Financialisation vs. Development Finance: the Case of the Post-Crisis Argentine Banking System

Financialisation vs. financement du développement : le cas du système bancaire argentin dans l’après-crise

Financiarización versus financiamiento del desarrollo : el caso del sistema bancario argentino luego de la crisis

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1. Introduction

The demise of the Bretton Woods system in the early 1970s, the crisis of Keynesian demand-management policies and the growing acceptance and popularity of monetarism in academic and policy circles resulted in a radical shift in macroeconomic and financial policies worldwide. The new policies shunned demand management and income redistribution policies in favour of broad trade and finance liberalisation, privatisation and deregulation. The international financial institutions, originally created to guarantee the proper functioning of the Bretton Woods system, were reconfigured to promote and enforce implementation of the new liberalisation policies.

As a result of these global changes, countries in the centre and the periphery underwent radical policy changes, replacing a system of protections and State intervention in the
economy with policies aimed at freeing markets from such “distortions”. The cornerstone of the new policy framework was financial liberalisation, which sought to deregulate national and international financial markets to rid them of what the monetarist orthodoxy called financially repressive policies. The theoretical and policy shift profoundly transformed the economies of centre and periphery countries, as well as the international economic arena. Epstein (2005) sums up the changes as a broad geographical expansion of neoliberal economic policies, a high volume of trade and financial flows between national economies (globalisation), and financialisation.

As a result, national financial systems—banking systems in particular—were substantially transformed. From heavily regulated systems focused on financing investment and development, banking systems became major players in financial markets. With the progressive erosion of financial regulation, banks sought higher profits that were not to be found in traditional banking activities, but in various types of financial and investment services and consumer credit (dos Santos, 2009).

Argentina was not immune to these changes. Starting with the 1976-1983 military dictatorship, the country’s economy began a radical restructuring as a result of the implementation of a full-scale neoliberal economic programme. The central piece of the dictatorship’s policy framework was the 1977 reform of the banking regulatory framework, greatly deregulating the sector’s activities. The new policy framework was supposed to usher in an era of greater efficiency in the allocation of financial and productive resources that would lead to a “virtuous circle” of higher growth and investment rates, greater employment and more welfare for all. The virtuous circle never materialised and financial liberalisation policies resulted in the 1982 debt crisis which, together with the military’s defeat in the Falkland/Malvinas war resulted in the military leaving power in 1983. However, the neoliberal economic policies were maintained long after the military left power and taken to extremes during the 1990s, including broad trade and financial liberalization and a currency board exchange rate regime, culminating in Argentina’s economic depression (1998-2002) and spectacular economic crisis and sovereign debt default of 2001-2002.

As a result of the economic crisis, the currency board was abandoned in January of 2002. Under strong pressure from the IMF and against the best judgement of Argentine policy makers, a freely floating exchange rate regime was adopted. When, as Argentine officials had predicted, a run on the dollar resulted in an ever growing depreciation of the peso, a managed float exchange rate regime was implemented under strong opposition from the IMF. The new exchange rate regime, a monetary targets monetary policy, and a widespread government subsidy for the unemployed provided the fuel to kick-start the economy, which began to grow again in the second quarter of 2002 after four consecutive years of recession.

The 2001-2002 crisis revealed the extent of anti-neoliberalism in Argentina. Record levels of poverty, indigence and unemployment resulted in mass protests against the IMF and former president Menem, the most recent symbol of neoliberalism in the country. Therefore, when Néstor Kirchner took office in May 2003, he received wide support for his fiery anti-neoliberal rhetoric that lead many to wonder whether his presidency would mean the end of three decades of free-market policies with their disastrous social and economic consequences. Indeed, Kirchner’s monetary and exchange rate policies, which he inherited from his predecessor, Eduardo Duhalde, were in direct contradiction to the IMF’s prescription. However, many other policies, especially for the financial sector, were
left untouched. As a result, the issue of whether Argentina left neoliberalism behind after the crisis is the subject of heated debate.

7 The purpose of this paper is to examine one aspect of this question, namely whether the behaviour of the post-crisis Argentine financial system differs significantly from its behaviour during the heyday of neoliberalism and, consequently, whether it is better suited today to finance development. To do this, we first review two strands of heterodox literature. The first strand deals with the issue of financialisation, a term generally used to describe the marked ascendance of the financial motif in economic activity that has taken place in recent decades. The second strand of literature deals with the role of banks in the process of economic development. While there is a long tradition in economics of studying the financing of development, this issue has taken on new relevance in the light of recent banking and financial crises. Following these reviews, we look at Argentine data to see whether there has been a process of financialisation in Argentina and to describe salient features of Argentine banking today. The paper concludes with some brief reflections on the implications of our findings for the financing of development in Argentina.

