

International Observatory of the Crisis

**XXI Century:  
Crisis of  
a Civilization**

**The end of  
history or the  
birth of a new  
society?**

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Crisis of a Civilization  
The end of history or the birth  
of a new society?**

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# Contents

## Introduction

<b>The complexity of the present crisis .....</b>	<b>9</b>
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## Chapter I

### **The Great Depression of the 21<sup>st</sup> Century**

<b>The role of unproductive work and fictitious capital.....</b>	<b>21</b>
--	-----------

1. Unproductive labor as a source of speculation.....	22
2. Interest-bearing capital as a source of fictitious capital.....	25
3. Speculative capital, fictitious capital and the great depression .....	27

## Chapter II

### **A new stage in the world crisis:**

<b>the threat of state bankruptcies .....</b>	<b>31</b>
---	-----------

1. "Recovery" of the fictitious economy but not of the real economy .....	31
2. The threat of bankruptcy of the states.....	38
3. The threat of bankruptcies in the Eurozone .....	41
4. The threat of bankruptcy in the US .....	45
5. The power of the US Federal Reserve .....	49
6. How long will the reign of the dollar last?.....	51

**Chapter III**

**The War Economy in the Great Depression of the 21st Century Military Keynesianism and the Military-Industrial Complex.....55**

- 1. Military spending and economic growth.....59
- 2. Perestroika revisited .....61
- 3. The necessity for Perestroika in the West .....62
- 4. The "boomerang" effect in the domino theory of geopolitics .....65

**Chapter IV**

**Is a "New Green Deal" an alternative?.....69**

- 1. Sustainable Growth, myth or reality? .....70
- 2. The limits of growth .....71
- 3. Agro-fuels: Speculating with hunger .....75
- 4. Towards an economy in favor of life.....78
- 5. About the transition moment .....81
- 6. Positive growth in the South and negative in the North.....86

**Chapter V**

**The Historical Actor confronting a civilization change: challenges and threats .....93**

- 1. The Historical Actor confronting a civilization change.....93
- 2. The extra economic factors will triumph over the economic ones.....99
- 3. Threats facing a civilization change .....102
- 4. The limits of power sustained on an unproductive basis .....102
- 5. Geo -strategy of the financial elite in the past.....105
- 6. Present and future geo-strategy .....107
- 7. The strategic location and role of Latin America and the Caribbean .....108

# Introduction

## The complexity of the present crisis

This work aims at analyzing different aspects of the global crisis and depression of the 21<sup>st</sup> century, from a transdisciplinary perspective and showing how these problems are perceived at the beginning of 2010. The crisis will be analyzed in its different aspects, that is to say, not only from an economic-financial perspective, but also taking into account the geopolitical crisis, as well as the military, energy, food, ecological, ethical and social crises. The simultaneous crises affecting humankind are many; their complexity does not allow an adequate understanding if we approach them from only one discipline of knowledge, in fact, not even from an interdisciplinary approach. It is necessary to break down the artificially built boundaries between the different disciplines. Therefore, a transdisciplinary and dialectical approach is needed to understand the interconnection, magnitude and complexity of the problem. We are in search of answers not limited to the economic dimension of the crisis, but integral and emancipating answers from the perspective of oppressed peoples of the South.

It is our opinion that, from March 2009 on, and contrary to what the big media said, the world did not recover from the so called credit crisis. At the beginning of 2010, there are signs that

it is rather intensifying – a process that will take years and maybe all the present decade. Of course, as a result of the complexity of the topics and mainly their projection into the future, it is difficult to reach unanimity of criteria; and there will always be different nuances and varied opinions, above all, because of the unpredictability of different future developments. The analysis will not be limited to the recent past and the current state of the crisis, but we will try to identify possible future trends which are very hard to predict. We would also like to point out some dangers of the crisis, beyond the economic aspect, and, at the same time, identify the opportunities it could offer to the oppressed peoples in general, and to those from the South in particular. We have chosen a more prospective analysis for the taking of action faced with possible scenarios.

Members of the International Observatory of the Crisis, as well as other related scholars, had been raising the alarm over the years, in several articles, books and forums, about the situation that was brewing in the world: A huge and unprecedented global crisis with economic, social, political, military, energy, food, ecological and even ethical manifestations, the result of decades of combinations of numerous contradictions. Although we are going through a very difficult period, it is also a time full of opportunities for building a new road for peace, democracy, freedom, justice, human dignity, equity in progress, common security, and a life in harmony with the planet. These objectives and values must not be subject to manipulation, renunciation or negotiation. They should be defended over political parties, races, ideologies and religions, until reaching a reasonable balance among human beings, and between them and nature.

Since the emergence of capitalism, there have been cyclical or periodical crises, with more or less intensity, extension or duration. This time, however, we are facing a new crisis, with different characteristics. It's a wider, deeper and multidimensional crisis with a global reach. Therefore, we are not only talking about another cyclical crisis of capitalism but about a big structural crisis within the frame of a "Crisis of Civilization." This means a potential for eventually remodeling the socio-economic geography and global history. It's the chaining together of several crises, beginning with the financial and economic one. All these together are in motion in a context where many of them are as serious as the economic crisis itself, or even worse than it. Among them: the ecological crisis, intensified by very likely global warming; the

energy crisis and that of natural resources; the agricultural and food crisis, which is threatening the most deprived people on the planet; the ethical and ideological crisis. The ideas, the rationality and the moral principles, which derive from the very economic rationality and have always been a support to the current unjust civilization model, are also in crisis.

The financial/economic crisis – as we will see ahead – affects the real economy in all countries, therefore, it is global. It became apparent, among many other things, in the uncontrolled increase of private and public debt and the volatility of currencies, not only in the periphery countries as in previous decades, but in the United States. In other words, the epicenter of the crisis is in the heart of the empire. The first manifestation was a credit and mortgage crisis of banks (which were bailed out by governments with huge amounts of money). Now, the threat of bankruptcy of the core countries' governments is real. The increase of the public debt did not manage to revive the economy. For example, productive investment in the US fell 24 percent since the end of 2007, causing major unemployment and affecting income. The debts in default and the fall of income led to a generalized contraction of demand. In other words, the crisis of the real economy became apparent.

Since March 2009, the dominant media spread the idea that the banking crisis announced in mid-2007 had been overcome. It demanded an injection of trillions of dollars in order to bail out the most important banks. The justification was that the banks were too big to let them fail. In fact it meant that the banking elite had too much political power to let them fail. The states have tried to avoid the collapse of the largest banks which are in fact the main ones responsible of the crisis. Central banks occupied the first place in the bail-out, with the Federal Reserve of the US (the center of the current crisis) at the top. These rescue operations reached the amount of trillions of dollars during the months of September and October 2008, and continued during 2009.

The banks, and their irresponsible and fraudulent behavior, are to blame for the crisis in the real economy. Instead of helping the recovery of the real economy, they have returned to the casino economy, causing a further damage in almost all world economic areas. Instead of bringing a solution for the real economy, such interventions to rescue the big banks represented a stimulus to continue doing what they had been doing: accumulating fictitious capital at the expense of real capital. This situation increased the volatility of the world economic system even more, and with it,

economic, social and political uncertainty grows today, and maybe even more tomorrow. Rather than seeing light at the end of the tunnel, the future prospect is even darker. The alleged recovery announced by the dominant media at the end of 2009, and even during the first weeks of 2010, vanished into thin air at the end of January 2010 because the root causes of the crisis seemed to be much deeper.

The food crisis and access to basic needs, affects currently half of the world population while an ever smaller minority, mostly in the rich countries but also in the well-to-do layers of the periphery countries, has a consumption pattern characterized by waste and excesses. In view of the relative shortage of energy sources, a competition between agrofuels and food products has begun, leading to a struggle over the use of land. This situation limits production and increases the production cost of food products. The FAO announced in 2009 the existence of at least one billion people suffering hunger, and 53 million of them live in Latin America. Water has become an increasingly scarce resource in the midst of an economy characterized by waste and excesses which are not limited to consumption but are part of production too. But water is not only scarce; it has become a strategic resource, and the cause of international conflicts. Billions of human beings live in poverty, often suffering hunger and lack of water, particularly in the so-called third world. This situation tends to get worse as a result of the crisis.

One of the main characteristics differentiating the current depression from the previous ones is the energy and climate crises. The exhaustion of fossil and non-renewable energy reserves, mineral resources and raw materials is a fact which had never been faced before. Peak Oil has been announced since 2010 and even earlier. In other words, the highest point in the supply of oil has been reached without meeting the demand, which is still growing non-stop. From this moment on, the supply of this energy resource will only tend to fall although demand continues to grow. A systematic increase in price is a logical consequence. This situation accentuates the struggle among the big powers for controlling fossil energy resources. Many of these reserves are located in the periphery countries in general, including Latin America. Meanwhile, renewable energy resources and other technologies are far from being able to replace oil. But Peak Oil is not an isolated case. Something similar happens to 20% of mineral resources which have also reached their highest peak of extraction.

