820s, 1824, March 1824, 15 March 1824, Lords Sitting, accessed December 12, 2020. PDF <https://api.parliament.uk/historic-hansard/lords/1824/mar/15/recognition-of-the-independence-of-south>.

about half a century ago, as was the case in West Africa, yet the power dynamics between the former colonizers and colonies still remains. The mechanisms of power, and our descriptions of these mechanisms, have changed. But there is still dependency in “independent” countries. This is due to debt and trade structures that have been imposed and created through time and space, especially on the former colonies. Debt and uneven trade structures were forcefully promoted by the British on the South American colonies during their attempts to gain independence.

British Rationale For Promoting So Called Independence

The first law that explicitly prohibited slavery in Brazil was not passed in Brazil, ironically. It was passed in England by the British. The British became the main promoters of anti-slavery legislation²¹ because 1) it was more costly for the colonizers to continue defending and subsidizing the colonies while they used slave labor; 2) to quote Michael Hudson, “overt restrictions no longer seemed necessary to maintain the nation's economic supremacy;”²² and 3) the British industry needed international markets with more purchasing power²³. The British government and private banks found out that credit, debt, and trade agreements with countries that were pursuing their independence was a better strategy for retaining economic dominance.²⁴

How does debt, credit and trade create dependency between countries? Debt and credit exist at the same time; both constitute money. They are two sides of the same coin, as explained in the first section. Foreign debt and (unbalanced) trade have a dialectical relationship.

During its war of independence, South America requested loans from foreign bankers and foreign governments (mainly Britain) to finance the war. Foreign debt, in this case, was acquired before independence and before the construction of the “Nation State.” It was, in fact, a precondition of independence. Decades later, before South America’s “independence” from Spain, the British offered to recognize this independence on a condition. In order to be recognized as independent, the region was to enter into exclusive free exchange with Britain. As

²¹ Eduardo Galeano, *Las venas abiertas de América Latina*, (México: Siglo Veintiuno, 2015), 110.

²² Michael Hudson, *Trade, development and foreign debt: a history of theories of polarization and convergence in the international economy*, (London: Pluto Press, 2009), 40.

²³ Which made the British want to create monetized wage regimes. See Galeano, *Las venas abiertas de América Latina*, 110.

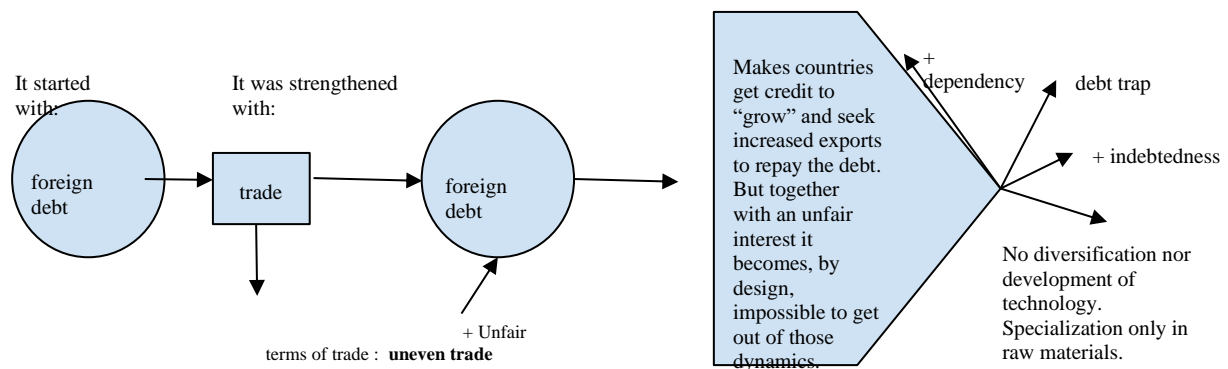
²⁴ See UK Parliament, “RECOGNITION OF THE INDEPENDENCE OF SOUTH AMERICA.”

if that wasn't already a lot to ask, the British were to set the prices in this exchange. Their intention was to quickly make the terms of trade unbalanced.

Uneven trade from the side of the country with a trade deficit leads to the acquisition of more foreign debt for the purpose of paying the interest of previous loans²⁵, and to try to become by other means a net exporter to, at some point, repay the principal. The only way to do this for these young and undeveloped countries was by importing more machinery. However, since interest was very high and Latin America was importing high value added from the very beginning, it has been impossible—by design—to get out of the foreign debt and unfair trade dynamics. These relations are designed to satisfy the interest of the creditor.

The following diagram explains (empirically) the causal relationships between trade, debt and credit that this thesis believes happened in the case of South America:

Figure 2: Relationships between trade, debt and credit in South America in early imperialism times



The paper in the following subsection quickly explains how credit, debt and trade were used by the British in South America. This section is important for understanding current power structures created about 200 years ago.

It started with foreign debt: The use of debt as a means of political leverage has been well documented. “There was a political dimension behind the financial transatlantic transactions,”

²⁵ A speculative scheme

writes Carlos Marichal Salinas. “Both for Great Britain as for those emerging states of Latin America the loans were instruments to achieve a series of strategic objectives.”²⁶ British and French bankers, specifically bankers from London, were seeking profit opportunities by lending to new states.²⁷ These loans favored the creditors only. The bankers created the loans and they were conditioned in such a way as to make debtor countries enter into a vicious debt cycle: The bankers that would offer loans to South America would sell them below their face value, would often charge a commission and, moreover, would make the debtors pay interest at face value. If the loan was of 1000 pounds, the loan to the debtor State would be sold, let's say, at 800 pounds. Then the banks would charge a commission of 150 pounds, making 650 pounds the only amount the debtor State would receive after acquiring a loan. If the interest were to be 6%, the actual return for the holder was 7.5% because the holder had lent to the debtor only 800 pounds instead of 1000.²⁸ From the debtor side, debt was not beneficial. South American leaders that made the region indebted, however, did not have much choice²⁹; they had to acquire debt from the British because they had to continue the financing of war against Spain to achieve independence.³⁰

Debt was reinforced, decades later, by imposing free trade and making it uneven from the beginning via unfair prices: Once Spain was weakened by warfare, Britain decided to move quickly and recognize the independence of newly formed nations in South America on the condition that the region establish free trade with Britain, because it was known, from the example of the United States, that the independence of such colonies allowed “commercial fortunes”³¹ to be made from them, and would stimulate the industry of the imperialist country.³²

²⁶ Carlos Marichal Salinas, *La deuda externa de Latinoamérica*, (Distrito Federal: El Colegio de México, 2014), 23. Self translation.

²⁷ Éric Toussaint, *The Debt System*, (Chicago: Haymarket Books, 2019), 3.

²⁸ Example inspired from Toussaint, *The Debt System*, 3.

²⁹ According to Toussaint, Simón Bolívar sent a letter to Francisco de Paula Santander that said the following (black for emphasis): **The national debt endangers A chaos of horrors, calamities and crimes** and Monsieur Zea is the sorority of evil, and Méndez the spirit of error, and Columbia is a victim who is entrails these vultures are tearing to shreds: they have already devoured the sweat of the Columbian people; they have destroyed our moral credit, and in exchange we have received meager support. **Regardless of the decision taking regarding this debt, it will be horrible: if we recognize it, we cease to exist, and if we do not . . . this nation will be object of opprobrium.**” Other leaders, however, were probably rewarded as today’s lideres are.

³⁰ For more detail see Toussaint, *The Debt System*.

³¹ UK Parliament. “RECOGNITION OF THE INDEPENDENCE OF SOUTH AMERICA,” 9.

³² UK Parliament. “RECOGNITION OF THE INDEPENDENCE OF SOUTH AMERICA, 9.

The Marquis of Lansdown said in the House of Lords where the recognition of South America was approved:

[s]ince the independence of the United States, our commerce to North America has increased nearly threefold, as compared with the period when we held the colonies in subjection. My lords, I advert to this only to show how false the principle of the colonial system was, as applied to the wealth of the mother country, and to suggest how often it may happen, that by adopting a more liberal policy, the basis of our prosperity may be rendered more secure.³³

Later on, The Earl of Liverpool agreed and admitted that: “[N]o commerce could be more advantageous to this country, than the trade between Great Britain and America, whether northern or southern.”³⁴ It is clear from these statements that the price of political independence was to be perennial economic subservience. In this way, the English exploited their ability to “recognize” a country as independent. An older mode of domination was replaced by one more modern. Spanish soldiers were replaced by British bankers, the force of arms by deficit and debt: a subtler and more profitable means of compulsion.

Engaging Latin American countries in trade was not only “advantageous,” but also “liberal”, because it appeared to stimulate their economic growth. “Trade represented the way for nations without mines on their own to increase their monetary base of gold and silver coinage,” writes Michael Hudson. “It was a precondition for credit expansion, which in turn was a precondition for setting in motion the wheel of employment and investment.”³⁵ This for the imperialist countries. For the victims of imperialist countries, trade became the precondition of their dependency. It was well known that a trade deficit would compel countries to borrow³⁶ because payment in the form of exports as a means of canceling debts on goods that are not in high demand or are valued low, would never be sufficient to balance the terms of trade.³⁷ For this reason, Latin American countries were compelled to borrow from Britain in British pounds in order to finance British imports.

³³ UK Parliament. “RECOGNITION OF THE INDEPENDENCE OF SOUTH AMERICA,” 10.

³⁴ UK Parliament. “RECOGNITION OF THE INDEPENDENCE OF SOUTH AMERICA,” 12.

³⁵ Marichal on those lines says: “... open up trade with Latin America, to facilitate access to the valuable mines of gold and silver, and to guarantee the naval presence of the British in the Atlantic and Pacific oceans.” Marichal Salinas, *La deuda externa de Latinoamérica*, 23. Self translation.

³⁶ Hudson, *Trade, development and foreign debt*, 296.

³⁷ As Hudson says, referring to Henry Thorton views on trade deficit. See Hudson, *Trade, development and foreign debt*, 297.

Debt denominated in a foreign currency required the newly independent nations to have a trade surplus in order to pay back this debt. Even after the recognition of the region's so-called independence, its internal and external policy has been designed generally to serve the interest of the creditor by making it impossible for the debtor to repay a growing debt. Since then, the region has been importing high-value added machinery and exporting low-value added products. Latin America (generally) continues to fail to develop its own industry.

These two sub-sections illustrate that the structure of coercion and domination both in colonial times and postcolonial times relies on Latin America's indebtedness to England. First the newly independent colonies were compelled to have a trade deficit; so their independence was recognized. This led them to borrow in the currency of the net exporter nation; so they were able to finance their trade deficit. Finally, they tried to gain a trade surplus; so they could start to pay their debt. The uneven power dynamic was created by the creation of a money obligation (taxes) and has been maintained by the maintenance of credit-debt due to uneven trade, which has produced other kinds of dependence, including technology, energy, and food dependency. The dependence that foreign debt has created in South America and the Caribbean is explored later on in the text.

Independence means sovereignty? Those territories that today we call independent countries are not necessarily independent. Usually it is thought that independence is the separation of political, economic and military powers either because 1) the colonizers agree not to interfere with the politics of the territory, or 2) there has taken place a separation of territory given political and economical differences. *Independence* is commonly understood as a synonym of *sovereignty*³⁸. The logic is simple: once a country is recognized as "independent", because there is no more military intervention or direct agency by the colonists in the politics of a region, that region is then sovereign. The logic however does not stand up to scrutiny in the real world.

If we pay attention to the way former colonies produce energy, food, and technology, as well as conduct government spending, we find that they are not really sovereign. Most of the developing countries of the global south that have or have had some kind of debt denominated in foreign currency are not self-sufficient in terms of energy, food, technology. The

³⁸ This essay understands sovereignty as the ability of a country to develop or implement policy or any kind of program without the intervention of a third party or the submission to the interests of the others.

independence of these countries does not involve political or monetary sovereignty³⁹. Behind the veil of independence there are debt structures that limit the sovereignty of a nation. Fadhel Kaboub has explained how developing nations tend to be in the middle of the spectrum of monetary sovereignty, while their absence of sovereignty in the energetical, food, and technological sector is an impediment to claim full monetary sovereignty.⁴⁰ This topic is developed more extensively below.

Debt Trap in the Global South

Most of the global south countries are politically “independent” from former colonizers, but most of the countries are indebted in foreign-denominated currencies. This puts into question the notion of *independence*. Since debts are liabilities to be paid, and there are international economic and political sanctions for non-payment and a consensus of what it means to follow “good behavior,” repayment of the debt and the stability of the national currency becomes a national priority in the debtor countries. Debtors have no choice but to focus their national and foreign efforts on the repayment of their debt. The foreign debt held by former colonies constitutes a trap. It is impossible to pay it back given the composition of the debtor countries’ economies.⁴¹ Indeed, credit has been given by banks and international organizations on conditions that make it almost impossible for the debtors to pay it back.⁴²

Technically, the only feasible way to repay the debt is by being a net exporter in relation to the country to which the debt is owed. Given their productive and technological composition, however, it is impossible for debtor countries of the global south to be net exporters. First and foremost, the region does not have the machinery and equipment to produce most things and,

³⁹ What is then monetary sovereignty? And how does it allow political sovereignty?

Modern Money Theory (MMT) links together monetary sovereignty with policy independence. The criteria of monetary sovereignty are 1) the maintenance of a flexible exchange rate, 2) not having debt denominated in a foreign currency, and 3) the ability to issue a national currency. If these criteria are satisfied, a country is able to maintain an internal policy that corresponds to its internal interest. MMT recognizes that not satisfying one of the previous three criteria restricts full monetary sovereignty, and places countries into a spectrum of monetary sovereignty. Most of the countries in the global south are somewhere in the spectrum or have none of the three conditions of monetary sovereignty. Such is the case of the countries of West Africa which are under the *CFA franc*, and the dolarized nations in Central and Latin America.

⁴⁰ Developing countries import high value added content and export low value added content, so if they were to stop maintaining the peg exchange rate, countries’ currencies would be devalued and they would be importing inflation (since most countries of the global south have net trade deficits). The problem is that global south countries are highly dependent on foreign industries, in terms of energy, food and technology. For these reasons it is difficult to claim full monetary and fiscal sovereignty..

⁴¹ How is the composition of the debtor countries?

⁴² These conditions are: high interest rate and the incapacity to set prices of the products debtors buy and sell.

therefore, the region is not cost or quality competitive in those sectors⁴³ that involves technology. Latin America and the Caribbean tend to import high value machinery and equipment, and export low value added products making the necessary trade surplus almost impossible.

Latin American countries have tried to be “competitive,” and to gain the trade surplus necessary to repay their foreign debt, by downgrading the cost of production by cutting human capital cost (deregulating labor markets). In order not to increase the real value of the foreign debt, the countries of the region have tried to peg their currency to the dollar by 1) selling strategic sectors. And 2) setting a very high interest rate.

The problem is that these measures —arising from the existence of foreign debt and the desire to pay the debt, and not to increase it in real terms— are contrary to the well-being of that country’s population, and against the national interest⁴⁴. By design of the creditors, the measures affected by the debtors to pay the debt⁴⁵ created another barrier to doing so.

The deregulation of labor markets and tax evasion, allowed to foreigners (among other structural reforms), are another procedure implemented by debtor countries in order to be more competitive and “repay the debt.” This policy has incentivized foreigners to establish their manufacturing industries in Latin America and the Caribbean, but at a high human cost and without successfully repaying the debt. The “competitiveness” that structural reforms have given to some countries in the region is not an *authentic competitiveness* achieved with technological advances. It has been attained by precarization of the labor market and abuse of natural resources, thus making it “spurious,” to use the word of the Chilean economist Fernando Fajnzylber, founding member of the Economic Commission for Latin America and the Caribbean (ECLAC).⁴⁶ This competitiveness has not translated to net exports because of the elasticities of the imports and exports, and the fact that the region overall imports high value added and exports low value added products.

