

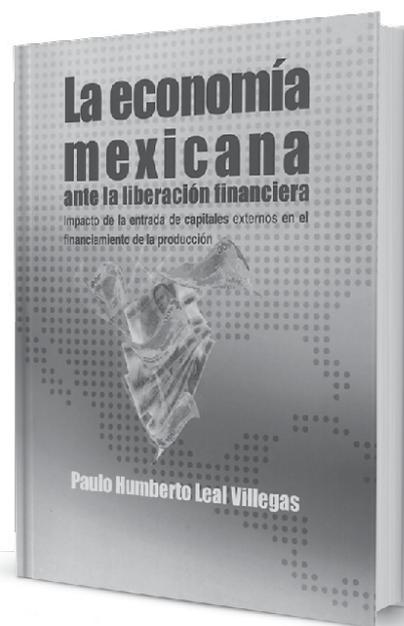


One of Paulo Leal's central tenets is that foreign capital flows did not go into the productive sector, but funneled into the speculative world to make short- and medium-term profits.

tive crisis provoked by the U.S. liquidity crisis leading to the mortgage crisis, whose effects were felt in Mexico's economy; the timeliness of the neoliberal state, given the perpetual propping up of a financial system that generates no value; Mexico's insertion into the world economy, almost exclusively through the United States (and the need to diversify trade relations); and the necessity of incorporating technological change and strengthening the domestic market, which implies redefining the national project.

The book also includes a vast amount of quantitative data like tables and graphs with indicators constructed based on primary sources to strengthen and support the author's tenets. These sources include the Ministry of Economy, Mexico's Central Bank, the National Banking and Securities Commission, the National Institute of Statistics and Geography, the Ministry of Finance and Public Credit, and reports from the federal government, the U.S. Federal Reserve, the ECLAC, and the OECD.

The book has an unorthodox theoretical framework, based fundamentally on Keynes, Minsky, and Kindleberger, plus Carlota Pérez, Duménil and Lévy, Dabat, and Harvey, among other theoreticians. However, the author emphasizes neo-classical theory's inability to deal with the study of national and world phenomena. He states that the neo-classical school is insufficient for understanding the complexities of the Mexican economy, contrasting its performance with inapplicable suppositions like free competition; the existence of perfect, complete, and symmetrical information; downward flexibility in the cost of labor; the existence *per se* of economic equilibrium; the eternal rationality of economic agents; the state's incapacity to influence the economic cycle; the ahistorical vision of the economy nourished by the pretension of absolute independence from political events; or blind faith in the processes of financial globalization and liberalization. That is, his unorthodoxy separates him from the mainstream theory that has permeated decisions in world political economy, decisions, as the author states, that paved



the way for the recent economic crises that we still have not been able to extricate ourselves from.

However, the principal theoretical foundation underlying the work is Marxist, based on the “money-commodity-increased money” (M-C-M') model of accumulation. In this model, money is valued based on the purchase of labor power (which is what creates value), and of the means of production for the productive process, something that makes it possible for actors to obtain “more” money in the act of buying and selling. With this classical accumulation model, and taking Mexico's situation in a specific world context as a starting point, the author argues why he speaks of a break in the formula for the functioning of capitalism. That is, he argues that from M-C-M', we move to M-M' (money-increased money): a scenario in which money “reproduces itself,” increasing without having to go through any kind of productive process.

Based on this theoretical foundation, one of the book's basic objectives is to deal with the impact of the strategy of increasing capital supply to theoretically “finance” production in Mexico. Specifically, it analyzes the performance of foreign direct investment (FDI) in Mexico, explaining the proportion in which it has been used for gross capital formation, portfolio investment, and the purchase of shares. The book also studies the sources of financing of Mexico's main companies to see how much FDI supported the business sector, but it also evaluates the relationship of capital flows into Mexico with the 1994 economic and financial crisis.<sup>1</sup>

One of Paulo Leal's central tenets is that foreign capital flows did not go into the productive sector, but funneled into the speculative world of the financial sector to make short- and medium-term profits. This facilitated competition between the real and the financial economies; in Mexico's case, the financial economy did not make its profits from production, but from speculation. He adds that indiscriminate financial liberalization has produced juicy profits for the financial sector without involving production at all, and for that reason, the financial sector has become a competitor for production and not a support for it, as the discourse in favor of financial liberalization argued it would.

This break between the productive and financial sectors, says the author, originated in the contradiction of the financial system within the logic of the capitalist system. On the one hand, the financial system is the capital-money facilitator for the productive sector, but on the other hand, it funnels cash away from the productive sector; this is the underpinning for the gestation of a crisis. In addition, these events have resulted in the banking system not fulfilling its basic function, which is to facilitate credit to the productive sector for the creation of goods and services. For now, most of the investments in the productive sector are really self-financed. And Leal goes on to say that 65 percent of productive investment comes through suppliers, and that the financial sector participates only in a minor way with 20 percent.

For its part, the banking sector, an oligopoly of four institutions since it was re-privatized and fell into foreign hands, obtains its profits from the commissions for services rendered and a vast portfolio of consumer credit. In part, this consumer credit "has filled" the holes in social inclusion left by the Keynesian state and that the market intends to replace with credit from the private banking system. This has a very high social and economic cost due to the enormous debt incurred by individuals because of high active interest rates charged by the banks for this credit.

Leal argues that this scenario, in which foreign capital in Mexico that did not go into production, in which the banking system has stopped fulfilling its function as a receiver and lender of resources for the generation of goods and services, in which banking institutions make onerous profits through disproportionate service costs and their credit policies, has been possible thanks to a vacuum of power left by the state and its subordination to the financial sector, immersed in neoliberal policies.

Given this, he continues, it is necessary and urgent to have a new state that clearly sets the rules for the financial sector and international capital flows in order to funnel them into the real economy. This would foster the growth of gross capital formation and create jobs. However, he also writes that this state has to be established in the framework of a new national project.

For all of these reasons, critical texts like Paulo Leal's are to be recommended. Based on concrete reality, they question the orthodoxy of a model that does not allow for economic growth or the creation of our own technology (due to which we have to import capital goods). Given the fact that official figures state that seven of every ten people in the workforce are employed in the informal sector, Leal's proposals take on a certain importance: if it stays on the same road, given the deterioration of the U.S. economy, Mexico's will continue to be submerged in the great world crisis, the crisis of civilization that many authors are already talking about. ■■

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#### NOTES

<sup>1</sup> That was the last year of President Carlos Salinas de Gortari's administration and the beginning of Ernesto Zedillo's. [Editor's Note.]

### **Asunto de mujeres**

(Story of Women)

*Pilar Rodríguez Aranda*

Editorial Cascada de palabras-Cartera  
Mexico City, 2012, 81 pp.

In "What is a Poet?" renowned Chicano poet Francisco X. Alarcón writes that a poet is a voiceless voice that is at once joy and rage. This would certainly apply to this collection of poems by Mexican poet, video-poet, and literary translator Pilar Rodríguez Aranda.<sup>1</sup>