This tendency will only be accentuated during the next decades. In consequence, the paradigm of sustainable growth, which is the foundation of perpetual capital accumulation, faces a dead end crisis. Therefore, we are witnessing a crisis of the capitalist system itself.

The other side of the crisis of the 21<sup>st</sup> century is the great inequity in the use of natural resources. The current distribution in the use of these resources is not even enough to sustain the western way of life of less than 20 percent of the world population, concentrated in the North. This minority consumes more than 80 percent of all natural resources on the planet. The ecological impact of this minority contributes directly to the climate crisis. The poor and their "galloping population" are not the ones who represent a threat for the planet. The periphery peoples have the legitimate right to demand the use of their own resources in order to guarantee their own survival. However, the elites of the core countries see those periphery countries which demand their own survival as a threat. Hypothetically, if humankind reached barbarism and the poor peoples on earth were exterminated – as Hitler tried to do with the Jewish people – the ecological crisis would not be resolved, because the poor peoples of the world are not the ones who destroy the resources, they are rather their net suppliers.

The ecological crisis, global warming and the progressive damage to the ecosystems, are consequences of the overexploitation of natural resources and their irrational use. All regions of the planet suffer these consequences but the most depressed areas and the poor are affected with higher intensity. Droughts, hurricanes and extreme temperatures in vast areas of the planet are increasingly common in this first decade of the century, and represent a warning of what lies ahead in the coming years and decades. In a little more than two centuries of the industrial revolution, the capitalist system has destroyed much of what nature took millions of years in creating. This destruction began in the core countries and was extended then to periphery countries with the largest natural resource reserves. These were fiercely disputed by the power elites of the dominant nations. It is interesting that the rationalization in the use of natural resources in general and energy resources in particular takes place in the field of consumption and not in the sphere of production. It is also attention-getting that military bases, the conflicts and wars tend to spread in various areas of the periphery where strategic natural resources are located.

A very peculiar crisis of this mode of production is that of "*fictitious capital*". It is not capital itself, but its representation or something derived from it, in the shape of shares, public and private debt securities, etc. During the last decades, this evolution was completed with second and third forms of derivatives, mainly by means of the insurance system. This development allows the exchange of all kinds of fictitious capital. This fictitious capital allows an easier buying and selling of capital and in consequence an acceleration in its circulation which is one of the principal factors of the increase of fictitious profits. The development of fictitious capital is the ultimate form of capital, when it has lost its concrete relation to work and when the capitalist has become a total parasite who thrives by means of the sheer transaction of papers<sup>1</sup>.

This fictitious capital created the illusion that capital had gotten rid of all brakes in its development because it could recreate itself and create markets for that reproduction independently from the working class. That is to say, creating capital independently from the creation of surplus value, making fun of this sole way of creating "wealth" in capitalism. The development of mortgage loans and consumer credits was a manifestation of this fictitious capital with the aim of offsetting the downward trend of individual income of the consumer. The most abstract expression of this development is the circulation of money that does not have value itself, giving the impression of being a "scientific" or capricious creation of the authorities of central banks.

The characterization of the crisis becomes clearer when it is noticed that the financial system (banks, funds, and insurance companies) has a proportion between capital and own funds on one side and investments and credit on the other of 1 to 30 and even 1 to 60. It means that the banks bought bonds with a huge amount of someone else's money, that is, without a backup. With the bail-out of the banks, the mechanism that triggered the above mentioned bankruptcy of mortgage and corporation loans is in motion again, but this time with governments assuming an unprecedented role. The state replaces the mortgage and corporate debtors of a year ago, but also replaces the fund suppliers of the banks by means of issuing money from its central bank.

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<sup>1</sup> As Jorge Altamira says in "*Una piñata que no es solo griega*", International Observatory of the Crisis, February 2010.

The central banks injected trillions of dollars, using different ways, in order to avoid the generalized bankruptcy of the banks. The main measures taken were:

- The buying of the devaluated and unmarketable assets of the banks at book value or at an artificial price based on "mathematical models;"
- The massive buying of public and mortgage securities or securities guaranteed by mortgages of devaluated properties;
- The granting of guarantees to the banks; the reduction, almost to zero, of interest rates of central bank loans to private banks.

Almost none of the debts of the past have been paid off (mortgage, corporative, consumer credits, etc.) and the increase of fiscal debt has created a much more explosive global financial situation. In a word, capital thought it had overcome the law of value and that the economy could work based on prices disconnected from the work time that is necessary for the production of the corresponding goods, and disconnected from the final consumption capacity of the people. The current crisis just represents an eruption of these contradictions <sup>2</sup>.

For some authors, the current crisis does not represent the crumbling of fictitious capital. Therefore, they do not see a great historical depression of capitalist reproduction, but quite the contrary. For them, the crisis will clear up the road for an even higher expansion of capital considered in its most abstract form. However, as Jorge Altamira says, and we support this view,

...considering the antecedent of the Great Depression of the 20<sup>th</sup> century, this expectation is illusory. This is because capital recovered its trend to its most abstract form of social constitution only after 60 years. It did so following an unprecedented world war and huge social revolutions, and finally as a result of a reversion.

The flooding of global markets with fictitious value, mainly from the US, is a serious global problem without solution. The destruction of fictitious capital is inevitable on a global

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<sup>2</sup> Altamira, *op. cit.*

scale. On an individual scale, however, the transformation of this fictitious capital into real capital is possible. Individual fictitious capital tries to become real wherever and however it can. This intensifies the transfer of real wealth from the third world as well as from the working and middle classes of the core countries. Fictitious capital can become real capital on an individual level, for example, by means of the purchase of large extensions of land in the periphery countries with the aim of producing agrofuels. In view of the growing shortage of mineral resources, the new-style colonialism begins to acquire and occupy again territories rich in natural resources, even with the use of a military presence. Workers will have to work longer years before retiring, not because life expectancy has increased, but in order to make them pay the fiscal debt contracted in order to rescue the banks. Workers will pay for the crisis by means of different mechanisms. As a result of their protests and actions of revolt, the repression of popular masses increases, even with military presence, as in the case of Greece recently.

In the midst of a crisis of the real economy, international trade suffers a strong contraction. Imports of core countries fall and there are increasing signs of protectionism. For example, US imports fell more than 30 percent from July 2008 to June 2009. In view of this situation there is no other choice for the periphery countries but to turn more to their own consumption, as is the case of China. It is not out of their own desire that the periphery countries have begun to talk about "Decoupling" or a "Disconnection" from the rich countries in order to get out from the international crisis. The speculative economy and fictitious capital have had less impact in the periphery countries than in core countries. Over the last decades, the real economy has shifted relatively to the periphery countries. That is why the impact of the crisis in the real economy has not been felt with all its strength in periphery economies. This, mainly in the emergent countries where the growth of the real economy has been particularly strong. These nations, with China at the head, begin to have a better awareness that they have been subsidizing with their real wealth, during decades, the capital accumulation of the core countries (mainly the US). Now, in view of the crisis at the centers of power, they demand a more important political role. That is why the G-20 has become relevant in the crisis.

There was a process of annexation of periphery economies during the neoliberal era. This process has been implemented mainly by means of institutions and instruments created since the Bretton Woods Conference such as: the World Bank, the International Monetary Fund, the World Trade Organization, free trade agreements, foreign debt and speculation with currency in the South, and other forms of financial and speculative operations. The earlier existing forms are the practice of undervaluing imports from the South and overvaluing exports from the North. In the middle of the crisis, the contraction of international trade together with growing protectionism, give the periphery countries the opportunity, and growing need, of surviving on their own. As time goes by and the crisis deepens, the possibility of a generalized crisis of the strong currencies becomes real. This would represent a serious complication for international trade and would accelerate the already existing disconnection process, giving the opportunity, and the historical need, of finding alternatives beyond the capitalist system.

In view of the crisis and growing unemployment, return migration from the core countries to the periphery countries in general, Latin America and the Caribbean in particular, takes place. Migration from the South was seen as the opportunity for advancement (individually or at a family level) from scarce job opportunities in the source country. In times of crisis the workforce is relatively abundant and the unemployment rate increases. Immigrant workers, as well as women and "ethnic minorities," are more expendable. Ruling elites try to divide the working class inciting racism, sexism and xenophobia. In times of crisis, this situation could deteriorate further, to the point that there are already clear neofascist tendencies in sight. Return migration, in a context of xenophobia and high levels of economic uncertainty, destroys the "American dream" in Latin American and Caribbean nations. It encourages people to build a less individualistic and more political project inside their own countries. This could generate an alternative political consciousness giving an ideological base to the disconnection. Something similar has already happened in El Salvador and could also happen in some other countries as the crisis grows deeper.

