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A Regional Economic Arrangement for South America based on Davidson's Proposal for an International Monetary Clearing Union*

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ABSTRACT: The economic globalization, underway since the 1970s, when the Bretton Woods international monetary system collapsed, has been responsible for several exchange rate and financial crises in the world economy. In the absence of a consensus among nation-states and multilateral institutions on the reform of the international monetary and financial system, the creation of regional economic arrangements has become an alternative. This article proposes a regional economic arrangement for South America based on Davidson's plan for an International Monetary Clearing Union.

KEYWORDS: Davidson; International Monetary Clearing Union; economic integration; South America.
JELClassification: E12; F02; F15; F33.

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INTRODUCTION

On June 20, 2024, Paul Davidson, one of the world's most prominent PostKeynesian (PK) economists, passed away. Davidson was my advisor during a sabbatical period at the University of Tennessee, United States, from 1995 to 1996. As an attendee in his graduate classes and in discussion of my sabbatical project, he helped me to consolidate my knowledge about Keynes and PK theory.

Davidson's contribution to PK economics, both in terms of theory and institutional, was extremely important. His theoretical contribution is seen, for instance, in the book *Money and the Real World* (1972)[1], in which he explores the writings of John Maynard Keynes that preceded *The General Theory of Employment, Interest, and Money* (GT) (Keynes, 2007). In that, he puts forward what he sees as Keynes' three fundamen-

* *In memoriam* of Paul Davidson.

[1] Davidson's book and Hyman Minsky's book, *John Maynard Keynes*, published in 1975, mark the birth of PK theory in the United States.

tal axioms to understand the *modus operandi* of a monetary economy in the real world: "(1) the future is uncertain [...], (2) production takes time [...], and (3) economic decisions are made in the light of an unalterable past while moving towards a perfidious [...]" (Davidson, 1972,p.xii).

Continuing in this direction, Davidson developed his macroeconomic theory as the core of PK theory based on the following: (1) Money matters, both in the short and long run. It means that money affects the levels of effective demand and employment; (2)The economic system moves, intertemporally, from an irreversible past to an uncertain and unpredictable future[2];(3) In an monetary economy, production and exchange are based on a money-contract; (4) Money has two essential properties, that is, its elasticities of production and substitution are zero; and (5) Instability and unemployment are a normal outcome in a monetary economy.

On an institutional level, Davidson, along with Sidney Weintraub – friend and supervisor of his Ph.D. thesis – founded *The Journal of Post Keynesian Economics* (JPKE), in 1978. The objective of the Journal was to publish theoretical and empirical articles in the light of Keynes' ideas and to develop insights into these. According to the JPKE's founders, these ideas had been misrepresented by the Old Keynesian (or Neoclassical Synthesis based on the IS-LM model) and new-Keynesian schools and criticized by Monetarist and rational expectations theories. In creating the Journal, Davidson offered the opportunity to publicize their ideas and arguments to economists from other parts of the world, including me, who identified with analytical models consistent with Keynes' GT. Then, in 1988, Davidson and his wife, Louise Davidson, organized the first of many PK conferences that took place from 1988 to 2008[3].

In short, Davidson was both a critic of mainstream economics and one of those responsible for consolidating and disseminating the PK theory.

Davidson was also a staunch critic of the globalization process, which is understood as international capital mobility, deregulation of markets and trade, and financial liberalizations.

As is well known, since the 1970s, the globalization process has limited macroeconomic policies and the ability of nation-states to stimulate effective demand and employment, and it has been responsible for several global exchange rate and financial crises. These include the external debt crises in peripheral economies in 1982, the United States' saving and loans crisis in 1987, the European monetary crisis from 1992 to 1993, the Mexico exchange rate crisis in 1994, the Asian crisis in 1997, the 1998 Russian crisis and the global financial crisis (GFC) in 2008 and, as a consequence, the 'great recession' in 2009.

Concerned about the GFC and 'great recession', one of the last Davidson (2009)'s theoretical contribution was the final version of his proposal for reforming the international monetary system, that is, the International Monetary Clearing Union (IMCU), based on Keynes' (1980) International Clearing Union (ICU)[4].

Nowadays, is it politically and economically viable to adopt the IMCU for the global world? In our view, it is unlikely that there will be not only the reform of the world economic order, under the terms proposed by Davidson in his IMCU, but also the implementation of some institutional economic rules to mitigate the trade and financial instability and the stagnation trend of the world economy[5].

So, in a context where the possibility of reforming the world economy is very low, we think that the

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[2] Importantly, according to Davidson, mainstream economics supposes that the economic agents' expectations are based on statistical analysis of past data and probability theory – with the implication that economic risk can be calculated. In Keynes and PK theory, expectations are formed in a context where the future is not predictable and cannot be reliably based on the past, because the real world is 'non-ergodic'. For additional details, see Davidson (1982-1983).

[3] The PK conferences took place at The University of Tennessee, in Knoxville, Tennessee, initially, and were later hosted at The University of Kansas City, in Kansas City, Missouri.

[4] Davidson's ideas related to the IMCU were developed, initially, in his 1994 and 2002 books.

[5] As is well known, after the GFC and, mainly, the COVID-19 pandemic, the current economic problems in the world economy have increased due to the following reasons: the trade war between the United States and China, the volatility of the international commodity prices, the exchange rate war, the climate changes and the great global geopolitical repositioning. In this context, the economic uncertainties increase and, as a result, the economic growth and the volume of trade, at the global level, are negatively affected (see, for instance, the data of International Monetary Fund, IMF, 2025, and World Trade Organization, WTO, 2025).

second best would be the consolidation of regional economic arrangements at the global level, such as The North American Free Trade Agreement, European Union and Asia-Pacific Economic Cooperation.

