

Ebook

International Crisis:

Adjusting the Course and Improving
the Systemic Functioning



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Introduction

If the international economic collapse were only due to the fact that the smooth operation of the economic machinery got blocked, the solution would consist in unblocking what got blocked, in “clearing the way”. The pre-existing system would thus be brought back to health and, as it resumes operation, the problems we face today, including extended recession and unemployment, would be solved.

This is, in essence, a functionalist view on the crisis. It should be mentioned that many are the “obstacles” blocking the smooth operation of the economic machinery and, in principle, nothing should prevent them from being removed so that we can regain the lost stamina and efficacy. But the thing is that this is not easy to accomplish, not only because functional obstacles are too many, but also because they are intimately associated with diverse interests struggling with one another in order to prevail. In any case, it will always be very positive to intensify our efforts to improve our systemic way of functioning.

Others believe that it was not just the malfunctioning of the economic machinery what caused today’s problems but, very especially, the systemic direction that sets the course. The economic machinery, which is operated by people and organizations that take care of their individual interests, is heading into a direction prone to produce environmental disasters, serious social conflicts and acute political instability.

This is a complex issue where economic, political, social and environmental aspects intertwine, involving a large number of factors. Among these, there is a factor that concerns all of us, one which is usually ignored when considering the genesis and development of the current crisis: the alienation in which many of us have fallen as to the significance we attribute to what we are and do. This alienation, which goes beyond the realm of philosophy and individual psychology, projects itself into the course of the global system, leading to compulsive consumerism, merciless environmental destruction, frantic accumulation of wealth, and exacerbated selfishness, all of which causes us to ignore those who have lagged behind as well as the indigent, who constitute this world's majority.

In the following chapters a socio economic machinery of imperfect functioning that is led towards an imbalanced course affecting the planet as a whole is analyzed. This situation faces us with the two-fold effort of adjusting the course and, at the same time, improving the efficacy of our way of functioning.

Chapter 1

Structural and functional roots of the crisis

The social, economic and political structure of a country conditions the way it functions, and the way a country functions impacts on its structure. Some structural factors produce serious functional imbalances, and dysfunctional ways of functioning contribute their impact to unleash explosive situations such as the present global crisis. On the face of this situation, it is necessary to choose among different options: from working on organic solutions that may ensure systemic sustainability to resorting to substitutes that help gain time but procrastinate outcomes. How do we characterize these options and what kind of measures are taken in each case? Is it possible to draw a path between self-regulation and excessive state intervention?

The social, economic and political structure of a country conditions the way it functions, and the way a country functions impacts on its structure. A deficient structure compromises the way it functions in terms of its direction and systemic performance, and the type of social and economic functioning produces direct effects on the very structure. This interrelation weaves the social, economic and political dynamics of a country. Something similar, though with greater institutional complexity, happens at the international level.

To exemplify how this structural-functional interrelation occurs let us take one of the most typical features among countries: inequality. In economic terms inequality implies that there are sectors of the population that are wealthier than others. In some cases the differences among sectors is abysmal and tends to grow bigger, while in others those differences are somewhat lesser but also tend to persist, or worsen.

Wealth differences in an unequal social and economic structure are expressed in many different ways, such as the segmentation of effective demand and the concentration of saving capacity.

Effects resulting from the segmentation of effective demand

Effective demand segmentation causes affluent, conspicuous consumption sectors to coexist

with popular sectors that can hardly meet their bare necessities; in between there are middle class sectors that consume basic goods and, whenever they have any surplus, reproduce at their own level the prevailing superfluous consumption pattern.

How does this demand segmentation impact upon the way of functioning? In several ways; some are of an economic nature, others of a social and political one. To begin with, superfluous consumption by affluent sectors and other middle class sectors generates a segment within the productive apparatus dedicated to producing superfluous goods. This results in a somewhat socially suboptimal allocation of available resources and, at the same time, makes room for the emergence of economic players (superfluous goods suppliers) interested in sustaining this type of conspicuous consumption and the unequal structure that originates and underpins it.

There are more effects, however. Conspicuous consumption by affluent sectors is not capable of demanding all the goods and services generated by the productive apparatus, which unceasingly seeks to expand. To be able to sustain its growth, supply needs to be accompanied by a demand that is capable of keeping up with it. When the accumulation process becomes ever more concentrated, this balance is upset and, if there were not an intervention exogenous to the economic system, demand would be likely to lag behind.

Different possible reactions to address the imbalance

Here, a critical aspect of economic functionality takes the stage: *how the system reacts in order to adjust an imbalance that may jeopardize its expansion*. One formula –that is part of an organic growth– would consist in gradually raising consumers' income so that they may absorb with their own genuine resources the supply generated by the productive apparatus. If this formula works, supply and demand will accompany each other, even if they change their composition due to modifications in consumer preferences, which are strongly influenced by technological development, the launch of new goods and services, and a greater growth or appreciation of different sorts of satisfiers. Yet, regardless of this significant internal dynamics driven by innovation and discoveries, in aggregate terms, supply and demand, demand and supply, would grow organically.

If, however, there exists, as it occurs in reality, a process of wealth concentration that is projected into a concentration of income and, hence, into an unequal purchasing and saving power, then this organic growth will be jeopardized. A perilous gap would be opening between production

and consumption capacity which, if not corrected, might block economic functioning and, ultimately, cause it to slide towards collapse: due to the lack of demand, businesses close down, unemployment grows, income falls, demand shrinks all the more, and what once had been a virtuous circle becomes a vicious descending spiral.

But will this be inevitably so? *No way. Before collapsing, the economic system strives to find other ways out, some of them healthy from a systemic viewpoint, while others only procrastinate the traumatic outcome.*

When tension appears due to a demand that is not capable of accompanying supply, we may resort to a battery of effective measures. These measures are intended to generate or gain access to resources that are capable of sustaining genuine demand. What are those resources?

(i) Possibilities offered by the foreign sector

One option is to look at niches of foreign demand for our products. That is, a country may export to other countries a portion of the production that its domestic market is unable to absorb. Yet, this has a twofold limitation: on the one hand, many other countries compete to attract those same buyers, and hence, even though there are very interesting niches worth exploring, the key effort consists in becoming ever more competitive by enhancing productivity and positioning as far ahead as possible in terms of innovation and latest trends. There will be some exportable products over which the country has competitive advantages that will enable it not to depend solely on its domestic market. In those cases, it will remain to be seen who manages to export and how the revenue thus generated permeates into the country.