Amid growing manifestations of neofascism at the beginning of depression, the working and middle classes in the North – with a significant presence of immigrants from the South – could become even more divided. However, a deeper crisis which threatens the

survival of large majorities, both in the North and the South, will show that the "everyone for himself" attitude is not likely to save anyone in the working class. This was the case during the Great Depression of the 20<sup>th</sup> century. If we add to this crisis the ecological threats and the danger of a great war, a political alliance between workers beyond the boundaries of the North and the South becomes more possible. In such a civilizational crisis, the Common Good is forgotten as never before, but is more necessary than ever. The ethics of solidarity can overcome the ethics of "every man for himself" in such a context. A consciousness of solidarity and of world citizenry beyond divisions of cultures, frontiers, races, generations, sex, religion, languages and customs will grow. It is perceived as a hope and a solution to face the deep crisis of civilization.

A consciousness of world citizenry beyond divisions is seen as a possibility, and as an eventual solution to face a deep civilizational crisis. However we cannot forget the existence of growing dividing lines which are currently strengthened by increasingly radical xenophobic, racist and exclusive positions that are fomented by the ruling elites. This is mainly but not only, in the core countries. The ruling elites and the dominant mass media incite fatalist, xenophobic and racist views. These favor the emergence of religious fundamentalist extremism, clashes between cultures and other forms of division among human beings. The attitude of "everyone for himself" serves the interests of ruling elites who are aware of latent popular revolts which threaten stability and governability. In order to suppress them, a growing militarization within the countries is taking place, as well as a threatening environment in international politics. With this, ruling elites are trying to promote a global totalitarianism and threaten the world with the menace of large military conflicts.

Mainly in the South, there is a growing questioning and delegitimization of governments and political parties, along with a demand for building participative democratic spaces and processes. This is a time of global uncertainty. However the big processes of disconnection and rupture with the prevailing rationality have usually taken place precisely in similar international situations. We are facing a crisis of western culture. These are times of blatant exploitation, alienation and hopelessness. However, contradictorily, it is also a time for hope because an essential change in the very structures of the system

can take place – and not only a reform. The historic thesis of “barbarism or socialism” becomes very pressing again.

Currently, there is an international political crisis characterized by a fierce dispute over global territories. War is the instrument ruling elites usually use in order to guarantee their appropriation of natural resources. Energy resources in particular are objectives as in the case of Iraq and Afghanistan. War as well is an instrument in order to resolve geopolitical contradictions. Latin America and the Caribbean, backyard of the current empire, is not removed from this geopolitical strategy and could be eventually involved in a major war. In the event of an extended war, the natural and energy resources of Latin America and the Caribbean are of strategic importance for the US. The coup d'état in Honduras, the presence of the US Fourth Fleet in Latin American and Caribbean waters and the recent decision of setting up military bases in Colombia, next to Venezuela (the second oil reserve in the world) attest to it, as pointed out in our previous publication: *The World at the Crossroad of a Great Depression*.

There is a growing conviction on the limits to economic growth. Therefore, the development of capital (or the development of value, in more abstract terms) also reaches its limits. At this point everybody wonders if there is any solution for saving the existing regime. A possible solution would have to take place in the context of a zero growth economy. However, without growth or a valorization process the capitalist system is not viable. Therefore, we are facing a transitional period in which the current hegemony of value tends to be replaced by the hegemony of use value, currently opposing it. It seems that we are in a transition toward another type of civilization with another culture. Nevertheless, for its establishment, a reversal of the logic of functioning of present day societies, and in consequence of their ethical, cultural and ideological values is essential.

A utopia, which is difficult to perceive now, lies ahead on the horizon. In view of the growing shortage of resources and the limited possibilities of a valorization process, the transition becomes a historical necessity. It implies the need for economic regulation, either from above or better yet from below. Such a transitional period could lead to a centralization of power. The use value will be defined for the society as a whole, instead of being produced for satisfying minority interests (individualized use value). However, the transition itself, in a context of disconnection, opens up spaces for demanding a more direct and participative

democracy in defining needs. This would change the content of production, obviously without the current exorbitant luxury and uselessness. During a transitional process, value tends to be reduced to a means of exchange. It does so in order to generate use value and it will lose the chance of becoming a goal in itself<sup>3</sup>.

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<sup>3</sup> Paulo Campanario, "The Hegemony of Advanced Social Use Value: the Key for Surpassing Present Societies", International Observatory of the Crisis, February 2009.

## Chapter I

# The Great Depression of the 21<sup>st</sup> Century The role of unproductive work and fictitious capital

*“Permit me to issue and control the money of a nation, and I care not who makes its laws.”*

*Baron of Rothschild (British banker)*

*“The money power preys upon the nation in times of peace and conspires against it in times of adversity. It is more despotic than monarchy, more insolent than autocracy, more selfish than bureaucracy. It denounces, as public enemies, all who question its methods or throw light upon its crimes. I have two great enemies, the Southern army in front of me and the Bankers in the rear. And of the two, the bankers are my greatest foe.”*

*President Abraham Lincoln – 1866 – (he was assassinated)*

*“Whoever controls the volume of money in any country is absolute master of all industry and commerce.”*

*President James A. Garfield – 1881 – (he was assassinated)*

*"I am a most unhappy man. I have unwittingly ruined my country. A great industrial nation is controlled by its system of credit. Our system of credit is concentrated. The growth of the Nation and all our activities are in the hands of a few men. We have come to be one of the worst ruled, one of the most completely controlled and dominated Governments in the civilized world, no longer a government by free opinion, no longer a government by conviction and the vote of the majority, but a government by the opinion and duress of a small group of dominant men."*

*President Woodrow Wilson (1856-1924)*

*"The high office of the President has been used to foment a plot to destroy America's freedom and before I leave office, I must inform the citizens of their plight."*

*President John F. Kennedy (10 days before being assassinated)*

These presidents were assassinated apparently because they defended interests which were contrary to those of the financial elites. In our article "The great depression of the 21<sup>st</sup> century," written at the time Mr. Barack Obama was being elected president, we pointed out that he would have few options of implementing his own policy faced with the banking elite, unless he would take a big risk.

## **1. Unproductive labor as a source of speculation**

For those readers who are not familiar with some of the terms used here, the following explanation is given. Classical economists, both supporters and critics of capitalism, among them David Ricardo, Adam Smith, Marx, Engels and others, agree that the source of wealth is human work. That is because it transforms natural resources, along with the working tools and knowledge, mainly technological knowledge. The outcome of this activity is the production of goods, which are taken to the market to meet demand and satisfy the needs of consumers.

This is known as "productive labor," which is carried out in the so-called "productive or real sector" of the economy. It is in this sector that a surplus value is created. Under the capitalist system this part of the wealth produced is accumulated and transformed into capital. Therefore, capital is just "accumulated wealth" originated in the "productive sector." It is important to be aware that not all of the wealth created acquires a material form. There are productive services such as education, transportation, water or electric power distribution, telecommunications, entertainment and many others. The generation of these productive services (as is the case of transportation or entertainment) cannot be achieved without their simultaneous consumption. Therefore, what really counts is the creation of real wealth – material or non-material wealth. Without the creation of real wealth, "real growth" cannot be achieved, and any other "growth" is "fictitious" regarding its content.

On the other hand, there is work which is "unproductive" by its content. Its non-productive character does not imply that it is unnecessary or even detrimental work. Fire insurance and fire-fighting services are unproductive activities which are necessary and useful for the whole of society. When a building or property is destroyed by fire, wealth in the form of material goods is lost. The insurance is in charge of sharing this loss, while firemen try to avoid a greater damage. Fire insurance and insurance against theft, loss, accident or natural disasters are useful activities that do not create new wealth, but share the losses caused by these eventualities. Insurance policy, which is paid in order to receive compensation in case of an eventuality, provides the basis for redistribution of lost goods. Thus, the insurance allows society as a whole to function better, and with it, demonstrates indirectly its productive character. The fact that private insurance companies function with profits and operate as capital, makes them appear as productive entities, from the perspective of the dominant social form or relation. What is really essential for capital is that the activity generates profits, regardless of its content. This approach gives the impression that every activity that generates profits in society has a productive character. But the unproductive character of activity lies in its content, which is revealed in times of crisis like today.

The single act of transferring possession or property does not represent a productive service according to its content. It does not create wealth, but just transfers it from one hand to

another. This activity can be carried out individually or as a profit making enterprise, but it continues being unproductive by its content. The work of lawyers, real estate brokers, commerce and banks are examples of unproductive services, functioning with the existing social relations of society. The same building can be sold many times in a year, during a period characterized by speculation, without increasing the created wealth. The activity of the real estate broker, and that of the lawyer who writes the deeds, constitutes "unproductive labor" by its content. And although a company can obtain profits providing these services, the activity itself does not create wealth.