Going in this direction, the main idea of this article is to propose a feasible regional economic arrangement in South America due to two reasons: first, because, since the 1950s, there have been several attempts of regional integration in South America, whether from a trade or financial policy perspective; and second, because since the 1990s and, mainly, 2000s, as a result of the stagnation of the Free Trade Area of the America (FTAA) negotiations, the South American integration process has experienced important initiatives, as it will be shown in Section 3. Given that and understanding that the globalization process contributed to spreading the exchange rate and financial crises of South American countries, over the 1990s and 2000s, the article aims to present, based on the Davidson's IMCU, an original regional economic arrangement for South America[6] to ensure the Region's long-term economic growth and social development.

The article addresses this objective in the following further sections. In Section 2, it is presented Davidson's IMCU proposal. Section 3 is divided into three subsections, as follows: (1) it shows, briefly, how, over decades, the economic integration process in South America occurred; (2) it describes the main 'institutionalities', i.e. regional agreements, created in South America to boost the Region's economic integration; and (3) it presents, based on a statistical analysis of selected macroeconomic variables, the economic performance of the South American countries in specific years from the 2000s to the 2020s. The idea is to show not only the evolution of the macroeconomic variables, but also to analyze whether they converged (or not) over the period[7]. Section 4, considering that the regional integration in South America is feasible, proposes an economic arrangement for South America in light of Davidson's (2009) IMCU proposal. Section 5 summarizes the article and concludes.

A BRIEF ANALYSIS OF DAVIDSON'S IMCU PROPOSAL

As is well known, Keynes discusses and proposes plans to reform the international monetary system in many of his writings. In *A Tract of Monetary Theory* (Keynes, 1971, p.138), after stating that "the gold standard is already a barbarous relic", Keynes suggested replacing the gold standard regime with the gold-currency standard regime, which was, according to him, a more flexible international monetary payment. In Chapters 36 and 38 of *A Treatise on Money: the applied theory of money* (Keynes, 1976), Keynes proposes the creation of an international institution, the Supranational Central Bank, to stabilize price levels and expand international liquidity, as a fundamental to boost world trade and economic growth. Finally, in his revolutionary ICU, Keynes (1980, pp.169-170) proposes the creation of a "central institution [ICU] to aid and support other international institutions [...] based on an international bank money [...] *bancor*, fixed (but not unalterably)"[8]. According to Keynes, the ICU would be able to restore international credit loans, control capital movements, and stimulate economic growth and full employment in the global economy.

Keynes' ICU is recognized as fundamental to the creation of the Bretton Woods International Monetary System, which was responsible for regulating monetary, exchange rate and trade policies, among others, and also for producing the full employment and social development in the world economy from 1946 to 1973. As an aside, this period is considered the world's golden age of capitalism.

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[6] There are twelve sovereign countries and three non-sovereign dependent territories in South America. For purposes of analysis, only the twelve sovereign countries are considered: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Uruguay and Venezuela. In 2023, the total population of these countries was approximately 442.3 million (United Nations Department of Economic and Social Affairs, UNDESA, 2025).

[7] It is important to mention that the convergence of macroeconomic variables is one of the criteria for countries to join a regional economic integration.

[8] "In my view, with bancor and the fixed rather than flexible exchange rates to all international payments by governments, the international currency would be demanded only for the purposes of expanding private and public transactions, consumption and investment, and would, as a result, mitigate or avoid the economic agents' liquidity preference and would also reduce the influence of global finance in the world economy.

Following the collapse of the Bretton Woods system and the resulting increase in instability in the world economy, Davidson (1994, 2002) was one of the first economists to propose reform of the international payments system based on Keynes's original proposal[9]. Later, after the GFC and 'great recession', Davidson (2009), based on Keynes' ICU, developed his final proposal for reforming the international financial architecture, that is, the IMCU.

Optimistic about the possibility of world leaders recognizing the need to reform the international monetary system, Davidson (2009,p.141) believed that his IMCU would "help the global economy recover and to reinstate prosperous times". For this reason, in the 2010s he intervened in relevant debates regarding a new international monetary system, in which there could be economic and political harmony rather than international crises and political conflicts.

Turning to the IMCU, in which trade and financial international payments would be made by national governments, Davidson believed that the creation of the IMCU would be able to mitigate or eliminate the private sector transactions and the influence of financial markets on the global economy. In such a context, the international currency, IMCU, would be held only by national central banks and not as a store of value more generally (Ferrari Filho, 2002).

According to Davidson (2009), the creation of IMCU would have the following provisions: (i) the unit account for international liquidity is *only* the IMCU; (ii) each nation's central bank has to guarantee one-way the convertibility from IMCU deposits to its domestic currency; (iii) the exchange rate between the domestic currency and the IMCU is set, initially, by each nation central bank, to aim at stabilizing, in the long-run, the purchasing power of the IMCU; (iv) the IMCU provides an automatic mechanism for correcting international trade imbalances, not only for countries that run trade deficits, but, mainly, for those accumulating trade surpluses[10]; and (v) controls and regulations on international capital flows are necessary to prevent the volatility of bull-bear feelings of the economic agents, and, as result of, to mitigate the speculative activities in foreign exchange.

The Davidson's IMCU proposal brings, at least, three considerations.

First, to propose IMCU as the international reserve means that economic agents are not able to hold the international asset, IMCU, as a store of value. In other words, in a context where the liquidity preference for IMCU is mitigated, economic agents decide to take decisions of spending and, as a result, effective demand expands. Thus, the nation's central banks and the governments have the power to control the quantity of liquid assets to expand the global effective demand, as well as the liquidity preference.