2. Financialisation vs. Financing Development: a Brief Overview of the Issues

8 While debate on financial liberalisation and its effects has been intense in academic and policy circles over the last two decades, there is little disagreement on the expansion of both national and cross-border financial activity in recent decades. Indeed, according to the Bank of International Settlements (BIS), in 2010 average daily global foreign exchange market turnover was 4 billion US dollars, up from a 1.5 billion daily average in 1998 and 620 million in 1989. Baker et al. (1998:10) provide another interesting indicator of this phenomenon. In 1950, total funds raised on financial markets were equivalent to 0.5% of world exports. By 1980 that percentage had jumped to 5.8% and by 1996 funds raised were the equivalent of 20% of world trade.

2. 1. Financialisation

9 In recent years, heterodox economists have focused attention on the increased weight of the financial sector and financial transactions in economic activity, a process which has been broadly labelled as financialisation. However, there is no agreed upon single definition for the term “financialisation”; rather there are several different, if complementary, definitions. Krippner (2005) has identified four different definitions of financialisation commonly used in the literature. First, financialisation is sometimes used to describe the dominant place that shareholder value has taken in non-financial corporate governance. Second, some use the term to refer to the growing role of capital markets in financial markets, displacing banks and other financial institutions. Third, some follow Hilferding’s usage to mean the growing financial and economic power of financial capitalists or rentiers. Finally, some authors use the term financialisation to refer to the explosion of financial trading and innovation in financial markets that has taken place in the last decade.
Some authors use a fifth definition that combines elements of all of the above definitions. For them, financialisation is “the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies” (Epstein 2005:3).

In general, using these definitions, economists conclude that financial liberalisation and financialisation have resulted in the following set of local and global economic transformations (Skott and Ryoo, 2007):

- monetary policy oriented almost exclusively to price stability (inflation targeting),
- a significant increase in the volume of international financial flows,
- a large expansion of consumer credit for households,
- a re-orientation of large corporation objectives toward the short-term interests of shareholders, and
- a greater influence of the international financial institutions in the global economy.

Most research on financialisation is empirical and can broadly be classified in two groups according to whether their focus is microeconomic or macroeconomic. The first group includes studies that focus on the activities of large industrial corporations, using firm-level data to identify the ways in which investment and growth are impacted by firms investing in financial assets rather than in productive capacity. Examples of this first grouping are Orhangazi’s (2007) research on financialisation in the US economy, Demir’s (2007) research on a sample of several peripheral countries, including Argentina, Plihon and Miotti’s (2001) study of the relationship between financialisation and bank crises and Stockhammer’s (2004, 2006, 2008) study of the impact of firm-level financialisation on accumulation.

A second group of studies focuses on the macroeconomy. Using aggregate sectoral, financial and macroeconomic data, these studies explore mechanisms of financialisation integrating strategies of a broad number of economic actors. We can broadly classify them according to the economic school of thought authors subscribe to in regulationist (Boyer 1999, 2000), post-keynesian (Palley 2007) and radical (Krippner 2005, Epstein 2002, 2005, Lapavitsas 2009a, 2009b).

There are a smaller number of theoretical studies on financialisation, both at the macroeconomic and firm levels. Examples of theoretical models of financialisation are Skott and Ryoo (2007), van Treeck (2007, 2008) and Orhangazi (2007).

According to Krippner, the definitions used above and in much of the literature on financialisation are centred on economic activity. The problem is that it is often difficult to determine the existence of a financialisation process based on economic activity and sectoral data. To have a more complete understanding, it is necessary to expand one’s focus to include extra-sectoral activity and data, in addition to sectoral analysis. Therefore, based on the work of Arrighi (1994), Krippner argues that financialisation is a “particular pattern of accumulation in which profit-making occurs increasingly through financial channels rather than through trade and commodity production” (Krippner 2005:181). In other words, it is necessary to study the evolution of sectoral profits and their change over time to be able to fully grasp the process of financialisation.
2. 2. Financial structure and the financing of development

Financialisation has not only had a large impact on non-financial corporations. It has also resulted in a profound transformation of the banking industry. According to a study of large transnational banks by dos Santos (2009), bank profits are increasingly generated from loans to individuals and from services, including investment banking. Thus, bank profits have shifted from the sphere of production to the sphere of circulation. In other words, it is not capitalist profits that are the main source of financial sector profits, but worker salaries (Lapavitsas, 2009d).