But beware: our production units are also receiving foreign competition in their own domestic market as we import goods and services that capture a portion of the resources generated within the country. This means that, on the foreign sector side, there are opportunities but also challenges that may turn into threats. A lot, a little, or nothing may be obtained from the foreign sector depending on the international circumstances and the efficacy of our own decisions.

(ii) Possibility to generate genuine domestic resources

Another possibility is to generate within the country genuine income to fuel domestic consumption. There is a good policy space to ensure that the income the concentration process places in few hands gets distributed more equitably, eliminating or reducing inequity. In previous issues of *Opinión Sur* we addressed this subject so we don't need to expand on it.

We explored (i) macro-policies in fiscal matters, public spending, monetary stability, channeling of saving toward real investment, export promotion, (ii) mesoeconomic initiatives by production network leading firms oriented to strengthening their value chains, ensuring a fair distribution of results among those who are a part of it, and optimizing the secondary effects of their strategic decisions on other players, (iii) direct support to the bottom of the social and productive pyramid through channelling knowledge of excellence, financing capital formation, assisting in management development, devising good business structures, and facilitating market access.

(iii) Decision to resort to substitute Solutions

Now, what happens if due to political reasons, powerful interests, negligence or any other reason, those measures meant to generate a genuine income base are not actually implemented (or are implemented at a level bordering on insignificant or inconsequential cosmetics)? Well, as the system is not going to choose to commit suicide, it will resort to poor substitutes that do not solve but procrastinate on the issue of structural supply-demand imbalance. There are certain solutions based in repression and the imposition of authoritarian regimes, which we will not dwell on because we intend to focus on countries with more or less democratic systems (much could be said about just political democracy and full democracy which secures economic, social and environmental rights).

One of those substitute solutions is to fund families lacking genuine income so that they can turn into consumers. To this end credit allocation criteria are relaxed so that more people may gain access to loans that are renewed year after year. If the genuine income base of consumers has not improved after some credit cycles, they will fall into the typical, well-known situation of over-indebtedness. Purely and simply, this means that they are unable to meet their debts. When only a few fall into insolvency the problem may be contained, but when the phenomenon gains massive magnitude, the debacle is inevitable, as was the case with the infamous subprime mortgages and the explosive credit card segment. The consequences are plain to see.

Effects resulting from saving concentration

Unfortunately, the effects described above are not the only ones resulting from a social and economic structure characterized by the concentration of wealth. Saving concentration adds other set of specific effects.

The sectors that benefited from the concentration process accumulate huge financial surpluses that need to be recycled. In normal times, those surpluses are sought to be placed in financial investments or the real economy rather than remain immobilized, in order to –given certain risk levels– obtain the greatest possible yield.⁽¹⁾ However, as the concentration process restricts effective demand, there are fewer opportunities for good investments in the real economy, inducing the shifting of placements toward speculative financial transactions, including those oriented to sustaining consumption beyond the harsh limits of genuine income.

The financial system creates sophisticated products to absorb surpluses in need of recycling, obtaining high returns in the process. To lure surplus resources financial operators compete in terms of prices (rates of return) that are weighted against the risk inherent to each transaction. The greatest returns are obtained through bold financial engineering schemes and a certain concealment of the underlying risks, as was the case with the above-mentioned subprime mortgages and credit cards, where responsibilities were diluted through complex operations with diverse intermediation and derivation chains. And thus emerge another factor that complements and reinforces the harmful vicious circle that leads to the crisis.

A conclusion open to choices

In closing this analysis zeroed in on one of the key contemporary structural characteristics (inequality generated by a concentrating accumulation process) we may draw some important conclusions. Even though main conditions for a crisis to occur are derived from a concentrated social and economic structure, the resulting imbalances might be lessened without affecting the composition of that structure (and in some cases, they might even be solved), if the measures adopted as to the functional aspects offset the structural effects.

What is clear is that if on top of a vicious concentration structure a way of functioning unable to offset the destabilizing effects is added, crises such as the one almost the whole world is going through will become inevitable.

At this point of the analysis, the obvious is worth explaining. In spite of its critical importance, inequality is not the only factor impacting on the course of events. There are other very significant ones, and ignoring them would be a serious mistake since, in a way or another, they condition and fuel one another. Among others we can mentioned environmental deterioration, competitiveness, political regimes, global governance, military power asymmetries, media concentration, the threatening action of aggravated criminal systems, social values context and the influence our individual attitude has upon local processes and, indirectly, on the course of world events.

All these variables being at stake, some believe that their long or mid-term management is impracticable, while others think the opposite. As far as I am concerned, I observe that there exist self-regulatory systemic mechanisms to address the small or mid-sized imbalances produced by certain structural-functional combinations, but everything seems to indicate that the major imbalances exceed the self-regulatory capacity. While the economic system might endogenously adjust multiple small deviations, it is hard to deny that economy-exogenous decisions are required to overcome severe dysfunctionalities and ensure a smooth systemic functioning. The automatic pilot is good for certain legs of the journey, but when at critical or turbulent times strategic changes are required, we need to resort to our leadership to adjust and then sustain the course.

How leadership should be exercised, how critical strategic decisions should be addressed effectively is a complex endeavour requiring knowledge, experience, temper, a proper correlation of social forces and attachment to certain values that define our humanity. This is certainly an open socio-political issue, as at the individual level are the options we need to address in each life circumstance.

Note: 1) Even though a promising current of responsible investment is beginning to take significance, the yield and risk levels criteria to apply resources do not generally take into account the social and environmental impact of the investment, evidencing that there does not yet exist a self-regulatory mechanism capable of ensuring the best global use of available resources.

Chapter 2

International Crisis: Adjusting the Course

Among the factors that generated the present international crisis some are evident—such as the crisis-triggering debacle of the financial system—and some are less evident but equally important. Without the presence of these other factors this crisis is quite unlikely to have occurred, or its impacts would have been infinitely lesser. Which are those other factors? They are many, varied and not restricted to the economic world but also related to governance and prevailing social attitudes.