Second, the idea of fixed, but adjustable, exchange rate, between IMCU and the domestic currencies, that is, the stabilization of the long-run purchasing power of the IMCU, is fundamental for, on the one hand, stabilizing the international prices and, on the other hand, and more important, is essential to ensure the autonomy of countries' monetary policy.

Third, the 'trigger mechanism' not only, implicitly, criticizes the mainstream theory of international trade, based on comparative advantage and the flexible exchange rates as the main conditions to solve the problems of trade imbalances, but also stimulate the international cooperation among countries.

Thus, we realize that the Davidson's – or Post Keynesian – proposal has conditions to alter the current logic of financial globalization – that is, it can substitute the process of international production for the dynamic of international speculative capital – and creates an institutional mechanism to mitigate the uncertainties of economic agents decisions, that are fundamental for their decision-making on spending, consumption and investment, and, as a result, expanding global effective demand. As Keynes points out, an international

[9] Since the 1970s, several proposals, from different theoretical conceptions, for reforming the international monetary system have been put forward and discussed. For instance, they concern on the implementation of capital controls, the introduction of a multi-currency regime – that is, US dollar, *Euro* and *Renminbi* –, the generalization of flexible exchange rates, the creation of mechanisms to prevent exchange rate and financial crises, and the adoption of a single universal currency. For additional details, see: Gnos and Rochon (2004), Griffith-Jones*et al.* (2010), Kenen (2001), McKay*et al.* (2011), Stiglitz and Bhattacharya (2000), Tobin (1978), and United States (1999).

[10] Like Keynes (1980), Davidson hoped to establish a 'trigger mechanism' to pressure balance of payments adjustments by surplus (creditor) countries rather than deficit (debitor) countries.

monetary built like that "could use its influence and its power to maintain stability of prices and to control the trade cycle" (Keynes, 1980,pp.190-191).

THE ECONOMIC INTEGRATION PROCESS OF SOUTH AMERICA FROM THE 1960S TO 2000S[11]

A brief history of the economic integration in South America

As is well known, regional integration is not new in Latin America and, especially, in South America. Economic integration played an important role in the Region after the Second World War, mainly in the 1950s and 1960s, when the multilateral institutions, such as Economic Commission for Latin America and the Caribbean (ECLAC), and policymakers discussed the directions for the economic and social development of the Region.

The idea of South American economic integration began in 1960 with the creation of the Latin America Free Trade Association (LAFTA) that aimed to establish a common market and free trade agreement in Latin America. The original member countries were Argentina, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay, and, in 1970, Bolivia, Colombia, Ecuador, and Venezuela joined LAFTA.

In 1980, LAFTA was replaced by the Latin American Integration Association (ALADI). The initial membership of ALADI remained unchanged until 1999 and 2012, when, respectively, Cuba and Panama joined the group.

ALADI was created with the following purposes: to promote economic growth and social development, to boost trade and economic cooperation among its members, and to eliminate trade barriers and develop a free trade zone in the Region (ALADI, 2025).

Concomitantly to proposals forwider regional integration in Latin America, two subregional groups were created in the late 1960s and early 1990s: Andean Community of Nations (CAN) and Common Market of the South (MERCOSUR).

CAN was created in 1969 to achieve a sustainable and balanced economic and social development in the Andean region (CAN, 2025). The original member countries were Bolivia, Chile, Colombia, Ecuador, Peru, and Venezuela. In 1977, Chile left CAN for political reasons, and Venezuela left in 2006 to join MERCOSUR as an associate country.

MERCOSUR was established in 1991 with the conclusion of the Asunción Treaty by Argentina, Brazil, Paraguay, and Uruguay (MERCOSUR, 2025a) as an economic and political agreement to promote a free trade zone in the Region. The original objective was transformed when the Economic Authorities proposed a regional and common currency for MERCOSUR. In 2012 Venezuela became a member country.

In the 2000s, CAN and MERCOSUR, the main economically integrated groups in South America, faced economic and political difficulties. In response and to avoid the weakening of these economic groups, in 2005 the South American Community of Nations (CSA) was created to stimulate economic agreement between CAN and MERCOSUR. In 2007, the members of the two groups concluded a treaty to replace the CSA with the Union of South America Nations (UNASUR). UNASUR (2025) was seen as an alternative and more consistent project of economic integration in South America. The main objectives of UNASUR at this time were political coordination, a free trade agreement, integration of infrastructure (especially in terms of energy and communications), financial integration, cooperation in technology, science, education and culture, integration of business and civil society, and integration and regional development (Latin American and Caribbean Economic System, SELA, 2025).

UNASUR includes all South American countries as permanent members: Argentina, Bolivia, Brazil, Colombia, Chile, Ecuador, French Guiana, Guyana, Paraguay, Peru, Suriname, Uruguay and Venezuela.

Concluding this subsection, it is possible to argue that, in the last decades, the economic integration in

[11] This section is based on Ferrari Filho and Peruffo (2015).

South America has become a reality, as well as it has been an important tool for modernization and economic and social development of the Region's countries.

The 'institutionalities' of the South American economic integration

In the 2000s, the South American economic integration has become more consistent, mainly, because, in addition to the Region's tariff and trade agreements, several 'institutionalities' were created to boost the economic integration of ALADI, CAN, MERCOSUR and UNASUR groups. Among them, the following stand out:

(1) The MERCOSUR Structural Convergence Fund (FOCEM), that was initiated in 2004 and implemented in 2005, is a fund destined to finance: programs to promote structural convergence; the development of competitiveness; and the promotion of social cohesion, in particular regarding minor economies and less-developed regions[12]. In sum, FOCEM is the first solidarity financing mechanism of the MERCOSUR countries and its objective is to reduce the group's asymmetries (MERCOSUR, 2025b).