These transformations, coupled with recurrent financial and banking crises, have revived the debate over financial system structure and regulation and their role in the economic development process. The recent crises in the U.S and Europe have given new life to these debates and prompted some orthodox and many heterodox economists to call for the nationalisation of banks. Broadly speaking, debate on banking system structure has focused on two central dichotomies. The first dichotomy consists of debates on whether bank-based financial systems are better than market-based financial systems at promoting stability, growth and development. The second dichotomy that has dominated the debate in recent years consists of intense debates on whether public banking systems are more efficient and stable at financing investment and development than privately owned banking systems. We will discuss each briefly.

Debate on bank- vs. market-based systems goes back at least to the work of Gerschenkron (1962), who compared the development of the British and German financial systems. According to Gerschenkron, industrialisation in the UK was a slow and gradual process where businesses financed investment primarily through retained earnings. In this way, a distant relationship developed between industrial firms and banks, eventually allowing for the emergence of independent financial markets. Germany, on the other hand, was a late industrialiser where the need for a rapid process of technology incorporation by firms required the assistance of large universal banks to provide financing and managerial support. Eventually, these banks also helped firms coordinate long-term investment needs, acting as investment banks as well.

While Gerschenkron did not pass judgment on the relative merits of each system, nor why they endured, the issue has been taken up by many economists and a substantial debate has taken place on the merits of bank-based vs. market-based systems. It is generally agreed upon that bank based systems are better for achieving long-term development goals and for financial stability for several reasons. First, bank-based systems are more likely to achieve positive results from expansionary monetary and industrial policies. Second, integration between banks and firms is greater in bank-based systems, generating common objectives which are absent in market-based systems. Finally, bank-based systems are better at solving information asymmetry, uncertainty and coordination problems.

In the context of peripheral countries, where financial markets are thin and information and coordination problems abound, the desirability of bank-based systems is even greater. However, with the globalisation of financial systems, the dichotomy between bank-based and market-based systems has blurred. Banking systems in the financially liberalised periphery, whether they be bank-based or market-based, have become
dominated by the practices of large international banks from the industrialised countries 17.

As a result of financial globalisation and cyclical financial crises, and especially as a result of the world financial and economic crisis which erupted in 2007, debate around a second dichotomy has intensified. On one side of the dichotomy are economists and policy makers who argue that private banking and financial markets are necessary and desirable, but more and better prudential regulation are needed to ensure that “irrational exuberance” does not go unchecked 18. On the other side of the debate is a growing number of heterodox economists arguing that private banks have failed and that there is a strong case to be made for public banks being the backbone of the financial system.

Indeed, even Nobel laureates Stiglitz (2009) and Krugman (2009a) have called for the nationalisation of US banks, albeit not permanently. Others have argued, instead, that permanent nationalisation is a better solution if stability, investment and development are desired policy objectives 19. Chandrasekhar (2011:274-275) argues that the Glass-Steagal financial regulatory framework that prevailed in the U.S. through much of the post WWII period was built on the premise that the role of banks in a capitalist economy is of such importance that they “had to be regulated in such a fashion where, even though they were privately owned and socially important, they would earn less profit than other institutions in the financial sector and private institutions outside the financial sector”. This regulation produced a “deep inner contradiction” which, over time, led to substantial—and successful—pressures for deregulation.

As a result of the internal contradictions of financial regulation and the financialised systems that have resulted, Chandrasekhar, Lapavitsas (2009d), Moseley (2009) and other heterodox economists have called for the full nationalisation of banks, not only as a solution to the crisis but also as a long-run solution to problems of financial instability, financialisation, and rent-seeking activities that do not promote investment and growth. In a similar vein, Krugman (2009b) has called for a return to “boring banking” and Epstein (2010) has called for “finance without financiers”.

The proposal for a public banking system has sound empirical grounding. Public banking was key to the successful industrialisation of Asian countries. A successful development strategy requires investment, and investment requires credit, which Korea and China managed through public banks. In the case of South Korea, nationalisation of the banking system and financial policies were key to the financing of investment needed for industrialisation 20. China has also achieved high credit/GDP ratios (138% in 2008, six times the Argentine rate), thanks primarily to its large public banks that finance investment of China’s large state-owned enterprises 21.

In the following section we use data from the Argentine economy to examine the post-1990 period to see whether Argentina has experienced a process of financialisation. Additionally, we look at financial sector data in order to have a clearer picture of the origin of bank profits.