⁴³ With exception to some agricultural produces and manufacture,

⁴⁴ National interest is understood as the desire to preserve and maintain the natural resources of the nation.

⁴⁵ Of high interest rate and labor reforms

⁴⁶ He also said that spurious competition is opposed to authentic competitiveness. CEPAL, “POLÍTICAS DE AJUSTE Y RENEGOCIACIÓN DE LA DEUDA EXTERNA EN AMÉRICA LATINA,” in *Cincuenta años de pensamiento en la CEPAL: textos seleccionados Vol I*, (Chile: Fondo de Cultura Económica, 1998), 57.

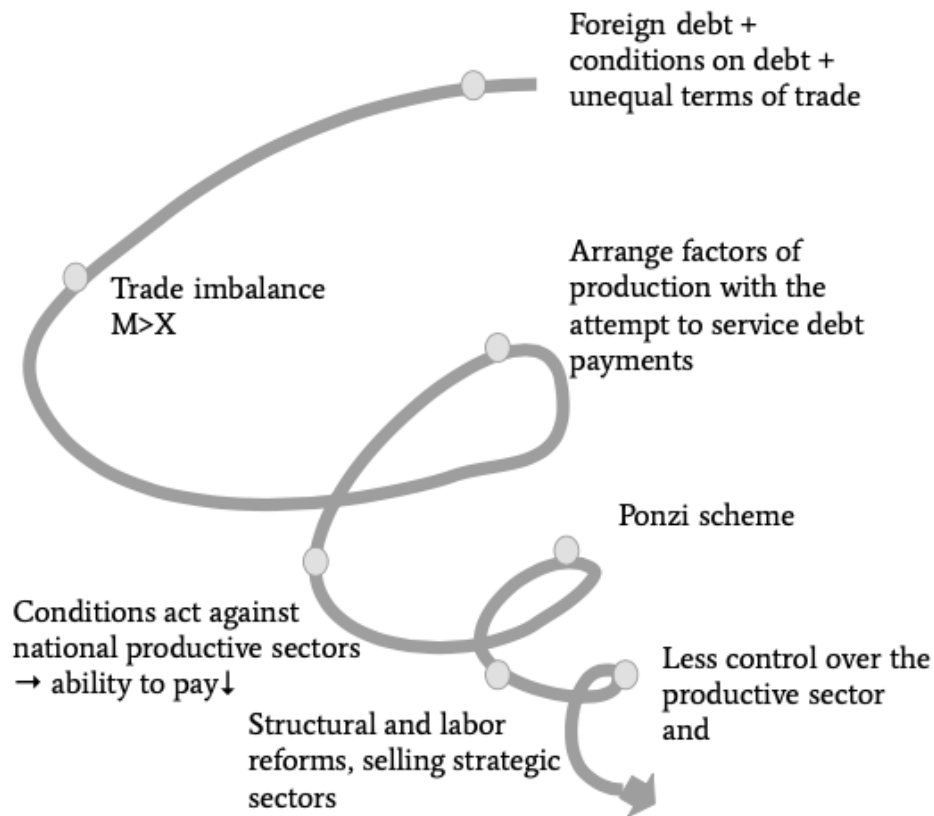
Countries in Latin America and the Caribbean also implement a high interest rate in order to attract foreign direct investment. But this disincentivizes the national demand for credit necessary to start the production process and any other innovation. This procedure perpetuates the country's inability to develop national industry in order to compete with foreign products. Keeping high interest rates renders a country unable to develop national industry.

If there is no sufficient national industry, national technology, or innovation,⁴⁷ how then can a country grow, be a net exporter, and pay a monstrous foreign debt? It is impossible. This is why the foreign debt is a trap. The conventional measures discussed above were prescribed by the IMF as necessary for a "successful" repayment or, at least, for preventing the debt from increasing in real terms. But these are the measures that keep countries and their people in miserable conditions and unable to develop their industry and economy.

The following figure, figure 3, is a brief and general explanation that encapsulates debt dynamics and the loss of sovereignty.

⁴⁷ Due to nonexistent fiscal policy and high interest rates.

Figure 3: Debt dynamics and the loss of sovereignty.



Foreign debt has been the mechanism, together with uneven trade, to create neocolonial practices of political and economic dominance. These structures do not allow the debtor countries to choose their own path of development nor to respond to their own agenda. Instead, they force debtor countries to arrange their factors of production and social structure to service debt payments. Credit in the form of a foreign currency is pernicious by itself: it reduces the fiscal space of the country and forces it to find ways to get the unit of account in which the debt is denominated. In addition, the conditions set by the creditor, for LA countries to be eligible to receive credit and aid, are detrimental to development. Instead, the conditions create an endless chain of dependency. The main creditors were Britain, under the old order, and the US and the financial international institutions it controls, under the new order.

The British conditions on debt and unequal terms on trade—under the old order—made Latin America a net exporter to attempt to service their debt. In this process, factors of production had to be arranged to attempt to be a net exporter towards Britain. For this reason a

significant part of Latin America only developed extractive industries (like mining) and monocropping agriculture systems. The development of technology or energy was not present in the region, except for Argentina that developed technology during the old order.⁴⁸

During the new order, the mechanisms of dominance are more sophisticated, but still are around money and debt. Loans to Latin America have been conditioned on the adoption of market-oriented policies that highly encourage fiscal austerity, free trade, stable exchange rates, and an independent central bank. These policies act against the national productive sector, which limits any country's ability to repay the principal and interest on the loan. The imposed conditions lead the debtor nations to a Ponzi scheme of having to borrow more just to keep up with interest payments on previous loans, and to the implementation of further policies that serve foreign capital. As part of this pattern, *structural reforms*- push for the privatization of the oil sector, telecommunication companies, and other strategic sectors of production -that were initially public- to get dollars for the repayment of the debt. Labor reforms; weaken workers' rights and ensure a supply of cheap labor is available to foreign investors.

IV. WHAT CAN BE DONE WITH THE DEBT? SOME VIEWS

John Maynard Keynes - Views and Solutions on Indebtedness

Cancel the debt

In his discussion of the sanctions imposed on Germany after WWI, Keynes expresses concern about a nation's debt generally. In *The Economic Consequences of Peace*, he suggested that if the greatest lender of money does not need the money back, they should cancel the debt. Keynes lets the reader conclude that unpayable debt is not desirable because it "degradates the lives of millions of human beings," and deprives a whole nation of happiness.⁴⁹ Canceling the debt

⁴⁸ UNCTAD. "Towards a New Trade Policy for Development." Trade and Development: Policy Statement. 1964.

⁴⁹ John Maynard Keynes, *Essays in persuasion*, (New York: Harcourt, Brace and Howe, 1920), 17.

allows recovery among the debtors; it's liquidation relieves anxiety⁵⁰ and allows economic reconstruction⁵¹.

In the same piece, Keynes provides a reflection about indebtedness that is worthwhile to bring up:

The war has ended with every one owing every one else immense sums of money. Germany owes a large sum to the Allies; the Allies owe a large sum to Great Britain; and Great Britain owes a large sum to the United States. The holders of war loans in every country are owed a large sum by the State; and the State in its turn is owed a large sum by these and other taxpayers. **The whole position is in the highest degree artificial, misleading, and vexatious. We shall never be able to move again unless we can free our limbs from these paper shackles. A general bonfire is so great a necessity that unless we can make of it an ordinary and good-tempered affair in which no serious injustice is done to anyone, it will, when it comes at last, grow into a conflagration that may destroy much else as well. [...] the continuance on a huge scale of indebtedness between Governments has special dangers of its own.**⁵² (Bold for emphasis)

Keynes develops in many of his writings proposals to reduce and control, or eliminate, the size of liabilities between countries by debt canceling, or by international monetary reforms, which are discussed below. The idea of international monetary reforms was introduced by Keynes sometime between 1941 -1944 as a policy to address indebtedness between governments and uneven trade. It is in the writing produced between those years that he proposes *The Clearing Union System* also known as the *Bancor*.

International monetary reforms - The Clearing Union system

Ethics is the basis of Keynes' writing. Keynes' proposals are grounded on considerations of the well-being of the *other*, regardless of their nationality. He seems to write with a notion of *economics* (*eco* - house, *nomos* - accounting) in which the understanding of what composes the *house* is not a country or a family, as the mainstream economic schools suggest, but the world itself. Economics to Keynes is not "household accounting," but the accounting of a global community. This vision of *economics* is illustrated in the first pages of "The Origins of Clearing Union 1940-1944". Keynes, in the introduction of the Clearing Union proposal, writes:

⁵⁰ Keynes, John Maynard. *The economic consequences of peace*, (New York: Harcourt, Brace and Howe, 1932), 272.

⁵¹ Keynes, John Maynard. *The economic consequences of peace*, 273.

⁵² Keynes, John Maynard. *The economic consequences of peace*, 280.

The British Government are determined not to make the same mistake again. Mr Bevin said recently that social security must be the first object of our domestic policy after the war. And social security for the peoples of all the European countries will be our policy abroad not less than at home. Indeed the one is hardly possible without the other; for we are all members of one family. We must make it our business, above most other purposes, to prevent the starvation of the post-armistice period, the currency disorders throughout Europe and the wild fluctuations of employment, markets and prices which were the cause of so much misery in the twenty years between the two wars; and we shall see to it that this shall be compatible with the proper liberty of each country over its own economic fortunes.⁵³

In the context of uneven rules of the game, and post war debt reparations Keynes pledged on behalf of Britain to establish an international exchange system based on equal exchange, support, solidarity and companionship with the other *members of the family* in order to promote economic and social well-being. In the following statement Keynes is calling for remedies and calls for resolving internal and global problems of unemployment and inability of production by the establishment of a system of international exchange.

We pledge ourselves to the establishment of a system of international exchange which will open all our markets to every country, great or small, alike, and will give equal access for each to every source of raw material which we can control or influence, on the basis of exchanging goods for goods. We pledge ourselves to radical remedies for our own unemployment and to assist the same object in all other countries both by the means we employ at home and by taking whatever measures are necessary to pass into consumption goods which otherwise could not be produced.⁵⁴

Later in the same text, Keynes concretely presents the Clearing Union system as an international exchange system. He says that for a successful transition to the Clearing Union system, it is necessary first to have a transition period in which each country is supplied with credit for reconstruction purposes, in order to eliminate the uneven advantages of each member of the European nations. This would “evolve [into] a post-war order which seeks no particularist advantage but only that each member of the European family shall realise its own character and

⁵³ J. M. Keynes, “The origins of the Clearing Union, 1940-1942,” in *The Collected Writings of John Maynard Keynes*, edited by D. E. Moggridge. vol. 25. *Activities 1940– 1944. Shaping the Post-war World: The Clearing Union*, (London: Macmillan, 1978), 11.

⁵⁴ Keynes, “The origins of the Clearing Union, 1940-1942,” 12.

perfect its own gifts in liberty of conscience and person.”⁵⁵ The reflections of Keynes regarding indebtedness of some European nations after the war and the proposals of what should be done to restore peace and brotherhood between countries can also be applied in the context of Latin America or/and other global south regions.

Keynes emphasizes that the main burden of a debtor country is its balance of payments when it works with flexible exchange rates.⁵⁶ He says that debtor countries try to restore equilibrium by changing prices and wages, or by borrowing, which “is altogether out of proportion to the contribution asked of its creditors.”⁵⁷ He emphasizes the previous point by saying that: “the process of adjustment is *compulsory* for the debtor and voluntary for the creditor.”⁵⁸ While their European and American creditors have to accept, from time to time, the terms and time for repayment, Latin American debtors must 1) try to lower prices through structural reforms that allow lower and more precarious wages in order to be more “competitive”⁵⁹, 2) sell strategic sectors, like oil, water, and telecommunication companies and allow evasion of payment in some services to foreigners, in order to have an inflow of the currency in which the debt is denominated, and 3) keep the reference interest rate very high in order to attract foreign direct investment, stabilize their currency and continue to pay their debt.

In order to relieve the pervasive debt of European countries after WWII, Keynes proposes as a solution a Clearing Union with the following three objective, among others: 1) the establishment of “a comprehensive policy on the lines of cooperation”⁶⁰; 2) the settlement of international indebtedness in a more honest manner⁶¹; and 3) the maintenance of exchange controls.

These are to be achieved by having a system that does not function at the expense of debtor countries and puts “at least as much pressure of adjustment on the creditor country, as on the debtor.”⁶² The system is also 1) to acquire surplus commodities and put them at the disposal of those affected after the war, b) to allow overdraft facilities in the initial period to facilitate

⁵⁵ Keynes, “The origins of the Clearing Union, 1940-1942,” 14-15.

⁵⁶ Keynes, “The origins of the Clearing Union, 1940-1942,” 27.

⁵⁷ Keynes also says the following quote: “the process of adjustment is *compulsory* for the debtor and voluntary for the creditor.” Keynes, “The origins of the Clearing Union, 1940-1942,” 28.

⁵⁸ Keynes, “The origins of the Clearing Union, 1940-1942,” 28.

⁵⁹ To have a successful competition we also have to consider the elasticities of the products, as Keynes and Thirlwall do.

⁶⁰ Keynes, “The origins of the Clearing Union, 1940-1942,” 8.

⁶¹ Keynes, “The origins of the Clearing Union, 1940-1942,” 8.

⁶² Keynes, “The origins of the Clearing Union, 1940-1942,” 48-49.

adjustment⁶³, and c) to maintain exchange controls by making the creditor appreciate its currency⁶⁴ and by expanding the opportunities for export by removal of restrictive pressure.⁶⁵

There are parts of this proposal which are imperfect, such as the procedure Keynes proposes for the election of the eight governors and the chairman of the International Clearing Bank. The nationalities and ratios of governor per region proposed by Keynes⁶⁶ are undemocratic and elitist. Of the greatest relevance to Latin American countries today are Keynes' proposals concerning debt elimination. These do not depend on his suggested procedure for the election of the clearing union's board members. The composition of its board will, however, determine its success in the fulfillment of its stated aims. It is possible to imagine an international clearing union whose effect is contrary to these. Rather than promoting the elimination of debt, it could preserve it; far from seeing to the interests of the debtors, it could be interested in the creditors only. The International Clearing Union could be a company union, a mimicry of progress. Policy proposals for the clearing of international debt, if they are to be effective, must include provisions for the prevention of such outcomes.

Economic Commission for Latin America and the Caribbean (ECLAC)

The Economic Commission for Latin America and the Caribbean (ECLAC) is probably one of the most important institutions that has agency in the policy developed in the region of Central and Latin America. The contributions and recommendations of its members are key for understanding how the leaders of the region understand and prescribe solutions to the social and economic problems in the region. When it comes to *debt*, the ECLAC suggests that the debt problem of the region started in the 1970's and 1980's. They do not acknowledge that there has been a historical debt problem since the creation of the Nation-States around 1821, as authors like Carlos Marichal, Michael Hudson and Eric Toussiant, among others, acknowledge.

⁶³ Keynes, "The origins of the Clearing Union, 1940-1942," 48.

⁶⁴ Keynes, "The origins of the Clearing Union, 1940-1942," 49.

⁶⁵ Keynes, "The origins of the Clearing Union, 1940-1942," 48.