Lottery and casinos redistribute at random the existing wealth, and are unproductive activities due to their content. The same can be said regarding the biggest casino of the world: the stock market. Speculation in general, and particularly in the stock market, is unproductive work by its specific content, even though it may be useful or not for society as a whole. That is why a company devoted to speculation, in terms of obtaining profits, could be the best business in times of prosperity or the worst catastrophe in times of crisis.

Every product which is created in an economic cycle and then used unproductively in the following cycle becomes a finished work which is consumed in an unproductive way. Therefore, the productive work in an economic cycle becomes unproductive in the following because the finished work has been consumed in an unproductive manner. It is the case, for instance, of all the buildings and equipment used in the casinos or for speculative work. The unproductive character of consumption of a given product is not always revealed in the following economic cycle. In the military industrial complex, production can take several years before the final product is finished, which is at best never used. Moreover, if it were used it would be for destroying already existing wealth. The final products of the military industrial complex do not link the process of material reproduction. They rather weaken this process. In other words, when a government invests a higher percentage in weapons, a contraction of the economy will follow in a medium-term period of time. This is the reason for its unproductive character.

The military industrial complex not only uses up material wealth unproductively, but when the final products are used in military conflicts it also destroys existing wealth. The above mentioned fact does not prevent the capital invested in this sector

from generating big income. Taking into account profits generated, this sector is very productive. It can be called the unproductive / destructive sub-sector, or sector of destructive capital. The negative effects of military expenditure on health and education budgets are well known. The former favors capital, whereas the latter benefits the working class. Nowadays, particularly in the United States, there is a tendency to try to escape from the current crisis by means of growing investments in the military industrial complex. At the same time it serves to maintain a global hegemony which is currently at risk, resorting even to the threat of war. The increase in defense spending that this hegemony entails, represents an unproductive and unsustainable waste which finally will further damage the already deteriorated economic situation of the United States.

## **2. Interest-bearing capital as a source of fictitious capital**

To understand "fictitious capital" it is also important to understand the function of monetary loans. This is a very complex issue which cannot be thoroughly analyzed here. We will just refer to some essential notions. In its more general form, money is just a means for facilitating the exchange of goods and services through equivalents established by society. Money, in its primitive form (be it gold, silver, cocoa, etc.), is a commodity that works as a unit of account to express the exchange relationship with all other commodities. Nowadays it takes the form of paper money or even electronic money. Buying and selling of all kind of commodities takes place by means of money. In real terms this is not necessary, and in fact it does not occur today. Commodities can be paid in cash, but can also be sold on credit. Credit not only exists for the buying and selling of goods. It is also granted for investing in business. These investments can be either productive or unproductive.

The first form of fictitious and speculative capital emerges at this point. Interest-bearing capital became very important for the development of the capitalist system in its industrial phase. At that time credit was directly subordinated to the logic of industrial capital. The development of the credit system during this stage of capitalism is mainly aimed at financing production. Productive capital will only borrow money if the interest to be paid is less than

the rate of profit they expect to obtain with the investment. In this context, interest-bearing capital (the banks) contributes indirectly to the creation of real wealth. This, because at the same time that it keeps part of the surplus value generated in the productive sector, it also increases both the efficiency of the production of surplus value and the speed of reproduction of the capital cycle.

But there are people who hold money (for instance, bankers), that do not invest funds in productive activities, but trade with it. That is, they give it not in exchange for any other commodity, but in exchange for the same amount of money plus interest. The interest is obtained after a period of time exploiting the money. This money is a commodity which is given and received in the form of a loan, and its price is the type of interest. Interest is established by the supply and demand of that money. It must be said that the interest-bearing capital which finances production or circulation is quite different from fictitious capital. Fictitious capital however is a result of its existence. What really counts is the fact that interest-bearing capital itself creates a social illusion; and fictitious capital emerges precisely out of this illusion. In capitalism, the generalized existence of interest-bearing capital, whose apparent meaning is that a considerable amount of money always generates remuneration, creates the illusion that the opposite is also true. It seems that all regular remuneration must have the existence of capital as its starting point. Such capital does not necessarily have major significance for the functioning of the economic system. For that reason it can be named "illusory capital"<sup>1</sup>.

Nevertheless, when the right to such remuneration is represented by a document or bond that can be sold to a third party, it becomes fictitious capital. The marketable bond is the legal representation of that form of capital. Perhaps the best example of the existence of fictitious capital is when a government grants a private company the right to use a radio or television frequency for commercial purposes. This concession in turn, granted at the expense of political favors, etc., can be sold to a third party. Thus, fictitious capital emerges as a consequence of the generalized existence of interest-bearing capital, but it is the result of a social illusion. And so, why should we call it fictitious capital? Carcanholo and Sabadini conclude that it is because

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<sup>1</sup> Reinaldo A. Carcanholo and Mauricio de S. Sabadini, "Fictitious Capital and Profits", International Observatory of the Crisis.

there is nothing real behind it. It does not contribute at all to the production or circulation of wealth, at least in the sense that it does not finance either productive or commercial capital.

### 3. Speculative capital, fictitious capital and the great depression

Company shares are a form of fictitious capital because they represent wealth which has been counted twice. The first time they represent the value of the company's assets. The second time as the value of the shares themselves. The value of the shares frequently changes independently of the value of the company's assets. The evidence of this is that both values can serve a guarantee purpose, for example, for bank loans. They can be counted twice, three times or more, thanks to the existence of holding companies. The speculative rise in value of the shares represents an increase of the total volume of fictitious capital existing in the economy. But this increase has a distinctive feature from the original value: it does not entail an apparent duplication of a real value. In fact, there is nothing real backing it up. When the loan is intended for the private sector and is formalized through a bond negotiable in the market, it must also be considered as fictitious capital because the value has been apparently doubled. When there is an increase of the public debt due to unproductive expenses or revenue expenditure, or even transfers, we are dealing with the creation of new fictitious capital, since no real wealth results from that increase of the debt <sup>2</sup>.

Today the economy has lost, as never before, its connection with the productive sphere. There is a huge paper economy, basically fueled by the persistence of public deficits and mechanisms of financial innovation not corresponding to the real situation of the economy. Increasingly bigger amounts of speculative and fictitious capital move from one place to another. They try to achieve, by means of financial investments, a profitability which is no longer obtained in the real economy. This is due to the fall of the profit rate in the real sector. It can be concluded that capitalism today has become in fact "Fictitious Capitalism." The rules of the game are radically different, and even conflicting with classical

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<sup>2</sup> Carcanholo and Sabadini, *op. cit.*

“Productive Capitalism,” that is, capitalism based upon the generation of surplus value and real wealth.

Therefore, capital takes on a mystifying aspect when it becomes interest-bearing capital. Under the form of fictitious capital, however, it assumes an even more complex and dematerialized appearance. In its moment of glory during the neoliberal era, the true economy seemed to be the financial economy. In those days, financial centers of New York and London could laugh at the productive capital of the world. It seemed that the financial economy developed independently from the dynamics of production.

Fictitious capital generates fictitious profits which can only become real at an individual level, but never at a global level. So, as long as there is hope of turning them into real profits, the speculative bubble generated by fictitious capital will keep on growing. When governments rescued the banks from the credit crisis, the financial sector could return to the casino economy. Today, the bankruptcy of states is a real fact, and with it, the fact that those fictitious profits cannot become real ones will be self-evident sooner or later. Then, the bubble will burst, putting an end to the accumulation of fictitious capital. This fictitious capital can be compared to a kind of cancer or a parasite in the human body.

There is a massive generation of “fictitious” or “parasitic” capital circulating in the world mixed with real capital. According to the Basel Bank for International Settlements (a central bank of all central banks in the world) there were 1,000 trillion dollars in stocks, bonds and bank notes circulating in the world in 2009, whereas the gross world product (GWP) was little more than 50 trillion dollars. Therefore, at present, for each dollar with real value there are twenty other dollars circulating which are “fictitious” and “parasitic” capital – representing the biggest fraud in history<sup>3</sup>. These shares, which Wall Street has called “derivative financial products,” in the form of debts, bonds, promissory notes, etc., were the cause of the credit crisis in the US, and contaminated all world markets.

Sooner or later this bubble of fictitious capital reaches a point where it causes its own destruction. That means the elimination of a big part of this paper economy by means of the cancellation of debts due to bankruptcies. Private company bankruptcies in the US rose from 800.000 in 2007 to 1.4 million in 2009 (a 75% increase). The situation will get worse in 2010. In the year 2009,

140 US banks went bankrupt, while other 700 were in danger of bankruptcy according to the Federal Deposit Insurance Corporation (James Quinn, "Recession, Depression or Systematic Breakdown"). The huge financial bubble is exploding, and along with it the world economy enters a period of depression, thus undergoing tremendous instability and uncertainty. Hegemony of the US is adrift. The global depression reveals the need for a new international economic order, while the US tries hard not to lose its hegemony. In view of the weakened situation of the US economy, it is not likely that a new international order could be established under the hegemony of the US.