(2) In 2007, the Bank of the South (Banco Sur) was created as a regional finance agency, with the main objective being to finance and integrate UNASUR members for the development of social programs and infrastructure projects. In other words, it was designed to be an endogenous regional financial system, completely alternative to the International Monetary Fund and World Bank to finance public and private investments and social programs of the member countries (Observatório de Regionalismo, 2025).

(3) The Payment System on Local Currency (PSLC) was introduced in October 2008 by Argentina and Brazil as a payment system for bilateral commercial operations in the countries' local currencies, the *peso* and *real*, respectively. PSLC aims to eliminate the use of USD as an intermediary of commercial relations between the two countries. The PSLC is considered the first attempt of creating a regional payment, and unit of accounts agreements in South America.

(4) The Single System of Regional Compensation of Payments (SUCRE), created in 2009 by the governments of the Bolivarian Alliance for the People of Our America, is an expanded PSLC that, since 2010, has allowed the offsetting of the liabilities and assets related to the commercial transactions among the member countries. In other words, SUCRE is a regional payment system to aims to reduce member countries' dependence on the USD as a reserve currency, and to facilitate payments among member countries.

In our view, the SUCRE's 'institutionality' requires special attention due to, at least, two reasons. First, the creation of a virtual currency, *sucre*, is the main feature that distinguishes the SUCRE from other regional payment's system initiatives in South America, mainly PSLC. In other words, *sucre* is not a legal tender currency, that is, it is used exclusively as a unit of account and means of payment by the central banks of the member countries. Second, according to Gnos and Ponsot (2009), the SUCRE plan is similar to the Keynes' plan (ICU).

Going in the same direction that SUCRE and ICU are similar, we think that the relationship between both plans present some similarities, but also there are essential differences, as follows:

(i) In terms of scope, the Keynes's ICU would be universal (multilateral), while the SUCRE plan is regional;

(ii) The *bancor* would be fixed, but adjustable, and its parity would be determined by gold. In turn, *sucre*is calculated by a basket of currencies whose objective is to maintain a stable parity with the US dollar;

(iii) Both plans contemplate a quota system for member countries of the institutional arrangement. These quotas would be in accordance with the volume of the international trade, multilateral (Keynes' plan) or regional (SUCRE's plan) of each member country;

(iv) The credit lines in the ICU would be limited – that is, it could not exceed 50.0% of the value of each member country's quota –, while there is no credit limit in the SUCRE arrangement;

(v) In the Keynes' plan, the United States and GreatBritain would define the operational rules of the ICU

[12] Brazil is the largest contributor to FOCEM, contributing 70% of the fund's total resources, with Argentina contributing 27% and Uruguay and Paraguaycontributing 2% and 1%, respectively.

and their votes would have greater weight in decisions taken by the ICU Council. In turn, the SUCRE's plan aims to have a more equal participation in the institutional arrangement.

The creation of these 'institutionalities', together with the Latin American Reserve Fund (FLAR) and Reciprocal Payments and Credits Agreement (RPCA)[13], has been important to South America: they boost monetary and financial cooperation, stimulate sustainable development by financing infrastructure projects, and improve the foreign reserves of the countries in the Region to support their balance of payments.

In sum, there is now a recognized need for more consistent and robust stimulation of South American economic integration based on monetary and financial cooperation to ensure macroeconomic stability and avoid financial and exchange rate crises and the creation of a development bank to finance the regional infrastructure (roads, transportation, telecommunications, and power generation and transmission, among others).

This propositional argument is consistent for at least two reasons. First, the 'institutionalities' created during the 2000s in South America reveal that there is now greater monetary, financial and fiscal cooperation among the countries in the Region. Second, even after the GFC and 'great recession', policymakers and international institutions have been unable to propose a consistent reform of the international monetary system. Thus, accelerated economic regional integration became the second-best option. This is corroborated, for instance, by United Nations Conference on Trade and Development (UNCTAD, 2007), which argued that there is no better alternative available for major emerging economies, including South American economies, than economic regional integration.

Selected economic variables from South American countries

As the previous subsection showed, in South America, during the last two decades, the fiscal, monetary, and financial policies became part of the negotiating agenda for implementing a regional economic arrangement in the Region. Specifically, the discussion above showed that the 'institutionalities' created in South America during the 2000s aimed to boost the Region's economic integration.

This subsection analyzes some selected economic variables to assess the current stage of economic integration. Before analyzing the data, two clarifications on the methodology are in order: first, as mentioned in the footnote 6, for purposes of analysis, the South American countries considered in our sample are Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Uruguay and Venezuela. Second, the macroeconomic variables we have chosen are the following: (a) the South American counties' GDP and GDP per capita and the Human Development Index (HDI) for all countries of the sample, in the years 2000 and 2022; (b) the fiscal policy, and the monetary and exchange rate regimes of each country[14]; and (c) the inflation rate, the interest rate, the public deficit/GDP ratio, the relationship between gross public debt and GDP, and the intraregional trade (total volume of exports and imports of each country to the South America/total South America GDP) for the years 2000, 2005, 2010, 2015 and 2020. Thus, analyzing these variables, we are not only observing, directly or indirectly, the performance of the main macroeconomic policies, that is, fiscal, monetary, and exchange rate, but also analyzing the main macroeconomic variables that must be considered when the objective is to implement a more comprehensive regional integration in South America.

Based on the statistical analysis of these economic variables, the idea is (i) to evaluate the dynamics of economic integration of South America, and (ii) identify the similarities and differences between the most-developed and less-developed countries in the Region – that is, to observe not only the trend of the variables, but also if they are converging (or not).

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[13] FLAR, created in 1978, is a financial institution whose main objective is to support its member countries (in South America, the beneficiaries are Bolivia, Colombia, Ecuador, Peru, Uruguay andVenezuela) with balance of payments problems. It is considered the Andean version of International Monetary Fund. In turn, RPCA is an agreement created in 1982 to allow the creation of a Reserve Fund to support the balance of payments, guarantee loans, and improve the official reserves of the central banks of South American member countries. In other words, its main objective is the establishment of a regional payment agreement.