⁶⁶ Keynes proposes that from the eight governors one ought to be from the United Kingdom; "[...] one by the United Kingdom, one by the British Commonwealth outside the United Kingdom, one by the United States, one by Russia, two by the European central banks, one by the South American central banks, and one by the remaining central banks." Keynes, "The origins of the Clearing Union, 1940-1942," 40.

ECLAC, seems to not be much concerned with debt, but only a “crisis of debt”.⁶⁷ Generally, ECLAC seems to believe—like any other mainstream neoclassical institution—that it is through foreign direct investment that the debt could be repaid.⁶⁸ Its proposed solutions to debt are not as radical as those of Hudson or Toussaint. Most of the analysts of ECLAC claim that debt must be repaid, rather than canceled, and that the *optimal* way to do so is by internal adjustments⁶⁹ which compromise with the creditors⁷⁰, or by international bilateral agreements. In the text “Políticas de ajuste y renegociación de la deuda externa en América Latina” (Adjustment and renegotiation policies of foreign debt in Latin America) section E “Hacia una renegociación más equitativa” (towards a more equitable renegotiation)⁷¹ debt is characterized as an international public problem, since it is believed that it affects not only the debtors, but the rest of the world as well.⁷² This assumption is not a sound point of departure because it ignores the history of credit and debt between countries.⁷³ ECLAC’s characterization of debt does not acknowledge that debt has for creditors a political and economic advantage.

ECLAC makes three proposals for the reduction, but not the elimination, of debt. It describes one of the proposals as “the optimal solution,” while the other two options are called “An alternative solution” and “Other actions.”

The *optimal solution* to alleviate government indebtedness, for ECLAC, consists in multilateral cooperation between countries, creditor banks, and their governments. To this end

⁶⁷ “Crisis of debt” can be understood as the circumstance in which the ability of acquiring (more) debt in the future is compromised because the credit score agencies do not trust the government/economy of a country in their ability to pay back treasuries or debt acquired. IN the 70’s and 80’ the region experienced a “crisis of debt”.

⁶⁸ CEPAL, “POLÍTICAS DE AJUSTE Y RENEGOCIACIÓN DE LA DEUDA EXTERNA EN AMÉRICA LATINA,” in *Cincuenta años de pensamiento en la CEPAL: textos seleccionados Vol II*, (Chile: Fondo de Cultura Económica, 1998), 742.

⁶⁹ It is not clear whether they promote the payment of foreign debt by a forced reduction of imports or if they incline better for what they call a “positive adjustment.” The latter is the “process that results from the strengthening of the productive capacity, the economic reactivation, and a better capacity of imports”. The first option cannot lead to national prosperity, and the second seems to be contradictory. Strengthening the productive capacity together and the importing capacity in a region which produces low value added and imports high value added is impossible. CEPAL, “POLÍTICAS DE AJUSTE Y RENEGOCIACIÓN DE LA DEUDA EXTERNA EN AMÉRICA LATINA,” 760.

⁷⁰ CEPAL, “POLÍTICAS DE AJUSTE Y RENEGOCIACIÓN DE LA DEUDA EXTERNA EN AMÉRICA LATINA,” 761.

⁷¹ CEPAL, “POLÍTICAS DE AJUSTE Y RENEGOCIACIÓN DE LA DEUDA EXTERNA EN AMÉRICA LATINA,” 759-784.

⁷²

⁷³ Credit, as expressed above has been used by bankers and colonialist as a mechanism to establish power dynamics where dependency is created between the creditor and a debtor to assure a flow of natural and mineral resources from the debtor to the creditor, on the pretext that being a net exporter would help “repay” the debt.

ECLAC proposes a greater intervention and participation by international credit agencies like the International Monetary Fund (IMF) and the World Bank. General but concrete measures recommended as “optimal” include increasing long term financing from the World Bank; “allow[ing] the IMF to have direct access to private capital markets”⁷⁴; promoting co-financing between the World Bank and private banks; eliminating the concept of graduation from the median income countries; and increasing the importance of lending for the programs of the World Bank.⁷⁵ On the regional scale, ECLAC says that the “optimal” measures to deal with the indebtedness of Latin American and Caribbean countries involve “freezing the level of protectionism and allowing the expansion of regional commerce and preference systems”⁷⁶; expanding and linking different intraregional programs of financialization, supporting systems that allow balance of payments, insurance of credit plans for imports, and of institutions that finance projects; increasing the functioning of the Interamerican Development Bank; and exchanging information (effective, direct and confidential) about the conditions behind refinancing and reprogramming of external debt in the debtor countries.⁷⁷

The *alternative solution* provided by ECLAC proposes a bilateral agreement, between the creditor bank and the debtor country, with positive adjustment where there is a ceiling to the nominal interest rate. They say this scheme could align with the adjustment programs of the IMF, which would “give the bankers the support that they need.”⁷⁸ ECLAC says that the advantage of this “solution” is that bilateral agreements are less conflicting than unilateral action and, therefore, could avoid negative impacts on future access to credit.

The last proposal named *other solutions*, which is not ECLAC’s preferred solution to perennial foreign debt, consists of two unilateral solutions taken by the debtor country. One is a moratorium of debt for 2-5 years only⁷⁹, and the other is a change of short term debt to long

⁷⁴ CEPAL, “POLÍTICAS DE AJUSTE Y RENEGOCIACIÓN DE LA DEUDA EXTERNA EN AMÉRICA LATINA,” 764.

⁷⁵ CEPAL, “POLÍTICAS DE AJUSTE Y RENEGOCIACIÓN DE LA DEUDA EXTERNA EN AMÉRICA LATINA,” 764.

⁷⁶ CEPAL, “POLÍTICAS DE AJUSTE Y RENEGOCIACIÓN DE LA DEUDA EXTERNA EN AMÉRICA LATINA,” 764.

⁷⁷ CEPAL, “POLÍTICAS DE AJUSTE Y RENEGOCIACIÓN DE LA DEUDA EXTERNA EN AMÉRICA LATINA,” 764-766.

⁷⁸ CEPAL, “POLÍTICAS DE AJUSTE Y RENEGOCIACIÓN DE LA DEUDA EXTERNA EN AMÉRICA LATINA,” 767.

⁷⁹ CEPAL, “POLÍTICAS DE AJUSTE Y RENEGOCIACIÓN DE LA DEUDA EXTERNA EN AMÉRICA LATINA,” 772.

term debt⁸⁰ in order not to make debtor countries part of adjustment programs with the IMF, and provide immediate economic relief.⁸¹

None of the previous three proposals outlined by ECLAC are consistent with a productive policy which aims to eliminate foreign debt in debtor countries and to promote their economic and political sovereignty. ECLAC concedes to powerful groups like the IMF, and does not consider any proposal that challenges the current credit-debtor structures. Instead, from the cited paper, it seems to encourage Latin American Countries to continue to serve foreign interest and that of other creditor banks.

Contrast Of Views

Keynes' Bancor/Clearing union proposal sounds desirable - Creditor countries canceling debt and giving their surplus to debtor countries would be the best scenario. But this appears unlikely. Creditor countries and banks make loans and set interest rates without moral considerations. Profit is the ultimate driver of their behavior. Banks, commerce groups, and countries have benefited throughout history by the creditor-debtor dynamics that they have promoted. It is naive to believe they will become compassionate, cancel debt, and compensate the debtor countries with the trade surplus acquired by the creditor. That has not happened in modern history. ECLAC proposals are not made in the interest of the debtor; they align themselves with the mainstream logic of financialization and give preference to proposals that ensure the repayment of the debt and *could* reduce the debt by the debtors, but in the short term only. This essay proposes a solution in chapter VI that comes from the inside of the debtor countries. It consists of a unilateral measure that the debtor country could take in order to alleviate their debt. The proposal presented in chapter VI is expected, at least empirically, to reduce unbalanced trade by creating liquidity in the parallel currency and incentivizing the production of national products (like grains and other essential foods) to be sold in the parallel currency.

⁸⁰ Long term, for the cited text of the ECLAC (CEPAL, in Spanish) seems to be a 20-30 year period.

⁸¹ CEPAL, "POLÍTICAS DE AJUSTE Y RENEGOCIACIÓN DE LA DEUDA EXTERNA EN AMÉRICA LATINA," 772-778.

V. LIBERALIZATION IN MEXICO AND THE LOSS OF FOOD SOVEREIGNTY

Before the liberalization process that started in 1982, Mexico had food sovereignty. It produced 95% of the basic grains essential for the food basket. The economy was growing. The debt crisis in 1982, however, forced Mexico and other indebted countries to implement neoliberal policies. On the one hand, the conventional narrative was that liberalization and free trade agreements would allow the economy to modernize, increase productivity and growth⁸², and provide stability.⁸³ On the other hand, there was no other choice: the IMF forced those that fell into the debt crisis to implement the structural reforms with the narrative that those policies would allow the repayment of the outstanding dollar debt. But, in practice, those policies would benefit the interests of the United States only.

The structural reforms, that started in 1983 and continued in 1994, consisted of massive trade liberalization; the abandonment in the support of land and rural areas; and in measures of macroeconomic, monetary, and exchange rate stability. There are two main periods that are breaking points for the massive trade liberalization: the access to the General Agreement on Tariffs and Trade (GATT), in 1986, and the implementation of the North America Foreign Trade Agreement (NAFTA), in 1994. The government, starting 1983 and 1984, had an abrupt abandonment in the support of agriculture, and rural areas. Within that time frame 1) subsidies for particular products were eliminated and, instead, a cash transfer was given; 2) rural development banks vanished and transformed into private banks; 3) the Mexican government reformed the constitution so that the *ejidos* (communal land) could be leased and sold; and 4) the State Trading Organization (Compañía Nacional de Suministros Populares, or CONASUPO)—in charge of supporting Mexican agricultural policies, shaping food production, consumption, and rural incomes— was dismantled.⁸⁴ The stability measures implemented in Mexico starting in the 1980's were also part of the liberalization period. They targeted the reduction of real wages, fiscal cuts in the form of austerity policies, and monetary stringency.

⁸² Alicia Puyana, "Mexican Agriculture and NAFTA: a 20 year Balance Sheet," *Review of Agrarian Studies* 2(1), (2012): 6.

⁸³ Puyana, "Mexican Agriculture and NAFTA," 3.

⁸⁴ Antonio Yunez-Naude, "The Dismantling of CONASUPO, a Mexican State Trader in Agriculture," *The World Economy Vol 26*, (Jan, 2003): 98. And Puyana, "Mexican Agriculture and NAFTA," 3.

All these measures implemented starting 1982, around comparative advantage, specialization, and urban bias were framed by the policy makers as the path to stable “development” and economic growth. Several studies, however, warned that the NAFTA agreement, particularly, would have overall negative effects in agriculture⁸⁵ and, according to Alicia Puyana, “would favor mainly capital-intensive industries with high economies of scale”.⁸⁶

Fiscal austerity and the decrease of public investment began in 1983, under the GATT. In 1981, public investment corresponded to 13% of the GDP while in 2021, it corresponds only to 2.5% of GDP. The share of public investment relative to total investment was 44 % in 1981 while in 2021 it was 12%.⁸⁷ The lack of public investment directly affected agriculture infrastructure and development. The private sector did not take over the financialization and support of agriculture since agriculture is, by nature, a highly unpredictable, high risk sector. Chances of profitability do not offset the risks associated with its investment if there isn’t a third sector (the federal government) taking the losses. For this reason, the role back of public investment has acted against basic grains and agriculture as a whole since 1983.

NAFTA disruption and effects in national agriculture were much worse than under GATT alone. NAFTA displaced national production and consumption of food essentials for everyday food consumption patterns, these include beans; soybean, and wheat.⁸⁸ Puyana illustrates that the import content of corn escalated from 10% to 32%, while for wheat it rose from 19% to close to 62% from 1994 to 2008.⁸⁹ The external coefficient of the economy is another indicator which, in the case of Mexico, shows dependence on import supplies and inputs. In 2011, the external coefficient was 63% of GDP.⁹⁰ Productivity gap in agricultural products between Mexico and the US for has not gotten smaller, as was predicted. Instead, it has widened: The agricultural productivity gap, in 1994, was 10 times higher in the US than in Mexico, while by 2010 the productivity gap was 15.5 times higher in the US than in Mexico.⁹¹

Other pernicious effects of NAFTA derive from the role that NAFTA played in Mexican food production. It had negative effects on agricultural employment, on rural income, as well as

⁸⁵ Puyana, “Mexican Agriculture and NAFTA,” 6.

⁸⁶ Puyana, “Mexican Agriculture and NAFTA,” 5.

⁸⁷ Arturo Huerta González, phone call, May 22, 2022.

⁸⁸ Puyana, “Mexican Agriculture and NAFTA,” 1.

⁸⁹ Puyana, “Mexican Agriculture and NAFTA,” 7.

⁹⁰ Puyana, “Mexican Agriculture and NAFTA,” 8.

⁹¹ Puyana, “Mexican Agriculture and NAFTA,” 10.

in the change of elasticities on imports. The displacement of national producers and retraction in the support to agriculture, made 1) the share of agriculture to total employment fell from 23% to 6 %; and 2) resulted in a “contraction of the share of rural income in [national] total income, from 21.8 % in 1980 to 12.4% in 2010.”⁹² The rising dependency of imports from the US to Mexico also increased the elasticity of imports to 3.5%. This means that for every one percent marginal increase of GDP growth in Mexico, imports increase at a 3.5 percent growth rate. This is problematic for balance of payments; economic growth implies rising current account deficits.⁹³

The results are not surprising. Two major factors underpin the negative effects of NAFTA in Mexico’s increase of food dependency (which imply loss of food sovereignty, and the loss of agricultural production). One factor is the relative cost of agricultural production, another factor is the demand elasticities of the goods each country exports. On the one hand, the United States and Mexico both produce the same goods although this might be only seasonal in the US.⁹⁴ On the other hand, the United States has comparative advantage relative to Mexico in grains⁹⁵, while Mexico does in fruits and vegetables. Under NAFTA, a free market mechanism rules so that each country focuses on the products for which they have comparative advantage. The problem is that the demand elasticities of the exports of the US and Mexico are not the same. Mexico imports from the US goods that are essential for the national basic basket (highly inelastic) while the US imports from Mexico goods that are not essential (elastic). Because of the fact that the imports of Mexico are more inelastic, there are uneven terms of trade. Mexico has not followed tariffs and has overpassed import quotas because of its high dependency on imports from the United States.⁹⁶ In addition, the US can compete with Mexico in the prices on the majority of products Mexico exports, such as tomatoes, oranges, grapefruits, and vegetables. Mexico's position against the US is completely precarious: it is not even assured a comparative advantage in its exports. The most oppressing challenge for Mexico, however, goes far beyond comparative advantage. What is most alarming, and should be condemned, is the fact that NAFTA made Mexico lose food security and food sovereignty.

⁹² Puyana, “Mexican Agriculture and NAFTA,” 8.

⁹³ Puyana, “Mexican Agriculture and NAFTA,” 9. The following question arises:” How to achieve economic growth without increasing the current account deficits?”

⁹⁴ This is true with some fruits and vegetables. Put reference

⁹⁵ Puyana, “Mexican Agriculture and NAFTA,” 8.

⁹⁶ Puyana, “Mexican Agriculture and NAFTA,” 7.