In the periphery countries, unlike the core countries, there was an increase, in relative terms, of the creation of real and productive wealth. In the core countries, average profits in the financial and speculative sectors were higher. As a consequence investments moved during decades from the productive sector and the real economy to the unproductive parasitic sector. In markets of the first world, real wealth has been exchanged for fictitious capital lately. Such exchange represents a growing permanent subsidy of real wealth from periphery countries to the rich nations of the planet. It reveals their progressive "parasitic" character. For this reason the periphery countries were less affected by the crisis than the centers of power. It is in this context that the demand for a change in power quotas emerges from the South among the emergent countries (such as the BRIC). Other nations in the South struggle for a "decoupling" or "disconnection" from the dominant system. In the middle of the crisis, international trade collapse will create the objective conditions for such a disconnection.

Latin America and the Caribbean countries such as Venezuela, Ecuador and Bolivia are trying to achieve a greater level of disconnection. They understand they can survive better without subsidizing or bearing the waste of the rich countries. The latter understand that under today's circumstances they cannot survive without the permanent subsidy from the periphery countries, and much less without their natural resources. In view of the possible collapse of fictitious capital, reactionary forces among the elites, with the US at the head, become more radical. They try to prolong the current political status quo even resorting to war. In Latin America there are forces which are more aligned with this position as is the case of Mexico, Colombia, or Peru, for example. The possibilities of war are becoming stronger and more concrete around the world. Specific threats exist for Latin America and

the Caribbean. War can be used to maintain political hegemony, but it does not offer a solution for getting out of the crisis. The big question is how, in a profitable manner, to reconnect investment with the real economy.

Later on, we will see that it is doubtful that the West can return to a productive sphere by means of a rise in the rate of profit. This situation confronts capitalism with a crisis with no apparent solution – at least in the West. With it, there are expectations for a change in the form of civilization and not in the very long run. Nevertheless, in the short run, global hegemonic capital will attempt to establish a process of domination, even under the effects of negative growth. This scenario would be the beginning of the post capitalist era. This is an era with no accumulation of capital, possibly authoritarian in its initial transitional phase. In this context, and amidst a greater disconnection, the possibilities of beginning more endogenous projects with more democratic and participative efforts come into view. This process can be seen taking shape in some form already in Bolivia. Coexistence with capitalism hinders the process of self-determination and more radical participative democratization. The eventual collapse of the international monetary system would cause a forced, profound and global disconnection. The longer it takes place, the more radical the disconnection process will be. In the next chapter, the risks of a collapse of the international monetary system will be discussed.

## Chapter II

# A new stage in the world crisis: the threat of state bankruptcies

### 1. "Recovery" of the fictitious economy but not of the real economy

The housing crisis in 2008 was the result of years of accumulation of fictitious capital. It began in the US with the granting of loans to indebted households for buying their own houses. Commercial banks or institutions specializing in real estate financing, agreed to loans with mortgages which they transformed into securities for the creation of new derivative products that were sold in the financial market. By this, they reduced the risks of payment default and expanded the borrowing capacity of households. They stimulated lending and artificially pushed up housing prices. Between the end of 2004 and the beginning of 2006 there was a growing tendency to grant loans to poor families (so called subprime loans). These families only had a low income and did not have favorable installment conditions for repayment. Those contracts did not include a resistance period to maintain very low interest rates at the beginning (from 1 to 2 %). As a consequence

they did not protect them against brutally high interest rates after two years, usually more than 15 percent <sup>1</sup>.

Derivates involved were much more accepted and attractive for the financial markets. They were used by some financial institutions (insurance companies) for creating other compound instruments. These, in turn, were commercialized with the aim of securing a refinancing. Doing so they obtain participation in the interests. The crisis broke out when a critical mass of debtors began to face serious difficulties for repaying their loans. This was the result of the increase of the interest rate by the Federal Reserve. They did so in order to finance the huge expenses linked to wars in Iraq and Afghanistan. The financial and monetary system presented great paradoxes. One of them was the illusion that it was possible to find a solution following the neoliberal management of the capital expansion crisis. However, as Herrera and Nakatani state, one bubble bursts just to create another one which is even more dangerous; and that is precisely what is happening now. State bankruptcies are the next stage.

Central banks kept the interest rates again close to zero. Private banks received huge amounts of money from government rescue plans in 2008 and 2009. As a consequence, financial capital was not afraid of investing again in high risk assets. Investments reached a wide variety of forms, from the speculative buying of gold to buying apartments in Dubai or Beijing. Forward contracts in commodities prospered. The price of oil for instance, rose 132 percent since February 2009 in just nine months. Options concerning interest rates are in fashion again. Trading with derivates continues to be the favorite activity of big speculative capital. In spite of its disastrous results during the recent crisis, speculation continues being legal and still occurs without major regulation. As a result, a new bubble of fictitious capital has been developing, more rapidly this time. This renewed parasitic development of fictitious capital, with the desired fictitious profits, continues to be the most important business. With a new financial collapse, the losses would amount to several times the US economy <sup>2</sup>.

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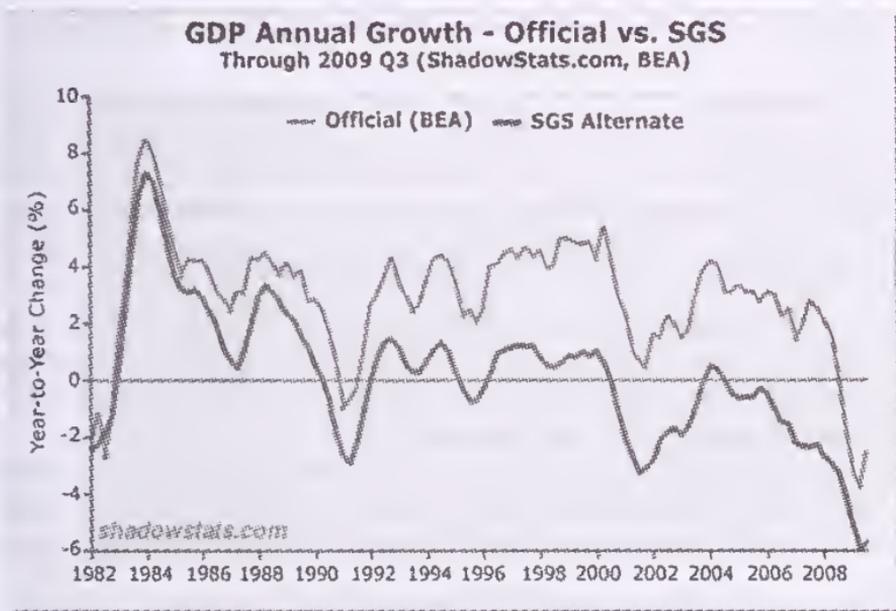
<sup>1</sup> See, Rémy Herrera and Paulo Nakatani, "The Financial Crisis: Roots, Reasons and Prospects", in the International Observatory of the Crisis.

<sup>2</sup> Rana Foroohar, "The boom in the gloom", en *Neesweek*, November 9<sup>th</sup> 2009, pp. 34 and 35.

Despite all the rescue funds injected, the real economies of the G-7 have not recovered. Growth rate has been negative in the core countries during 2009 (Japan -5.4 %, Great Britain -4.5 %, the Eurozone -3.8 % and the US -2.5 %). In difficult times, the official numbers always tend to be corrected downward after a while. That is, because governments try to keep the best impression possible. If the real data is considered, the US was in recession since 2001 and reached a negative real growth rate of 6 percent in 2009. These results contrast with the positive growth rates of some emergent economies such as China with 8.2 percent, India 5.5 percent and Indonesia 4.2 percent. In Latin America, countries most closely linked to the US economy underwent a strong recession (Mexico -7.1 %). In emergent countries like Brazil (where there is a combination of speculative and productive capital) there was neither recession nor growth <sup>3</sup>.

Chart No. 1

GDP Annual Growth in the US – Official Statistics vs. “Shadow Statistics”



<sup>3</sup> *The Economist*, January 2<sup>nd</sup> 2010, p. 69.

