

## **A required New Pragmatism to exit of the current Crisis of Civilization:**

### **A Latin American view**

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#### **INTRODUCTION**

This one is not a financial crisis worsening, it expresses the convergence of several crises processes that endangers the conquest in civilization of the last centuries. Orthodox theories in Economics, Financial Analysis and Social Sciences in general have ostensibly failed in providing both warnings and responses. It urges a global dialog among disciplines and schools of thoughts to build up a fresh and coherent body of solutions, overcoming any dogmatism and goal-oriented, a New Pragmatism. Peoples with different trajectories and traumas must think together how to renew democracy and social advances in profiting the formidable potential innovations resulting from the scientific-technological revolution whose deployment is only hinted by our day-to-day experience of permanent surprises in gadgets availability.

The tension between the realm of the possible and that of the actual may have never reached such levels. Being an obvious and viable outcome for more than seven billion human beings, however, it has paradoxically become rather unlikely. Reality is moving towards a scenario of war, instability, stagnation and degradation.

Strong evidence of mounting and somehow irreversible structural trends explain the paradoxes.

De-localization and financialization delayed for decades the over-production problem but now seems to have reached exhaustion. Profitability strategies prevent the unfolding of all the productivity potential of the ongoing scientific discoveries: with the exception of the military-industrial complex and some specific niches of high-value markets, most of the industries are already saturated of too many merchandises, too cheap for the margins claim by the stockholders. Last years' ferocious process of monopolization accelerated after the 2008 financial implosion increasing the angst for reaching higher yields.

Instead of widening markets as strategic exit to this bottleneck, the tendency stresses real wage compression, deleverage, austerity policies and beggar-thy-neighbor policies. Geopolitical issues linked to the concentration of new manufacturer powers deepen balance of payments imbalances. Structural insolvency metastasis would preclude the exacerbation of credit-driven growth, but if not the traditional debt, the new one based on financial derivatives and the operation of shadow banking is at the core of anti-crisis policies.

Latin America's fresh explorations in recent times for new horizons could contribute in the collective construction of alternatives.

#### **DEBT AND DEMOCRACY: CONFLICTING PAIRS OUT OF GLOBALIZATION AND FINANCIARIZATION**

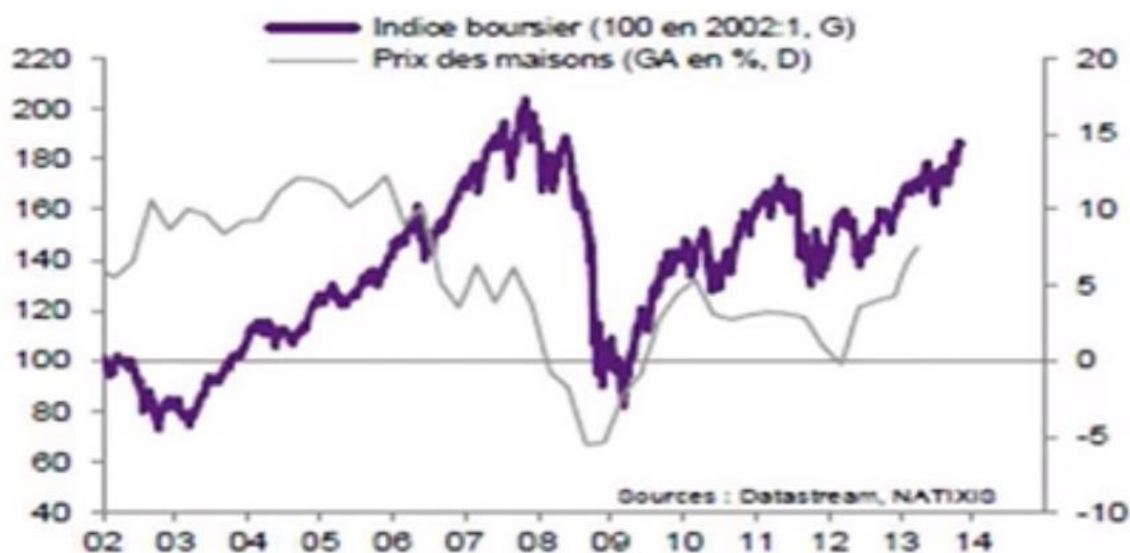
In the context of debt crises generalization, it seems pragmatic to evaluate the threat to democracy from the experience of Latin America, one of the most affected regions in the world in the recent past and whose future is again jeopardized by the creditor's greed.

There are plenty of examples about the very pernicious relation between debt and democracy. Democracy, austerity and the whole discourse about the inevitability of some specific kind of recipes of economic policy have been directly used in every country of the South, especially Latin America to erode democracy, not because of inexorable technical situations, but because of some specific targets and geopolitical interests involved.

It is important to discuss, in a broader framework, what the structural conditions for debt dynamics and the roots of this crisis are, as for the need for re-regulation and a New Financial Architecture as necessary but not sufficient conditions in order to build a new horizon for the globe and for the possibility of a humanistic and democratic exit. I think we have the technical conditions for achieving this goal, because there is scientific evidence and theoretical grounds that could give you very solid foundations for another path. There is no inevitability of the pretended horizon of austerity and debt asphyxiation everywhere. The very idea that there is no alternative is a lie. An ocean of impossibilities was artificially created in Latin America and the South thirty years ago and, currently, there are efforts to enthrone the same impotence out of guilt and anxiety. Let's avoid the kidnapping of our political and economic imagination and find together solutions based on the analysis of the real roots of the crisis.

This is a crisis of civilization. Deep dynamics, endogenous to the system, have empowered societal projects with heavy structural conflicts against common good. Beneath the surface of macro and financial indicators fluctuations, there is an intense political and geopolitical dispute that has been hidden for decades by now among the high commands of the Capitalistic Triad and that appears much more opened after the end of the Cold War. Capital's inner contradictions have created the general conditions for such a sharp conflict and for the actor's margin of maneuver, but there is nothing mechanistic determining neither the proposals not the outcome of this historic bifurcation.

**Graph 1. Stock Exchange index and real estate prices at a global level**



Source: NATIXIS 2015

The colossal productive spree of capital has led to a profitability impasse. Market expansion had greatly improved industrial profits after the defeat of the fascist forces in World War II, at the cost of raising wages, trade unions, welfare state, decolonization and coexistence with the so-called “socialist world”. Since the sixties though, there is a very important reduction in terms of the rhythm of growth because of the political decisions that surrender to the conditions imposed by a new type of dominant power. This is a new structure of power and a new dynamic of power that results from an excrescency of monopolistic financial capital but not related and dependent the “normal” results of productive investments (even the monopolistic ones). It is a monopolistic financial capital devoted specifically to speculation, dismissing the strategic results of productive (even monopolistic) capital.

Graph 1 is very significant to understand the new priorities around speculation. It shows not only the limits of the solutions that they imposed upon the world, but also the tremendous possibilities in political and technical terms to build up alternatives. “They” stands for a very tiny minority and their interests that are repeatedly and intensely working against the interest 7.2 billion human beings. This is why we need to build up alternatives with very sound theoretical foundations. This is not a financial crisis that has been worsening, this is the financial expression of much deeper situations. We are in the middle of a structural crisis of overproduction.

The previous similar situation for the system was set one hundred years ago and it led to two World Wars which exemplifies the magnitude of the dangers we have to face today. It is necessary to build up a global alliance of all decent people in order to prevent a horizon of perpetual war, destabilization and chaos.

What is going on, and it is very difficult to admit, is that modern crises are not scarcity crises like economic textbooks used to say, those are archaic type of crises. Nowadays, Capitalism is prisoner of its own success, the productive momentum of capitalism has created a flood of cheap merchandise that do not support the monopolies’ pretensions of higher profit rates, which creates this paradoxical situation of overproduction. Of course, the absurd coexistence of abundance and famine signals the profound contradiction of Humankind today: it is not an overproduction from the point of view of satisfying the species’ needs but from the point of view of the interest of capital, and more specifically, of monopolistic capital.

Partial and biased solutions to this overproduction structural crisis, that was symptomatic at the end of the sixties, became precisely the main features of the current situation: globalization and financiarization. What we are living today, then, is the crisis caused by the remedies to the structural crisis of capitalism. Basically, what we have here is hard to believe.