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Which are those other factors? They are many, varied and not restricted to the economic world but also related to governance and prevailing social attitudes. In the following lines some of the most important factors involved are analyzed, trying to offer a wider vision of the nature of the crisis, its dynamics and the measures that could help overcome it.

Economic functioning blocked by inequality

A critical factor blocking economic functioning is the increasing inequality existing among countries and, within each country, among social sectors. This is a well-known, documented phenomenon.

Inequality is generated by a particular process of accumulation slanted towards the concentration of wealth. By this we imply that there are different types of accumulation processes: some of them generate an aggressive concentration of wealth, and others lead to a lesser or very

limited concentration.

It might seem that all accumulation processes are almost naturally concentration-prone, unless decisions that are exogenous to the economic system intervene to offset such propensity. Those decisions –opposing concentration- are taken by different players.

The most significant ones are those made at government level to redistribute the flow of income, such as–among others–those related to the extent and distribution of the tax burden, the allocation of government spending, monetary and credit access policies, the ways in which national saving is channelled to different types of investment, and the adoption of social and environmental regulations.

Decisions made by companies, particularly by production chain leaders, in terms of wages, prices, technology, supply sources and destination of their products, also have a bearing on the prevailing type of accumulation. These strategic decisions produce primary effects impacting on the company itself but also secondary effects on other economic players in the communities where they operate. Assessing these secondary effects and adjusting strategic decisions to maximize their positive impact are the pillars of what we call mesoeconomic responsibility of production chain leading firms.

For different reasons, as well as political and economic circumstances, the prevailing accumulation process has been, and still is, strongly concentrated. Income concentration conditions the functioning of the economic system; it is a major factor impacting on the economic dynamics leading to a crisis.

The impact of concentration on the crisis

** To begin with, concentration leads to a segmentation of effective demand*

The affluent sectors favoured by concentration, their bare necessities being fully met, develop a conspicuous demand for often superfluous goods that deepen social differences. This demand sends signals to the productive apparatus to produce this type of goods and services, generating a sub-

optimal allocation of the national saving and creating, at the same time, corporate interests determined to sustain that consumption pattern and, indirectly, the concentration process underpinning it.

Low-income sectors that only partially manage to satisfy their basic needs coexist next to conspicuous consumption; thus they are only slightly expressed as effective demand. Middle-income groups, for their part, meet their basic needs and, when they have some balance left, generally reproduce—induced by advertising—a good portion of the superfluous consumption pattern.

* At the same time, *those sectors that have benefited from the concentration process accumulate huge financial surpluses that need to be recycled.* During normal times, people do not immobilize their surpluses; instead, they seek to place them in financial investments or the real economy in order to, given certain risk levels, obtain the greatest yield possible. Yet, the concentration process and its impacts on effective demand reduce the potential for opportunities in the real economy, and placements are shifted towards financial transactions that are ever more distant or mediated from the real economy.

The financial system creates sophisticated products to absorb the surpluses in need of recycling, obtaining high returns in the process. But this modality establishes a dangerous vicious circle that, if not altered, ends up collapsing. To attract surplus resources, financial operators compete in terms of rates of return weighted according to each transaction risk. The greatest yields are obtained through bold financial engineering strategies and a certain concealment of implicit risks, as happened with sub-prime mortgages and other forms of consumer credit. With a non-expanding base of support, this process becomes inherently unsustainable.

**How does the economic system react to the imbalances resulting from the concentration process?* One organic solution to ensure that production growth is maintained and does not become strangled is to reduce or revert income concentration. This causes the consumer market to expand on the basis of genuine income while new opportunities are simultaneously generated in the real economy to productively absorb the existing financial resources.

Unfortunately, this is not the course that is being taken. Instead, and in the absence of an

exogenous corrective intervention, the economic system seeks to extend its way of functioning without transforming the propensity towards concentration: rather than expanding the genuine income of middle and low-income sectors, it provides them with finance. Hence, after some credit cycles where consumers' debt grows at rates that exceed their income, we almost inevitably end up in a pervasive situation of over-indebtedness.

The permanent recycling of surplus resources into financial transactions that are far removed from the real economy ends up generating explosive speculative bubbles that burst unexpectedly. In fact, rather than fighting or dismantling the concentration process and its effects, the economic dynamics ends up priming the pump, resulting in a destructive and painful explosion.

Futility of bailouts that fail to transform the way we function

The implication of this analysis about measures to overcome the crisis is very clear: it refers to the futility, or at least the insufficiency, of those measures that are not capable of transforming the concentrating pattern that characterizes the way in which our economies operate. It is true that by pumping in huge quantities of resources problems may be mitigated for some time regardless of the insufficiency of the adopted strategy. But problems will surface if those resources are not capable of changing the dynamics leading to the crisis; when that happens the crisis will sooner or later reappear. Thus efforts end up being fruitless... perhaps not for all but, undoubtedly, for those who are forced to ultimately endure costly bailouts.

* Which could be those corrective measures that might really contribute to overcoming the current crisis? Those measures that help produce the transition towards a non-concentrating accumulation. Among others (discussed in previous issues of Opinion Sur), the following ones:

- Macro policies to eliminate inequality and sustain growth in terms of fiscal policy, government spending, monetary stability, channelling saving towards real investment.

- Meso-economic initiatives from leading firms in production networks intended to strengthen their value chains, ensuring a fair distribution of results among their members, and optimizing the

secondary effects of their strategic decisions on other players.

- Direct support to the bottom of the social and production pyramid by channeling knowledge of excellence, financing capital formation, assisting in the development of business management and sound structuring, and facilitating market access.

Imbalance between global economic forces and national political governance

The outburst of the international crisis encountered a world where economic forces are of global magnitude, while political governance remains restricted to national boundaries. There was a gap between international economic development and international governance. This became absolutely evident at the onset of the global crisis: the initial reaction was uncoordinated and each country sought to save individually. Soon they became aware that it was not a single national economy but the central economies as a whole that were falling into the crisis, and with very probable repercussions on the rest of the developing world.

In the absence of a global government and in the face of the phenomenal uncontrolled proliferation of impacts, it became necessary to coordinate responses among countries, led by the United States and the European Union, with the less noticeable but absolutely critical involvement of China, India and the remaining Asian economic drivers.