[14] The idea is only to observe how the fiscal, monetary and exchange rate policies in the selected countries were managed over the period.

First, Table 1 shows the evidence of the evolution of the South America's GDP: in 2022, it was approximately USD 3.8 trillion[15],while in 2000 it was almost USD 2.4 trillion. Therefore, from 2000 to 2022, GDP in the Region increased 58.3%, meaning an annual growth rate of 2.5% over the period.

Table 1 also shows the GDP per capita for all South American countries[16]in 2000 and 2022. The figures show the following: (i) GDP per capita increased 184.8% from 2000 to 2022 – in 2000 it was USD 3,610.4 and in 2022 the GDP per capita was USD 10,281.9; and (ii) in 2000 the difference between the highest GDP (Argentina) and the lowest GDP (Bolivia) was almost 8.4 times, while in 2000 the difference between the highest GDP (Uruguay) and the lowest GDP (Bolivia) was approximately 5.7 times. It means that the GDP per capita gap among the countries dropped from 2000 to 2022.

Table 1: GDP and GDP Per Capita, both at constant1, and HDI for South American Countries

Country	GDP (USD Billion)		GDP Per Capita (USD)		HDI	
	2000	2022	2000	2022	2000	2022
Argentina	368.7	555.8	8,312.4	13,837.9	0.78	0.82
Bolivia	18.7	41.3	977.2	3,600.1	0.63	0.67
Brazil	1,269.8	2,033.1	3,725.0	9,071.7	0.67	0.75
Chile	149.3	317.6	5,100.8	15,434.3	0.76	0.84
Colombia	168.7	380.5	2,530.4	6,674.3	0.67	0.74
Ecuador	52.2	113.9	1,388.4	6,476.6	0.68	0.74
Guyana	2.9	14.2	2,443.0	18,200.0	0.57	0.71
Paraguay	20.5	41.4	1,727.4	6,184.6	0.65	0.72
Peru	92.6	236.2	1,941.3	7,226.2	0.68	0.75
Suriname	2.2	3.4	2,823.9	5,859.0	n.a.[2]	0.67
Uruguay	39.7	67.6	7,559.7	20,536.1	0.75	0.83
Venezuela	176.4	n.a.[2]	4,795.6	n.a.[2]	0.70	0.68
Total/Average[3]	**2,361.7**	**3,805.0**	**3,610.4**	**10,281.9**	**0.68**	**0.74**

Sources: ECLAC (2025b), IMF (2025a) and United Nations Development Programme (UNDP, 2025).
Notes: (1) GDP and GDP PerCapita at prices 2018; (2) n.a.means not available; and (3) Total GDP and Average for GDP Per Capita and HDI.

Likewise, Table 1 also shows the HDI for the twelve South American countries. According to the figures: (i) from 2000 to 2022, the HDI improved for all countries (the exception was Venezuela) and the HDI average increased 8.8% (from 0.68 to 0.74); and (ii) in 2000, four and five countries had a HDI higher and lower, respectively, than the HDI average (0.68)[17], while, in 2022, five countries had a HDI higher than the average HDI (0.74), five countries had a HDI lower than the average HDI and two had the same HDI of the average. In conclusion, not only the HDI improved, but also HDI gap among the countries' Region decreased.

An analysis of several ECLAC (2025a) annual reports shows that fiscal policy in South America was expansionary in the 2000s, 2010s, and 2020s, mainly in the most dynamic countries, specifically Argentina, Brazil, Chile, and Colombia. There are at least three reasons for the operationalization of a more expansionary fiscal policy in the Region: (i) the governments, during the endogenous economic crises or in the GFC and

[15] The total GDP was only to twelve countries because the Venezuela GDP is not available.

[16] The Venezuela GDP per capita is not available for 2022.

[17] The HDI for two countries were similar to the HDI average and the data for Suriname was not available.

'great recession', and the COVID-19 pandemic crises, implemented countercyclical fiscal policies to mitigate the economic and social impacts of these crises; (ii) in general, the South American governments are populist and, therefore, the fiscal regime dominance ends up prevailing; and (iii) the high interest rates over the last decades contributed to the imbalance of the public financial deficit.

The same ECLAC (2025a) annual reports also shows that the monetary and exchange rate regimes of the South American countries are the following: Argentina, recently, has adopted a crawling-peg system and operationalized a tight monetary policy; Bolivia, Guyana, and Suriname have a flexible exchange rate system and their monetary policy is discretionary; Ecuador is dollarized; Brazil, Colombia, Paraguay, Peru, and Uruguay operate a flexible exchange rate regime with an inflation targeting regime; Chile has an inflation targeting regime and its exchange rate regime follows a dirty floating system; and Venezuela had a multiple and managed exchange rate regime, but more recently decided to control the exchange rate to avoid the exchange rate pass-through mechanism. In sum, from the 2000s to 2020s most countries adopted an inflation targeting monetary regime and the exchange rate was managed à la dirty-floating system.

Table 2 and Table 3 show the inflation and the interest rates for all South American countries in specific years over the period analyzed. In terms of inflation rates (Table 2), from 2000 to 2020 the consumer prices dropped in Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay and Peru, and increased inArgentina, Uruguay and Venezuela – in Argentina and Venezuela, the inflation rates increased substantially, while in Uruguay it increased slightly. Regarding the interest rates, Table 3 shows that, between 2000 and 2020, the interest rates set by central banks dropped in Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname and Uruguay, increased in Argentina and the data is not available for Suriname and Venezuela. Given these data, it is possible to infer that, over the period, there was a downward trend in inflation and monetary policy became more flexible, and, as a consequence, the interest rates fell.