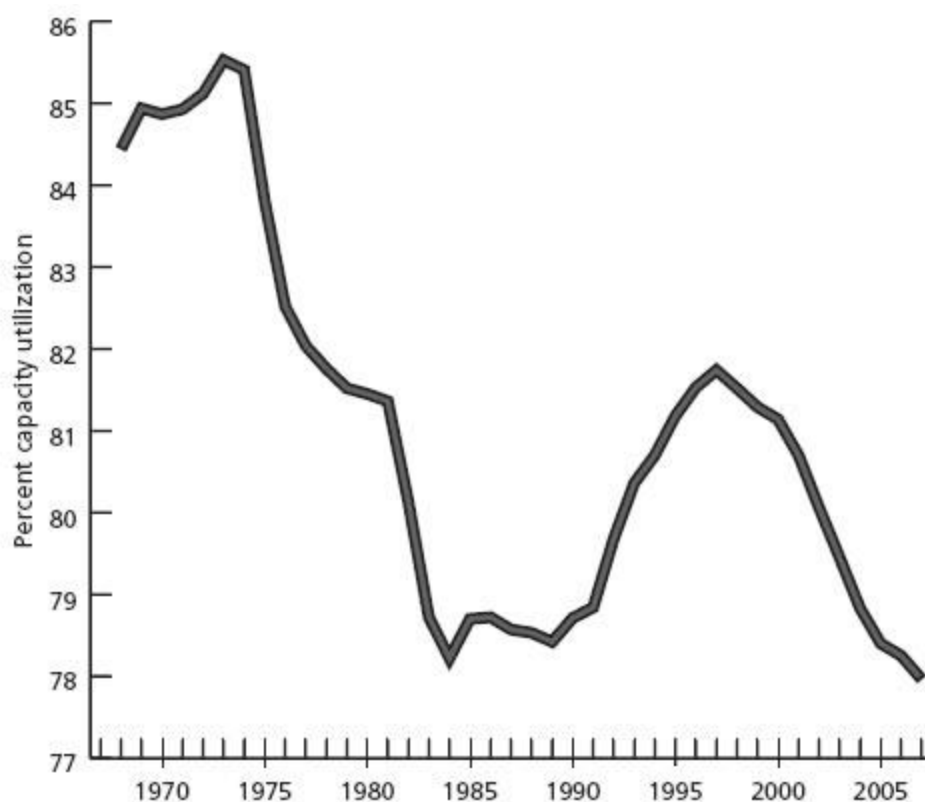
An example: at the beginning of 2015 the patent of 3-D printers expired and very few people even knew there existed 3-D printers because patents were imposed to preclude the possibility of the diffusion of this new technology. Also on this realm, we find plenty of examples of programmed obsolescence in order to saturate markets and artificially create new purchases with niches for more profitability against the interest of mankind and bringing a new hyperbolic situation of waste capitalism and with a tremendous impact on the environmental and social horizon of sustainability.

In this sense, capital has to create new traps in order to provoke artificial monopolistic rents that have had a pervasive effect over the whole industrial organization in terms of the profits of the

productive capital and also have created a tremendous challenge over the performance of (internal and external to the firm) finances, which is precisely one of the main new irreversible developments that have created a new kind of capitalism in the last few decades.

The new priorities ruling the most relevant actors in a world marked by intense centralization of economic and political power led to an incessant generation of paradoxes. Corporate restriction of the deployment of the current scientific and technological revolution must be done in a context of inevitable monopolistic competition. One of the results can be showed in Graph 2: the phase A of the Kondratieff (cycles of 40-60 years of a dominant technical paradigm) launched by the diffusion of significant innovations has been repeatedly delayed by the strategy of market restrictions! More so. In all developed economies you generally have an idle installed capacity of 30 to 40 percent. But that is out of a 100 percent that has been already eroded because of the reduced structural incentives toward productive investment.

**Graph 2. Overproduction since the 60's: A prolonged Kondratieff B Phase.**  
**Percent utilization of industrial capacity**



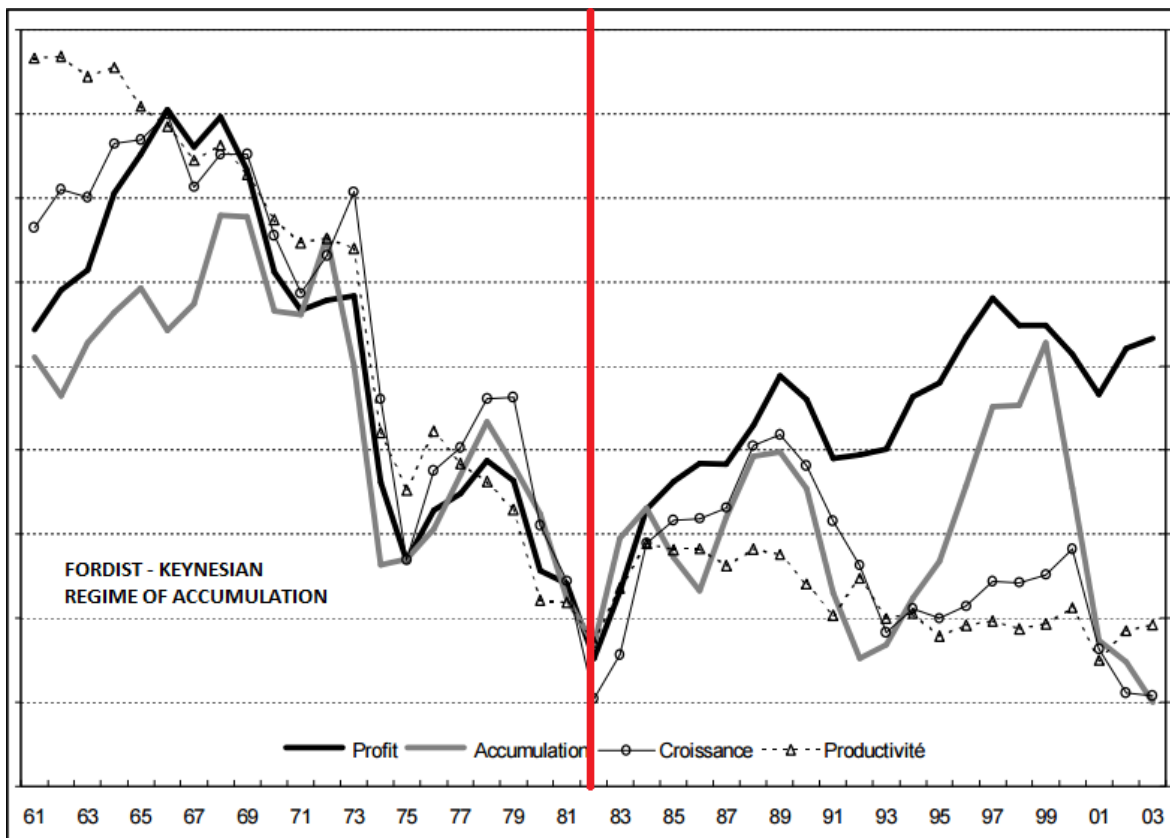
Source: Economic Report of the President, 2008, Table B-54 – Capacity utilization rates, 1959-2007

For the first time in history there is a much more important effort to prevent the deployment of the current scientific and technical revolution than to commercially apply it precisely because it is counterproductive in terms of this crisis of overproduction. De-localization and de-linking of

investment has created a de-linking of the relationship between finance and capital that had been the key of the success of capitalism since the Middle Ages and the Renaissance in northern Europe. Taming capital in the spheres of circulation around a mere average rate of profit made the industrial revolution possible only there and not in previous sound episodes of market effervescence in China, India or the Islamic World.

There is a relative overproduction that reappears as a problem of monopolistic competition and that is key to understand what is going on, this is a key feature that goes beyond the traditional concerns about macroeconomics and financial issues.