This variable, the fact that there are global problems yet not global governance, adds a harsh restriction when it comes to facing the crisis and correcting the dynamics that generates it. It leads us to reflect upon institutional changes that should be tackled.

It will be necessary to attempt a transition towards a new international order that leaves extreme inequalities behind and is equipped with institutional governance that is properly articulated with national administrations. It would be something similar to what happened when, a long time ago in history, national governments were created and the city-states and other local jurisdictions were forced to adapt to the new circumstances.

Certainly, this transition is not easy as it requires a great number of diverse interests to be reconciled. There are extremely complex subjects, such as those referred to identities and nationalities -preserving the differences and diversities with the greatest of respects-, and the allocation of functions among local, national and global levels. The issue is to address global problems without trimming jurisdictions so that national or local problems can be tackled effectively; a complex and controversial topic due to the close interaction among levels that turns the borders of what is global, national and local blurred. In spite of all these complexities it will be nevertheless necessary to explore ways to move forward in that transition.

A baffled society

Contemporary acceleration and rapid transformations affect all social layers (certainly young and indigent people all the more), generating an ever more disconcerted society. An astonished look at their problems and challenges prevails, the opposite side of the same coin being a slow response capacity to find solutions, which leads to greater anxiety, confusion and alienation taking the form of addictions (alcohol, drugs, gaming, consumerism), expressions of nihilism, intolerance, aggressiveness, social and domestic violence.

A disconcerted society contributes to sustaining the dynamics leading to the crisis; it entails a weakness to understand, resist and adjust behaviours. It facilitates will-power manipulation and the development of a culture of fear that, when a crisis bursts out, easily turns into panic that enormously magnifies the impact of the crisis.

On the face of this situation, what counts is to put forth a permanent effort to throw light, help understand complex dynamics, identify better choices, strengthen self-confidence and resilience, motivate to face and overcome difficulties. Actions oriented towards raising individual and group awareness, reinforcing values adapted to the present historic phase of humanity.

No magical potion will solve the confusion, and no enlightened whomsoever will either. Instead, daily efforts made by public, private and civil society players to articulate reflection, strategic thinking and transforming action on all fronts of our social and political life will help.

Chapter 3

Facing the Crisis: Stampedes and Solutions

In a crisis, each one strives to avoid its effects or pass them on to others. As in any stampede, he who does not manage to move to the side in time ends up being run over by the herd. How can we face this crisis in such a way as to mitigate its effects and come out of it in the best possible shape? This will depend on how the contextual circumstances (that we do not control) evolve, but also—and very specially—on the way we ourselves react: old problems persist that have undermined our potentiality, and new decisions wait to be made. This does fall within the orbit of our responsibility.

We are faced with a world crisis triggered by the mishap in the financial systems of central countries. Its effects are being felt everywhere, though in different ways. There is a pervasive economic slowdown and, in many cases, stagnation or recession. The major international players are analyzing defence lines and exit strategies; they may have a bearing on the course of events but cannot avoid them. They seek to coordinate their policies in such a way as to contain the first reaction, which was “every man for himself” or, more precisely, me for myself at the others’ expense. It remains to be seen whether such coordination can be sustained, and how emerging economies will react, particularly, emerging economic drivers such as China, India, Brazil and Mexico.

In a crisis, each one strives to avoid its effects or pass them on to others. As in any stampede, he who does not manage to move to the side in time ends up being run over by the herd. Those who are best positioned use their greater economic power, and their better information access, contacts, knowledge, to protect their interests more effectively. Some do that within the confines of legality, and others outside them. The majority knows that rather than helping the least empowered, individually forsaking each one’s own interest facilitates the predatory action of ravens and wolves; hence the importance of coming up with answers at policy and regulatory levels.

As time goes by, lessons appear that those well-advised actors, as well as fishers in troubled waters, are able to internalize. The rest, who are the majority, do not manage to unravel the logic of the crisis, take the blows, return to the herd of the gullible, and fall again in a consumerism that strips their days of any meaning. Ravens and wolves change their robes, purify their lineage, and

give way to a new brood of unscrupulous climbers.

How can we face this crisis in such a way as to mitigate its effects and come out of it in the best possible shape? This will depend on how the contextual circumstances (that we do not control) evolve, but also—and very specially—on the way we ourselves react: old problems persist that have undermined our potentiality, and new decisions wait to be made. This does fall within the orbit of our responsibility.

Coming Together

In my opinion, the most critical factor to face the crisis is not economic but political and social: we need to join forces, to get together in order to tackle the challenges and work on the new opportunities successfully. We have worn ourselves out for too long with internal struggles, with antagonisms that drain energy and affect the agility to react. It makes no sense to demonize the opponent and address the other from the only truth that, of course, is our own. Political cannibalism does not enrich society; it impoverishes it. We must stop this; mean-spirited actions are already an unbearable dead weight. Our piece of land will never be an orchard in the middle of the dessert; as we erode our neighbour's farm, we fall together with him.

A unifying leadership is needed, one that is adroit enough to align interests and needs. He who does not know how, does not want or is unable to do it, should be punished at the ballot box. There is no more room for the all-or-nothing attitude; compromises are required in order to establish short and mid-term agreements that are transparent, trick-free, and contain safeguards to preserve goals in case course deviations occur should circumstances change. Frankness is expected, and a fair allocation of results is sought, without resorting to any form of cronyism or patronage. Political intermediation is useful to the extent that their interests as brokers do not affect the interests of the population as a whole. Cahoots aimed to behead some in order to give way to others are not good either; as though the replacement of individuals instead of ways of acting could work the miracle. Some politicians want to convince us that if their faction got to rule, things would be very different; but we have grown tired of realizing that mere face changes do not solve our problems.

We have the leaders we have, and with them –or in spite of them– we will have to move forward. In politics you cannot improvise, and ousting or neutralizing governments is a drawback,

rather than a contribution. In point of fact, it is preferable to come up with a suboptimal but positive solution that may be implemented immediately, than with an eventually superior but uncertain one in terms of whether it will be ultimately likely to be implemented. Instead of the eternal attempt at neutralizing governments led by rivals, the focus should be placed on aligning transparent interests, needs, values, using the whole range of modalities to build sustainable multi-partisan agreements. Later on, there will be time to evaluate who really made sincere efforts for us to come together and worked solutions, and who, instead, concentrated on imposing their mean-spirited siren songs and false images.