Table 2: Inflation Rate for South American Countries, %

Country/Year	2000	2005	2010	2015	2020
Argentina	- 0.7	12.3	10.9	23.9	36.1
Bolivia	3.4	4.9	7.2	3.0	0.7
Brazil	6.0	5.7	5.9	10.7	4.5
Chile	4.6	3.7	2.9	4.4	2.9
Colombia	8.5	4.5	3.1	6.8	1.6
Ecuador	91.0	3.1	3.3	3.4	- 0.9
Guyana	5.9	8.3	4.4	- 1,8	0.9
Paraguay	8.6	10.0	7.2	3.1	2.2
Peru	3.7	1.5	2.1	4.4	2.0
Suriname	44.7	20.1	10.3	25.1	60.7
Uruguay	5.1	4.9	6.9	9.4	9.4
Venezuela	13.4	14,4	27.2	180.9	2,960.0

Source: IMF (2025a).

Table 4 and Table 5 show the public deficit/GDP ratio and the relationship between gross public debt and GDP. The figures show the following: (i) in 2000, 2005 and 2010, almost all countries had public deficit over GDP less than 3.0%, while in 2015 and 2020 most countries had public deficits greater than 3.0%; and (ii) considering the gross public debt/GDP ratio, the figures show that, in general, the gross public debt was under control for almost countries over the period, while in 2015 and 2020 the gross public debt/GDP ratio in Argentina and Brazil increased substantially. Thus, it is possible to speculate that the fiscal deficit and the gross public debt increased in 2010 and, mainly, 2015 and 2020 due the countercyclical fiscal policies implemented by the governments in response to GFC, 'great recession' and COVID-19 crises.

Table 3: Interest Rate[1] for South American Countries, %

Country/Year	2000	2005	2010	2015	2020
Argentina	n.a.[2]	6.0	12.3	27.0	39.7
Bolivia	n.a.	5.6	3.0	2.7	2.5
Brazil	17.7	19.1	9.9	13.6	2.7
Chile	5.3	3.5	1.5	3.1	0.8
Colombia	12.0	6.3	3.2	4.7	2.8
Ecuador	15.6	8.7	9.0	8.4	8.9
Guyana	n.a.	6.0	6.4	5.0	5.0
Paraguay	10.3	4.8	2.2	6.1	1.6
Peru	n.a.	3.0	2.1	3.4	0.7
Suriname	n.a.	n.a.	n.a.	n.a.	n.a.
Uruguay	n.a.	n.a.	6.3	7.1	6.5
Venezuela	n.a.	9.9	6.3	6,2	n.a.

Sources: ECLAC (2025b) and IMF (2025b).

Notes: (1) Nominal interest rate, end of period, set by central banks; and (2) n.a.means not available.

Finally, considering the intraregional trade of South American countries, Table 6 shows that it is fundamental for Bolivia, Paraguay, and Suriname, important for Argentina, Colombia, Ecuador, Guyana, and Uruguay, less relevant for Brazil, Chile, and Peru, and not relevant for Venezuela. Moreover, according to the data of World Trade Organization (2025), the intraregional trade grew more rapidly than trade with countries outside the Region. In our view, some factors explain this result: relaxation of the external restrictions, real exchange rate appreciation, and stabilization programmes in the Region, among others.

Table 4: Public Deficit/GDP for South American Countries

Country/Year	2000	2005	2010	2015	2020
Argentina	- 1.5	0.3	- 1.1	- 6.9	- 8.7
Bolivia	- 3.3	- 1.5	1.8	- 5.6	- 8.2
Brazil	- 2.9	- 3.3	- 1.0	- 9.3	- 11.7
Chile	- 0.8	4.8	- 0.5	- 1.1	- 5.4
Colombia	- 3.2	- 4.0	- 3.9	- 3.5	- 6.9
Ecuador	0.1	0.8	- 1.8	- 6.9	- 3.9
Guyana	- 2.3	- 7.9	- 1.6	- 2.5	- 0.5
Paraguay	- 4.4	0.9	1.8	- 0.4	- 5.4
Peru	- 3.0	- 0.8	- 1.1	- 2.1	- 6.4
Suriname	- 7.8	- 4.1	- 0.2	- 6.6	- 12.0
Uruguay	- 3.2	- 1.3	- 1.0	- 1.8	- 4.6
Venezuela	- 1.4	1.4	- 3.9	- 8.0	- 1.0

Sources: ECLAC (2025b) and IMF (2025b).

To sum up, comparing the years 2000 and 2022 for the performance of the GDP and HDI, and taking into account the years 2000, 2005, 2010, 2015 and 2020 to observe the evolution of the inflation and interest rates, the fiscal deficit, the gross public debt and the intraregional trade, we conclude that these indicators improved substantially. In addition, according to several reports of ECLAC (2025a), the fiscal, monetary and exchange rate policies became more coordinated.

Table 5: Gross Public Debt/GDP for South American Countries

Country/Year	2000	2005	2010	2015	2020
Argentina	13.7	48.7	28.9	38.7	56.8
Bolivia	19.5	30.9	23.3	12.0	28.1
Brazil	48.8	58.0	49.2	62.1	77.6
Chile	9.7	3.8	7.2	13.9	25.0
Colombia	20.5	28.5	27.8	28.9	38.6
Ecuador	15.4	8.9	6.7	12.6	16.8
Guyana	n.a.[1]	n.a.	n.a.	n.a.	n.a.
Paraguay	3.1	2.4	1.8	3.4	3.2
Peru	n.a.	9.0	9.5	9.0	17.3
Suriname	n.a.	n.a.	n.a.	n.a.	n.a.
Uruguay	7.3	17.9	13.6	14.2	22.3
Venezuela	8.8	10.9	14.0	23.8	n.a.