3. Financialisation in Argentina Since 1990: Empirical Evidence

The Argentine economy and financial system have undergone a radical restructuring since the 1976-1983 military dictatorship introduced full-scale economic liberalisation.
policies. The 1977 financial reform was the starting point of the liberalisation of Argentina’s financial system, and the Financial Entities Law that liberalised finance is still in place today, with only minor changes\textsuperscript{22}. During the 1990s, the process was deepened further with the Convertibility Law of 1991 which established the currency board and provided for equal treatment of domestic and foreign capital. Financial liberalisation set in motion a process of concentration and increased foreign ownership in Argentine banking, with public and local private banks increasingly adopting financial behaviour of the international banks\textsuperscript{23}. While there is little doubt about the liberalisation of Argentina’s financial system, up to what point can we say that there has been a financialisation process in Argentina?\textsuperscript{27}

In order to answer this question, we follow Krippner’s accumulation-based definition of financialisation. However, as proof of the validity of Krippner’s critique of activity-based definitions in the case of Argentina, we first look at two sets of data on economic activity: financial sector employment indicators and the relative weight of manufacturing and financial intermediation in GDP.
Table 1. Sectoral and total employment (in thousands and as percentage)

<table>
<thead>
<tr>
<th>Year</th>
<th>Financial Intermediation</th>
<th>Manufacturing Total</th>
<th>Economy Total</th>
<th>Financial/ Manufact.</th>
<th>Financial/ Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>191</td>
<td>2.084</td>
<td>13.234</td>
<td>9%</td>
<td>1.4%</td>
</tr>
<tr>
<td>1994</td>
<td>192</td>
<td>1.993</td>
<td>13.036</td>
<td>10%</td>
<td>1.5%</td>
</tr>
<tr>
<td>1995</td>
<td>196</td>
<td>1.821</td>
<td>12.654</td>
<td>11%</td>
<td>1.5%</td>
</tr>
<tr>
<td>1996</td>
<td>196</td>
<td>1.847</td>
<td>12.881</td>
<td>11%</td>
<td>1.5%</td>
</tr>
<tr>
<td>1997</td>
<td>207</td>
<td>1.949</td>
<td>13.632</td>
<td>11%</td>
<td>1.5%</td>
</tr>
<tr>
<td>1998</td>
<td>208</td>
<td>1.968</td>
<td>14.189</td>
<td>11%</td>
<td>1.5%</td>
</tr>
<tr>
<td>1999</td>
<td>200</td>
<td>1.883</td>
<td>14.324</td>
<td>11%</td>
<td>1.4%</td>
</tr>
<tr>
<td>2000</td>
<td>211</td>
<td>1.841</td>
<td>14.347</td>
<td>11%</td>
<td>1.5%</td>
</tr>
<tr>
<td>2001</td>
<td>216</td>
<td>1.781</td>
<td>14.019</td>
<td>12%</td>
<td>1.5%</td>
</tr>
<tr>
<td>2002</td>
<td>196</td>
<td>1.692</td>
<td>13.241</td>
<td>12%</td>
<td>1.5%</td>
</tr>
<tr>
<td>2003</td>
<td>191</td>
<td>1.857</td>
<td>13.909</td>
<td>10%</td>
<td>1.4%</td>
</tr>
<tr>
<td>2004</td>
<td>199</td>
<td>1.976</td>
<td>14.914</td>
<td>10%</td>
<td>1.3%</td>
</tr>
<tr>
<td>2005</td>
<td>214</td>
<td>2.073</td>
<td>15.645</td>
<td>10%</td>
<td>1.4%</td>
</tr>
<tr>
<td>2006</td>
<td>228</td>
<td>2.126</td>
<td>16.453</td>
<td>11%</td>
<td>1.4%</td>
</tr>
<tr>
<td>2007</td>
<td>253</td>
<td>2.204</td>
<td>17.047</td>
<td>11%</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

SOURCE: ARGENTINE ECONOMY MINISTRY.