**Graph 3. The differential performance of the curves of the global economy 1961-2003**

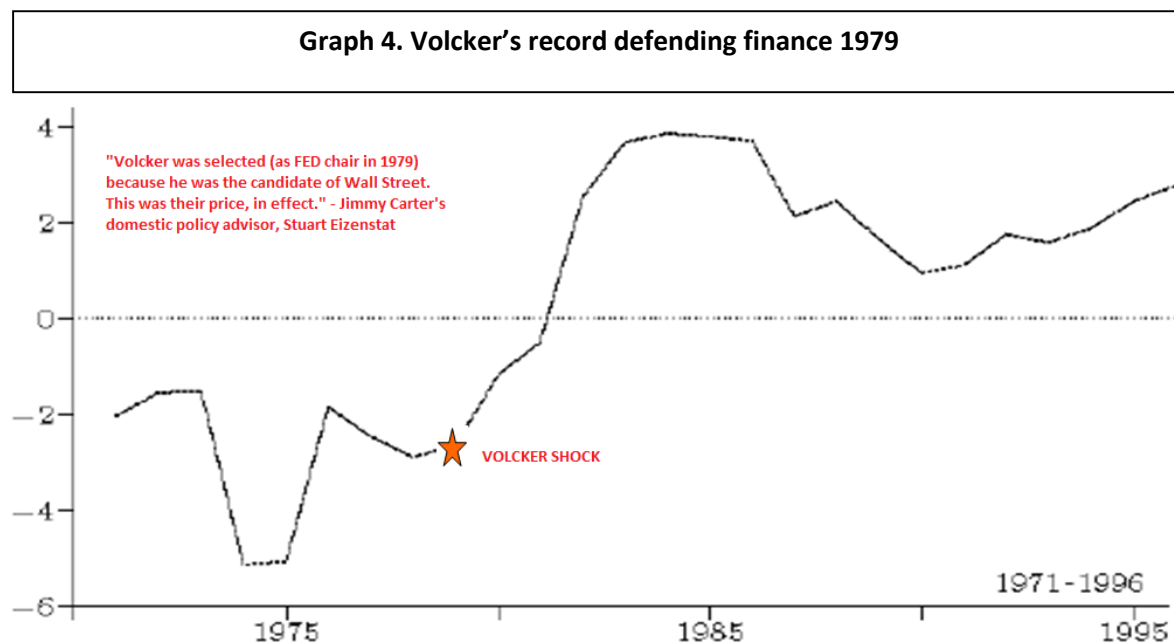


Weighted averages according to the GDP for the <G6> (United States, Germany, France, United Kingdom and Italy)  
Source: OECD, *Perspectives économiques*, 2003

You can see in the leftmost half of Graph 3 (the period dominated by the Fordist-Keynesian Regime of Accumulation) the six most important industrialized countries from the sixties and the bold black line represents an approximation to the rate of profit showing the tendency that comes after the Second World War and the tremendous manufacturing capacity of the United States at the end of the war that was, at the beginning, open to possibilities because of decolonization processes, the social democratic pact in the reconstruction of Europe, the New Deal also in the United States, the old structural reforms that occupied Japan and Taiwan were subject to, the agrarian and

administrative reforms in Southeast Asia all of which created new markets for all this new capacity and the transformation of such from military use to civil use had some realization.

Nevertheless, the problem that Steindl mentions as maturity and stagnation of oligopolistic markets had created a profit squeeze accompanied by the pressure of the trade unions that resulted in a political impasse. Goodwin's prey-predator model capture that dilemma that was finally politically solved increasing capital's reaction function from periodic productive investment restrictions to financial speculation and delocalization. After the Reagan - Thatcher push, their neoliberal policies, represented in the second half of Graph 3, along with significant transformation of the conditions in the center required a very important transfer of surplus value from the periphery.



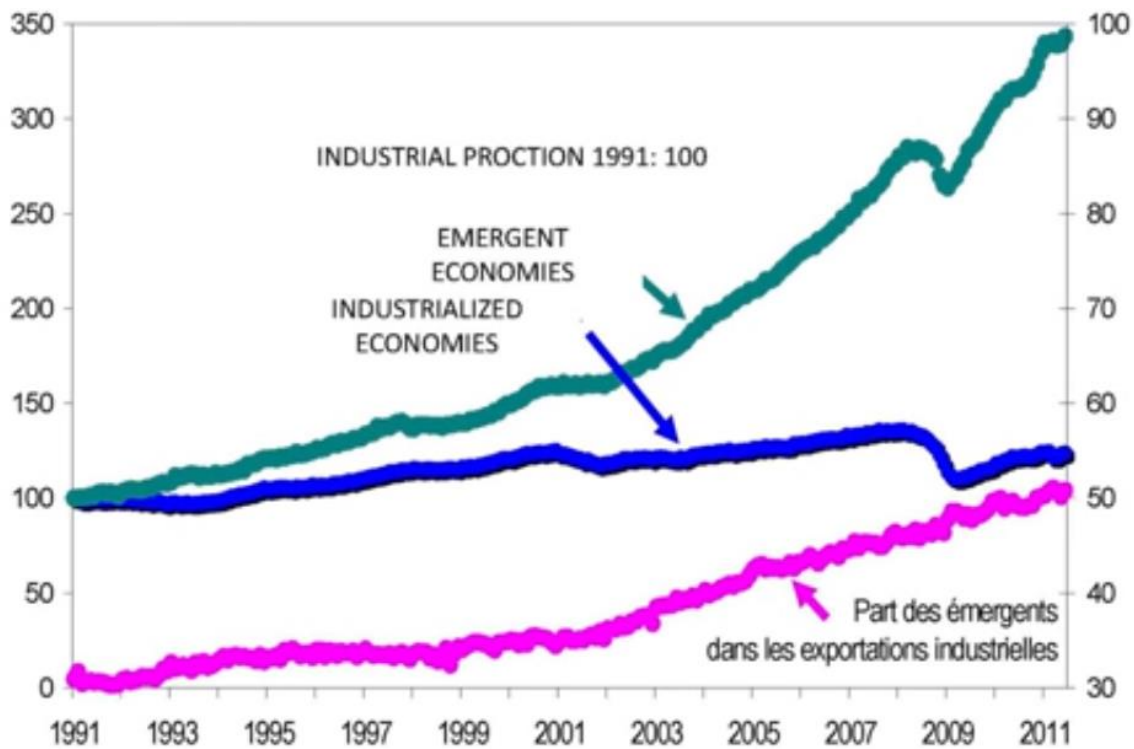
Source: Gerard Dumenil and Dominique Levy

Graph 4 shows the Volcker coup d'état of 1979 through the increase of the interest rates that rendered totally unviable plenty of loans acquired at 1-3 percent interest rate but suddenly turned to a 22% rate. The wave of bankruptcies in the North and the spiral of external public debts to pay the debts in the South had nothing to do with "technical" determinations. Stagflation ended as a product of a massive destruction of capital and a global transfer of resources functional to the construction of the new historical block.

Regarding the programed debt trap, we can see the net transfer of resources as a result of the interest raise which was huge, but the triggering of all other mechanisms and macroeconomic manipulations that was part of the desperation of all countries trying to get some surplus in order to pay that debt, more than 150 countries fighting for a shrinking market with the effects in terms of trade, with a race to the bottom in terms of tax, labor and environmental standards created a much larger transfer of resources that improved the situation of the rate of profit in the North.

This is very important because we are facing precisely a similar episode, but the geopolitics today involve also a neo colonization of the metropolis, no longer just the Global South but also the whole submission of continental Europe to the interests of speculative capital.