Traveling Down One's Own Path

The prevailing structures weaken with the crisis, and this might be beneficial. The lava melts foundations and we would be right not to rebuild that which provoked the destruction. Opportunities to develop solutions that are appropriate to our circumstances open up, instead of replicating formulae that were designed for other realities. With prudence and creativity, we can start building our own trajectory of sustainable development.

The homogenization of strategic thinking was disastrous for the countries of the South; it led us to import visions, agendas, solutions that do not correlate with our interests and uniqueness; it reduced the range of options and mutilated our creativity. It is imperative for us to fully recover the capacity to think and innovate. Those think tanks, those engines of analyses, assessments, recommendations –enshrined by strong interest groups- are merely one of various possible perspectives; they have the right to remain contributing their share but in no way to presume that they do so from “the truth”. Their points of view must be filtered by those of our analysts, thinkers, scientists, philosophers, spiritual leaders. This does not mean to turn our back on the world and return to the parochial, but rather to trust in our criteria more so that external opinions enrich, and not substitute, our interpretation and decision-making process.

This is even more pressing in the context of contemporary acceleration(1), where setting the course takes pre-eminence over the mere generation of power, when we need to design early alerts to detect deviations and unwanted effects, adopt more effective regulatory mechanisms, and choose leaders who are well experienced at steering at the pace required to accompany the rapid changes in circumstances.

Adjusting the Structure and the Way of Functioning:

The new course calls for a better distribution of efforts and their results. It is necessary to promote a self-sustainable virtuous dynamics: starting by adjusting our own way of functioning so as to generate transformations in the social and economic structure that may favour, in turn, a permanent improvement in the systemic functioning.

When we talk about adjusting the way in which we function, we mean taking measures and adopting policies with macro-impact, not just merely proposing special, high-profile but hardly significant programs. There is no room for the political cosmetics of changing something so that nothing changes. Even though there still are gullible individuals who can be deceived, the very social and economic dynamics ends up being inexorable; the crisis speaks for itself.

The direction taken is a cornerstone of the development process... when chosen with wisdom and the aid of a good ethical compass. A course agreed upon by consensus combines interests, needs and values in time; if well conceived, it is a convergence and driving factor for the conglomerate of forces that make up a society. Other cornerstones are knowledge (based on education, on scientific and technological research, on fostering innovation and creativity) and entrepreneurial capacity, which should be advocated as one of the most treasured social assets. Being involved in the development of these cornerstones is a responsibility, not a source of privileges.

Where to Start from

To address the effects of the crisis there are quick impact measures that, while improving our way of functioning, may strengthen our economic and social structure. They not only boost recovery but are also capable of reorienting without halting our productive process.

It is necessary to be on the alert, as every time a crisis occurs the siren songs urge us to relapse on what is already known, as though there were no time or space for new solutions capable of containing the negative effects, transforming us. Today's reality brings along the good and the not-so-good; it is very valuable as experience. But it will be necessary to separate the wheat from the

chaff and give way to better structures that may guarantee the chosen course.

In essence, it is a matter of mobilizing our full realization capacity; taking advantage of our entire productive potential, both the active one and the one that up to today has been sterilized. It is indispensable that the bottom of the social and productive pyramid be mobilized through the adoption of macro-economic measures, meso-economic initiatives, and direct-support actions such as, among others, inclusive business developers, socially and environmentally responsible investor networks, and small production investment funds; all within the strategic context of boosting productive chains in order to maximize value added, develop regional economies and prioritize education, science and technology.

Inequality and Critical Income Distribution

Much is being said about the financial origin of the crisis, and quite less about the array of other structural reasons that made the implosion possible. One of the most important ones is the growing concentration of income taking place within each economy as well as at the level of the international economic system as a whole. Income concentration generates markets oversaturated with conspicuous consumption next to impoverished markets unable to meet their basic needs. In contexts where the supply of goods and services does not cease to grow and the strongly concentrated demand cannot accompany such growth in supply, serious bottlenecks occur. To be able to continue functioning without introducing changes, the economic system responds with short-term pump-fuelling solutions: on the one hand, it strives to expand demand by causing debtors to over-borrow rather than providing them with better income (an intrinsic contradiction of the concentration process); on the other hand, it seeks to recycle resources from surplus sectors by channelling them into financial placements that are ever more dissociated from a real economy that is unable to grow organically as a result of the concentration process. The financial system leads this game from which it draws juicy results. Yet, at the same time, it gets stuck there as it makes it possible for consumers who are not income-backed to over-borrow, and recycles surpluses resulting from the concentration process into speculative placements.(2)

Even when this is a critical dimension, we must be aware of the fact that by merely finding a solution to the increasing concentration of wealth and income, we would not manage to untie all the knots that block our development; in fact, there are other crucial variables, such as environmental preservation, technological and productivity development, entrepreneurial spirit, management

efficiency, communities' social capital, that impact strongly on the course of events; ignoring them also brings about systemic imbalances. It is, however, undeniable that inequality has acquired such magnitude worldwide that today it is one of the major threats to the viability of contemporary development. The income distribution "factor" is thus not only associated to the values of justice and respect for the human condition but also to the very stability and sustainability of our functioning as a nation. Abating the concentration process, and its consequences in terms of inequality and poverty, becomes not just a necessary but also an indispensable, though not sufficient, condition to improve the social and economic structure and secure a better systemic functioning.

In the best former president Clinton's style, today the message to those who navigate across the superficiality of processes might be "it is the concentration process, stupid".

Notes: (1) See Leading in the Vertigo of Contemporary Acceleration (<http://opinionsur.org.ar/Leading-in-the-Vertigo-of>), in the October 2008 issue of Opinion Sur (2) For an in-depth analysis of this topic, see Coming out of the crisis toward a better systemic functioning (<http://opinionsur.org.ar/Coming-out-of-the-crisis-towards-a>) , in the October 2008 issue of Opinion Sur.