Table 1 contains sectoral and total employment data for Argentina during 1993-2007. The 1990s were the decade of greatest financial liberalisation in the country, under Menem’s currency board policy and the most extreme privatisation and deregulation policies Argentina has ever experienced. Therefore, it is the decade where one would have expected to see a significant increase in financialisation. However, based on sectoral employment data, it is difficult to reach that conclusion. While employment grew in the manufacturing and financial intermediation sectors, the ratio of financial sector employment to manufacturing and to total employment remained virtually constant throughout the entire period. In other words, there was not a relatively higher growth of employment in the financial sector during this period.
Figure 1. Manufacturing and financial intermediation as a percentage of GDP 1960-2009

![Graph showing the contribution of manufacturing and financial intermediation to GDP for the period 1960-2009.](image)

**Source:** Authors' calculations based on Ferreres (2005) and Argentine Economy Ministry data.

The figure clearly shows a growing weight of manufacturing in GDP from the early 1960s until the mid 1970s, the end of the import substitution industrialisation period. From the mid 1970s to the present, there has been a sustained process of de-industrialisation, which is clearly reflected in figure 1. Financial intermediation, on the other hand, is relatively stagnant as a percentage of GDP until the Argentine neoliberal era begins in 1976. From that point on, it has an overall upward trend, with the periods 1976-1982 and 1991-2000 exhibiting the strongest growth. While it is true that end-to-end financial intermediation doubles its contribution to GDP, at its highest point in the year 2000 it was only 6.3% of GDP. Based on sectoral data, one would be hard pressed to say that there has been a strong financialisation process in Argentina during this period.

If we now shift to the accumulation-based approach as suggested by Krippner, we obtain a very different picture of what happened during the period 1990-2010. Krippner suggests that it is key to observe the variation over time of sectoral profits in an economy in order to get a picture of how the process of capital accumulation is changing. To do this for the Argentine economy, we took three groups of businesses for the period 1992-2010. The first group consists of non-financial corporations that trade on the Argentine stock exchange (Merval). The second group consists of the 500 largest corporations surveyed periodically by the national statistics agency, INDEC (Instituto Nacional de Estadísticas y Censo). The third group is made up of national and foreign banks operating in Argentina as reported in the Argentine Central Bank’s data.

Figure 2 plots average real profits for each of these groups of business for the period 1992-2010. Real profit behaviour for the three groups of enterprises does not differ significantly between the early 1990s and the 2001-2002 crisis. However, during and after the crisis the three groups have strongly diverging trajectories. Publicly traded non-financial corporations experienced negative profits from mid-2001 and through 2002.
Still, from the first quarter of 2003 to the end of the period under study they experienced a remarkable recovery, with real profits substantially exceeding the levels of the previous decade. Large enterprises surveyed by INDEC exhibit a similar behaviour, with the exception that they did not experience losses during the crisis. Finally, the banking sector exhibits the widest variations. During the latter part of the 1990s, the financial sector’s profits did not differ significantly from those of the other two groups of businesses. However, after taking substantial losses during 2001-2003, profits recovered remarkably, outstripping the other two groups and at much higher levels than in the 1990s in real terms. Given Argentina’s highly concentrated economy, a trend which began in the 1990s and has continued up to the present, this profit behaviour can be interpreted as a shift in income distribution in favour of the banking sector.

Figure 2. Real average profits of financial and non financial sectors (1993-2010) (in thousands of constant pesos)

Source: Authors’ calculations based on Argentine Central Bank (BCRA), INDEC, and Economática data.

Based on real profit behaviour, and taking Krippner’s definition of financialisation, we conclude that there has been a process of financialisation in Argentina in the post-2001-2002 crisis period, especially since 2004. At first glance, this may seem odd since the 1990s are known as the Argentine neoliberal era par excellence. Also, as stated above, there has been a considerable change in official economic policy rhetoric since 2003, which has become outspokenly anti-neoliberal, even if changes in the actual policy framework have not been that remarkable.

Why, then, has financialisation increased in the post-crisis period? While we do not have a definitive answer, we believe that the key to understanding post-crisis profit behaviour is that the financial liberalisation policies and framework implemented in Argentina since the 1976 military dictatorship are still in place at the time of this writing. The profound 2001-2002 crisis and subsequent government bail-out allowed banks to clean out their balance sheets and start over. Furthermore, as stated above, during the 1990s all segments of Argentina’s banking sector—including public banks—adopted the behaviour...
of large international banks, which has resulted in hefty profits. The following examination of the composition of bank profits confirms this.