The announced recovery has not been the result of private investment in new projects in the real economy. It is true transnational corporations began to generate profits again, however these profits are the result of cuts in production costs. They were the result of redundancy of workers with the consequent increase in the level of unemployment. They were not the outcome of the expansion of the market due to an increased demand. As in the case of the inflated statistics concerning economic growth, the official number of unemployed people is below the real situation. Official statistics do not take in account 50 percent of the economically active population with no right to unemployment benefits. Real unemployment in the US reached 22 percent at the end of 2009, and it could reach 35 percent in the coming years, as can be seen in the chart below. It is approximately the same unemployment level reached during the Great Depression, as Egon von Greyerz states <sup>4</sup>. This author thinks that in the next crisis the unemployment level will be even higher. From a historical perspective, it can be noticed that there was a strong increase in the creation of (productive) jobs in the 1950s and 60s. This happened together with a considerable increase in Gross Domestic Product (GDP). But there is a sharp decrease in the creation of jobs since the 1980s. It showed zero growth over the last decade causing a decrease in the GDP to negative levels, as can be seen in the following chart.

Although the core economies are in recession, fictitious capital has renewed its strength. Since its lowest point in March 2009, the stock market in the US had already recovered, in only seven months, 66 percent of its losses during the credit crisis, states Rana Foroohar <sup>5</sup>. This recovery is basically the result of the rescue packages amounting to trillions of dollars. These packages have been financed with money without backing. In real terms, that is, in terms of purchasing power (which is better estimated in terms of the price in gold), the stock market has been falling since 2000, as can be seen in the chart below.

Although the bailout rescued the main speculators, it caused huge government debts at the same time. There are ever more voices predicting a second fall, but with the rather baseless hope

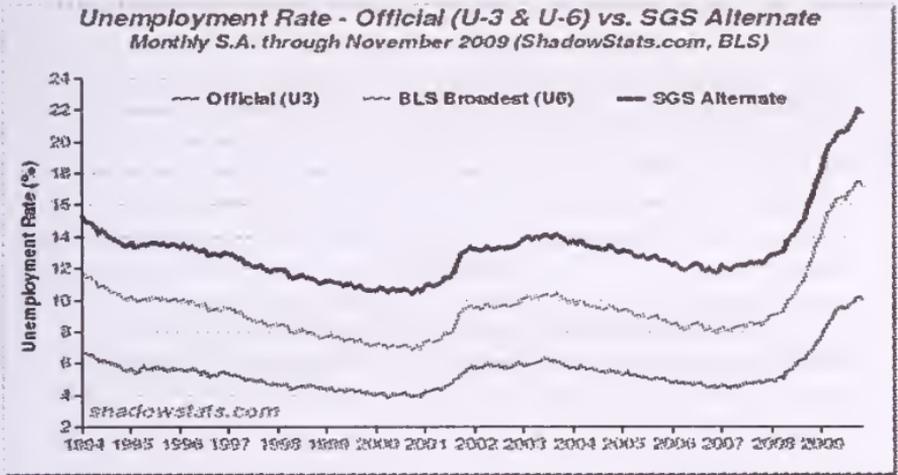
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<sup>4</sup> Egon von Greyerz, "Gold is not going up, paper money is coming down", in [www.gold-eagle.com](http://www.gold-eagle.com) <http://www.gold-eagle.com>

<sup>5</sup> "The boom in the gloom", *Newsweek*, November 9<sup>th</sup> 2009, p. 33.

Chart No. 2

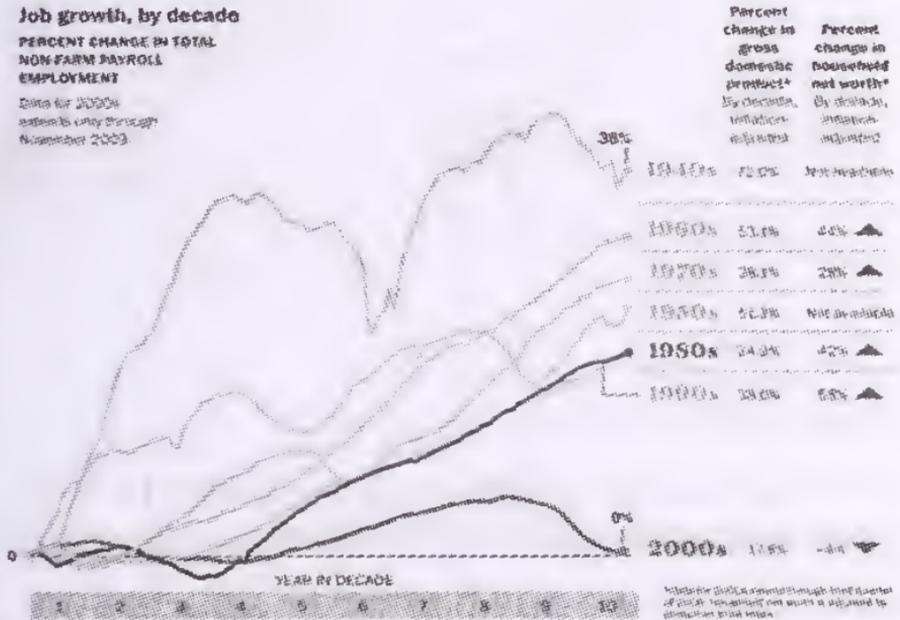
Unemployment rate in the US; official numbers and alternate assessment



Source: Egon von Greyerz, *op. cit.*

Chart No. 3

Growth rate of non-farm payroll employment in the US, by decade

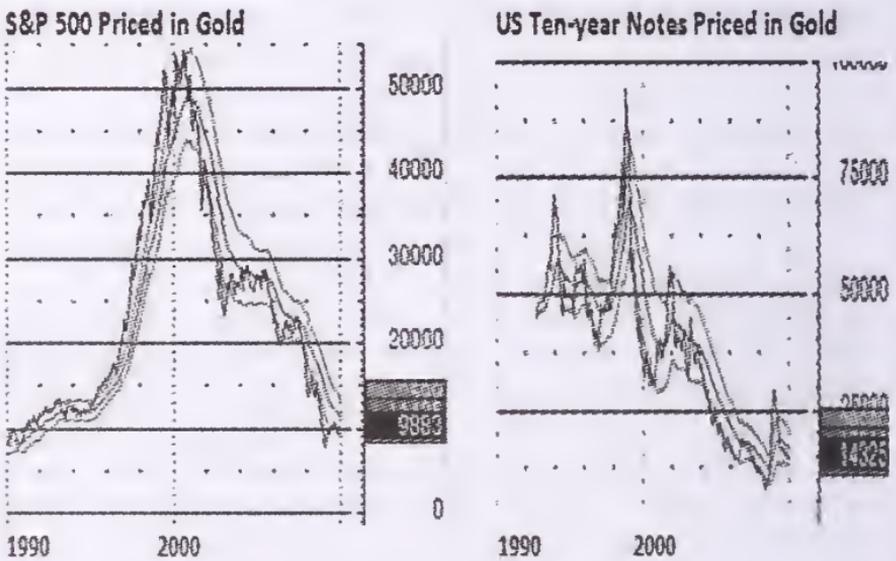


SOURCE: Bureau of Labor Statistics; Bureau of Economic Analysis; Federal Reserve; GRAPHIC BY NEIL RYAN, CHRISTINA RALPH, AND TODD CHERMAN, THE WASHINGTON POST

of a subsequent and definitive recovery. We do not think that this so-called W-shaped recovery is very likely – even though president Obama himself has announced it. On the contrary, as the concrete and lucrative possibility of reinvesting in the productive sphere has been ruled out, the most probable tendency would be to a new fall without subsequent recovery, that is, the so-called “L” pattern. The probabilities of this tendency are considered by Andrew Gavin Marshall as rather high than low <sup>6</sup>. The case of Japan is illustrative of the “L” pattern.

*Chart No. 4*

**New York Stock Market (Standard and Poor 500)  
Priced in Gold, and the US Ten-year Notes Priced in Gold**



Source: Ty Andros, "When hope turns to fear"

What happened in Japan two decades ago is about to happen again in the core countries as a whole and particularly in the US.

<sup>6</sup> Andrew Gavin Marshall, "La reprise économique est une illusion", in *www.mondialisation.ca*

In December 1989, the Japanese stock market reached its highest point in history with 38.916 points. The Nikkei 225 has been lately around 10.500 points, that is, a level almost four times below the point reached two decades ago. The prices of urban properties are one third of the price they were in 1989. Some apartment buildings in Tokyo are sold at prices ten times lower than they were twenty years ago. In the last four months of 2009 the Japanese GDP reached, in nominal terms, a figure below the level reached in 1992. These elements strengthen the impression that the lost decade was not only one but two decades, and with no indication of recovery in view of the threat of a new Great Depression on a global scale<sup>7</sup>.

In the midst of a new depression, there is a growing conscience (not only among ecologists and most critical economists) that the myth of a sustained and endless global growth is a dream which is swiftly reaching its end. The view that economic growth cannot be endless was already expressed by John Stuart Mill in 1857<sup>8</sup>. But this does not mean that there will not be economic growth anywhere. In our opinion, it is mainly in the North where a recovery of the growth rates seems more difficult because investment has left the productive sphere in relative terms.