The current trend has continued with a complete abandonment of policy that promotes the agricultural sector and food production. Three major events are cited to back up this argument by Puyana. First, under former President Felipe Calderón, the agricultural minister was disinvited from the group of ministers that determines economic policy, and was relegated to a group of ministries that deals with social matters.⁹⁷ This shift reduces the level of agency of the agriculture ministry by not allowing the minister to participate in the determination of economic policy. Second, sectoral development programs towards agriculture like the *Programa de Apoyos Directo al Campo* (Programme of Direct Rural Support; PROCAMPO); *Alianza para el Campo* (Alliance for the Countryside) and *Apoyos y Servicios a la Comercialización Agropecuaria* (Support Services for Agricultural Marketing; ASERCA) were eliminated in 2008 as agreed under NAFTA. Third, the share of public investment in agriculture has been 5 times smaller than what Puyana and Romero consider necessary to stimulate growth in the agricultural sector. Puyana and Romero claim that it should never reach below 5% of total investment and, at least from the 1990's to the time they wrote their paper (in 2009), the share of public investment going to agriculture was less than 1%.⁹⁸

A synthesis of the current problems around trade liberalization are the following: 1) NAFTA made Mexico lose food security and food sovereignty; 2) The elasticities of imports relative to GDP creates an inherent balance of payment problem for Mexico which positions the country in a politically difficult situation. This leaves two potential approaches: stabilize foreign debt via austerity policies and stagnation, or economic growth with growing foreign indebtedness⁹⁹; ¹⁰⁰ 3) The agricultural productivity gap will keep widening as an unfair international competition prevails; 4) Mexican dependencies of imports will keep rising and more small and poor peasants in Mexico will continue to be displaced. The current and future situation is not promising by any means for the Mexican economy or the Mexican population.

The IMF, the World Bank, and the United States itself have pushed, for the last 40 years, Mexico and other developing countries to undermine their own agricultural sector. This seems to have been a US strategy to establish itself as the only hegemonic country in the world order.

⁹⁷ Puyana, "Mexican Agriculture and NAFTA," 31.

⁹⁸ Puyana, "Mexican Agriculture and NAFTA," 31.

⁹⁹ In a context of high elasticity of imports, as developed above, economic growth implies growing imports. If there is not a trade surplus to offset the payment of imports, then growing imports would have to be paid by foreign indebtedness.

¹⁰⁰ The tendency has been the former.

The strategy of creating growing dependencies, now by creating dependency on food, makes those that import basic food from the US more prone to be corrupted by US pressures. After all, foreign debt and dependency are mechanisms by which coercion is exercised, as developed in chapter III. The inducement of food dependency (or the loss of food sovereignty) is the most pernicious kind of dependency that can be created—Food is essential for the reproduction and maintenance of the population and any system. “Without food there is no resistance”, as Carol Hernández, Hugo Perales, and Daniel Jaffete attribute to the Zapatista movement.¹⁰¹ The United States, by providing the food necessary for the maintenance and reproduction of the Mexican population, has potential control over the economic apparatus of Mexico. If a country is self-sufficient in terms of the basic food necessary to feed its population, then it can create its system and defend it from foreign pressures. For this reason the support and protection to the national agricultural sector should not be questionable: it is essential for food sovereignty, and for the maintenance of a basic level of political and economic sovereignty. Agriculture is a public good and serves the public purpose.¹⁰²

The current trend of dismantling any kind of support towards agriculture should be reversed immediately. From the 1980s onwards, a strategy that has influenced the way development is conceived is the pioneer strategy of development of Joan Robinson and Arthur Lewis. This theory has a stages approach to the development process, and assumes that the productivity gains from the manufacturer and industry are greater than in agriculture. Given this assumption, Robinson goes on to make the claim that the path of development is to transition from the agricultural sector to the industrialized or manufactured sector because of their higher productivity levels. This is what Mexico and other developing countries were induced to do

¹⁰¹ See Carol Hernández, Hugo Perales, and Daniel Jaffete, ‘ “Without Food There is No Resistance”: The impact of the Zapatista conflict on agrobiodiversity and seed sovereignty in Chiapas, Mexico,’ *Geoforum* 128 (2022).

¹⁰² As defined on page 11, the public purpose is understood in this essay as the implementation of public policy that is intended to benefit the population as a whole or a considerable proportion of it. The public purpose can be seen in microeconomics as a public good, whose social benefits offset the negative externalities of the whole actors of the economy. A public good can range from a public park, to the implementation of a free health care system. A macroanalysis can consider the public purpose, anything that their framework considered beneficiary to the public. This particular essay wants to frame food sovereignty and full employment as two policies that benefit the people of a country .

after the debt crisis: shift government support away from the agricultural sector. This strategy, as developed above, has not been beneficial on any level to Mexico as a whole.

The United States and other developed countries' strategy on agriculture is much closer to Rosenstein-Rodan's, who puts emphasis on both agriculture and industry. Rosenstein-Rodan claims agriculture helps industry; it can provide cheap food and good supplies—as developed by Lewis—but industry development is dependent on agricultural growth on a permanent basis. Rosenstein-Rodan makes the reader understand that to have a successful industrial development, support for agricultural practices must continue. There is no “transitioning” as Robinson and Lewis imply in their texts.

What is interesting and ironic, is that those that promote the abandonment of public finance into agriculture are the United States and the financial institutions it controls, but within the countries those practices are preached, they are not implemented. The United States and other developed countries' public finance in agriculture is not questioned. Agriculture is highly subsidized and promoted because of matters of economic security and food sovereignty. Bezemer and Hadey would add that “agricultural growth is also a key determinant of food stability and nutrition, poverty reduction, and political stability”. They claim that the multiplying effects of agriculture are larger than those of any other sector for the rural economy and for the economy as a whole. This thesis is partial to the agricultural perspective of Rosenstein Rodan, Bezemer and Hadey, and the Zapatista movement in the sense that agriculture government support is essential for any strategy of progress to follow, regardless of how that may look.

Mexico to regain food sovereignty needs to undo everything around agriculture and trade liberalization that has been done in the past 40 years, and reimplement among other things: policy of subsidies and tariffs; development banks for agriculture promotion and; fiscal deficits and increasing public investment. The urgency is evident and has been illustrated before. It is simple, however, to say what needs to happen without considering the political and international financial structure. The increasing dependency and the existence of foreign debt reduces the Mexican government's ability to implement any fiscal measure to respond to internal interest. Mexico is constrained politically and economically to take any course of action without hurting itself in the process. Under this scenario, it is envisioned that a unilateral measure of parallel money creation to finance and support agricultural production (small and

medium) and to finance an agricultural job guarantee, is a mechanism that would provide liquidity on the parallel unit of account, while maintaining stability and normal exchange on the current unit of account. For this to be successful, the parallel currency must not be convertible by the government to any other currency and would have to be accepted to buy national products only. If this occurs, the parallel currency would act as an instrument of fiscal policy where liquidity and purchasing power are injected into the economy. In addition, it should and it does not translate into growing imports.

Why to Think About Measures to Expand Fiscal Policy?

International institutions like the IMF and the World Bank, together with credit scoring agencies, condition lending and credit scores, respectively, on forcing countries to peg their currencies via interest rate, fiscal austerity, or the imposition of a currency board. They incentivize those countries to “pay back” their debt by undertaking structural reforms. As shown in the previous section, those measures do not work as framed by these international institutions. On the contrary, they compromise growth and labor conditions in the debtor countries, while increasing privatization. It is clear from their policy suggestions that such external institutions do not serve the interest of the debtor, but rather that of the creditor. The only solution is a unilateral measure to expand fiscal policy in favor of the national productive sector. Political considerations must be taken into account so as not to hurt the debtor country and its people. Some economists, like Arturo Huerta González, suggest that debtor countries must ignore international credit agencies, and he recommends that the government retake monetary control of the economic policy by 1) creating a dual mandate of the Central Banks, thus removing the autonomy of the central banks of the region; 2) working with flexible exchange rates in order to industrialize the country, become self-sufficient in food production, and allow import substitution; and 3) imposing capital controls. This procedure is an example of fiscal, monetary and exchange rate policy that serves the interests of the country. The author of this essay agrees with Huerta González fully in the sense that those are the steps that must be done to ultimately have full monetary sovereignty. Such policies, however, are politically unpopular and for that reason difficult to implement. This is especially so when a country is not sovereign in food, energy or technology. If the country were to stop pegging the currency via the interest rate and instead make full use of monetary and fiscal policy, then its currency would

depreciate, and the region would be importing inflation in the short term. This outcome is to be avoided. Nationally interested fiscal and monetary policy and flexible exchange rates must be implemented without importing inflation, especially on basic goods. It may be possible to do so by the creation of a parallel state currency that has all the properties of money but is not convertible to any other currency, and whose use is restricted to national products only.

VI. PARALLEL CURRENCIES

This chapter has two main sections. The first section explores a proposal and two experiences around parallel currencies. Afterwards, a proposal for a parallel federal currency for Mexico is introduced. It is claimed—in the Mexican context—that under certain properties and the implementation of other programs,¹⁰³ the proposed parallel currency could be an instrument to treat balance of payment problems, reduce unemployment, and regain some level of sovereignty (food sovereignty). I want to acknowledge that a combination of other existing instruments could be useful to addressing the growing dependencies and foreign debt. For matters of time I explore only parallel currencies.

A parallel or complementary currency is a term attributed to any currency issued by the community or the government, at any level, that coexists with the federal government recognized unit of account. Other names also include alternative, local, community, or secondary currencies.¹⁰⁴ Some literature distinguishes the names to the origin of its issuance. If issued by the community, it is usually named community or local currency. It is not clear, given literature and the use of the terms, whether secondary, parallel, or complementary currencies are currencies issued by a government entity or by the community. The tendency has been to cluster them all into the term of complementary currencies maybe because of its neutral political connotation. Because of this, in the following lines I use this term—complementary currencies—to develop why their creation is important and explain the historical context in

¹⁰³ Such as a direct job creation program in agriculture and a public bank that offers finance on the parallel currency

¹⁰⁴ See Georgina M. Gomez, “2 Perspectives on Complementary Currency Systems,” in *Argentina’s Parallel Currency: The Economy of the Poor*. (London: Taylor & Francis Group, 2009). And James Stodder, “Complementary credit networks and macroeconomic stability: Switzerland’s *Wirtschaftsring*,” *Journal of Economic Behavior & Organization* 72 (2009).

which they have been issued. For the proposal, however, I use the term parallel currency because it is less general and clearer on the intentions of the proposed currency. The word itself creates the conceptual image that it coexists *parallel* to the current unit of account—has no particular intention to replace it. The term parallel also implies an equal importance to the current unit of account: its creation intends to be a tool to expand the current government fiscal space, which might be very limited.

Complementary currencies have been created through time and space in periods of economic crisis, stagnation, monetary instability or inflation.¹⁰⁵ They have been issued by government officials to make payment obligations, secure income, and restore liquidity and demand, or by the private sector to encourage spending, support local economy and producers, and as a mode of resistance to the capitalist system.¹⁰⁶ They can be seen as a mechanism to strengthen the local economy and encourage self-sufficiency. Complementary currencies are particularly important for all the things mentioned above—they have proven to be successful for economic recovery during periods of social and economic unrest by restoring liquidity and demand. They also are important because money itself constructs credit-debtor relationships, and by the creation of another currency there is the “possibility to re-localise social and economic relations and facilitate a certain degree of autonomy”, as the economist Georgina Gomez writes.¹⁰⁷ In addition, they “creat[e] some kind of insulation for the local market from the swings of globalization.”¹⁰⁸

This thesis subscribes to the idea that complementary currencies have provided economic recovery, and some source of political and economic independence from sources of oppression. This is why a complementary currency, under the reference name of parallel currency¹⁰⁹, is being proposed for the case of Mexico. It is envisioned to be an instrument that can create full employment, restore food-sovereignty without affecting outstanding foreign payments or affecting the peg exchange rate of the Mexican peso to the U.S. dollar. In the long

¹⁰⁵ Dimitri Papadimitriou, “Complementary currency and economic stability,” Policy Note (Annandale-on-Hudson, N.Y.: *Levy Economics Institute of Bard College*, 2016), 2.

Gomez, “2 Perspectives on Complementary Currency Systems,” 22.

¹⁰⁶ Gomez, “2 Perspectives on Complementary Currency Systems,” 22 and 31.

¹⁰⁷ Gomez, “2 Perspectives on Complementary Currency Systems,” 32.

¹⁰⁸ Gomez, “2 Perspectives on Complementary Currency Systems,” 31.

¹⁰⁹ The proposal uses the term *parallel currency* since the word itself creates the conceptual image that it coexists parallel to the current unit of account. It has no particular intention to replace it. Also, it is equally as important as the current unit of account since its creation intends to be a tool to expand the current [very limited] fiscal space.

run it is expected to increase independence and reduce foreign import dependence. A path necessary to pursue self-determination of a national and foreign agenda in a context of foreign debt and lack of self-sufficiency.

Experiences and Proposals for Parallel or Complementary Currencies

There are thousands of experiences and proposals regarding complementary currencies.¹¹⁰ A few dozen have been well documented. For the purpose of this project, only one proposal and two experiences of parallel/complementary currencies will be developed and explained. The proposal developed is the one proposed for Greece by Papadimitriou, Zezza, Fantacci, and Amato (two of whom are my professors)—they name the currency Geuro or Fiscal Currency. The two case studies analyzed are the Swiss WIR, and the Argentinian 17 state currencies often referred to as *cuasimonedas*. The three of them have elements which are thought to be useful for the parallel currency proposal for Mexico. The lines below address the context, purpose, structure, properties, and experiences or potential trajectories of each of the currencies mentioned above.

Greece Proposal: Geuro Or Fiscal Currency

The economists Amato, Fantacci, Papadimitriou and Zezza, under the context of the Greek economic crisis, made a case for a parallel currency to increase fiscal space and respond to social needs (like employment insurance and guaranteeing pensions) without compromising existing debt payments.

In their 2016 piece titled “Going forward from B to A? Proposals for the Eurozone Crisis” they claim that the adoption of a single currency for the whole European Union (EU) banished the possibility of exchange rate adjustments for each country, this being the beginning of many social and economic problems. Having fixed exchange rates made Greece and other Southern EU countries¹¹¹ have an exchange rate that worked against them—the negative trade balance of Greece and Spain was accentuated.¹¹² The IMF short-term lending instruments

¹¹⁰ Read, for more information, the cited work of Gómez.

¹¹¹ Italy, and Spain. Massimo Amato, Fantacci, Papadimitriou, and Zezza, “Going forward from B to A? Proposals for the Eurozone Crisis,” Working paper No. 866, (Annandale-on-Hudson, N.Y.: *Levy Economics Institute of Bard College*, 2016), 5.

¹¹² Amato et al., “Going forward from B to A? Proposals for the Eurozone Crisis,” 7.

imposed fiscal austerity and labor reforms under the narrative of making “debt sustainable”. The authors say that the IMF demanded Greece cut public expenses (like the pension system), implement labor market reforms that cut nominal wages substantially, and implement austerity policies in general. The IMF justifies their proposal by saying: “the fall in nominal wages may translate into increased price competitiveness, which, if effective on trade, may reverse a current account deficit into a surplus.”¹¹³ The IMF measure, in contrast to what is theorized by them, depressed consumption and, in that process, affected national producers—the economy fell into a crisis.