Chapter 4

Coming out of the crisis towards a better systemic functioning

The international crisis we are going through expresses serious systemic failures in the way central countries function. The very heart of the global system is failing and seeks protection in order not to be rolled over by the same forces it contributed to unleash. What happened compares to a financial tsunami created by the way in which we have decided to organize and function rather than by nature. Yet, there is no point in deceiving ourselves: there exist other structural causes in addition to the financial ones. Today the challenge lies in making the emergency measures facilitate the beginning of fundamental changes; bringing the systemic functioning back to exactly the same condition it was in before it short-circuited and crashed would be the worst of alternatives.

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We need to reflect upon, and review, certain concepts, even the most widely accepted ones, acknowledge the reality of the processes underway, and depart from dogmatic predicaments. It is time to review the "global contract" in depth, recognizing its underlying rationale and the unforeseen effects caused by the way it works. Even when there is much to transform and adjust, there also exist assets that are worth preserving; swinging from one end to the other of the pendulum will be of no use.

In order to fully understand what has happened, it is necessary to take into account the unwanted externalities of the current international economic system; to acknowledge how they have

been generated, to consider how to abate them and to avoid their possible reproduction. Unwanted externalities are present in the systemic crisis and also in the eventual transition into a better systemic functioning; they will condition the new agreements necessary to redesign the financial architecture and reorient the real economy.

The financial leg of the crisis

It might seem that the crisis has a financial origin and if the financial system was reformed, the crisis would reverse until finally disappear. This is a half-truth. It is a fact that the financial system has run wild; it dangerously departed from the real economy to the extent that it thought it was the engine and pilot of the global economy. The movement of financial flows acquired a phenomenal magnitude. In real time, a computer click mobilizes entire seas of resources from one point to another of the globe. Financial dealers, who originally had one eye on their financial dealings and the other one on the real economy, later placed their two eyes, ears, nose and intuition on just reaping revenue from their ever more sophisticated financial moves. Thus, financial spaces grew apart from their anchors in the real economy. Greed and doing things the easy way, earning a thousandth that multiplied by billions created instant fortunes, added to the factors heading the process towards the abyss.

Regulators, for their part, did not know how to, or did not want to, fulfil their control and alert role; the prevailing belief was that the market could self-regulate and, if it happened to run out of control, corrective mechanisms would appear endogenously. But the market ran amok and corrective mechanisms only appeared by the hand of the political authority and at huge systemic costs.

The unbridled financial system happens to be one of the structural causes of the crisis; yet its genesis and implosion are associated to another critical structural characteristic of the way in which markets work: the extended processes of income and wealth concentration, both among countries and within each country.

That underestimated wealth concentration process

a. Among countries

The abysmal economic differences existing among countries generate all sorts of antagonisms, conflicts endured by those who compete at a disadvantageous position, impositions

founded on imbalances of power, virulent reactions, repression, punishment, unwanted demographic flows, homogenization of ideas with an epicenter in the central countries which limits the capacity to appreciate differences and impoverishes responses.

The international wealth concentration process generates oversaturated markets of conspicuous consumption and impoverished markets with their population's basic needs insufficiently met. Between those poles there are intermediate countries with disparate living standards and consumer demand levels. When serious bottlenecks occur within central countries as a result of a production supply that does not cease to grow and, in order to sustain that growth, depends upon a demand that does not accompany such supply increase because it is strongly concentrated, the systemic functioning searches for circumstantial solutions that may allow it to move ahead with an intact structure. That type of solutions that facilitate access to consumption but not to income (which would involve affecting the distributional structure) require a financial system that pushes to the greatest extent possible the concentration process viability limits; it operates as an ephemeral ditch attempting to contain the effects stemming from the systemic way of functioning.

While this happens in central countries, some of the large emerging economies implement structural adjustments that may enable them to attain robust growth rates. Countries such as China, India, Brazil, and the dynamic South Asian countries occupy preponderant global positions, accumulating bulky trade and financial surpluses. In that situation, by deferring the adoption of systemic adjustments that might resolve their structural imbalances, the central economies run the risk of being unable to maintain their global leadership roles and affect the rest of the countries in the short or mid-terms.

b. Within countries

Within emerging economies, the inequities resulting from a concentration process are expressed in widespread poverty, precarious institutionality, a weak productive apparatus, frequent external bottlenecks, and a fragile domestic market; all these factors act by destabilizing the systemic functioning and generating recurrent functional and structural crises.

As it was mentioned above, central economies have more resources, and they are in a position to contain, for some time, the negative effects of economic concentration within their own

economies; yet, if that process is not reverted, the effects ultimately find a way to express themselves.

When there is sustained production growth and wealth gets concentrated, the economic logic causes structural imbalances to occur. What the productive apparatus produces is oriented, on the one hand, towards satisfying those sectors that benefit from such concentration. Yet, since such demand is insufficient to absorb supply in its totality, it also seeks to find markets in non-favoured sectors. The affluent consumer-oriented demand can only grow by fostering superfluous consumption; by contrast, the supply oriented to the rest of the population depends on the possibility of setting up mechanisms that may facilitate their consumption beyond their economic possibilities. The financial system, which is an essential part of the economic system, develops according to those circumstances and grows explosively on the basis of "solutions" it manages to contribute to that systemic functioning of a concentrating nature: it recycles surplus resources in financial placements and provides financing for a consumption that would not be able to be expressed in the market based on its own resources. It is painful but enlightening to trace the effects of the concentration process that filter like lava through the economic system until they ultimately lead to an explosive systemic crisis.

A highly dangerous combination of phenomena

Superfluous consumption is one of the ways the affluent sectors have to allocate the resources that exceed the satisfaction of their basic needs. Yet they are not the only ones to fall in this type of consumption; the middle and low sectors –with access to financing- also participate. By means of aggressive advertising, the market tries to constantly expand the limit of what the different social groups consider as basic needs, artificially generating an almost constant dissatisfaction that derives in consumption as it is cunningly intertwined with complex aspects of existential anxiety. The huge mass of conspicuous consumption has perverse systemic effects as it supports a production level that is not consistent with the prevailing distributional structure (financial overheating resulting from over-indebtedness); besides, it leads a fair amount of the productive apparatus to produce those superfluous goods and services, consolidating a suboptimal structure of allocation of resources and adding parties interested in supporting the concentration process.