Figure 3 shows bank profits from interest, services, and bonds as a percentage of net assets for 2000-2010, where we can detect several important trends. First, profits from bonds show an overall upward trend, with peaks during the 2001-2002 crisis (due to the forced conversion of bank deposits to bonds), just prior to the subprime crisis, and in the post-crisis recovery. End-to-end profits from bonds almost tripled during this period. Second, profits from services drop during the crisis and then recover steadily over the entire post-crisis period. Prior to the crisis, profits from services were lower than profits from interest, however, between 2002 and 2008 services generated more profits than interest. Since data are not available prior to the crisis, our conclusions are necessarily tentative. It is clear that in the post-crisis period until 2008, banks have given priority to generating income from services and fees over traditional banking profits from interest rate spreads. The behaviour of Argentine banks is consistent with the behaviour of large international banks (dos Santos 2009). Although the presence of foreign banks in Argentina decreased in the post-crisis period, domestic private and public bank behaviour continues to be heavily influenced by large foreign bank behaviour.

Figure 3. Financial system profits from interest and services as a percentage of net assets

An examination of traditional bank activity in Argentina is also revealing. Figure 4 shows total credit and credit to the private and public sectors as a percentage of GDP for the period 1993-2009. Total credit grew steadily during the 1990s, but experienced a sustained decline in the whole post-crisis period. Credit to the public sector grew throughout the 1990s and had a very substantial increase during the crisis due to fiscal bail-outs of indebted corporations and households. During the post-crisis period and until 2007, bank credit to the public sector exceeded credit to the private sector, indicating that the state was a key source of bank profits from interest. Credit to the private sector also increased during the 1990s, although it was never more than 25% of GDP, which is
low compared to other peripheral countries (Herr, 2008). However, following the crisis, credit to the private sector experienced a sharp decline and never fully recovered to its modest pre-crisis levels.

Figure 4. Financial system credit to private and public sector as a percentage of GDP

A further look at credit to the private sector also proves revealing. Figure 5 shows bank financing by type of economic activity as a percentage of total financing. Bank financing of manufacturing experiences a steady decline during the 1990s, from roughly 35% to 10% of total financing at the time of the crisis. Post-crisis, bank finance to manufacturing firms recovers partially, to about 18% of total financing. Bank finance to the primary sector was relatively stable during the 1990s, at about 10% of total financing on average. Following the crisis, financing to the primary sector grew to levels slightly higher than pre-crisis, due mostly to booming international commodity prices and the expansion of transgenic soy production with its associated technological package (large scale mechanised production, herbicides, no-till planting).

Financing to individuals experiences a sharp increase in the early 1990s with the implementation of the Convertibility Plan and then grows steadily throughout the decade. During the crisis, this credit category experiences a sharp drop, as did bank financing to the private sector in general. However, once the economy began to recover, financing to individuals increased at a substantially higher rate than credit to other sectors and also at a higher rate than during the previous decade, reaching 35% of total financing to the private sector by 2009. Financing to individuals by Argentine banks is fully compatible with the behaviour of major international banks, as reported by dos Santos (2009).
Finally, a further source of bank profits, presented in Figure 3 above, are bonds held as part of their portfolios. While we do not have detailed data of bank portfolio composition, we do have information on government bonds held by banks. Figure 6 shows total nominal value of public bonds held by banks (left axis) and public bonds held by banks as a percentage of total bank assets (right axis). Bank holdings of government bonds increased sharply during and after the 2001-2002 crisis due to forced conversion of bank deposits to bonds, implemented to preserve the banks from the crisis-induced run on deposits. While in nominal terms bank holdings of government bonds continued to increase in the entire post-crisis period, taken as a percentage of total assets public bond holdings stabilised at approximately 22% after peaking at more than 30% in 2004-2005. From this we can conclude that the state is the source for a substantial portion of bank profits from bond holdings.
4. Concluding remarks

From the data presented above and using Krippner’s (2005) definition, we conclude that there has been a strong process of financialisation in Argentina during the post-crisis period. In other words, profits in the banking sector have increased in real terms at a much faster rate than in the large business sectors.

The Argentine 2001-2002 crisis and the policies implemented to deal with it allowed banks a fresh start in the post-crisis period. With the financial liberalisation policies implemented in the previous decade still intact, banks increasingly conformed to behaviour patterns typical of large international banks. An examination of bank profits confirms this. Financial services have gained relevance as a source of bank profits, outstripping profits from interest rate spread and financial investments during much of the post-crisis period. Profits from financial investments have grown cyclically during the post-crisis era, and bank holdings of government bonds are an important source for this type of profit.

Regarding profits from traditional banking activities (taking deposits and making loans), data reveal that:

• there has been a sustained decline in overall bank credit as a percentage of GDP since the crisis;
• bank credit to the public sector as a percentage of GDP increased considerably with the crisis and has since consistently declined;
• bank credit to the public sector in the post-crisis period was considerably higher than credit to the private sector until 2007 from which time private sector credit has been slightly higher than credit to the public sector;
• credit to the private sector as a percentage of GDP fell sharply with the crisis and eventually stabilised at a level considerably below that of the 1990s average; and
• credit to the private sector shifted noticeably away from credit to primary and manufacturing sectors towards individuals.