In that context of economic crisis, growing trade imbalances, lack of political space, and asphyxiating foreign debt conditions the authors —Amato, Fantacci, Papadimitriou, and Zezza— propose an alternative currency named Geuro or Fiscal currency. The policy recommendation to create the Geuro has three main purposes: 1) be a source to finance direct job creation programs, pensions, and other poverty alleviation programs,¹¹⁴ 2) be a mechanism to restore fiscal space without compromising debt payments in Euro, or any existing treaties,¹¹⁵ and 3) rebuild Greece’s ravished economy by restoring liquidity.¹¹⁶

Some of the structures/properties of the currency they propose are that the Geuro would have to: 1) be issued by an autonomous government entity¹¹⁷; 2) have an electronic form; 3) not be convertible by the government; and 4) be acceptable for clearing taxes (up to 20%).¹¹⁸ The authors predict that the creation of this fiscal currency would allow Greece to gain back the sufficient fiscal space to get out of the current economic crisis.¹¹⁹ In addition, they write that it could encourage Greece to expand national production, export more and, ideally, create a current account surplus to reduce the foreign debt (public and private) held abroad.¹²⁰ They, however, recognize the possibility that the increase of liquidity could translate to increases in imports and worsening their current account position.¹²¹

¹¹³ Amato et al., “Going forward from B to A? Proposals for the Eurozone Crisis,” 11.

¹¹⁴ Amato et al., “Going forward from B to A? Proposals for the Eurozone Crisis,” 13.

¹¹⁵ Amato et al., “Going forward from B to A? Proposals for the Eurozone Crisis,” 14 and 19.

¹¹⁶ Dimitri B. Papadimitriou, “The jobs-currency connection in Greece,” *Huffington Post*, March 25, 2014. https://www.huffpost.com/entry/the-jobs-currency-connection_b_5022637

¹¹⁷ Papadimitriou, “Complementary currency and economic stability,” 2-3.

¹¹⁸ Amato et al., “Going forward from B to A? Proposals for the Eurozone Crisis,” 13.

¹¹⁹ Amato et al., “Going forward from B to A? Proposals for the Eurozone Crisis,” 14.

¹²⁰ Amato et al., “Going forward from B to A? Proposals for the Eurozone Crisis,” 15.

¹²¹ Amato et al., “Going forward from B to A? Proposals for the Eurozone Crisis,” 15.

Swiss WIR

In the context of the Great Depression (a time in which traditional bank credit services were restricted), the Swiss created the Swiss WIR in 1934. It was envisioned to be an instrument to restore liquidity by provisioning credit. The founders' idea was inspired by Silvio Gessel economic theories and notions of mutual assistance.¹²² The Swiss WIR was formed in the private sector, and is considered currently the oldest and one of the most important and successful examples of parallel currencies.

Before going into details of the currency, I want to acknowledge that the Swiss historical context is not close to the Latin American one: Switzerland was never a colony. This inherent difference creates for each area institutional, economical, and political experiences that are tangent to each other. In that sense, it is not expected that the success of the WIR experience can be extrapolated to Latin America or any other region without further considerations. However, this thesis considers the revisiting of the Swiss WIR framework as an important exercise of monetary arrangements that can expand fiscal space.

James Stodder, an economist cited in several papers regarding the Swiss WIR, defines the WIR as a “consciously designed system of exchange”¹²³ which offers “centralized exchange plus multilateral trade credits”.¹²⁴ The mechanism in which this happens is by 1) the WIR-Bank, which performs as a lender and as clearing house, and 2) a private exchange network that emerged as a result of demand for the currency.¹²⁵ The lending practice of the WIR Bank together with the conditions of repayment are what create the private exchange network.

The WIR bank is a registered Swiss bank: it offers loans and banking services in Swiss WIR¹²⁶, and at the same time provides ordinary banking services in Swiss Francs.¹²⁷ When the WIR bank offers commercial loans in WIR currency, repayment has to be done in the same unit

¹²² Wojtek Kalinowski, “Currency Pluralism and Economic Stability: The Swiss Experience,” *Veblen Institute for Economic Reforms*, (2011), 2.

¹²³ Stodder, “Complementary credit networks and macroeconomic stability: Switzerland’s *Wirtschaftsring*,” 80.

¹²⁴ Stodder, “Complementary credit networks and macroeconomic stability: Switzerland’s *Wirtschaftsring*,” 80.

¹²⁵ Kalinowski, “Currency Pluralism and Economic Stability: The Swiss Experience,” 3.

¹²⁶ Papadimitriou, “Complementary currency and economic stability,” 2.

¹²⁷ James Stodder and Bernard Lietaer, “The Macro-Stability of Swiss WIR-Bank Credits: Balance, Velocity, and Leverage,” *Comparative Economic Studies* 58. (2016): 580.

To this point Papadimitriou in his “Complementary currency and economic stability” piece says in page two: “A user of the WIR currency maintains at least two accounts in the WIR Cooperative Bank: one in Swiss francs, the other in WIR.”

of account; those companies that have been extended a commercial loan are pushed to sell their products and services in WIR.¹²⁸ It is through this process that the private exchange network in WIR is and has been created, and it is only because it works as a means of payment (to buy goods) that it is accepted.¹²⁹

The Bank allows WIR participants to make payments to each other, and keeps track of the credits and debits in WIR of all the participants of the system (HH and firms).¹³⁰ It is via that mechanism that the WIR Bank acts as a clearinghouse for those exchanges that happen in their unit of account. Not all firms can get loans and participate in the exchange: only small and medium firms can do so since “SMEs typically have less access to formal credit institutions (Terra, 2003), and rely disproportionately on self-financing”, Stodder and Lietaer point out.¹³¹ It was only starting in 1972, that regulation was legislated so large firms cannot become WIR members. Some other specificities of the WIR are its non convertibility and the fact that it only takes an electronic form. In fact, it was only in the mid 70’s that the currency stopped being convertible into Swiss francs.¹³² Swiss francs, however, can be exchanged for WIR. The parity is one-to-one.¹³³ It has an electronic form¹³⁴ and probably this is what allows the WIR bank to have detailed information about all transactions.

When it comes to the benefits and experiences of the Swiss WIR there is consensus. All cited authors —Stodder, Lietaer, Papadimitriou, and Kalinowski— emphasize in their respective papers about the countercyclical [turnover] effects of the WIR. Stodder, by bringing up the following quote of Keynes, makes the reader understand that the provision of an alternative that deals with the instability of money and credit, stability is created in the system.

The counter-cyclical nature of WIR may help answer a basic question within macroeconomic theory—whether macro- instability is more due to price rigidity, or to

¹²⁸Papadimitriou, “Complementary currency and economic stability,” 2.

¹²⁹ The WIR is not accepted to pay tax obligations. For its acceptability, however, it is sufficient to function as a means of payment within the private exchange network.

¹³⁰ Stodder, “Complementary credit networks and macroeconomic stability: Switzerland’s *Wirtschaftsring*,” 80.

¹³¹Stodder and Lietaer, “The Macro-Stability of Swiss WIR-Bank Credits: Balance, Velocity, and Leverage,” 578.

¹³² Papadimitriou, “Complementary currency and economic stability,” 2.

¹³³ Papadimitriou, “Complementary currency and economic stability,” 2.

¹³⁴ Papadimitriou, “Complementary currency and economic stability,” 2.

instability in money and credit. Keynes (1936) recognized that both conditions can lead to instability.¹³⁵

The Swiss WIR is considered to be an important instrument of monetary policy that complements, and does not overturn, the functions of the Swiss franc—the overall money supply has proven to have procyclical effects (as regular banking practices restrict credit during downturns) while the WIR acts as “reserve credit”, whose supply increases on demand.¹³⁶ James Stodder, in his 2009 paper, statistically found that the WIR has a high countercyclical turnover. In his 2016 piece he shows how the countercyclical turnover (Turnover = WIR Balances times Velocity) changes for those firms that are registered (smaller businesses) and for those non-registered in the system.¹³⁷ Both WIR balances and velocity are found by Stodder to be countercyclical drivers. He concluded in 2016: “[the] WIR activity has been highly countercyclical for 65 years in Switzerland.”¹³⁸ Kalinowski articulates the countercyclical turnover benefits, but also goes far beyond. He says measures like an exchange network are tools that enable sustained demand in moments where aggregate demand is collapsing or in decline.¹³⁹ In addition, he suggests that the WIR has been important for community building and preserving the social fabric since the use of the WIR involves creating bonds between local communities.¹⁴⁰ Kalinowski neatly frames measures like this as “radically transforming mechanisms for credit allocation” that “contribute to macroeconomic stability in another way”.

141

Can the Swiss experience of the WIR-bank be replicated elsewhere? Stodder contextualizes the Swiss experience. He says that despite having worked in Switzerland for several decades, it is a particular case. He says:

Switzerland is home to some of the largest, technologically advanced, globally networked financial institutions in the world. And at the opposite extreme, it also has a strong

¹³⁵ Stodder, “Complementary credit networks and macroeconomic stability: Switzerland’s *Wirtschaftsring*,” 93.

¹³⁶ Kalinowski, “Currency Pluralism and Economic Stability: The Swiss Experience,” 2.

¹³⁷ Smaller registered firms (R) “have counter-cyclical WIR-Velocities” while larger non register firms (NR) have countercyclical balances. The latter are “free to accept as much or as little WIR-currency as they wish – accept more WIR when other forms of money are in short supply, in a recession.”, according to Stodder and Lietaer.

Stodder and Lietaer, “The Macro-Stability of Swiss WIR-Bank Credits: Balance, Velocity, and Leverage,” 571.

¹³⁸ Stodder and Lietaer, “The Macro-Stability of Swiss WIR-Bank Credits: Balance, Velocity, and Leverage,” 601.

¹³⁹ Kalinowski, “Currency Pluralism and Economic Stability: The Swiss Experience,” 4.

¹⁴⁰ Kalinowski, “Currency Pluralism and Economic Stability: The Swiss Experience,” 2.

¹⁴¹ Kalinowski, “Currency Pluralism and Economic Stability: The Swiss Experience,” 4.

network of smaller banks with more specialized focus (cooperative, regional, or industrial).¹⁴²

Stodder, however, does not examine whether Switzerland came to be one of the most technologically advanced countries in the world because, in that process, the Swiss WIR was an important factor, or whether Switzerland developed independently of the creation and development of the Swiss WIR.

Argentina 17 State Currencies

Argentina is considered to be a “far from unique case” when it comes to monetary experimentation.¹⁴³ Several authors, including all of those cited in this section of complementary currencies, would attribute monetary experimentation to periods of economic crisis and deep economic instability. Under that context, 17 state currencies were created in Argentina between 2001 and 2003, and under the constraints of the currency board.

A currency board was imposed by the IMF in 1991 in which the Argentinian peso was pegged to the US dollar. It was framed to be a measure that would “create money stability” by ending the inflationary pressures that existed from May 1989 to the end of 1990.¹⁴⁴ This measure forced austerity measures at the federal level, and although it did slow the inflationary pressures, it meant a deep four year recession until the Currency Board collapsed.¹⁴⁵ The currency board had affected the whole economy: it resulted in lack of liquidity for the private sector, and incapability of making wage payments for the local municipalities due to depressed tax collection. By May 2001, the unemployment rate was 16.4%. The mechanism used by the central government to maintain a pegged currency was done 1) via greater taxation and budget cuts by the central government—to offset the budget deficit—and by 2) limiting cash withdrawals. These measures, however, exacerbated the crisis even more: the former made the

¹⁴² Stodder, “Complementary credit networks and macroeconomic stability: Switzerland’s *Wirtschaftsring*,” 93.

¹⁴³ Georgina M. Gomez, and Paolo Dini, “Making sense of a crank case: monetary diversity in Argentina (1999-2003),” *Cambridge Journal of Economics* 40, (2016): 1425.

¹⁴⁴ The inflationary period from May 1989 to the end of 1990 was such that the consumer price index increased 200% a month. See Gomez, and Dini, “Making sense of a crank case: monetary diversity in Argentina (1999-2003),” 1424.

¹⁴⁵ By making sure that the monetary base matched the foreign currency flows. See Gomez, and Dini, “Making sense of a crank case: monetary diversity in Argentina (1999-2003),” 1424.

deficit greater and, the latter affected the informal economy directly since they rely on cash for their transactions.¹⁴⁶

Buenos Aires province was the first one affected. Their need for funds made them pursue help from private banks. Private banks, however, denied providing a sufficient amount of funding but proposed an alternative: they would cover a third of the amount needed, if a third was funded by the province, and the last third was done through fiscal adjustment measures by the province.¹⁴⁷ Buenos Aires agreed, and the amount which the province had to raise was achieved by the creation of the province's secondary currencies—named *Patacones* or Emergency Provincial Bond. The *patacones* were not exactly a currency: they were bonds of circulation with a two-year maturity.

The success of the implementation in the province of Buenos Aires and the pervasive effects the currency board had on the other provinces led to a domino effect of the policy measure: 16 other Argentinian provinces followed Buenos Aires's path and created their own currencies to pay their workers and other outstanding debts with suppliers.¹⁴⁸ It was in this context that 17 provisional currencies were created. The name associated with the 17 provisional currencies is *cuasimonedas* or complementary currency systems (CCS).¹⁴⁹ The *cuasimonedas* were seen as a mechanism, of provincial governments, to cancel their outstanding debt payments with workers and guarantee future payments.¹⁵⁰

The creation of the *cuasimonedas* was one of a kind. They are a case of a non-state monetary system with no collateral. They had the form of bonds of circulation that paid seven percent interest at maturity. Their acceptability as means of payments is associated with them being accepted to pay taxes. Gomez and Dini, point out that their acceptability encompassed the geographical areas in which they were accepted for taxes. They attribute this behavior to the fact that it helped to clear debts and make payments between provincial governments. They write:

¹⁴⁶ Gomez, and Dini, "Making sense of a crank case: monetary diversity in Argentina (1999-2003)," 1425.

¹⁴⁷ Santiago Chechela. "La utilización de terceras monedas," *CLACSO*, Argentina, 6.

<http://biblioteca.clacso.edu.ar/ar/libros/cuba/if/marx/documentos/22/La%20utilizaci%F3n%20de%20terceras%20monedas....pdf>

¹⁴⁸ Gomez, and Dini, "Making sense of a crank case: monetary diversity in Argentina (1999-2003)," 1426. Chechela. "La utilización de terceras monedas," 7.

¹⁴⁹ Georgina M. Gomez, "2 Perspectives on Complementary Currency Systems," in *Argentina's Parallel Currency: The Economy of the Poor.* (London: Taylor & Francis Group, 2009), 22 .

¹⁵⁰ Gomez, and Dini, "Making sense of a crank case: monetary diversity in Argentina (1999-2003)," 1426.

The provincial monetary circuits worked as a chain of credits and debts that integrated provincial governments, public employees and local businesses in a monetary circuit of ‘circulating debt’, using Schumpeter’s term (2006 [1954]). Innes suggested that governments integrate monetary circuits not because they are the issuers of fiat money but because they are ‘a great buyer of services and commodities’ that can redeem debts by taxation (Innes, 1914, p. 168). In the case of the Argentine provinces, governments were not only big buyers in terms of trade but also big debtors in terms of outstanding payments, and had a claim of sovereignty within their territories.¹⁵¹

The experiences during and after the implementation of the *cuasimonedas* are mixed. In some provinces the effects of the recession were attenuated since the *cuasimonedas* made it possible to pay public workers and distribute stock of goods.¹⁵² It particularly helped industries, like the construction industry, that were very affected by the crisis.¹⁵³ It can be seen as a measure of monetary expansion for a fiscal deficit while maintaining the Argentinian peso parity with the US dollar. In other provinces the effect was not so good: the money supply growth¹⁵⁴ exceeded the output supply growth (leading to a devaluation of the currency). Also, there are reported cases of clientelistic use of these provincial currencies.¹⁵⁵

The mixed experiences of the *cuasimonedas* in Argentina, to some extent, are a result of its design and of other political constraints. Some of the inherent difficulties of the *cuasimonedas* and their success for economic recovery had to do with the fact that 1) the amount issued by each province was constrained to the amount of a nominal salary;¹⁵⁶ 2) the IMF constrained foreign credit; 3) it was a temporary measure only, 4) *cuasimonedas* were accepted for any kind of produce: this affected the intermediaries —like the supermarkets— payment system; and 5) there was no planning committee to make sure that the supply growth of *cuasimonedas* did not exceed the output supply growth. The first point limited the size of the payment system. The third point limited the possibility to observe long term effects of the

¹⁵¹ Gomez, and Dini, “Making sense of a crank case: monetary diversity in Argentina (1999-2003),” 1427.