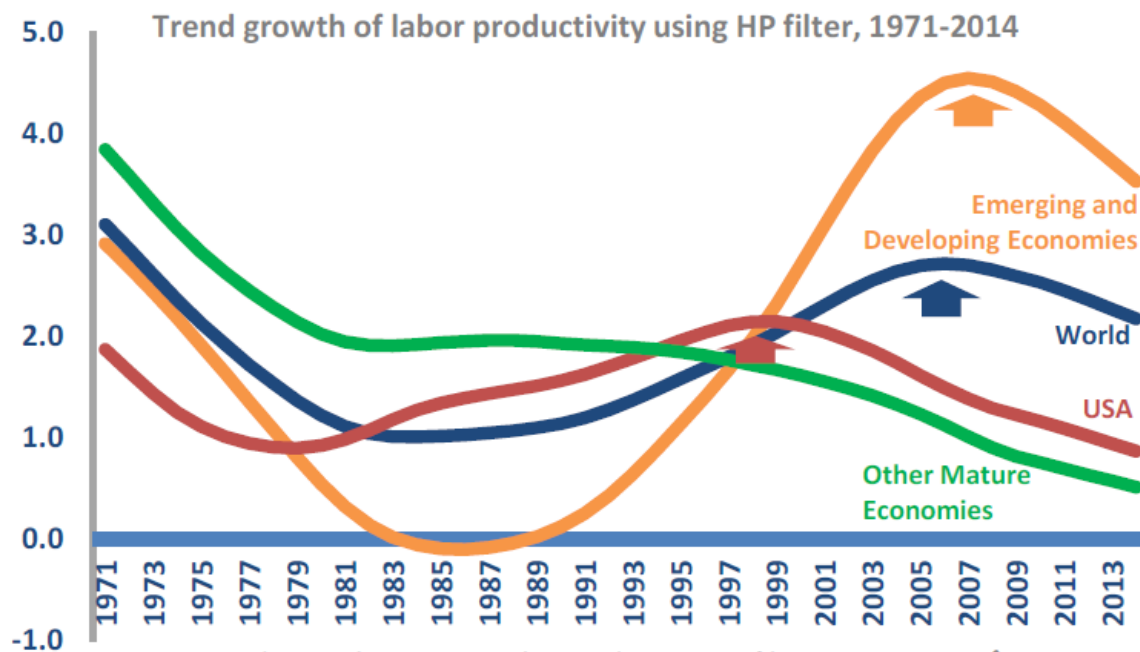
**Graph. 5 Hegemony crisis and semi-periphery**



The abstract competitive drive for profits has specific political and geopolitical determinations. Thus, the formation of semi-peripheries done through several processes, first the reconstruction of Europe after World War II, followed by the Far East, then by the Tigers and the Dragons and the transnational's controlled expansion of some industries have exacerbated the overproduction crisis, with growing tensions around the incumbent manufacturer areas concentrated, at the beginning, in the core of the system, in the very geography of the hegemon, the United States. As graph 5 shows, now we find global imbalances and a hegemony crisis disguised as a commercial war and an exchange rate war.

Part of this problem is that for the first time in geopolitical terms, the creation of these semi-peripheries is not under the military occupation of NATO, contrary to what happens with continental Europe, Japan, Taiwan and South Korea. Nowadays, the Old Triad's transnational corporations are deploying significant innovations blocked in their metropolis in "foreign" territories in China, Russia, Brazil and South Africa that are not occupied by military bases of the United States -at least not directly-. That has created a lot of tension which has been very evident in the last few years, especially after 2009 with the breakdown of "ChinAmerica" (the implicit pact for some geopolitical and financial arrangements on how to manage the global and financial imbalances created by the formation of this specific new semi-peripheric power).

**Graph 6. Changes in productivity trends in developed and developing countries, 1971 - 2014**



*Note: Trend growth rates are obtained using HP filter, assuming a  $\lambda=100$ .*

*Source: Source: The Conference Board Total Economy Database™, May 2015*

That is not only a matter of figures and macroeconomic aggregates, there is a qualitative difference between the trend of labor productivity, represented in Graph 6, in the new semi-periphery, especially in the BRICS countries and the overall decline of labor productivity in the core of the system. That is also related to the new nature of those powerful attractors in the global scene out of the center of the system expressed in the evolution of the system of multipliers of exports around all the commercial partners and imports the whole vigor of multipliers as it is shown in the next table.



**Table 1. Short Term Fiscal Multipliers**

	<i>Government spending on goods and services</i>	<i>Government taxes net of transfers and subsidies</i>
Argentina	1.66	-0.36
Brazil	1.84	-0.37
Canada	1.51	-0.27
China	1.76	-0.42
CIS	1.54	-0.33
France	1.48	-0.27
Germany	1.38	-0.29
India	1.65	-0.41
Indonesia	1.64	-0.41
Italy	1.48	-0.31
Japan	1.35	-0.29
Mexico	1.59	-0.36
South Africa	1.68	-0.31
Turkey	1.71	-0.39
United Kingdom	1.32	-0.26
United States	1.58	-0.36

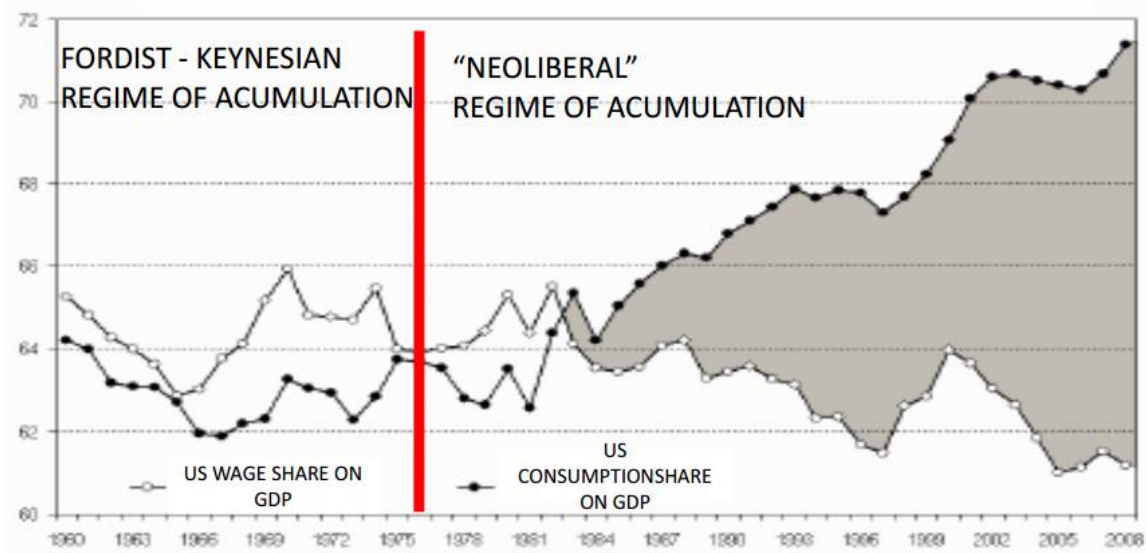
Source: UNCTAD secretariat estimates based on United Nations Policy Model

Table 1 shows the weakening of the Keynesian multipliers in the center, United States, Europe and Japan, basically due to outsourcing we are going to experiment the same type of weakening of the macroeconomic responses, China for example, because of the formal political decisions of the Communist Party to devote more interest in the improvement of the domestic market with all the part of services and terciarization of the economy. These are very important elements to understand the tremendous macroeconomic asymmetry that we have now in terms of the countries' capabilities to respond to the crisis.

### **THE EXHAUSTION OF THE REMEDIES TO THE STRUCTURAL CRISIS**

The transfer of the industrial primacy of the Old Triad of the seventies to the new semi-periphery is worsening the structural problems of overproduction and the funny and tragic situation is that the recipe that the commanding elites are proposing is to asphyxiate markets. If you have a problem of overproduction the obvious course of action is to expand markets, but the austerity policies are the contrary: cutting wages, cutting budgets, reducing contracts, reducing the price of commodities from the South that generates divides revenue that could buy more exports from the North. This is not a zero-sum game but a shrinking-sum game that is going to exacerbate the conflicts.