Surplus resources in the sectors that benefited from the concentration process are placed in financial investments or the real economy, which, as they mature, reinforce such concentration. The application of resources follows yield and risk criteria; in other words, either directly or through

intermediary institutions, they seek placements that may ensure the best possible return given a certain accepted level of risk. These yield-risk criteria are not generally associated with other criteria relating the investment's social and environmental impact,¹ which evidences that there does not exist yet a systemic mechanism that is capable of ensuring a better global use of available savings. Since each resource placement option competes with others, a struggle to attract those resources occurs. Part of that struggle is legitimate and based on taking advantage of innovations and being more efficient than the competition; but another part is illegitimate and sustained on (a) maximizing returns on the basis of insider information, monopoly positions, profiting by corrupt means, criminal systems, exploited labor, environmental destruction, wars, etc. and (b) hiding risks and responsibilities through complex intermediation and bypass operations and chains.

As mentioned above, the concentration process also generates a gap between the actual demand from middle and low-income population levels and the supply of goods and services oriented to them. The most systemically adequate approach to closing that structural gap would be to dismantle the concentration process and foster the development of genuine demand relying on its own resources. When this does not happen and the growth in the productive apparatus requires a demand counterpart that is not able to accompany it at a similar rate, the conditions are created for the financial system to seek to expand such demand beyond its ability to pay. This situation and consumer over-borrowing are just one footstep away; the sub-prime mortgage bubble is perhaps the most dramatic but not the only example of this perverse process.

So the conjunction of a structural process of wealth concentration that reinforces itself, the subsequent expansion both of conspicuous consumption and of middle and low income consumer over-indebtedness, coupled with a segment of the financial system that –with sophisticated greed-artificially maintains the status quo beyond the severe limits imposed by the concentrating functioning, account for the rationale that leads to the crisis. Certainly, the specific trajectories leading to the crisis are mediated by historical and institutional circumstances that differ from one place to another.

The emergency and coming out of the crisis

Time and again it is said that when your house is on fire the first thing you need to do is put out the fire. This is a tricky allegory as it suggests that in an emergency there is no choice but to fight the destructive fire in the best possible manner; later on we will have time to find out its origin

and reconstruct whatever needs to be reconstructed. Yet, when such havoc is created on a system, the indispensable emergency actions should be designed jointly with quick functional adjustments to such system. Otherwise we would be running the risk that no sooner is one fire spot put out, others will appear at unexpected places and times. In sum, the point is that the necessary emergency measures should carry within themselves the germ of systemic adjustments.

The thing is that there is not just a single way to address a systemic emergency, and that the worst one of all would be that which is capable of bringing the systemic functioning back to exactly the same condition it was in before it short-circuited and crashed. In coming issues of Opinion Sur, we will try to identify some of the characteristics of a way out of the crisis that might create the conditions for configuring a fairer and more effective systemic functioning.

Note: 1) Fortunately, there is a growing current of investors—a significant yet minor one if we compare it against the astronomical contemporary financial movements—that weigh their investment choices on the basis of social and environmental criteria.

Chapter 5

Crisis in the United States: Suggestions from the South

The crisis in the USA poses major domestic challenges. A virulent struggle is taking place among sectors to avoid or elude the costs of the present situation. While some profit from it, the rest tries to subsist until the storm is weathered. The solutions adopted will strongly condition future trajectories. When the turbulence passes it will be very difficult to transform the newly established dynamics. In the face of that, a puzzled look will be of no use. It is critical that the consequences of the different way out strategies be considered in the light of the country's founding principles. The crisis does not require other principles; rather, it puts the existing ones to the test. The country needs to stay away from costly bailouts that instead of re-launching it on more inclusive bases might reinforce concentration processes.

The United States is going through a crisis that is affecting the country and the rest of the world. Its causes are complex and diverse. For quite some time ago Juan Eugenio Corradi has offered from Opinion Sur Geopolitical section his sharp vision on the nature of the process that originates the current crisis. Based on that perspective and on our experience in the South, I wondered if I would have anything to contribute to American public opinion.

At the beginning this idea appeared to me somewhat odd because advice and suggestions more often tend to follow a course North-South than South-North. Then I also remembered the resistance with which we received in the South the canned recipes that were generated in certain organizations and think tanks of the North. And I told myself that out of respect for our brothers of the North I did not have the right to reproduce those mistakes. Any suggestion I could offer should not be comprehensive or definitive as those who are living that process have a better understanding of its potentials and difficulties; those circumstances are innumerable, unique, and change over time; sometimes they are obvious, other times they are deeply rooted in long-standing traditions, visions and national concerns. So the following lines are simple suggestions to reflect upon that

may or may not serve as an input to those who have taken the task of facing such a severe crisis.

The Need to Respect Basic Principles when Searching for Solutions

Each society carries some basic principles that shape its identity and influence its behavior. These principles must be respected and integrated into any solution. Only if some of those principles were incompatible with the current times could they be abandoned or adjusted.

My aim is not to list the set of US foundational principles that still guide citizen behavior. For the purpose of this article let me pick out only some of the principles that are most valued by the American people.

- The principle of freedom of thought and of creation and management of all kinds of initiatives that do not go against the law.
- The democratic principle of offering equal opportunities to all.
- The principle of national unity and of care for the most vulnerable.
- The principle of responsibility for our acts and for the consequences that derive from them.

There are certainly many other important principles but, as I have just pointed out, this set provides a good support for the suggestions that will be offered in the following lines.

Co-responsibility when Faced with the Crisis and the Solutions

Although to different degrees, really all or almost all of us are responsible for a crisis. This is not the time to build, and it is also very difficult to do so, a final and detailed scale of each one's degree of responsibility, yet it is clear that there are great differences among actors.

It could be stated that the main direct responsibility lies in those who generated the speculative bubbles that have now gone down, plus those who did not exercise the control that was their institutional duty. They are the ones that should face up to the major costs of getting out of the crisis. Major responsibility also falls on those who designed the policies and regulations that led the

country to this crisis.

There are other co-responsible actors who, without having produced those bubbles, participated in them and benefited from their existence. They should also assume their share of responsibility for the risks they took and for the subsequent results. To a certain extent, all the remaining sectors of American society –by action or omission- have decreasing degrees of responsibility and, as such, will have to shoulder -in that smaller proportion- the costs of the solutions.