Sources: ECLAC (2025b) and IMF (2025b).
Note: (1) n.a.means not available.

Table 6: Intraregional Trade, %

Country/Year	2000	2005	2010	2015	2020
Argentina	8.0	15.0	13.0	18.0	17.0
Bolivia	18.0	33.0	36.0	38.0	41.0
Brazil	4.0	4.0	3.0	6.0	7.0
Chile	10.0	13.0	11.0	12.0	15.0
Colombia	5.0	7.0	5.0	6.0	8.0
Ecuador	13.0	14.0	15.0	16.0	15.0
Guyana	n.a.	n.a.	n.a.	n.a.	n.a.
Paraguay	22.0	31.0	37.0	40.0	42.0
Peru	7.0	10.0	8.0	11.0	10.0
Suriname	n.a.	n.a.	n.a.	n.a.	n.a.
Uruguay	14.0	17.0	19.0	20.0	21.0
Venezuela	5.0	6.0	4.0	4.0	n.a.

Sources: ECLAC (2025b), Inter-American Development Bank– IADB (2025) and IMF (2025b).
Note: (1) n.a. means not available.

Given that, with think that the next step of the economic integration in the South America could be the creation of a regional institutional arrangement to promote (i) macroeconomic and financial stability, (ii) the coordination of economic policies, (iii) cooperation among the countries in terms of trade policy, (iv) the reduction of the regional inequalities – that is, lack of infrastructure, such as transport and energy – among the countries, and (v) financial support to mitigate the balance of payments disequilibrium, mainly that one caused by exogenous shocks. In our view, a regional institutional arrangement built under these principles is able to reduce the trade and financial dependence on global markets and, as a result, create the conditions to assure macroeconomic stability, understood as sustainable economic growth, inflation under control, fiscal adjustment (or fiscal responsibility, according to the Keynes' view, 1980), and external equilibrium, in the Region.

Before concluding this subsection, a question arises: what are the main motivations for the creation of a regional institutional arrangement in South America? There are, at least, four reasons: (i) The South American countries share a common heritage, language and culture; (ii) The regional integration can be a strategic tool to overcome some economic differences and obstacles among the countries because it expands the market size, facilitates specialization and industrialisation through economies, and enhances the forces of competition, enlarging, as a result, a market with guaranteed reciprocal access; (iii) The monetary stabilization plans brought similar economic reforms for the South American countries; and (iv) It attracts foreign direct investment.

Thus, in the next section, it is proposed a regional economic arrangement for South America to boost economic growth and social development, reduce the structural differences between the Region's most- and less-developed countries, and prevent financial and exchange rate crises in the Region that have been recurrent over the last few decades.

A REGIONAL ECONOMIC ARRANGEMENT FOR SOUTH AMERICA

As is well known, the traditional model of development in South America changed in the 1990s from a development strategy of import substitution, in which State played an important role inducing, stimulating, regulating and stabilizing the economy[18], to an economic model based on pro-market macroeconomic reforms and trade and financial liberalization, among others.

As a result, this dramatically changed the face of regional integration itself. In effect, nowadays the regional integration in South America has inserted itself into the broader overall strategy of opening up to the world economy that is mainly characterized by the globalization and 'financialization' process.

Given that, as it was mentioned before, i.e. that UNCTAD (2007) argued that regional integration became the second-best strategy for developing countries, including South American countries, and in a context of pessimism about the progress of a deeper reform in the international monetary system, this section elaborates a regional economic arrangement for South America.

What kind of regional economic arrangement? The regional economic arrangementhas to be pursued in South America for political reasons, as well as for its value as a strategic tool of economic and social development in a second-best world. Thus, the regional economic arrangement in South America must be evaluated in the broader context of the overall contemporary economic policy which is conditioning its effects.

Thus, based on the previous sections that, on the one hand, described some important 'institutionalities' created in South America to boost the economic integration in the Region, and, on the other hand, showed that, from the 2000s to 2020s, the macroeconomic policies became more coordinated, and adapting Davidson's IMCU to the South American economic integration, the idea is to propose a creation of a regional market maker that can boost economic growth and trade and financial relations, discipline and stan-

[18] See, for instance, Terra*et al.* (2021).

dardize economic policies, reduce the structural differences between the most- and less-developed countries, and prevent any disruptions resulting from financial and exchange rate crises.

To address these objectives, this regional market maker, let us call South American Supraregional Council (SASC)[19], should attempt the following principles:

(1) To coordinate and establish fiscal and monetary policy targets for all countries to ensure macroeconomic stability by expanding effective demand, stabilizing the inflation rate, and improving income distribution. For these purposes, fiscal policy should be countercyclical – that is, in periods of prosperity and crisis, it has to be contractionary and expansionist, respectively; it means that fiscal policy has to be discretionary to support aggregate demand and to reduce economic and social inequalities –, and monetary policy must be operated to keep inflation under control and, mainly, to stimulate the levels of consumption and investment – it means that the central banks should adopt a discretionary monetary policy.

(2) To assure that all central banks act as a lender-of-last resort to avoid bankruptcy of the banking and financial system, as well as government default. In other words, disruption in the credit system should be avoided.

(3) To regulate the banking and financial system to stimulate regional direct investment projects, mainly in infrastructure and social programs, and restrain speculative actions in both systems.