A return to sustained growth will be particularly difficult for the core countries as they are relatively removed from the real and productive economy. And there are more reasons for this: Technological innovation stopped being the main competitive advantage. Nowadays this advantage is based above all in lower wage countries. As the life expectancy of technology has been reduced since the 1950s, the technological substitution has become more expensive than the reduction in workforce cost that it can achieve. Therefore, there are no major prospects of recovery for the accumulation of productive capital in the core countries<sup>9</sup>.

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<sup>7</sup> "To lose one decade may be misfortune", in *The Economist*, January 2<sup>nd</sup> 2010, p. 52.

<sup>8</sup> See, Peter Tom Jones and Vicky Meyere, *Terra reversa*. Antwerpen, Ed. Jan van Arkel, 2009, p. 40.

<sup>9</sup> For a detailed explanation see, Wim Dierckxsens, *The Transition from Neoliberalism to Post-capitalism: The 21<sup>st</sup> Century Socialism*. San José, DEI-Ruth Casa Editorial, 2007.

## 2. The threat of bankruptcy of the states

What are the symptoms of the next stage of the crisis? In 2010, at the beginning of the year, some governments of the most industrialized nations were trying to avoid bankruptcy. A second wave of financial bankruptcies can be expected during the second decade of the 21<sup>st</sup> century. In case of an increase in interest rates, a new wave of real estate bankruptcies, mainly commercial real estate this time is inevitable. After a fall of 16 percent in commercial construction during 2009, *The Economist* considers that another sharp fall is to be expected in 2010. Big hotels, commercial centers, office buildings and apartment buildings will be the most affected. As a result it is believed that more than a thousand US banks will go bankrupt in 2010<sup>10</sup>. Then, the following question emerges: Are governments of the core countries (including the US) in a position to finance new rescue packages? Is this possible when they are already facing a situation of default due to the huge and growing interest they have to pay to their creditors? In spite of the stock market euphoria, celebrated in the dominant mass media such as CNN, a growing number of analysts believe a new financial collapse, even more dramatic than the previous one, is to be expected soon.

The idea that the government of a highly developed country could go bankrupt, that is, the idea that such a government had to inform its creditors that the country is not able to pay its liabilities, was unimaginable until very recently. Nowadays it is not only a possibility, but a real threat, says Robert J. Samuelson<sup>11</sup>. According to Samuelson, the issue is so unfamiliar that the past gives us few clues to predict the future. This threat is not just limited to the economic field, but begins to be more and more a psychological matter, says the author. Controlling the crisis, official indebtedness grows ever more out of control in most developed countries. Gross government debt in the core countries reaches 106 percent of the GDP in 2010. This is 30 percent more than the level before the crisis at the end of 2008. How long will faith in payment capacity last?<sup>12</sup> In March 2010 there are already 19 first world countries

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<sup>10</sup> *The Economist*, "The World in 2010", pp. 116 and 142.

<sup>11</sup> "Up against a wall of debt", in *Newsweek*, November 9<sup>th</sup> 2009, p. 30.

<sup>12</sup> See, Zanny Minton Beddoes, "Looking for a way out", in "The World in 2010", *op. cit.*, p. 137.

bankrupt or almost bankrupt. Others will follow once the domino effect reaches its full swing<sup>13</sup>.

Every politician knows that the current pace of growing fiscal deficit is not sustainable. In the middle of a recession, government's plans for economic recovery cannot be prolonged for a long time without increasing the public deficit at unsustainable levels. In case of a long-lasting recession, a high fiscal deficit and a growing public debt will lead to bankruptcy. What can a government do in order to avoid such a critical situation? Public deficit can only be controlled if public expenditure is reduced and/or taxes are increased. Both measures are unpopular, as observed in Greece recently, and tend to reduce global demand accentuating recession even more. In order to face the threat of a long lasting recession, governments of the core countries will have to make their choice among three difficult options during 2010: inflation, intensification of fiscal pressure or default payment. In fact, this situation implies danger of a collapse of the Western World, says the GEAB<sup>14</sup>. If the fiscal deficit becomes out of control during 2010, governments of super powers will risk having to apply all options together.

The possibility that states may avoid these three brutal options is based on two expectations: continuity of consumption or new private investment. Expectations concerning civilian consumption and investment, however, are very negative. Everywhere consumers are under heavy pressure to save more, repay their debts and reject (voluntarily or not) the western model of consumption of the last 30 years. Foreign demand is characterized by total saturation. As internal demand is stagnant, everybody wants to increase exports now. In these circumstances, a trend is to reduce imports creating a favorable atmosphere for protectionism, which is both growing and more apparent. Generalization of protectionism leads to the contraction of global demand. Sales expectations inside and outside the country become increasingly negative. This motivates a further reduction of investments – a tendency that is accentuated in turn by bank restrictions. In consequence, the vicious circle of recession becomes increasingly noticeable.

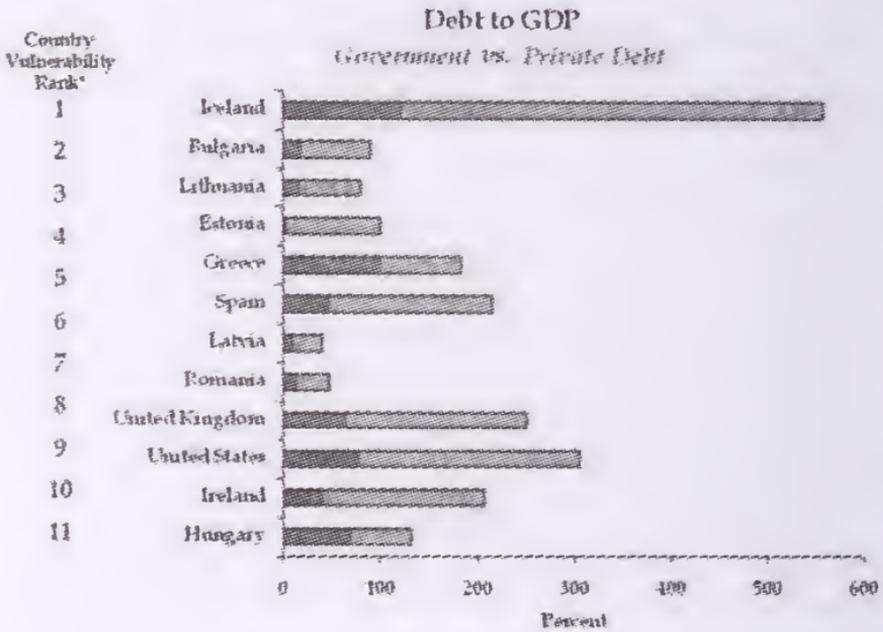
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<sup>13</sup> See, Bob Chapman, "Structural weakness of the dollar", in *www.globalresearch.ca*

<sup>14</sup> Report No. 39 of November 2009.

Chart No. 5

Government and private debts as a percentage of the GDP in some countries



Source: GEAB No. 40

Without developments in investment or demand, states will have no other choices than increasing taxes significantly in order to face public deficit. They will allow inflation to grow. The aim is to reduce the weight of their debt rather than to announce a default. We already saw the case of Iceland with a debt of almost 600 percent of its GDP. Recently, Dubai (United Arab Emirates) announced a default and it is likely that they may have to adopt the three measures together. Greece, with a debt of 200 percent of its GDP, was recently bad news, and the question was: who is next? According to the GEAB report, it would be not just the case of relatively modest economies like Greece, Spain (with a debt of more than 200% of GDP), Portugal and Ireland. Countries from the G-7 such as the United Kingdom (with a total debt of 250% of GDP) or even Japan could default. Although it may seem unbelievable, even the US with a record debt of more than 300 percent of GDP might default any time (see chart above).

Countries that are deprived of internal and foreign credit and are not able to revive their economies, announce defaults and historically faced deep recessions with strong devaluations and hyperinflation. This situation has a very high political cost as can be seen in Greece at the moment. Super powers, mainly the US, if rejecting to face any of these two options, still may opt for a total or partial default, leaving their creditors much up in the air. They may choose this option just because they have the power to do it, using the threat of war. That is why, threat of a large war becomes more real as the US approaches a default situation, something that may occur from spring 2010 on.

### **3. The threat of bankruptcies in the Eurozone**

Since bankruptcy in Dubai, the same process in the Eurozone accelerated, although it was something that was already in motion. The Iceland default, with a debt six times its GDP, inaugurated the crisis in the European Union. Greece followed and rescue by the EU seemed uncertain. Similar defaults took place in Spain or Portugal, expanding the crisis in a short period of time. The bankrupt governments, as in the case of Greece, might be pressed to create again a national currency. This currency could be devaluated against the euro in order to become more competitive. It would avoid growing unemployment and an explosive internal crisis. Although it is not likely to happen, once this process is set in motion, a chain reaction occurs invariably. Some very open economies which are linked to the Eurozone, such as the Baltic States, could fall probably without much stir. Bigger tragedies could be witnessed in Eastern Europe. The impact for the Eurozone would be higher if countries like Hungary, Poland or the Czech Republic go bankrupt.

