FINANCE, STATE AND SOCIAL PROTECTION SYSTEMS

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FINANCIAL CAPITALISM

- Financial capitalism: a particular form of capitalist relations
- Financial capital = extreme ideology of capital risk and opportunity cost
  - Liquidity
  - International capital mobility
  - Market creation and market integration
  - Risk diversification

Financial capitalism
Expansion

- Liquidity is not an intrinsic characteristic of the assets, but rather the expression of the financial community confidence
- Financial capitalism is not only a quantitative change but mainly a qualitative change of society
- Finance creates commodities, define prices and surplus value (distribution)

FINANCIAL CAPITALISM AND RISKS

- Risk is an ideological representation of the dynamics of capitalist reproduction
  - Frank Knight, *Risk, Uncertainty and Profit (Boston, 1921):* Profit = remuneration for risk taken and uncertainty
- Financial products: commodities created to price assets and liabilities, and to transfer financial risks (derivatives).
- Financial markets: an invention based on the technology that puts price to anything that can be a risk
- All assets and liabilities can be expressed in securities exposed to different probability risks
- Financial risk: the probability of the future price, within a range
- Complex evaluation system: multi dimensional and multi-subjective (financial community)
  - Which is today price? The price set by the financial community.
- Financial markets are a mechanism to discipline agents and |governments regardless of the pricing accuracy: no historical data for new financial products.

RISK MANAGEMENT

- Risk Management: ideology to anticipate the future with present information, based on the idea of potential events capable of happening in the future, along with an estimation of the chance of their realization
- However … even big institution fail to have appropriate risk management or control of the financial system: chance, hazard, probability, eventuality, randomness
- Financial calculation: the adaptation of society to chance
- Risk is a capital (it has a price in the markets)
- Anything and anyone can have a risk profile.
- By means of the "risk management" ideology finance shapes and disciplines social behavior under the norms of capital

FINANCIAL CAPITALISM AND THE STATE

- Financial capitalism: social and political normalization based on risks:
  - risk profiles for each individual (constant evaluation, assistance programs, microfinance)
  - risks premiums for the State (debt = country risk assessment)

- It changes the relation between the State and the markets
  - the end of the monopoly of state monetary control;
  - disciplining the present policy by means of forecasting the future.
  - the end of demand management for fiscal and external imbalances
  - Austerity policies became the only viable route for coping with fiscal and external imbalances.

- Austerity policies are used to impose favorable conditions of capital valorization (reduces labour costs favoring internal devaluation and more external competition)
- Austerity policies are eroding the basic structure of the WS: labor and fiscal resources

FINANCIAL CAPITALISM AND LABOUR

- A larger proportion of household wealth appears in the form of liquid assets (including home ownership, pensions, financial investment, etc.)
- Liquid assets = wealth that is vulnerable to market risk.
- The overall social system becomes more vulnerable and crisis- prone
- Households become more affected by financial events.
- Working class interests appear as identical with capitalist ones: both retain and increasingly perceive their wealth in the form of a liquid asset.
- Financial risk became the major economic and social risk (like unemployment, health, education, aging, etc.)

FINANCIAL CAPITALISM AND SOCIAL PROTECTION SYSTEMS

- Social protection systems are also organized under the logic of risks.
- Social risks are calculable, collective (homogeneous population).
- Each social risk is organized under separate programs (different technology)
- Social insurance: technology consistent with the state projection to the future and with the social organization based on risks.
- Social Insurance share risks and benefits thanks to the definition of potential insured capitals
- It shapes interest groups and common interest

FINANCIAL CAPITALISM AND SOCIAL PROTECTION SYSTEMS (2)

- The State is not anymore the only institution that guarantees the very existence of society in the future …now finance is taking over this role forecasting and pricing the future.
- Social protection systems and finance are organized under the risk principles. But
  - social protection system are organized grouping social risks of an homogeneous population
  - Finance is organized on individual risk profiles of an heterogeneous population
- Working class an capitalist increasingly perceive their wealth in the form of a liquid assets … and financial risk became the major economic and social risk
- Social risk management: social protection system ideology consistent with financial risk management

SOCIAL RISK MANAGEMENT AND SOCIAL PROTECTION

- Holzman, R. y Jorgensen S. 2000.“*Social Risk Management: a New Conceptual Framework for Social Protection and Beyond*”. Social Protection Discussion Paper, N° 0006. World Bank, Washington, February.

- **Poverty** = inability to "insure" against social risks = greatest probability of well-being decline as a result of unexpected economic shocks
- **Social protection** = public interventions that assist individuals with risk management
- **Safety nets** = modular system of programs that are flexible according to each group’s specific risk patterns
- **Social/private insurance** = mechanism for diversifying risk, balancing and stabilizing fluctuations in consumption and replacing individual and autarchic savings strategies
- **Informality** = workers’ myopia vis-à-vis the benefits of social insurance and by the inefficiencies of social insurance

LATIN AMERICA

- Hierarchical International Monetary System: central and peripheral currencies.
- The international liquidity of the peripheral currencies depends not so much on the domestic fundamentals but primarily on the expectations of international agents.
- Currencies are financial assets associated to the trade-off returns/risks, like commodities, bonds, securities etc.
- Financial cycle:
    - "search for yield", with strong demand for assets of peripheral countries (including assets in peripheral currency)
    - "flight to quality" of central currencies assets.
- Structural liquidity deficit of central currencies.
- Lost of monetary sovereignty → lost of political sovereignty.

LATIN AMERICA (2)

- Macroeconomic asymmetry: fewer degrees of freedom for macroeconomic policies (demand policies).
- Countries issuing peripheral currencies cannot control either monetary policy and/or exchange rate policy:
  - interest rate floor determined by international interest rates
  - financial community risk evaluation
  - expected exchange rate depreciation.

- Austerity policies (cuts in expenses and in taxes) .. But alternatives are also costly due to the structural lack of central currencies and financial cycles
- Social protection systems under pressure ….. Social Risk Management ideology

SOCIAL RISK MANAGEMENT IN LA

- The issue is not high risk but certainty of inequality
- Labour “structural” problems (i.e. high labour flexibility)
- Working poor not covered
- Responsibility is not individual
- Informality decided by employers and the State
- Social insurance has serious limitations

MICRO-FINANCE

- poor people as *cli*ents and debtors
- problem of self-confidence or lack of enterprising spirit
- Inclusion in market competition
- Institution success = client success
- Evaluation = Financial indicators

MICROFINANCE IN LA

- Repayment is not a good indicator of efficiency
- Market limits and lack of enterprising skills
- Self-sustainability of beneficiaries
- Real clients = Investors
- Access to credit ≠ Access to credit
- High costs
- Blame on individuals

CONDITIONAL CASH TRANSFERS

- One technology for different objectives.
  - Short Term: money to combat indigence and poverty
  - Long term: conditionalities to improve “human capital” (next generation)

- Family or individual risk profile and fiscal unit
- Low fiscal cost.
- Discipline, social control.

CONDITIONAL CASH TRANSFERS IN LA

- Needed population without coverage
- Poverty trap, informality trap
- Not preventive
- Conditionality as sanction or promotion?
- Family conflicts
- Social segmentation
- Dependency
- Erode the principles or universal and unconditional services (justify cuts in social expenses)