It is clear from our analysis that Argentina’s financialised banking system is not well suited to provide the support required to accompany a development process. Banks are clearly doing well, much better than large corporations, and yet they are allocating very limited financial resources to productive investment and economic development. Instead, following behaviour patterns of the large international banks, they prioritize short-term profits through consumer credit and other financial activities not directly related to productive investment.

Argentina is therefore at a crucial juncture regarding its future. If the country is to truly change economic direction and begin to reverse the effects of 35 years of neoliberal deindustrialisation and reprimarisation, then there is a convincing case to be made that the country would greatly benefit from the nationalisation of its banking system. In addition to the arguments in favour of nationalisation presented in previous sections, historical evidence in this regard is overwhelming. The examples provided by European and Japanese industrialization and the more recent example of successful Asian late-industrialisers are sure witnesses to the importance of State intervention in the banking system to ensure the proper supply of credit for development. In addition to seriously considering historical examples, it is fundamental to learn from their extensive and well documented experience to avoid making the same mistakes.

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BIBLIOGRAPHY


NOTES

1. The neoliberal orthodoxy’s justification for financial liberalisation is based on two hypotheses of erroneous theoretical grounding and very little substantiating empirical evidence. The first is
the financial liberalisation hypothesis, based on the writings of Patrick (1966), McKinnon (1973) and Shaw (1973). According to this hypothesis, low growth rates in the developing world were due to low domestic savings rates, which were due to “financial repression”, i.e. State regulation of financial markets, interest rate caps, and credit allocation policies. Therefore, once markets were freed from such fetters. The hypothesis is based on the questionable assumption that credit depends on saving and that saving finances investment. See Arestis (2007), Arestis and Sawyer (2005), Arestis and de Paula (2008), Arestis and Basu (2008), Chesnais (1999) and Chick and Dow (1998) for more detailed critiques. The second hypothesis is the efficient financial market hypothesis according to which capital market prices are supposed to always fully reflect available information. The well documented problems of financial markets, such as herd behaviour, self fulfilling prophecies and financial speculation bubbles among others, should have dictated the death sentence to this hypothesis. However, it is still alive and well in orthodox literature.

2. As we shall see in the following section, there are different definitions of the term “financialisation” depending on whether they focus on economic activity or on the accumulation process, although they generally complement each other.

3. For a detailed description of the transformations that took place in the financial system, see Cibils and Allami (2010).

4. Cibils and Allami (2010) provide a detailed account of this regulatory change and its effects.

5. See Cibils et al. (2002) for an account of the process leading up to the crisis.


7. In April 2002, at the lowest point of the Argentine crisis, then-president Duhalde appointed Roberto Lavagna as economy minister. Despite strong IMF pressure to the contrary, Lavagna implemented a quantitative targets monetary policy and a managed or “dirty” float exchange rate regime. The IMF’s prescription is a freely floating exchange rate regime and an inflation targeting monetary policy. For a critique of these policies see Arestis and Sawyer (2004) and Epstein and Yeldan (2009).

8. The subsidy, known as the “Plan Jefes y Jefas de Hogar Desocupados”, had as many as two million beneficiaries at its point of highest enrollment.


12. See, for example, Epstein (2002), Demir (2007).


14. For a more extensive discussion of these issues, see Cibils et al. (2011).


16. Minsky wrote extensively about this aspect of bank-based systems. For Minsky, in bank-based systems banks act as intermediaries between firms and financial markets, but hold on to firm equities as part of bank assets. In this case, solid underwriting is key, as the bank’s success is tied to the firm’s success. This does not occur in market-based systems, where banks do not hold on to firm equities. In these systems, where firm equities are quickly sold on secondary markets, underwriting is not as important since bank success is not linked to firm success [see Wray (2010a, 2010b) for an in-depth discussion of Minsky’s views].

17. See Dos Santos (2009) for the changes that have taken place in large international bank operations. Tonveronachi (2006) analyzes the impact of the penetration of large international banks in Argentina on domestic private and public banks. He concludes that local banks, both private and public, have essentially adopted the international bank modus operandi. Allami and
Cibilis (2011) arrive at the same conclusion from a study of bank finance of small and medium businesses in the post-crisis period.  