¹⁵² Chechela. “La utilización de terceras monedas,” 7.

¹⁵³ Chechela. “La utilización de terceras monedas,” 12.

¹⁵⁴ Gomez and Dini express in their 2016 piece (page 1426) that by “September 2001 the provincial currencies represented 5% of the national monetary base; they later climbed to 25% and 33% in January 2002 and October 2002, respectively (Chelala, 2003), as the crisis aggravated and shrank available public funds.”

¹⁵⁵ Gomez, and Dini, “Making sense of a crank case: monetary diversity in Argentina (1999-2003),” 1427-28.

¹⁵⁶ Chechela. “La utilización de terceras monedas,” 6.

policy. Regarding the fourth point, some stores received more inflow of *cuasimonedas* than what they could use for the payment of taxes and salaries. Chechela points out that this excessive flow of *cuasimonedas* made intermediaries not able to incorporate their excessive flow of *cuasimonedas* in the financial system.¹⁵⁷ Somehow the only thing intermediaries could do with the excess inflow of *cuasimonedas* was to store them - accumulate profit on that unit of account. The fifth point is important. Perhaps, for future implementations, a multidisciplinary intra/inter industry committee that observes and consults the economy's needs has to be created. It must plan and encourage provisioning such that changes in demand (due to changes in money supply) are satisfied by changes in the supply of goods and services. A robust or unrestricted budget would be necessary for incentivizing the provisioning of the physical output. Money supply must not be questioned until the economy is in full resource utilization.

A Case for a Parallel Federal Currency in Mexico for Direct Job Creation and Food Sovereignty

The proposal developed here for Mexico has elements of the two cases and the proposal developed above. It also has influences from other programs such as the Job Guarantee program in India named Mahatma Gandhi National Rural Employment Guarantee. The Mexican proposal could be seen as more ambitious than the others since it combines elements of the mentioned experiences and proposals. I believe, however, the proposal is only specific on the paths that ought to help the country reach closer to the goal: reduce foreign dependence and increase sovereignty— by regaining food sovereignty while alleviating unemployment and economic insecurity.

The proposal for Mexico takes the framework of a WIR bank that offers loans in the new unit of account but adjusts the initiative to be a public bank responsible for providing low interest credit, and not a private one. The Argentinian implementation of paying a certain percent of income to public workers in the parallel currency is also adopted. From the Greek proposal it adopts the framework of a parallel currency as a way to increase government expenditures in public programs, such as in a direct job creation program. The Greek proposal does not specify what kind of jobs would exist under the Job Guarantee, however, this proposal envisions direct job creation on agricultural jobs particularly. The proposal for a Job Guarantee

¹⁵⁷ Chechela. “La utilización de terceras monedas,” 11.

in Agriculture is similar but different to the Mahatma Gandhi National Rural Employment Guarantee. In the lines below, the reasoning behind each of these points and other specificities of the proposal is developed.

Table 1: Key differences and similarities among the cases and proposals

Cases or proposal	Geuro/fiscal currency	Swiss WIR	Argentinian 17 exchange networks (<i>cuasimonedas</i>)	Mexico proposal
Proposed/ developed:	Proposed by Amato, Fantacci, Papadimitriou, Zezza in 2016	1934 - now	1999-2003	Current proposal
Purpose or objectives	Increase government expenditure in direct job creation and additional transfers without compromising existing debt payments in Euro.	Source of credit and liquidity	Cancel debts with public workers and between provinces under the currency board	Be self-sufficient on food and reclaim food and seed sovereignty + import substitution to reduce other forms of dependency.
Issuance and structure	Parallel currency issued by an Independent bank ¹⁵⁸	Private exchange network with a cooperative bank	Vouchers / bonds of general circulation issued by the province	Parallel currency issued by a dependent federal government institution - Treasury, for instance. Creation of a government bank that provides low interest credit in the parallel currency
Form	Electronic	Electronic	Physical - Vouchers/bonds of general circulation	Physical and electronic form
How is money supplied	Direct job creation and additional transfers	Form of credit by the WIR bank	By paying a percent of wages to public workers in the parallel currency	1)form of credit by a public bank; 2) by paying a percent of wages to public workers in the parallel currency; 3) direct job creation
Ensure demand and acceptability of the currency	Accepted for all tax payments (20 % limit)	Companies that have been extended a loan must pay back in WIR. Procedure which creates a good and service market in WIR	Accepted for taxes	Same as Swiss WIR and the Geuro: Accepted for taxes; require loan repayment in the same currency in which the loan was issued (parallel currency)
Convertibility guaranteed by the government	No	Since 1974 it has not been guaranteed	-Not until maturity (7% interest)	No
Ensure supply of goods and services such that $\Delta Y_s = \Delta M_s$	Job Guarantee	Not clear	Not clear mechanism.	1)Job Guarantee in agriculture 2)National bank in charge of incentivizing via subsidies and planning –with other secretaries– such that the provisions of goods and services offsets changes in Ms
Experiences or predictions	No compromise existing obligations: Surplus in Euro while deficits in Geuro -Increasing GDP rate	Considered to be a success story.	Mixed a)Reactivating effect b) Ms>Ys → inflationary process	Import substitution in food; reclaim food and seed sovereignty; water and land preservation; economic recovery

¹⁵⁸ Papadimitriou, “Complementary currency and economic stability,” year 2016

Specificities Of The Proposal And Reasoning Behind It

The motives behind the creation of the parallel currency are discussed in section V. Mexico has never been fully sovereign nor independent politically or economically. As the Mexican history professor Jan Meyer says: there is only *relative* sovereignty.¹⁵⁹ Relative to the centers of power. Part of that *relative* or *partial* sovereignty has to do with foreign debt and dependency on imports— especially on basic food and other essential goods for population subsistence. The country is constrained in the use of fiscal and monetary measures that could stimulate national production and economic recovery because of possible impacts on the US dollar - peso parity, and their impact on import prices. Some of the restrictions on fiscal and monetary policy include the pursuit of low interest rates and big government deficits. Mexico's high dependency on foreign food supply is one of the reasons politically that the country is constrained in using fiscal policy. If the government today were not to prioritize a stable exchange rate, consumers would be importing inflation when buying basic food and other goods—social unrest would occur and would manifest, probably, in the form of a revolution.

The current measures, however--as discussed in section V--just lead over time to 1) a more impoverished and unequal population; 2) having less control over the national means of production; 3) more usurpation of strategic resources; 4) secular stagnation; and 5) do nothing, but feed and perpetuate the current dynamics that only serve foreign interests. Given the current context of high dependency and foreign debt it is necessary to think about measures that respond to the national interest without compromising the current exchange rate. A parallel currency that is not convertible to any other is envisioned to be an appropriate measure that does not compromise the current exchange rate of the official unit of account but expands fiscal space in the parallel unit of account. For it to actually help Mexico leave the current trap it is necessary to follow measures that make the country reduce foreign dependence by targeting self-sufficiency— pursuing the restitution of food sovereignty is nonnegotiable. Without food, there is no resistance, as said in chapter V, when talking about the Zapatista movement. Measures that ought to obtain food sovereignty should be the first step to follow. Agricultural practices do not require capital intensive practices. Agriculture requires mainly land and labor, and both are abundant in the country.

¹⁵⁹ Jan Meyer claimed this several times while I had him as a professor in the summer school of El Colegio de México, in 2019.

In the following discussion the specificities of the proposal and reasoning are outlined and justified. Afterwards a connection of the baseline programs that give strength to the parallel currency to the ultimate goal of food sovereignty and full employment is provided.

As seen in the chart that contrasts the key elements of the parallel currencies proposal and experiences. The parallel proposal for Mexico has the following characteristics

- 1) It is issued only by a government authority
- 2) It has an electronic and physical form
- 3) It is not convertible by the government to any other currency
- 4) It should only be accepted to buy certain national products with highly national content¹⁶⁰

The ultimate goal of the currency is to be a mechanism that allows Mexico to regain food sovereignty and, in that process, reduce foreign dependency. The third and fourth characteristics of the parallel currency are essential to avoid capital outflows and encourage the consumption of national products. The mechanisms envisioned for food sovereignty to happen are through procedures that create a supply of agricultural goods and a sustained and secure demand for them.

To secure a demand for agricultural products, it is proposed:

- 1) That public workers receive a certain percent of their income in the parallel currency
- 2) A national bank that offers low interest credits and asks for repayment only in the parallel currency.

To secure supply of national products and services, it is proposed:

- 1) A direct job creation program that guarantees a job to anyone who wants to work. This program must put emphasis on agricultural jobs, in the provisioning of care jobs, and in the creation of services and infrastructure necessary for a holistic support to agriculture and agricultural workers.

¹⁶⁰ It would be hard to enforce. The government would encourage the private sector to only accepted it in exchange of national produces.

- 2) A national bank that offers low interest credit and asks for repayment only in the parallel currency.

The job guarantee proposal and the national bank that provides low interest credit in the parallel currency act as a buffer stock— both create demand for the currency and encourage a supply of goods and services that are accepted in exchange for the parallel currency. The procedure of paying public workers a percentage of their income in the parallel currency encourages them to spend that percentage of their income in national, and not foreign, products and services.

To ensure the currency is accepted, the government must:

- 1) Allow it to be a means to pay all kinds of taxes; and
- 2) Promote and create a market in which it can be exchanged nationally.

This is why, among other reasons, it is necessary to have a direct job creation program that provides food and services, and public banking that offers credit and encourages the private sector to buy and sell in the parallel currency. The fact that there will be a national market to which the currency can be exchanged must facilitate the acceptance and circulation of the currency, although it is not necessary.

The value is maintained by paying fixed wage in the direct job guarantee.

Ensuring that money supply does not exceed goods and services demand is important to maintain the acceptability of the currency. This is why there needs to be coordination of the government authority that issues and offers loans in the parallel currency with other government agencies so that those national industries and sectors where there is a bottleneck in demand are incentivized and subsidized ¹⁶¹ to meet changes in demand. The value is maintained by paying fixed wage in the direct job guarantee.

Programs, institutions, and modifications that must coexist together with the parallel currency are, respectively: 1) direct job creation program (job guarantee); 2) a national bank that issues credit and loans in the parallel currency; and 3) partial compensation and partial wages to public workers in the parallel currency. Questions and details of each of these core adjunctions to

¹⁶¹ by the government authority in changed of parallel currency

the parallel currency are addressed in the appendix. Some to a greater extent and others to a lesser degree.

The parallel currency would be used to 1) pay wages in the job guarantee and other public workers, and direct job guarantee labor to produce what is needed; and 2) have the currency accepted in buying the output of the job guarantee jobs and other national produces. Lending of the parallel currency would be offered to small and medium firms to increase production that is needed.

This proposal acknowledges its limitations knowledge. It considers that a multidisciplinary and multisectoral committee of experts that works in the field and would be directly affected by the implementation of the program should be the one in the driving seat by having direct agency in the crafting of the program. This includes indigenous people, peasants, civilian actors, agricultural workers, to mention only a few. They are the ones who have first-hand knowledge of what their concerns are, and what is needed to resolve them. By no means would entrepreneurs be part of this committee.

VII. CONCLUSIONS

Foreign debt has been the mechanism, together with uneven trade, to create neocolonial practices of political and economic dominance. These structures do not allow the debtor countries to choose their own path of development nor to respond to their own agenda. Instead, they force debtor countries to arrange their factors of production and social structure to service debt payments. Credit in the form of a foreign currency is pernicious by itself: it reduces the fiscal space of the country and forces it to find ways to get the unit of account in which the debt is denominated. In addition, the conditions set by the creditor, for LA countries to be eligible to receive credit and aid, are detrimental to development. Instead, the conditions create an endless chain of dependency. The main creditors were Britain, under the old order, and the US and the financial international institutions it controls, under the new order.

Loans to LA have been conditioned on the adoption of market-oriented policies that highly encourage fiscal austerity, free trade, stable exchange rates, and an independent central bank. These policies act against the national productive sector, which limits any country's ability

to repay the principal and interest on the loan. The imposed conditions lead the debtor nations to a Ponzi scheme of having to borrow more just to keep up with interest payments on previous loans, and to the implementation of further policies that serve foreign capital. As part of this pattern, *structural reforms* and labor reforms. The former push for the privatization of the oil sector, telecommunication companies, and other strategic sectors of production -that were initially public- to get dollars for the repayment of the debt. The latter weaken workers' rights and ensure a supply of cheap labor is available to foreign investors.

Canceling the debt would eliminate partially the chain of the dependency the debtor countries have with the rest of the world. This first measure would dismantle, partially, the current structure that holds LA countries to define their own development path. Some LA countries are highly dependent on food, energy, and technology, so even with the cancellation of the debt, new uneven trade dynamics could arise if those structures that create food, energy and technological dependency are not reversed. Under this framework, of high foreign dependency and foreign debt, it is proposed that the creation of a parallel currency would benefit Mexico.

The creation of a parallel currency for debtor countries is a solution that could function as a mechanism to regain sovereignty while reducing or eliminating the debt of the country, without compromising existing payments nor the exchange rate on the already existing currency. This mechanism is considered to be politically and economically feasible. The procedure requires using the same properties of money but in favor of the debtor country (by targeting the reduction of foreign dependency), and in such terms as benefit the country which creates it. The federal parallel currency present proposal is seen as a unilateral mechanism that provides some level of independence and self-determination by allowing the possibility to regain food sovereignty to Mexico. The author recognizes that there is still clarification to be made and counterarguments to be considered. Also, other proposals to treat foreign debt and high foreign dependency are not included. For now, the paper has just the intention of laying the grounds for a way of approaching perennial indebtedness at its root.

VIII. FOR FURTHER RESEARCH

Further research has to be done on the process in which Mexico lost control over its means of production and developed dependencies from colonial times until contemporary times. The linkage of those processes with the institution of money and foreign debt would be interesting. Carlos Marichal Salinas explains the evolution of the debt dynamics in Mexico¹⁶². Gunder Frank book about Mexico¹⁶³, and Stanley and Stein¹⁶⁴ are helpful for understanding the economic dynamics particular to colonial times in Mexico.

In addition to those perspectives around indebtedness included in chapter IV, I want to do further research around how to treat dependency, and theories of imbalance growth. I recognize that Fadhel Kaboub, and the Zapatista movement write around dependency (or lack of self sufficiency). Prebisch and Gunder Frank contribute to the conversation of imbalance-growth.

¹⁶² See El Colegio de México. “Chapters by Dr. Carlos Marichal.” History of colonial finance of Latin America. Available at: <https://carlosmarichal.colmex.mx/en/HFC-cap.html> and Marichal Salinas, Carlos. 2014. *La deuda externa de Latinoamérica*. Distrito Federal: El Colegio de México.