**Graph 7. Debt-led consumption growth instead of Fordist commitment**



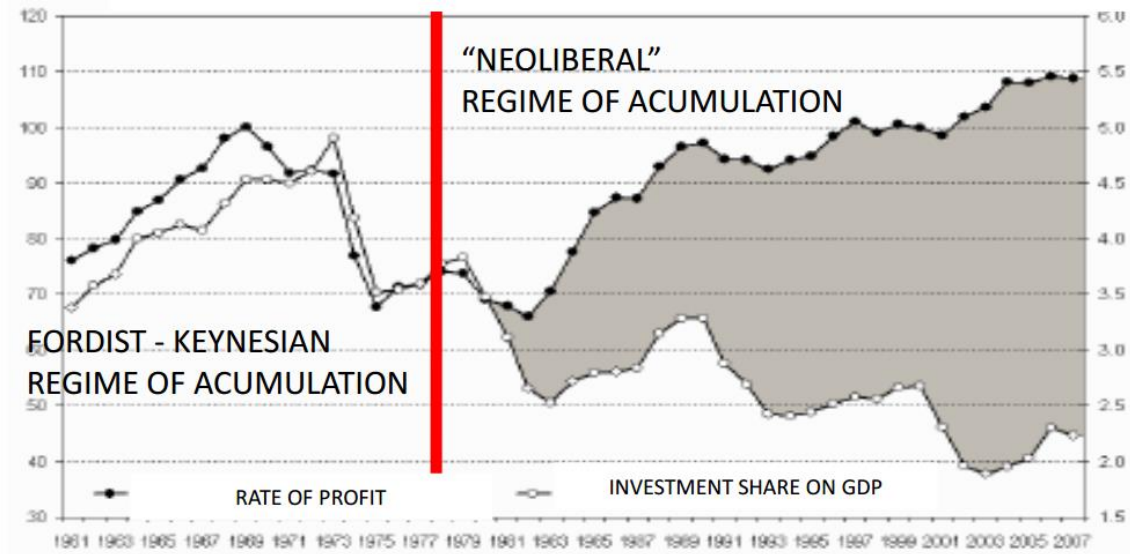
Source: Husson, 2008

Furthermore, de-linking the consumption and income basis has created a structural trap in terms of indebtedness. Graph 7 shows the evolution of the United States where the black dotted line shows the evolution of consumption as a percentage of the GDP and in the grey dotted line you have the evolution of wages in the GDP and during the golden years of the Fordist-Keynesian Regime of Accumulation you have a coevolution between both, where more earnings resulted in more consumption. Nevertheless with the neoliberal policies you have a gap, a reduction in the path of wages and an increase in consumption. A gap that structurally must be filled with debt.

Neoliberal economists are used to say that it is necessary to live within your possibilities, but if one has to converge the evolution of consumption with the evolution of wages, the recession should have had started at the beginning of the eighties. This is not merely a flaw in the moral character of the people of Greece, Spain or the United States. This is a structural need of capitalism as it is. And the reduction in the share of wage income within the GDP will be worsening with the austerity policies and obviously the composition and the dynamics of debt are going to explode.

Despite agreeing with the analysis of Stephanie Kelton, Chief Economist of the U.S. Senate Budget Minority presented during the conference “Eurozone and the Americas” on November 2015 about the role of the public debt, the weight of the service of the debt in terms of distributional issues is tremendous because it links also to the tendency to the parasitic hypertrophic development of finance. Innovative finances are a cancer now not only because of some regulators irresponsible attitudes (that could be also part of the problem), are not only the casino spree of the population (that could be also part of the situation), but it is also another structural vector of the structural crisis of capitalism.

**Graph 8. Rate of profit and Investment share on GDP**

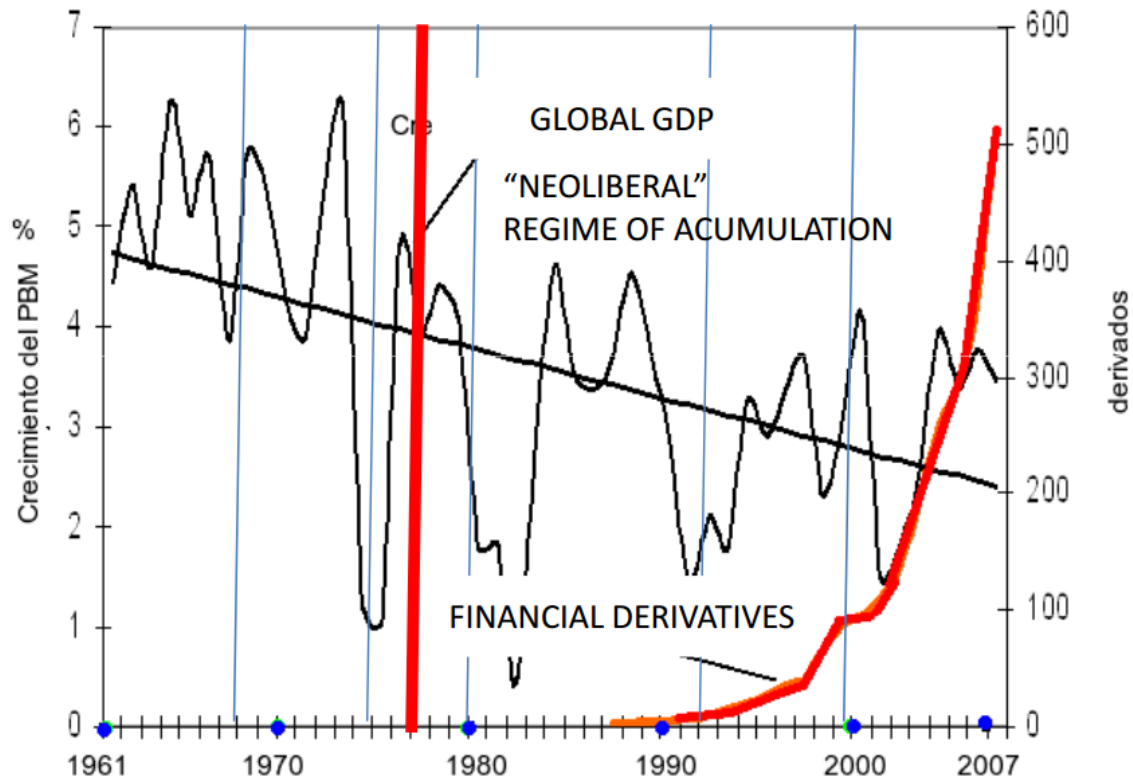


Source: Husson, 2008

It is shown in Graph 8, that during the Fordist – Keynesian Regime of Accumulation in the golden years of capitalism you have also a coevolution between income and investment for which the relationship between profits and productive investment where correlated, a situation on which the literature about the multiplier- accelerator model is based upon. However, with the neoliberal policies there is a cleavage. The gap between the increase in profits and the reduction of productive investment opens the door for the hypertrophy of the financial sector. This situation is not present only in quantitative terms, the gap between both represents a qualitative problem.

The nature of the financial evolution has changed during the last few years as evidenced in the Graph 9 where represented in the black curve are the figures of the World Bank for the rate of growth of global GDP, commonly dubbed as the size of the “pie”, the real economy, which have an increasing volatility and a constant reduction in the average level of growth. This contrasts with the orange line that shows the exponential rate of growth of derivatives during the last few years and renders a new phenomenon in the history of capitalism.