18. Readers will recall then-Chairman of the Federal Reserve Board of the United States Alan Greenspan’s use of the term during the dot com bubble in 1996.  


22. For a detailed account of the financial reform and its effects, see Cibilis and Allami (2010).  


24. For publicly traded non-financial corporations and for the large businesses surveyed by INDEC, we used total profits without discriminating whether they were the product of financial investments. For the banking system profits, we took annual ROA (return on assets) multiplied by the yearly average asset stock, as published by the Argentine Central Bank. Since each group has different numbers of enterprises, which also vary over time, we divided total profits by the number of enterprises in each category each year. These calculations enabled us to compare profits across groups. Due to the unreliability of INDEC price data, all profits were deflated by a composite price index built from data of seven of Argentina’s largest provinces. Finally, the number of financial institutions in the sample remained relatively stable through out the period, so the spike in financial sector profits at the end of the period is not due to a decrease in the number of financial institutions.  

25. Krippner suggests looking not only at sectoral profits but also at their composition, thus showing to what extent profits in each sector are being generated through financial investments. Due to lack of availability of detailed data, we only studied sectoral profits, not their breakdown. Had we been able to determine the percentage of big business profits generated through financial investments, financial profit growth would have been even greater.  

26. It has been suggested that banking sector profits may have been so high after 2004 in order to fulfil Basel II balance-sheet requirements following the substantial losses in the immediate post-crisis period. However, the strong growth of profits in the last two years of the period under study would indicate that there is, indeed, a change in behaviour of banking profits.  

27. See Azpiazu et al. (2011) for Argentine economy concentration trends, especially in the post-crisis era.  

28. The greatest break with the convertibility regime of the 1990s was implemented in April 2002 by then-president Eduardo Duhalde and his economy minister Roberto Lavagna. At that time a managed float exchange rate regime was implemented, together with a monetary targets monetary policy. In 2005, a Chilean-style capital control policy was implemented to try to avoid short-term capital flow disturbances. However, the financial system regulatory framework is provided by the Military Dictatorship’s 1977 Financial Entities Law, which liberalised finance in Argentina.  

29. Tonveronachi (2006) finds that private and public domestic banks adopted behaviour of international banks after liberalisation. Dos Santos (2009) describes the behaviour of large international banks. Many of these behaviours are observed also in Argentina.
ABSTRACTS

The end of the Bretton Woods era and the emergence of neoliberal economics resulted in profound transformations in domestic economies and international economic relations. The keystone of these transformations was the liberalisation of domestic and international financial markets. Faulty theoretical foundations and the resulting catastrophic policy failures prompted a vast literature by critical economists on the international financial architecture and domestic financial structures best suited for economic development. In recent decades, debate has also centred on what has been labelled “financialisation”, i.e. the increasingly central role played by financial markets and transactions in economic activity. In this paper we try to ascertain whether Argentina experienced a process of financialisation between 1990 and 2009 and what impact, if any, it has had on Argentine banking. We conclude that there has been a strong process of financialisation in Argentina in the post 2001-2002 crisis period. We also explore in a preliminary fashion potential reasons behind Argentine post-crisis financialisation. The paper concludes by suggesting that it is time to consider alternative banking arrangements if development finance is to become a policy priority.


El fin de la era de Bretton Woods y de la emergencia de una economía neoliberal tuvo como consecuencia profundas transformaciones de las economías nacionales y de las relaciones económicas internacionales. La llave maestra de esas transformaciones fue la liberalización de los mercados financieros nacionales e internacionales. Las referencias teóricas erróneas y el fracaso de las políticas catastróficas que generaron dieron lugar a una literatura importante por parte de economistas críticos sobre la arquitectura financiera internacional más adaptadas al desarrollo económico. Desde hace varias décadas, el debate se centró sobre lo que se ha denominado “financiarizacion”, es decir el papel cada vez más preponderante jugado por los mercados y las transacciones financieras en la actividad económica. Vamos a intentar en este artículo determinar si Argentina ha conocido un proceso de financiarizacion entre 1990 y 2009 y, en ese
caso, el impacto sobre el sistema bancario argentino. Nuestras conclusiones establecen que hubo un intenso proceso de financiarización en Argentina en el periodo posterior a la crisis de 2001-2002. Nosotros también buscaremos primeramente las razones posibles de la financiarización de Argentina luego de esa crisis. El artículo concluye destacando que ya habría llegado el momento de proponer prácticas bancarias alternativas en el caso de que el financiamiento del desarrollo llegara a ser una política prioritaria.

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