¹⁶³ Andre Gunder Frank, *Mexican Agriculture 1521-1630: Transformation of the Mode of Production*, (Great Britain: Cambridge University Press, 1979).

¹⁶⁴ J. Stanley and Barbara H. Stein. “Chapter V: The Economic basis of Neocolonialism” in *The Colonial Heritage of Latin America*, (New York: Oxford University Press, 1977), 123-155.

IX. BIBLIOGRAPHY

- Aristotle. *Politics*. 1932. Translated by H. Rackham. Cambridge: Harvard University Press.
- Bezemer, Dirk, and Derek Hadey. 2008. "Agriculture, Development, and Urban Bias." *World Development* 36. 1342-64.
- Cámara de Diputados del Honorable Congreso de la Unión. 2009. "Ley Monetaria de los Estados Unidos Mexicanos." Last reform Jan 20, 2009. Accessed April, 2022.
<https://www.diputados.gob.mx/LeyesBiblio/pdf/152.pdf>
- CEPAL. 1998. "POLÍTICAS DE AJUSTE Y RENEGOCIACIÓN DE LA DEUDA EXTERNA EN AMÉRICA LATINA." In *Cincuenta años de pensamiento en la CEPAL: textos seleccionados*. Vol II, 733-784. Chile: Fondo de Cultura Económica.
- Chechela, Santiago. "La utilización de terceras monedas. El caso Argentino." CLACSO, Accessed September 14, 2021.
- Cox, Kate, and Jessica Fu. 2018. "From diabetes to displacement: How NAFTA disrupted Mexican agriculture, food, and health." *The Counter*. Available at:
<https://thecounter.org/alyshia-galvez-eating-nafta-la-morada-mexico-displacement-diabetes-free-trade/>
- Down to Earth Staff. 2021. "The chase and the change: Let's look back at 15 years of MGNREGA this World Water Day." *Down to Earth*, March 18. Available at
<https://www.downtoearth.org.in/news/water/the-chase-and-the-change-let-s-look-back-at-15-years-of-mgnrega-this-world-water-day-75966>
- Einaudi, Luigi. 1953 [1936]. "The theory of imaginary money from Charlemagne to the French Revolution." In F. Lane and J. Riemersma (eds.) *Enterprise and Secular Change*. London: Allen & Unwin.
- Enlace Zapatista. 1993. "Ley Agraria Revolucionaria." Archivo Histórico.
<https://enlacezapatista.ezln.org.mx/1993/12/31/ley-agraria-revolucionaria/#:~:text=La%20lucha%20de%20los%20campesinos,mexicano%20por%20tierra%20y%20libertad.>
- Forman, Tomas. 2021. "Decentralization, Equity, and Inclusion: An Overview and Sociolegal Analysis of India's Mahatma Gandhi National Rural Employment Guarantee

Act.” *Economic Democracy Initiative*.

<https://edi.bard.edu/research/notes/decentralization-equity-and-inclusion-an-overview-and-sociolegal-analysis-of-indias-mahatma-gandhi-national-rural-employment-guarantee-act>

Forstater, Mathew. 2006. “Chapter 11: Tax-driven Money: Additional Evidence from the History of Economic Thought, Economic History and Economic Policy.” In *Complexity, Endogenous Money and Macroeconomic Theory*, edited by Mark Setterfield, 202-220.

Great Britain: Edward Elgar Publishing.

Forstater, Mathew. 2018. “Complementary Currencies in the Solidarity Economy: The Local Job Guarantee.” In *Full Employment and Social Justice: Solidarity and Sustainability*, edited by Michael J. Murray and Mathew Forstater, 159-169. Cham: Palgrave Macmillan.

Forstater, Mathew. 2005. “Taxation and primitive accumulation: the case of colonial africa.” In *The Capitalist State and Its Economy: Democracy in Socialism*, Vol.22, edited by Paul Zarembka, 51-64. New York: Emerald Group Limited.

Galeano, Eduardo. 2015. *Las venas abiertas de América Latina*. México: Siglo Veintiuno.

Gahman, Levi. 2016. “Food Sovereignty in Revelation: Decolonization, Autonomy, Gender Equity and the Zapatista Solution/Insurgency.” *Solutions Journal*, 7 (4). 67 - 83.

<https://livrepository.liverpool.ac.uk/3031518/1/Gahman%20-%20Food%20Sovereignty%20in%20Rebellion.pdf>

Gobierno de México. “¿Qué hacemos?” Banco del Bienestar, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo. Accessed May, 2022.

<https://www.gob.mx/bancodelbienestar/que-hacemos>.

Gobierno de México. 2020. “Programa Sembrando Vida.” Secretaría de Bienestar. Last modified Nov 6, <https://www.gob.mx/bienestar/acciones-y-programas/programa-sembrando-vida>

Goodhart, Charles A.O. 1998. “The two concepts of money: implications for the analysis of optimal currency areas.” *European Journal of Political Economy* vol. 14, March: 407-432.

- Gunder Frank, Andre. 1979. *Mexican Agriculture 1521-1630: Transformation of the Mode of Production*. Great Britain: Cambridge University Press.
- Hernández, Carol, Hugo Perales, and Daniel Jaffete. 2022. ‘ “Without Food There is No Resistance”: The impact of the Zapatista conflict on agrobiodiversity and seed sovereignty in Chiapas, Mexico.’ *Geoforum* 128: 236-250.
- Hudson, Michael. 2009. *Trade, development and foreign debt: a history of theories of polarization and convergence in the international economy*. London: Pluto Press.
- International Monetary Fund. “Article VII. Organization and Management.” Articles of Agreement. Accessed May, 2022. <https://www.imf.org/external/pubs/ft/aa/index.htm>
- International Monetary Fund. 1981. “Annual Report 1981.” Available at: <https://www.imf.org/external/pubs/ft/ar/archive/pdf/ar1981.pdf>
- Kelton, Stephanie. 2020. *The Deficit Myth*. New York: Public Affairs.
- Keynes, J. M. 1978. “The origins of the Clearing Union, 1940-1942.” In *The Collected Writings of John Maynard Keynes*, Edited by D. E. Moggridge. Vol. 25. *Activities 1940–1944. Shaping the Post-war World: The Clearing Union*. London: Macmillan.
- Keynes, John Maynard. 2011. *A Treatise on Money*. Connecticut: Martino Publishing.
- Keynes, John Maynard. 1920. *Essays in persuasion*. New York: Harcourt, Brace and Howe.
- Keynes, John Maynard. 1932. *The economic consequences of peace*. New York: Harcourt, Brace and Howe.
- Kregel, Jan. 2017. “A TWO-TIER EUROZONE OR A EURO OF REGIONS? A RADICAL PROPOSAL BASED ON KEYNES’S CLEARING UNION.” *Levy Economics Institute of Bard College Public Policy Brief*, no. 144. http://www.levyinstitute.org/pubs/ppb_144.pdf
- Kregel, Jan. 2003. “AN ALTERNATIVE VIEW OF THE ARGENTINE CRISIS: STRUCTURAL FLAWS AND STRUCTURAL ADJUSTMENT POLICY.” *Investigación Económica* 63, no. 243: 15–49. <http://www.jstor.org/stable/42777588>.
- Lewis, Arthur. 1954 “Economic Development with Unlimited Supplies of Labour.” In *The Economics of Underdevelopment*, edited by A.N. Agarwala and S.P. Singh, 400-449. Oxford, Oxford University Press.

Marichal Salinas, Carlos. 2014. *La deuda externa de Latinoamérica*. Distrito Federal: El Colegio de México.

Minsky, Hyman P. 1983. "Monetary Policies and the International Financial Environment." Hyman P. Minsky Archive. Paper 377.
https://digitalcommons.bard.edu/hm_archive/377.

Mitchell, William, Randall Wray, and Martin Watts. 2019. *Macroeconomics*. United Kingdom: Red Globe Press.

Papadimitriou, Dimitri. 2016. "Complementary Currencies and Economic Stability." *Levy Economics Institute of Bard College Public Policy Note*.

Puyana, Alicia. 2012. "Mexican Agriculture and NAFTA: a 20 year Balance Sheet." *Review of Agrarian Studies* 2(1). 1- 43. 10.22004/ag.econ.308553.

Robinson, Joan. 1936. "Disguised Unemployment." *The Economic Journal*, Vol. 46. No. 183. Jun: 225-237.

Rosenstein-Rodan, P. N. 1943. "Problems of Industrialization of Eastern and South-Eastern Europe." *The Economic Journal*, Vol 53, Jun-Sep: 202-211.

Secretaría de Gobernación. 2019. "Ley Orgánica del Banco del Bienestar." Last modified July 19, 2019. Accessed April, 2022.
https://www.dof.gob.mx/nota_detalle.php?codigo=5566165&fecha=19/07/2019

Secretaría de Relaciones Exteriores. "Dependencias Federales." Accessed May, 2022.
<https://directorio.sre.gob.mx/index.php/dependencias-federales>

Stanley J. and Barbara H. Stein. 1977. "Chapter V: The Economic basis of Neocolonialism" In *The Colonial Heritage of Latin America*. New York: Oxford University Press. 123-155.

Tcherneva, Pavlina. 2006. "Chartalism and the tax-driven approach to money" In *A Handbook of Alternative Monetary Economics*, edited by Philip Aresitis and Malcom Sawyer, 69-86. Great Britain, Edward Edgar Publishing Limiting.

The Mahatma Gandhi National Rural Employment Guarantee Act 2005. "Active Workers 2022-2023." Ministry of Rural Development. Available at:
https://nrega.nic.in/Nregahome/MGNREGA_new/Nrega_StateReport.aspx?typeN=1

Toussaint, Eric. 2016. "How debt and free trade subordinated independent Latin America." *Alainet*, July 1, <https://www.alainet.org/en/articulo/178518>.

Toussaint, Éric. 2019. *The Debt System*. Chicago: Haymarket Books.

UK Parliament. 1824. “RECOGNITION OF THE INDEPENDENCE OF SOUTH AMERICA.” HANSARD, 1803–2005, 1820s, 1824, March 1824, 15 March 1824, Lords Sitting, UK Parliament. Accessed December 12, 2020. <https://api.parliament.uk/historic-hansard/lords/1824/mar/15/recognition-of-the-independence-of-south>.

UNCTAD. 1964. “Towards a New Trade Policy for Development.” Trade and Development: Policy Statement.

Wray, L. Randall. 1990. *Money and Credit in Capitalist Economies: The Endogenous Money Approach*. Vermont: Edward Elgar Publishing Limited.

Yunez-Naude, Antonio. 2003. “The Dismantling of CONASUPO, a Mexican State Trader in Agriculture.” *The World Economy Vol 26*. Jan: 97-122. <https://doi.org/10.1111/1467-9701.00512>.

Marichal, Carlos. 2006. “From Colonies to Nations: Money, Taxes and Finance (18th and 19th Centuries).” Draft of chapter for *The Cambridge Economic History of Latin America, Vol I, The Colonial Era and the Short Nineteenth Century*, Edited by Victor Bulmer-Thomas, John H. Coatsworth and Roberto Cortés Conde, *Cambridge University Press*: 423-460. Available at <https://carlosmarichal.colmex.mx/en/finanzas-coloniales/Colonies%20to%20nations%20%20money%20taxes%20and%20finance.pdf>

X. APPENDIX

Parallel Currency, Programs Around the Parallel Currency, and Their Connection to the Objectives of Food Sovereignty

Parallel federal currency

Questions: Who would be the government agency in charge of the parallel currency creation?; Does the existing law allow for the creation of a parallel currency or do amendments in the existing law need to take place? What are the other ministries involved for the planning for the provisioning of national goods and services?; Would it be accepted for the payment of services like water and electricity?; How does the creation of the parallel currency affect current treaties and international institutions, such as NAFTA and the IMF?

Who would be the government agency in charge of currency creation? The Banca de Bienestar¹⁶⁵ is the government agency envisioned to be the appropriate one for the credit lending practices and the parallel currency creation. Banca de Bienestar is a government agency, dependent on the federal government—the Treasury particularly—in charge of credit creation and allocation to marginalized communities. They are similar to public or social banking.

They are the biggest federal government institutions in charge of resource and social program provisioning.¹⁶⁶ It would be the ideal institution to implement the parallel currency because they already have coverage over the whole country. They have branches over the most remote and marginalized communities, more than any other private or public banks.

Does the existing law allow for the creation of a parallel currency or do amendments in the existing law need to take place? Law would have to be amended. Currently, the monetary law of Mexico named *Ley Monetaria de los Estados Unidos Mexicanos* states, in Article 2º, that the only currency in circulation is the one issued by the Central Bank.¹⁶⁷

¹⁶⁵Secretaría de Gobernación, “Ley Orgánica del Banco del Bienestar,” Last modified July 19, 2019. https://www.dof.gob.mx/nota_detalle.php?codigo=5566165&fecha=19/07/2019.

¹⁶⁶Gobierno de México, “¿Qué hacemos?” Banco del Bienestar, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, Accessed May, 2022. <https://www.gob.mx/bancodelbienestar/que-hacemos>

¹⁶⁷Cámara de Diputados del Honorable Congreso de la Unión, “Ley Monetaria de los Estados Unidos Mexicanos,” last reform Jan 20, 2009, accessed April, 2022, <https://www.diputados.gob.mx/LeyesBiblio/pdf/152.pdf>

Which are the other ministries involved for the planning for the provisioning of national goods and services? Some government agencies envisioned to be useful for a committee in charge of planning are:

- Ministry of Labor- *Secretaria de trabajo y previsión social*;
- Ministry of agriculture and rural development - *Secretaria de Agricultura y desarrollo rural*;
- Ministry of public education - *Secretaría de educación pública*;
- Ministry of environment and human resources - *Secretaría de medio ambiente y recursos humanos*;
- Secretary of energy - *Secretaría de energía*?;
- Ministry of welfare - *Secretaría de bienestar*;
- The Treasury - *Secretaría de hacienda y crédito público*;
- Ministry of communication and transportation - *secretaria de comunicación y transporte*.

168

Would it be accepted for the payment of services like water and electricity? Yes. Both electricity and water are produced nationally and are owned and controlled by the Federal Government.

How does the creation of the parallel currency affect current treaties and international institutions, such as NAFTA and the IMF? The measure of the parallel currency is intended to be a unilateral measure to regain self sufficiency in food (food sovereignty) and of economic policy. In that sense, there is no intention whatsoever in asking permission to a third party whether or not Mexico can implement the proposal. It is intended to be an act of resistance that can be done unilaterally and avoid (or turn over) the current restrictions imposed by third parties and by the international financial structure. However if it wants to maintain political stability with the already existing treaties it probably has to make sure there is no legislation already in place that limits this proposal to occur.

The IMF current legislation would not be an impediment for this proposal. The IMF would just have to approve its creation. This is stipulated in Article VIII section 3 of the IMF, on avoidance of discriminatory practices.

¹⁶⁸ Secretaría de Relaciones Exteriores, “Dependencias Federales,” accessed May, 2022, <https://directorio.sre.gob.mx/index.php/dependencias-federales>.