**Graph 9. Global GDP Growth and Financial Derivatives**



Source: World Bank and BIS, Retrieved from Beinstein, 2008

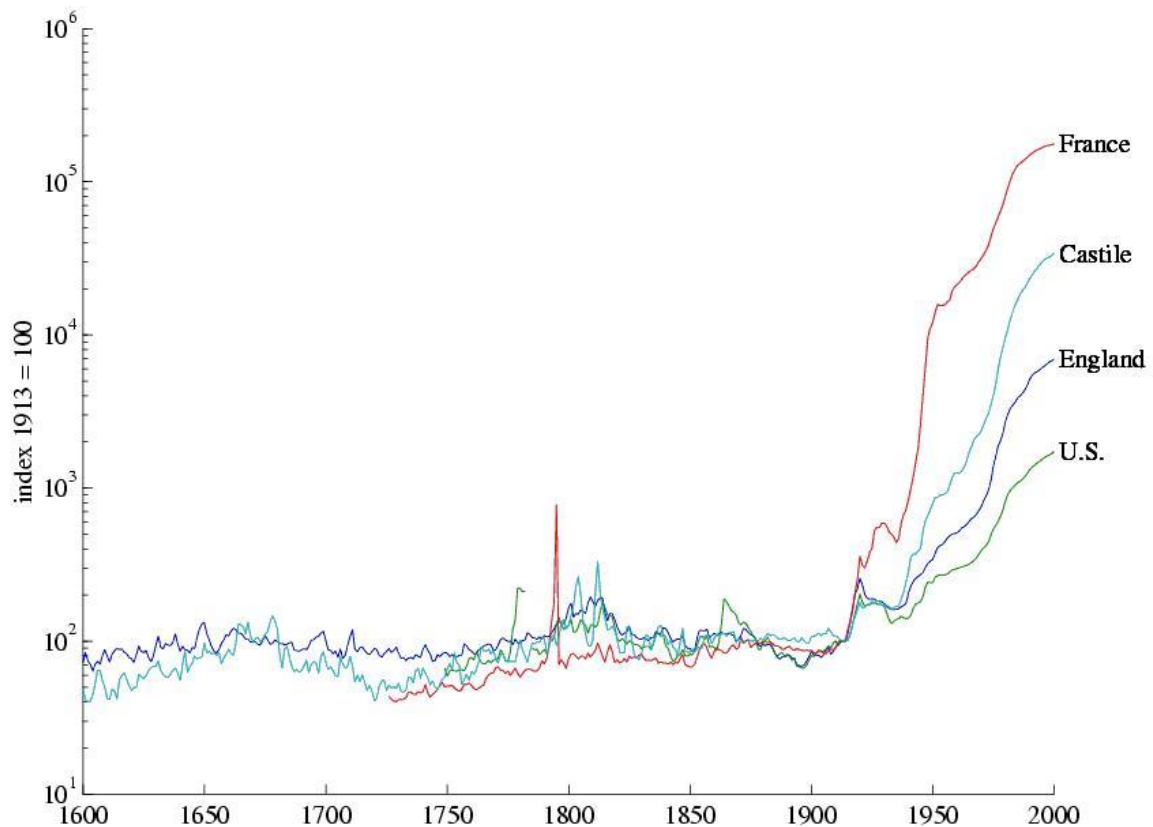
In financial terms, the only source of profit of all those financial investments are the subjacent productive assets, the real economies. The global real GDP for 2010 was 63 trillion dollars which is the approximate measure to the real size of the economy, while the real debt (households, enterprises and public debts) sums up 212 trillion dollars resulting already in a structural problem of insolvency (and the current figures are even higher).

There is a new feature on the functioning of the system that is frightening: there exists these new type of debt called financial derivatives that do not resist even double entry accounting. Derivatives are an erosion of the principle of private property. It were not the communists and not even the anarchists that managed to destroy the principle of private property, it were the financial derivatives. They are bets with loaded dice on a casino of the global economy which can account according to some figures up to 1.5 quadrillion dollars even 2 quadrillion dollars, the figures of the Basel Bank of International Settlements fluctuates around 600 trillion dollars, the office of the Comptroller of the United States has another set of statistics accounting 648 trillion dollars and both are not compatible. It is not a coincidence that despite the huge importance and delicacy these types of financial weapons of mass destruction, as Warren Buffet labeled them, nobody has cared to have a disciplined and rigorous statistic of those kind of evolutions.

This can be compared to a musical chairs game. There are only six chairs and twenty one dancers, and on top of that, suddenly one hundred and fifty dancers come to the party. What will happen

when the music stops? The central banks solution to this has been to keep the music playing, introducing a new dancer every five minutes. Those resources cannot be translated in terms of productive investment, productive credit or productive loans, precisely because there is a problem of overproduction. There is a problem of realization of those goods and services leading to all this money going to more speculation as it inflates the flaws in the financial market and therefore making it each time more detached from the needs of the real economy.

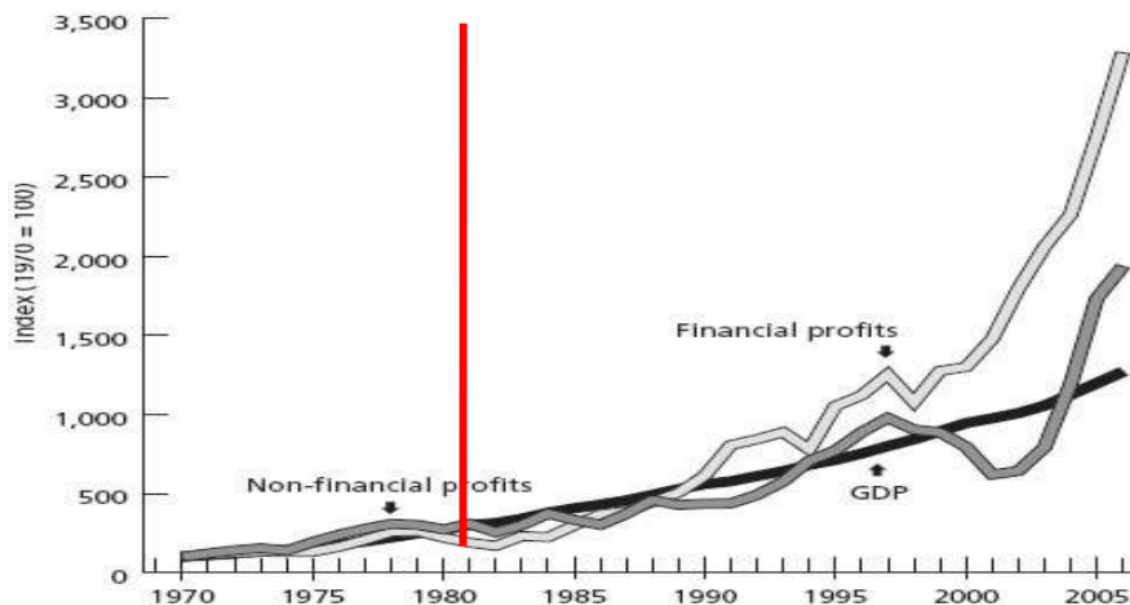
**Graph 10. Price History: France, Castile, England and U.S. (1600 – Today)**



Source: Prof. Thomas Sargent webpage

Graph 10 shows the recurrence of these bubbles since the 1600. In terms of proportion there is no antecedent to the level of disproportionality and disconnection between the functioning of the stock market and the real economy. The results in terms of income distribution are significant.

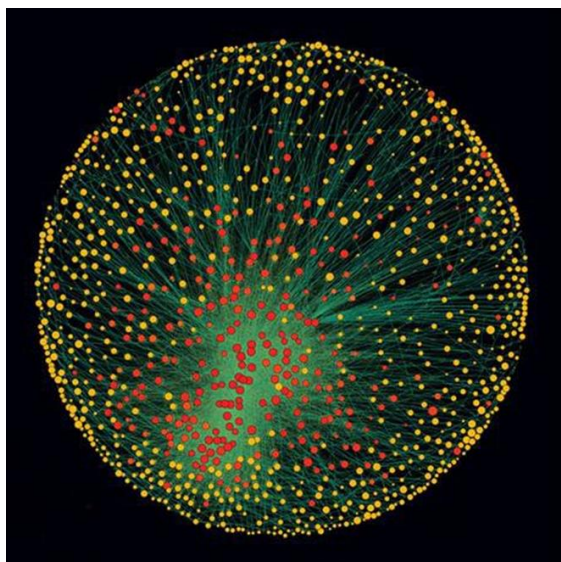
**Graph 11. Growth of financial and non-financial profits relative to GDP (1970=100)**



Source: Bellamy and Magdoff; Financial Explosion and Stagnation; *Monthly Review*; December, 2008

Graph 11 displays in the white line the evolution of financial profits in comparison to the evolution of the GDP contrasted with the evolution of the rest of the profits in the economy supporting this point.

**Graph 12. World Corporations Concentration**



Source: New Scientist

The results in terms of wealth are tremendous, in Graph 12 there is a topological expression of the nodes and the ownership relationships among 37 million corporations from 2007, showing that only one hundred and forty seven of them control forty percent of the global GDP. This is not the one percent against the other ninety nine percent, this is the 0.00001 percent, and we are not taking into account tax havens, all the network of islands, mostly part of the British Commonwealth that are a monument for opacity.