Why this emphasis on the different degrees of co-responsibility? It happens that interests groups also operate in crises. The most agile, connected or informed will try as much as possible to slip the costs derived from their co-responsibility on other shoulders. In the midst of the turbulence, of the fear and of the confusion that grip the common minds in a crisis, the most seasoned take advantage of those same factors to avoid costs and, if possible, even profit with the situation. Eventually the crisis will be solved, as a country with the political, economic and military power the United States has, will not let itself go down. This article does not analyze the costs the United States could transfer to third countries but, from an internal perspective, the issue is who will pay for the mistakes made and which segments of the American society will emerge strengthened and which weakened or demolished. If the market is ferocious in normal times, one can imagine its voracity at times when the limits and possibilities are being violently restructured, allowing dramatic progresses and backward movements. The popular saying goes “it’s good fishing in troubled waters”; yet in circumstances of crisis the winning fishermen are not usually the most honest, caring and concerned with the situation of the social whole, but rather the most skillful to make a profit in the middle of many others’ disgrace. It is up to regulators and a conscious public opinion to rise so as to encourage those who are really contributing to the recovery and, at the same time, to limit the abuse and depredation, thus protecting the common citizen and, especially, the most vulnerable.

Fair and Effective Solutions while Weathering the Storm

The fact is that, faced with a crisis, the most daring operators take advantage of the fear and real risk of a generalized collapse to shape in their own interests the solutions that are being designed to weather the storm. While the majority seeks refuge till the storm dies down, the

audacious make fat differences in the very course of the turbulence. They are not concerned with facing up to the direct consequences of what is going on. Let public agencies, religious or development organizations, common citizens assume them. Speculators have their energy free to profit from the juncture. In the countries of the South we have extensively seen that, sure enough, crises generate opportunities but that those opportunities are not democratically within everyone's reach.

Those with liquidity, contacts, privileged information, usually profit outrageously, while the rest, cornered by the effects of the crisis, can barely focus on subsisting during the storm. When the turbulence passes, it is already late to restore situations: the newly established dynamics are then harder to transform.

There is much to be safeguarded in a crisis, and this author is incapable of identifying all that needs to be done. I can only point out that the challenge lies not in surviving the storm but in taking advantage, for the sake of the social body, of the opportunities forced by or born out of the present situation. In particular, given the focus of Opinion Sur on the base of the social pyramid, we can highlight some emergency measures to assist these sectors so that they can emerge strengthened rather than weakened from the crisis.

During the storm, and not after it, it is necessary to energize the productive mobilization of small producers; right away, with strength and determination. It is essential that the conditions for the functioning of the vast base of the US productive apparatus be strengthened: through credit and access to capital, but also by providing information about good market opportunities and available modern business engineering. It is not a question of doing a little more of the same but to take advantage of "the reshuffle and deal again" that comes with the crisis and give way to something that is much better and sustainable.

The US counts with instruments to face an initiative of such significance and transcendence. Yet the challenge's magnitude demands reinforcing those instruments. Community Venture Capital Funds already exist: they must be capitalized and replicated taking advantage of the experience accumulated in the last two decades. There are public and private programs aimed at small businesses; this is the time to increase their funding and exert the maximum tension on them. There is a specialized small credit banking: it needs to develop even further and very much enlarge its

coverage.

All this is possible and necessary. Yet there are some catalytic elements that can dramatically enrich the mobilization of the US huge productive base. Knowledge is their common denominator.

Catalyzing a Better Way Out from the Present Situation

The US scientific and technological community is impressive. It may not be perfect and there must be in fact a lot to be improved on, but the country's science and technology is a matchless instrument to effectively mobilize its productive base. In general, small producers have not been their main focus and, although no one could recommend that other areas of strategic importance be overlooked, the fact is that there is a great margin, until now poorly exploited, to dynamize the base of the social pyramid; that is, to facilitate the accelerated and sustainable development of a significant number of promising small ventures.

We emphasize the notion of "promising", which is associated to the concepts of excellence and opportunities, because it is not a question of reproducing mediocrity or non-sustainable ventures but rather of causing the best in the entrepreneurial and innovating spirit to germinate. Only that excellence, to acquire a significant magnitude, has to be raised not for a handful of initiatives but for the vast majority of small ventures. How can such a formidable and complex challenge be met? To begin with, it should not surprise us that it is with crises that the conditions to try new solutions to old problems are created. Rather than giving a puzzled look on how recession and speculation advance, the scientific and technological community should declare itself in a state of emergency and support small entrepreneurs during the crisis so that they may take advantage of the new economic spaces. Thus, instead of emerging from the present situation with an even more unequal society, the United States might find itself having a wider, more dynamic and creative productive base.

There are thousands, tens of thousands of entrepreneurs ready to face the challenge. There is not a lack of opportunities, but the conditions to take advantage of them should be available. One of those conditions is that development agencies and angel investor networks reinforce their social and

economic knowledge of small entrepreneurs. If possible, they should bring in business engineering tools (such as franchise systems, export consortia, pools of service providers) capable of articulating and dispersing small production into medium-sized organizations that can access better opportunity thresholds. It will also help to work better links between angel investors and an increased number of venture capital community funds, to generate new good business developers to serve the base of the social pyramid, to multiply social innovation promotion mechanisms, to reorient business schools to better focus on small producers, to activate the mesoeconomic responsibility of leading corporations in productive chains so that they may explicitly include in their decision matrix the impact of their own actions upon suppliers, distributors and the communities where they do business (beyond the traditional public or corporate relations programs). It comes without saying that the role of the public sector becomes more important during crises, especially in the field of improving public spending allocation and eliminating regressive aspects of the tax system.

The list of possible actions and measures to best emerge from a crisis is endless. The guiding criterion, however, is to face the crisis by adhering adamantly to the principles the US people deem foundational of their identity and the future they wish to attain. The principles for normal times and those for moments of crisis do not differ. Crises do not require different principles but rather emergency measures aligned with those same principles. Freedom of thought and of the creation and management of initiatives, democratizing opportunities, preserving national unity, caring for the most vulnerable, assuming responsibility for our acts and for the consequences derived from them, are principles that do not go away with the crises; they are rather put to the test by them. Carrying this compass, Americans can explore new avenues to emerge strengthened and hopefully renewed from the crisis rather than to resort to costly bailouts that end up exacerbating serious phenomena of economic concentration.