(4) To encourage the use of PSLC in the intraregional trade and financial transactions. Notably, unlike Davidson's (2009) IMCU proposition in which "[a]ll international payments, whether for imports or financial funds crossing national borders, would go through this clearing union" (Davidson, 2009,p.136), the SASC would not require the creation of virtual currency to be operated in the regional payments system because the idea is to generalize the PSLC principle. Thus, local currencies would be used both in commercial and financial transactions for all member countries of the Region. Given such situation, the transaction costs would be reduced, and the domestic central banks would act as "clearing houses for payments between" (Gnos and Ponsot, 2009,p.2) the countries involved in the economic transactions. It means that In turn, all trade and financial transactions between South American countries and the rest of the world would be expressed in foreign convertible currency with reserves managed by central banks.

(5) To create a Contingent Reserve Fund (CRF), in USD, Euro and other convertible currencies, to be a precautionary instrument to aim at equilibrating the short-term balance of payments crises, and mitigating structural and social disparities, and market failures among the counties in the Region[20].

(6) To consolidate the free trade area in the SASC, which means to eliminate tariffs, import quotas and preferences on goods and services traded among the South Americancountries[21].

(7) To manage an exchange rate regime based on a fixed, but adjustable exchange rate system.

(8) To regulate the capital inflow movements either to avoid the entry of speculative capital that generates disruptive situations[22] or to enhance the central banks' autonomy in setting the nominal interest rate to support domestic objectives. More specifically, as it is well known, massive capital inflows, mainly in the

[19] SASC would have more functions than the existing regional financial institutions, CAN and Bank of the South.

[20] The CRF's capital would be distributed based on the value of each country's GDP. Based on Table 1, in Annex, the largest and smallest contributions would be from Brazil and Suriname, respectively. It is important to mention that the idea is similar, but on a large scale, to those in FLAR and RPCA, as subsection 3.2 described, as well as it goes in the same direction of 'trigger mechanism' proposed by Davidson (2009).

[21] The first step is the creation of Common External Tariff for all South American countries and, later on, to consolidate the Free Trade Area in South America, which means to eliminate tariffs, import quotas and preferences on goods and services traded among all countries. In turn, similar to Keynes' plan (1980) and Davidson's IMCU (2009), the exchange rate regime has to be fixed, but adjustable, not only to maintain balance of payments equilibrium, thus mitigating external constraints, but also to avoid the mechanisms of pass-through from exchange rate to inflation.

[22] It is well known that massive capital inflows (as a consequence of large capital inflows in the form of foreign direct and portfolio investment) have produced macroeconomic problems in the world's main emerging countries, mainly in South America. Thus, capital controls aim to reduce the volatility of capital flows and to mitigate instability and fragility related to the speculative attacks on domestic currencies. In this context, reserve accumulation policies by the South American countries and CRF can be seen as insurance against negative shocks and speculation against the domestic currency.

form of portfolio investment, fueled by interest rate spreads among markets in developed economies, have produced macroeconomic problems in the main countries of South America, including exchange rate appreciation and quick increase in domestic credit. Thus, the objective is to reduce the volatility of capital flows and to mitigate instability and fragility related to speculative attacks on domestic currencies. In this context, on the one hand, reserve accumulation policies can be seen as insurance against negative shocks and speculation against domestic currency. On the other hand, another possibility is the use of capital management techniques, which includes capital controls, and prudential domestic financial, among others.

To conclude this section, it must be emphasized that the SASC proposal (i) removes all constraints on national-level fiscal and monetary policies, (ii) presents common rules to boost intraregional trade, (iii) stabilizes the exchange rate, (iv) stimulates direct investment and fiscal transfer to mitigate the structural and social disparities among countries, (v) generalizes the PSLC as the regional payment system, (vi) creates a convertible currency fund to aid countries experiencing a balance of payments crisis and (vii) imposes limits on capital mobility. Thus, on the one hand, our proposal contemplates the main provisions proposed by Davidson (2009) in his IMCU. On the other hand, considering that the real-world *modus operandi* is determined by the fundamentals of a monetary theory of production, the SASC proposal reduces entrepreneurial uncertainties to develop a regional economic arrangement that assures economic growth, monetary stability, and social development. In other words, SASC has the power to induce, stimulate, regulate and stabilize the intraregional and international relations of South American countries.

CONCLUSION

Exploring Davidson's IMCU proposal for reforming the international system, this article outlined a regional economic arrangement for South America, called as the SASC.

There are at least two reasons that motivated this original proposal. First, given the difficulty of a political consensus on the need to reform the international monetary system, which is essential to stabilizing the world economy, multilateral organizations have suggested regional economic integration. Second, and going in the same direction, in South America, economic integration is becoming a reality, mainly because of 'institutionalities' created in the 2000s and 2010s to boost the Region's economic integration to assure macroeconomic stability and avoid financial and exchange rate crises in the South American countries.

The article began by presenting and analyzing Davidson's IMCU proposal before describing, historically, the process of economic integration in South America. It then set out the main 'institutionalities' created in South America in the last several decades, as well it was statistically analyzed some selected macroeconomic variables and behavior of macroeconomic policies, from the 2000s to 2020s, to observe whether the indicators analyzed suggest the possibility of articulating a more comprehensive institutional integration process.

In our view, the results of the statistical analysis were favorable and, for this reason, it was outlined the SASC proposal, whose the fundamental principles to regulate, coordinate, and induce economic integration in South America are the following: (i) economic policy targets (fiscal, monetary, exchange rate, and trade); (ii) regulation of the banking and financial system; (iii) intraregional trade and financial transactions made by PSLC; (iv) creation of CRF; and (v) capital controls.

In conclusion, South America's regional economic arrangement seems to be feasible, but it is politically difficult, although that is another matter entirely

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Conflicts Of Interest
The author has no conflicts of interest to declare.

Authors' Contribution
Fernando Ferrari Filho: Conceptualization; Data curation; Investigation; Methodology; Writing – original draft; Writing – proofreading, and editing.

Data Availability
The complete dataset supporting the findings of this study is published in the article itself.