**Table 2. The top 50 of the 147 superconnected companies**

1. Barclays plc
2. Capital Group Companies Inc
3. FMR Corporation
4. AXA
5. State Street Corporation
6. JP Morgan Chase & Co
7. Legal & General Group plc
8. Vanguard Group Inc
9. UBS AG
10. Merrill Lynch & Co Inc
11. Wellington Management Co LLP
12. Deutsche Bank AG
13. Franklin Resources Inc
14. Credit Suisse Group
15. Walton Enterprises LLC
16. Bank of New York Mellon Corp
17. Natixis
18. Goldman Sachs Group Inc
19. T Rowe Price Group Inc
20. Legg Mason Inc
21. Morgan Stanley
22. Mitsubishi UFJ Financial Group Inc
23. Northern Trust Corporation
24. Société Générale
25. Bank of America Corporation
26. Lloyds TSB Group plc
27. Invesco plc
28. Allianz SE
29. TIAA
30. Old Mutual Public Limited Company
31. Aviva plc
32. Schroders plc
33. Dodge & Cox
34. Lehman Brothers Holdings Inc*
35. Sun Life Financial Inc
36. Standard Life plc
37. CNCE
38. Nomura Holdings Inc
39. The Depository Trust Company
40. Massachusetts Mutual Life Insurance
41. ING Groep NV
42. Brandes Investment Partners LP
43. Unicredito Italiano SPA
44. Deposit Insurance Corporation of Japan
45. Vereniging Aegon
46. BNP Paribas
47. Affiliated Managers Group Inc
48. Resona Holdings Inc

49. Capital Group International Inc  
50. China Petrochemical Group Company

\* Lehman still existed in the 2007 dataset used

Source: New Scientist

Among the list of these companies it is possible to observe that mostly the banks are the main actors in the map of structural power in the world, precisely the same banks that out of corruption and incompetence have created the crisis and the financial implosion and the same banks that now are receiving charity from the Central Banks of the United States, Europe, Switzerland, England and Japan.

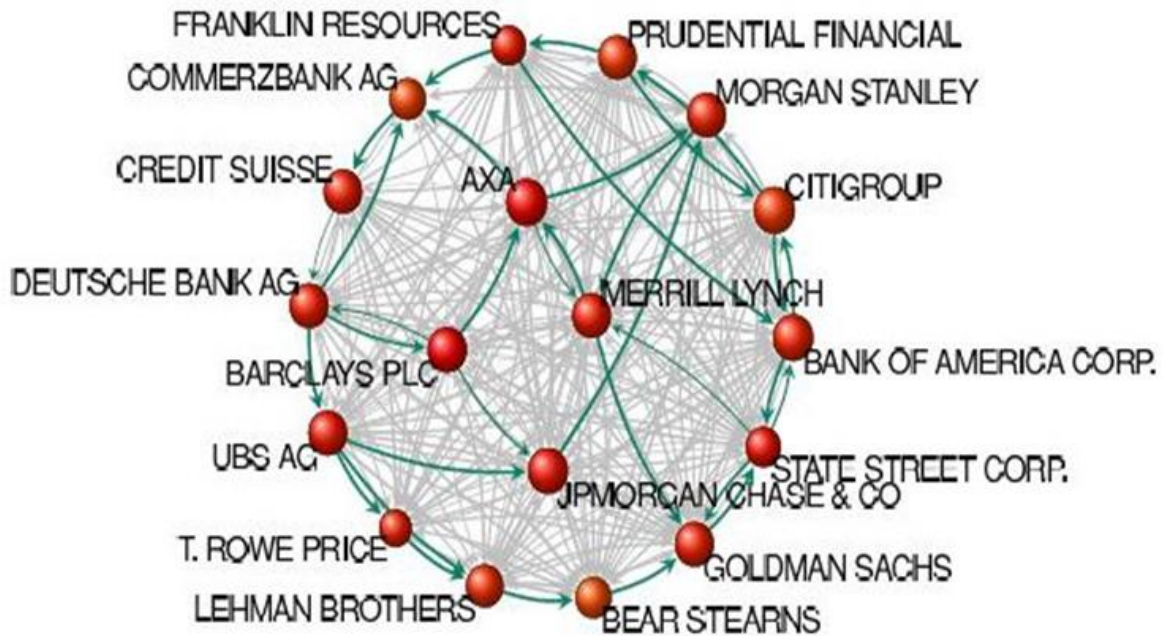
Is this going somewhere? After all the trillions of dollars that have been poured into the financial system, it is not healthier today than it was 10 years ago. The key to this situation is the shadow banking. Shadow banking is the crucial new relationship between finance and the real economy, the source of a new type of liquidity -neglected by the academia- based upon the circulation and manipulation of derivatives which has displaced the axis of functioning of the financial system at the global level.

The balances of payments of each country are each time less related to real issues as for the traditional exchange rate issues or Marshall-Lerner elasticities, etc. Each time larger proportions of the balance of payments of each country are related to the functioning of this shadow banking at the global level and an increasing number of functions of the Central Banks are dedicated to the

### **Graph 13. The Anatomy of Global Corporate Ownership**

lubrication of the functioning of the shadow banking. And all of this situation out of the control of regulators, legislative frameworks of each country and completely out of the radar of international multilateral representative institutions.





Source: Glattfelder, 2010

At the core of the map of the structure of ownership of big corporations, we can see the main actors again big banks being the protagonists of the current crisis and of the current “solutions” of the crisis related directly to a huge process of massive dispossession, income polarization and with one very clear outlet the industrial military complex.

**Graph 14. Inflation Adjusted U.S. Military Spending (1962-2015)**



Source: [www.davemanuel.com](http://www.davemanuel.com)

In Graph 14 it is displayed on the graph what happens after Kennedy's assassination, the Vietnam Peace, the fall of the Berlin Wall, the peace dividend, the Monica Lewinski "coup d'état", the war against terrorism, and suddenly a reduction of the sales perceived as very dangerous for the rest of the world as we are talking about billions of dollars in business here.

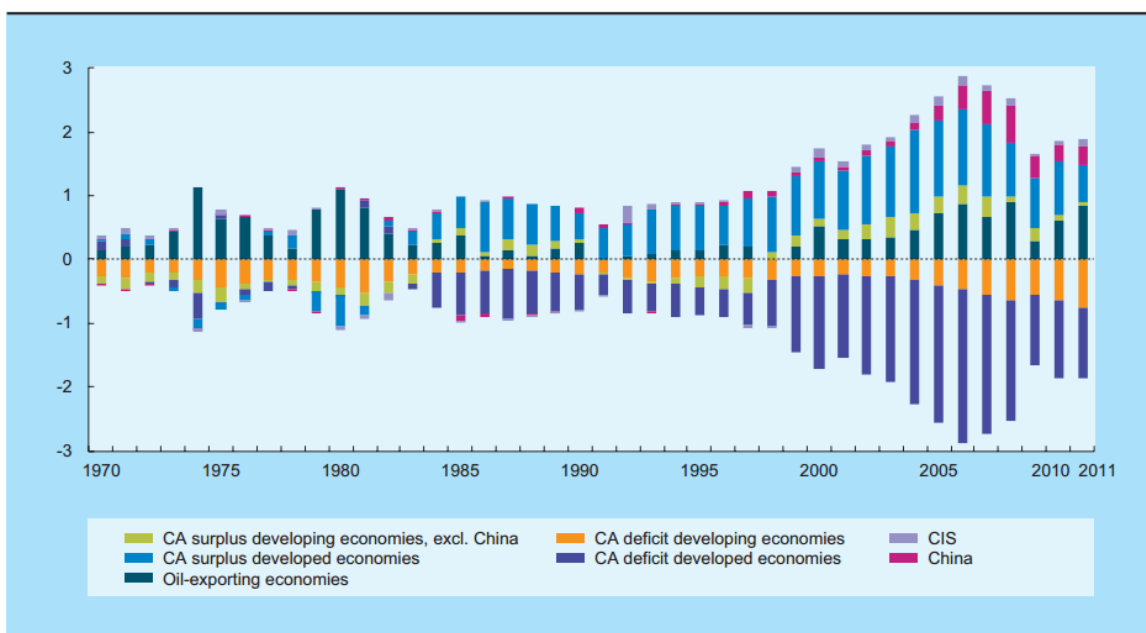
## IN DEFENSE OF PEOPLE'S PEACE AND ROSPERITY

Latin America fell victim of a genocide five centuries ago in the name of God and Civilization, now the fashion is to bomb countries in the name of Freedom and Democracy. It is necessary to have an environment of respect for international law to work with stable societies and to build up the conditions for a Green Global New Deal. There are plenty of possibilities to accomplish this goal.