Section 3. Avoidance of discriminatory currency practices

No member shall engage in, or permit any of its fiscal agencies referred to in Article V, Section 1 to engage in¹⁶⁹, any discriminatory currency arrangements or **multiple currency practices**, whether within or outside margins under Article IV or prescribed by or under Schedule C, **except as authorized under this Agreement or approved by the Fund**. If such arrangements and practices are engaged in at the date when this Agreement enters into force, the member concerned shall consult with the Fund as to their progressive removal unless they are maintained or imposed under Article XIV, Section 2, in which case the provisions of Section 3 of that Article shall apply.¹⁷⁰ (Bold for emphasis)

As written in Article VIII section 3 of the IMF and the articles cited under such section, the IMF only *restricts* the creation of multiple currencies if done by the Treasury, Central Bank, stabilization fund, or any other fiscal agency. Current legislation allows the possibility of creating a parallel currency without conditioning membership in the fund. The emission of the Mexican parallel currency proposal would be a Treasury dependent agency, as developed in a previous question. For this reason is that the present parallel currency proposal for Mexico would have to be approved by the IMF. When it comes to NAFTA, there are no specific restrictions on the creation of a parallel currency. However, I am unsure whether there are other reasons for it to affect the current treaty. Further investigation has to be done regarding this point.¹⁷¹

Public Workers Partial Compensation in Parallel Currency

Questions: How much, or what percent, of the public workers wage compensation should be on the parallel currency? Should the proportion perceived in the parallel currency be adjusted according to different levels of wage, or should it be constant to all levels of wage?

How much, or what percent, of the public workers wage compensation should be on the parallel currency? For the import substitution to be successful and not affect consumers, it

¹⁶⁹Article V section 1 says: “Each member shall deal with the Fund only through its Treasury, central bank, stabilization fund, or other similar fiscal agency, and the Fund shall deal only with or through the same agencies.” International Monetary Fund, “Article V. Operations and Transactions of the Fund,” Articles of Agreement, accessed May, 2022, <https://www.imf.org/external/pubs/ft/aa/index.htm>

¹⁷⁰ International Monetary Fund, “Article VII. Organization and Management,” Articles of Agreement, accessed May, 2022, <https://www.imf.org/external/pubs/ft/aa/index.htm>

¹⁷¹ It could be argued that the current parallel currency proposal acts as an import safeguard to agriculture and those domestic products sold at the parallel unit of account.

would have to continuously be adjusted according to the supply of goods and services that are being provided nationally.

Should the proportion perceived in the parallel currency be adjusted according to different levels of wage, or should it be constant for all levels of wage? This is, in nature, a difficult question. It involves judgment and significant consumer information.

There are three broad options:

1. To have a constant rate independent of level of income.
2. Have a progressive rate where the proportion wages in the parallel currency increases as income level increases
3. Have a regressive rate where the proportion of parallel currency relative to wage is greater in lower levels of income than in higher levels.

This proposal strongly disagrees with the implementation of a regressive rate where lower wages are compensated in greater proportion in the parallel currency than higher incomes, and believes it is not desirable to have a constant rate. Either a constant rate or a regressive rate has possible negative effects on people with lower wages.

Ideally the acceptability of the parallel currency will be the same as the current unit of account (Mexican peso). However, there exists the possibility that not everyone in the private sector would accept the currency- especially in the beginning, where a market to which the currency can be exchanged for agricultural or other nationally produced goods is just in construction. Given this possibility, it is important that lower levels of income, as a matter of economic security, receive most of their income in the current unit of account and receive the smallest proportion relative to their income on the parallel currency. This should be the policy to follow to not burn unnecessarily those that consume all or most of their wage (low and middle levels of wage).

Direct job creation

Questions: What about the direct job creation program? Why should it be focused on agriculture specifically? How should it be structured? Which would be the monetary compensation and the benefits for the workers of the direct job creation program? Which would be the mechanism in which land would be utilized by public agricultural workers? Would the land worked by the direct job creation program workers be public or private? How is the proposed program different

from the *sembrando vidas* program? Is it reasonable to expand the *sembrando vidas* program to match the goal of food sovereignty at the national level, or is it necessary to create another program? Are there other direct job creation programs in the world similar to the one envisioned for Mexico?

What about the direct job creation program? Why should it be focused on agriculture specifically? The direct job creation program, as developed above, would be essential for the purpose of reclaiming food sovereignty, and obtaining some fiscal independence. It would have to be focused mainly in agriculture to produce the supply of essential food —grains— to cover national needs, and in the construction and provisioning of services in rural areas so agricultural workers can live with dignity. The services must include the provisioning of electricity, running water, sewage, all school levels, child care, elderly care, and health care, to mention some.

There is extensive literature regarding the importance of agriculture for the process of “development”. With the fear of generalizing —and without fully touching upon the original sources— there are two views worth presenting around the importance of agriculture, the difference between them has to do with their assumption around *progress*¹⁷². Agriculture is seen as an important measure to get different desirable outcomes. There is the pioneer strategy of development, where Joan Robinson, Arthur Lewis, and Rosenstein Rodan are some of the leading figures. An alternative view around agriculture, among many, is the Zapatista movement perspective. For the purpose of this project, only these two views are briefly overviewed.

The pioneer approach. The pioneer approach started with Joan Robinson's “disguised unemployment” paper. Robinson assumes, in the paper, differences in productivity between agricultural and industrial work, where agriculture is assumed to have a smaller productivity share than the industry. Given this assumption she goes on and makes the claim that the path of development is to transition from the agricultural sector to the industrialized sector because of their higher productivity level. Arthur Lewis' view on agriculture mimics Robinson's. He writes that agriculture is important for the process of industrial development because agricultural low wages provides cheap food and materials for industrial processes. Lewis follows a stages approach, also known as the *flying goose* approach: agriculture is considered to be the first stage

¹⁷² To not say development. I choose to use *progress* and not *development* because the former does not have as much political weight as the latter.

of development; industrialization the second. The process of development involves, for Lewis, transiting from agricultural practices to industrialized practices.

Rosenstein-Rodan shifts a bit Lewis' perspective on agriculture being important for the “transition” to industrial development. Rosenstein-Rodan, instead, puts emphasis on both agriculture and industry. Agriculture helps industry; it can provide cheap food and good supplies—as developed by Lewis—but industrial development is dependent on agricultural growth on a permanent basis. He makes the reader understand that to have successful industrial development, support for agricultural practices must continue. There is no “transitioning” as Robinson and Lewis imply in their texts. The pioneers' narrative perspectives around agriculture have predominated the narrative on development in Latin America. Even among those that claim themselves to be more radical and to escape in some ways than the mainstream--the ECLAC vision being one of them, at least from the figures of the 60's to 70's.

An alternative approach. I want to present an alternative view on agriculture by the Zapatista movement, based in Chiapas, Mexico. The Zapatistas relate to agriculture practices as an essential component for sovereignty and resistance. According to Carol Hernández, Hugo Perales, and Daniel Jaffete the Zapatista's framework is that “without food there is no resistance”.¹⁷³ The Zapatistas do not talk about farmers or about any kind of wage compensation for agricultural practices. Instead, they emphasize on the cultivation of public land without being a wage laborer. In their agricultural model they seem to put more emphasis on peasants, it appears to be seen as an activity that involves all actors of the community and essential for the social fabric and provisioning. They talk about and establish the importance of creating the services and conditions so people can live with dignity in the rural area, while being a peasant. In the Agrarian Law they passed in 1993, point 15, they talk about the creation of communal centers of health with capable and sufficient personal, the creation of leisure spaces, the creation of educational spaces, the construction and planning of housing and of service infrastructure (light, running water, swage, radio, television).¹⁷⁴

Contemporary authors, like Bezemer and Hadey acknowledge that agriculture has multiplying positive effects and its growth, they claim, ““agricultural growth is also a key

¹⁷³ Hernández, Perales, and Jaffete, ‘ “Without Food There is No Resistance”,’ 1.

¹⁷⁴ Enlace Zapatista, “Ley Agraria Revolucionaria,” Archivo Histórico, Dic 13, 1993. <https://enlacezapatista.ezln.org.mx/1993/12/31/ley-agraria-revolucionaria/#:~:text=La%20lucha%20de%20los%20campesinos,mexicano%20por%20tierra%20y%20libertad.>

determinant of food stability and nutrition, poverty reduction, and political stability.”¹⁷⁵ The multiplying effects of agriculture are larger than those of any other sector for the rural economy and for the economy as a whole.¹⁷⁶ This second view on agriculture is much more aligned with this text. Food and agricultural practices that consider the land, and have resilient practices are considered to be an essential instrument of food sovereignty and political independence.

How should it be structured? Decentralized. Bottom up and top down accountability¹⁷⁷ The food that must be produced is what is basic for the Mexican diet. This includes, according to the Zapatistas Agrarian Law,: corn, beans, rice, vegetables, and fruits. The Zapatistas, in that law, suggest the importance of also supporting the breeding of cattle, pigs, sheep, horses and bees, and farms that deal with the derivatives of the products mentioned above, like meat, milk and eggs.¹⁷⁸

What would be the monetary compensation and the benefits for the workers of the direct job creation program? Above the minimum. A livable wage. Benefits such as child care, health care, pension system, pay sick leave. A committee of peasants, agricultural workers, and indigenous people who have a history of working the land should determine the compensation they want to have— a fair compensation. They, at the end, are the producers of the food that feeds and holds the population. We should not have a strategy of “progress” that continues to rely on meager wages to agricultural workers.

What would be the mechanism in which land would be utilized by public agricultural workers? Would the land worked by the direct job creation program workers be public or private? Appropriate investigation has to be done in this regard. An assessment on the current public land and a judgment regarding its sufficiency for covering the national demand for basic grains and other essential foods for the Mexican diet has to be done. If public land is not sufficient to satisfy the national demand for basic grains and other foods essential for national consumption, some kind of land reform or the use of private land would have to be done. The

¹⁷⁵Dirk Bezemer and Derek Hadey, “Agriculture, Development, and Urban Bias,” *World Development* 36. (2008): 1343.

¹⁷⁶ “agriculture’s multiplier effects on the rural economy, or on the economy as a whole, are larger than those of any other sector (see reviews in Byerlee et al., 2005; Lanjouw & Lanjouw, 2001; Thirtle, Lin, & Piesse, 2003).” See Bezemer and Hadey, “Agriculture, Development, and Urban Bias,” 1345.

¹⁷⁷ Tomas Forman, “Decentralization, Equity, and Inclusion: An Overview and Sociolegal Analysis of India’s Mahatma Gandhi National Rural Employment Guarantee Act,” *Economic Democracy Initiative*, 2021: 7. <https://edi.bard.edu/research/notes/decentralization-equity-and-inclusion-an-overview-and-sociolegal-analysis-of-indias-mahatma-gandhi-national-rural-employment-guarantee-act>

¹⁷⁸Enlace Zapatista, “Ley Agraria Revolucionaria.”

target is to eliminate the trade imbalance on foods that the region imports and can be produced nationally because of weather conditions, and knowledge on the item produced.

How is the proposed program different from the *sembrando vidas* program? The nature and scope of both programs are different. Each has different objectives. And levels of ambition.

Sembrando vidas is a government job program that has the objective of 1) revitalize the countryside, 2) reactivating the local economy and 2) regenerating the social fabric.¹⁷⁹ It is claimed, by the federal government, to be a program that provides food security (which implies self-sufficiency of food at the micro level). The size of the program as of 2022 is very limited—it only has 420 thousand permanent beneficiaries. Other information has been found regarding the demand for these *sembrando vidas* jobs: wages are just below the minimum¹⁸⁰, and workers are required to save 10% of their wage.

The proposal developed here has the objective of regaining food sovereignty at a national level, which implies producing nationally all or most of the foods that are basic to the Mexican diet for national consumption. The mechanism in which this is envisioned to happen is by the creation of agricultural jobs and the creation of services and infrastructure to support rural inhabitants. By design it is intended to create as many jobs as demanded, at a wage above the minimum with benefits and securities such as childcare, eldercare, pension system, paid sick leave, vacations, healthcare. Achieving the goal of food sovereignty also implies climate resilience, environmental restoration and preservation, food security, and the regeneration of the social fabric. The proposed program has a greater aspiration and by no means opaces the other program. It only adds to it.

Is it reasonable to expand the *sembrando vidas* program to match the goal of food sovereignty at the national level, or is it necessary to create another program? That would be at the discretion of the government. However, this program suggests expanding the already existent program to the objectives and mechanisms developed in this paper.

Are there other direct job creation programs in the world similar to the one envisioned for Mexico? India's Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) is

¹⁷⁹ Gobierno de México, “Programa Sembrando Vida,” Secretaría de Bienestar, last modified Nov 6, 2020, <https://www.gob.mx/bienestar/acciones-y-programas/programa-sembrando-vida>

¹⁸⁰ Minimum wage in Mexico in 2022 is \$172.87 Mexican pesos per day, which is equivalent to \$5,255 per month.

the ongoing direct job program from which the proposal for Mexico's the job guarantee is inspired. The MGNREGA aims, according to Tomas Forman, to "alleviate social vulnerabilities related to economic fluctuations and environmental risks"¹⁸¹ The jobs alleviate poverty while the kinds of jobs that can be created are around the preservation of the environment, water conservation, and recharge of aquifers, to aim for climate change resilience. The jobs that can be created fall under the following categories described by Forman:

- 1) **Natural resource management**; including, but not limited to water conservation and harvesting, drought proofing, restoration of water bodies and construction of water storage facilities, flood prevention, and enhancement/remediation of ecosystem services, and natural disaster preparation measures.
- (2) **Creation of durable assets and agricultural infrastructure for marginalized community members** such as members of ST/SCs, households below the poverty line, beneficiaries of the Indira Yojana Programme, marginal and small farmers (as defined by the national Agricultural Debt Waiver and Debt Relief Schemes), and traditional forest dwellers (in accordance with the provisions of the Recognition of Forest Rights Act of 2006).
- (3) **Creation of infrastructure for, and general collaboration/assistance with initiatives associated with the Natural Rural Livelihood Mission** (a publicly funded vocational training and assistance program that assists those aiming to become self-employed.)
- (4) **Rural connectivity and public infrastructure**; including but not limited to sanitation and waste management, all-weather road connectivity to and amongst remote villages, construction of playing fields, municipal buildings, public facilities, and grain storage.
- (5) **Any other project approved through direct consultation with the state and central governments.**¹⁸²

It is the biggest direct jobs creation program in current times, with currently 15 million active workers.¹⁸³ It offers on demand jobs to anyone who seeks up to 100 years of employment per year.

¹⁸¹ Forman, "Decentralization, Equity, and Inclusion," 3.

¹⁸² Forman, "Decentralization, Equity, and Inclusion," 7.

¹⁸³ Down to Earth Staff. "The chase and the change: Let's look back at 15 years of MGNREGA this World Water Day." *Down to Earth*, March 18, 2021, available at <https://www.downtoearth.org.in/news/water/the-chase-and-the-change-let-s-look-back-at-15-years-of-mgnrega-this-world-water-day-75966> ; and The Mahatma Gandhi National Rural Employment Guarantee Act 2005, "Active Workers 2022-2023," Ministry of Rural Development, available at: https://nrega.nic.in/Nregahome/MGNREGA_new/Nrega_StateReport.aspx?typeN=1

The guarantee program for Mexico is also intended to create jobs on demand but without any limitation on the number of days to work. The Mexican job guarantee program—which would be an extension to the *Sembarnado Vidas* program— should also offer jobs on demand with a bottom-up approach and, in addition to their current objective of climate change resilience and land preservation, it must target food sovereignty. There are also experiences to learn from the Indian experience regarding the mechanisms in which private land is used.

Public institutions in charge of planning and credit creation on parallel currency

Under which parameters and conditions are the loans going to be offered? *What is going to be the interest rate of the loans?* Loans should be issued on the parallel currency and should be at a zero real interest rate. Loans would be offered and given only to small and medium firms or producers regardless of the goods or services produced. The only condition is for the loan to be repaid on units of the parallel currency.