The old financial architecture is based upon a global and hierarchical system of debts that are going to keep on growing forever and that dictates the possibilities of production and consumption of 7 billion people, It is not about the morals of hard working people, it is about the impossibility to work that austerity politics and the public debt trap is creating everywhere; the domination of private monopolies of money-debt issuers, speculative finance, securitization and liquidity operations that have replaced democratic institutions all around the world; the transnationalization of finance and financierization of transnationals has distorted the role of big productive enterprises, decades ago what was good for General Motors was good for America, but today what is good for Goldman Sachs is good for America? Is it good for the rest of the world? Non democratic corporations and

institutions have much more power of decision than 7 billion human beings and as it happened one hundred years ago, the ghost of war is always profitable.

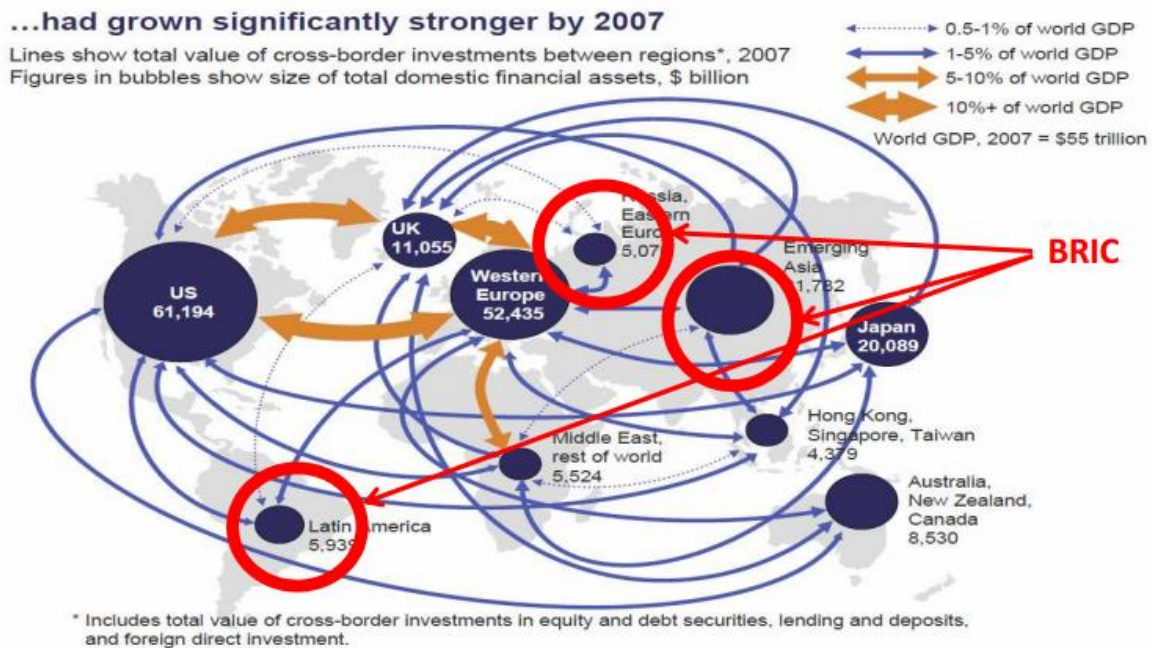
**Graph 15. Contributions to Global Imbalances of Selected Groups of Countries 1970-2011**



Source: UNCTAD secretariat calculations, based on UN-DESA, *National Accounts Main Aggregates* database; IMF, *World Economics Outlook (WEO)* Database.

In Graph 15 it is shown the type of solutions that macroeconomists used to be obsessed about: macroeconomic imbalances represented in the contributions of different countries to the external deficits. It was supposed that China, India and other countries from the South were going to finance the deficits from the North. The size of the lines and the arrows show the direction and the amount of resources mobilized in the effective financial system. There is no line that goes from China or India toward the United States or Europe which translates into a total de-linking of the real economy with respect to the functioning of the financial system even with the BRICS. It is necessary to recover a dynamic coherence between the development of finance and the needs of the productive system.

**Graph 16. Financial Hegemony Politics**



Source: McKinsey Global Institute Analysis

The financial hypertrophy leads to an agenda of destabilization because for the speculative financial capital it is not important to recover the loans, they are not interested in recovering the payment. The experience of Latin America, Southeast Asia and Africa shows that the business is in the perpetuation of debts. This parasitic and predatory logic must change in order to have a better situation.

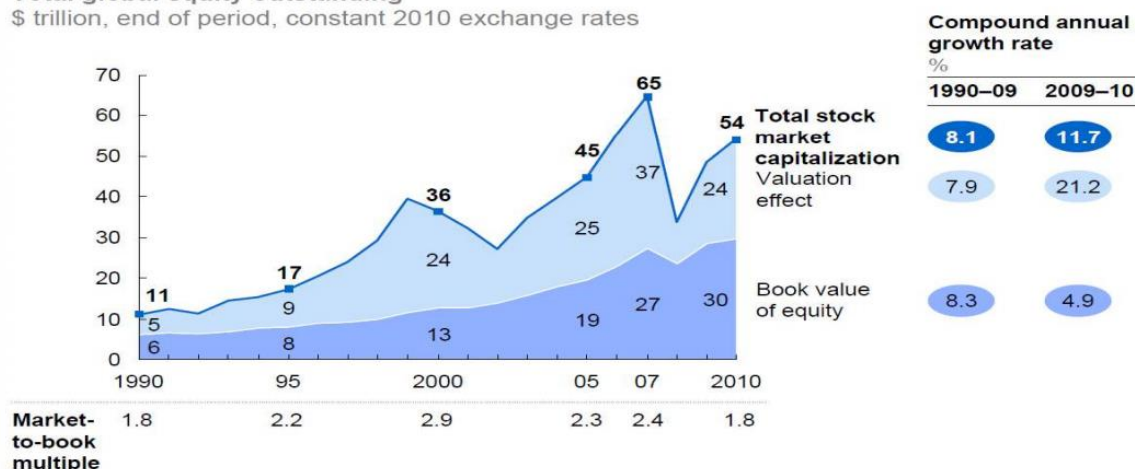
The unsustainable balance sheet make represented in Graph 17 up has created such a distortion in the function of the economy that a need has arisen for redefining priorities for the North and the South from a political and democratic stand point. There is enough money for this corrections. According to the Bernie Sanders report, there are 16 trillion dollars and then the University of Missouri at Kansas City corrected the figures to 29 trillion dollars. There are plenty of resources for education, science and infrastructure as civilized solutions to the crisis, nevertheless, no dollar have been spent on these fields in favor of funding banks and wars.

**Graph 16**

# Swings in valuation levels are responsible for most of the fluctuations in global equity outstanding

Total global equity outstanding<sup>1</sup>

\$ trillion, end of period, constant 2010 exchange rates



Source: Standard and Poor's Datastream; Bloomberg; McKinsey Corporate Performance Analysis Tool (CPAT); McKinsey Global Institute Analysis

There is a need for a New Financial Architecture that can solve the structural distortions of financial markets and price formation at the international level comprising the complete manipulation of labor, interest rates, exchange rates, basic commodities prices, oil and energy prices, all of the long term decisions in terms of the sunk cost of fixed capital that are currently distorted. This New Financial Architecture should be structured around the Re-regulation of the financial markets and the re-orientation of finance in order to re-launch the economy, taking advantage of the new discoveries and innovations of the scientific and technical revolution.

There are a lot of resources even in Latin America. Paradoxically, Latin America is entering into a new phase of recession while the region has a large amount of resources and while it is a net lender to the rest of the world. It is in this sense that Ecuador has proposed a New Regional Financial Architecture with a new type of development bank, a new type of central banking and a new type of currency system based upon a system of compensation payments through a Clearance Union. This proposal is reflected in the Bank of the South, the Fund of the South and the new Regional system for compensation called the SUCRE, setting up the conditions for a new type of integration, including the possibility of block regional monetary and credit arrangements that could open the door toward a multipolar world that would make viable in the near future the possibility of relaunching the economy under the horizon of humanitarian and democratic values.

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