Western European banks, especially from Switzerland and Austria, bought many banks in Eastern Europe. Devaluations in those nations have complicated their capacity to repay those loans they received in euros and Swiss francs. Their local currencies have already fallen between 40 and 60 percent. Their debts with the Swiss banks in Swiss francs became unpayable. Swiss banks will also face serious problems, being able to pay only 20 or 30 percent of outstanding debts.<sup>15</sup> The Bank for International Settlements

<sup>15</sup> Jim Willie, "Full circle of Government Debt Default", in [www.financialsense.com](http://www.financialsense.com)  
<http://www.financialsense.com>

(BIS), with its headquarters in Basel, points out that Austrian banks' doubtful state debtor payments represent 75 percent of the Austrian GDP. Pending debts of Baltic States with Sweden reach 23 percent of their GDP. Debts of Poland, Russia and Romania with Dutch banks reach 16 percent of Dutch GDP <sup>16</sup>. But the problem is not limited to Europe. In the same way as the mortgage crisis swiftly crossed the Atlantic because European banks (Société Générale, Deutsche Bank, etc) bought bonds guaranteed by these mortgages, now "the ten biggest banks in the US face a great danger because they have a total exposure to the debts of Ireland, Portugal, Spain and Greece amounting to 176.000 million dollars" *The Economist* states.

In the Eurozone, a stabilization pact demanded that the annual deficit of member states could not exceed 3 percent of GDP. However, this agreement has not been taken into account. Countries like Germany or the Netherlands have not deviated much from this norm. In the case of Italy, for instance, public debt in February 2009 was already over 110 percent, a situation very similar to Greece <sup>17</sup>. The European Union could face even bigger problems in the case of bankruptcy of economies in Italy and Britain. It is also believed that France, with big public debt and a negative trade balance, might also be in danger. In the case the US no longer received foreign loans, they could increase money supply to support banks in crisis. The US is the only nation with the possibility to pay its foreign liabilities in its own currency. This palliative is not available for countries in the Eurozone. Its structure demands that each member state must finance its own rescue plan. They cannot resort to the issuing of euros by the European Central Bank. There are voices advocating the creation of a European Monetary Fund. The aim is rescuing countries in problems, under strict conditions. It means that countries with better finances should rescue nations which have gone bankrupt due to wrong practices.

One might wonder, as Ambrose Evans-Pritchard did <sup>18</sup>, if Berlin will agree to rescue smaller bankrupt economies such as Ireland or Greece. You might ask even if they will rescue Italy

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<sup>16</sup> See, Gary Dorsch, "Fractures in Euro currency", in [www.financialsense.com](http://www.financialsense.com) <http://www.financialsense.com>

<sup>17</sup> *The Economist*, February 7<sup>th</sup> 2009, p. 43.

<sup>18</sup> *The Telegraph*, February 15<sup>th</sup> 2009.

in case of a default. Axel Merk <sup>19</sup> sees the possible danger that more than one country leave the Eurozone in order to be able to devalue currencies. His forecast is not the most likely in the short run. He believes that the Eurozone will be divided into three zones: one in the south, one in the east and the other in the northwest. He considers the division of the euro into several currencies as a real threat. In such a situation, according to Jim Willie, the northern euro would be a kind of new-style German mark. It would be shared by those countries from northwestern Europe that keep a positive balance of trade. This is the case of Belgium, the Netherlands, Norway, Sweden and Denmark. It would be something like a gift to France if this nation could enter the northern euro. In Willie's opinion <sup>20</sup>, the dollar will show its very weakness with the new northern euro.

The dollar grew stronger against the euro at the end of 2009 and the beginning of 2010, at least apparently. It happens as a result of the growing debt problems Europe is facing and as a result of speculation. There are forces that speculate the Greek government will be unable to pay. How do they speculate? Well, they quote the credit default swaps (CDS). Increases in the price of these financial products, which are supposed to cover payment risks of the states, leads to lower traders' confidence. The sequence is simple: if the CDS rise, the risk of default becomes higher. This implies an automatic increase of interest rates. New Greek loans will become more expensive. This causes an increase of its deficits and in consequence an increase of public debt. <sup>21</sup>.

A downward trend is set in motion. Financial markets demand an even tighter austerity policy. The rating agencies – which have been questioned by all governments – continue with their work downgrading the rating of Greece. They do the same with other countries of southern Europe. Rise in the interest rates takes place in a part of the Eurozone. It threatens however the whole zone. The Central Bank of Europe should respond to this crisis by increasing its interest rates. Such an increase might have a negative effect in the growth of Germany. This nation will probably not accept it. They do not want to pay for the poorer countries either. In the

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<sup>19</sup> Axel Merk "Are there any hard currencies left?", in [www.financialsense.com](http://www.financialsense.com)

<sup>20</sup> Willie, *op. cit.*

<sup>21</sup> Nicolas Benies, "Speculation against the Greek debt. Crisis of the debt or crisis of the euro", in [www.rebellion.org](http://www.rebellion.org)

end they might threaten to leave the Eurozone in order to protect themselves.

However, there was another alternative, as Angela Merkel proposed at the European Summit on February 11<sup>th</sup> 2010. The introduction of instruments to press indulgent countries. That is, instruments to strengthen political domination. In that case, it would be impossible for a country under pressure to leave the Eurozone. But threat of disintegration of the Eurozone is not limited to this. Crisis of the euro reveals all destructive logic of the European construction, says Nicolas Benies. It is time for building a left-wing program which includes the struggle against the systemic crisis. It is time to make proposals to overcome the logic of valorization of capital and to defend and expand all collective rights. The popular response in Iceland could be a step in that direction.

In October 2008, in the midst of the crisis, Icesave, a private online Icelandic bank which was a subsidiary of the Landsbankinn, went bankrupt. Many British and Dutch clients lost their speculative investments. The British and the Dutch governments reimbursed their citizens for the lost money, but they also asked the Icelandic government to pay them back. It concerned 3.900 million euros – that is approximately 50 percent of the Icelandic GDP. On December 30<sup>th</sup> 2009, the Icelandic parliament approved, by a narrow margin of votes, an agreement with the British and the Dutch governments to reimburse. The agreement had profound fiscal implications for the Icelandic people. The popular demonstrations began immediately and a demand against the law was signed by a fifth of the population. In view of this situation, Olafur Ragnar Grimsson, the Icelandic president, decided not to promulgate the law, that is to veto the law and call a national referendum on the issue. With a participation of 62.7 percent of the population, 93.2 percent was in favor of not paying the debt. It is sure that new negotiations between governments would be started. This time the Icelandic government will be backed up by the almost unanimous position of its people . It means a very interesting precedent for social struggle in other nations <sup>22</sup>.

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<sup>22</sup> See [www.agenpress.info](http://www.agenpress.info), March 10<sup>th</sup> 2010.

## 4. The threat of bankruptcy in the US

The trillions of dollars that the US government injected in order to avoid an implosion of the banking system basically favored the financial sector. The banks that have received these funds have not used them for loans to reactivate the real economy. The first thing they have done is to improve their balance sheets to be able to pay their executives unprecedented bonuses. With the fraudulent consent of the government, they have not had the need to adjust fictitious value to real value. Everything was arranged so that the principal banks could continue with speculation. The four biggest US banks have placed 200 trillion dollars in derivatives. This represents 13 times GDP of the US <sup>23</sup>. But time comes when this fictitious capital, will no longer have any hope of becoming real. Parasitic operations will go on until disappearance in a chain of bankruptcies. The transferences/subsidies in real wealth from the third world are no longer enough to sustain the dollar. These countries will have to look after their own survival and create mechanisms of integration which allow them to protect themselves against the great volatility caused by currencies, markets and speculative fictitious capital from the North. The free inflow and outflow of foreign capital to countries of the South is progressively limited. This is a necessary step in the process of disconnection from neoliberal globalization policies.

Small banks in the US are in a tragic situation and their bankruptcy is immediate. These banks are not rescued because they are like sardines for the big fish. Three quarters of the mortgage loans of the small banks (90% of the banks in the US) are invested in commercial property (commercial centers, office buildings, hotels and apartment buildings) and they are going bankrupt. In fact, the payment capacity of mortgage loans is deteriorating at a growing speed. Shares of commercial property have fallen between 35 and 50 percent, but the banks are not making the necessary arrangements to face this situation. Vacancy rate of commercial property is increasing nonstop. One hundred and forty banks went bankrupt in 2009. Auction prices have been much lower than book prices. According to the Federal Deposit Insurance Company (FDIC), twenty six banks went bankrupt in

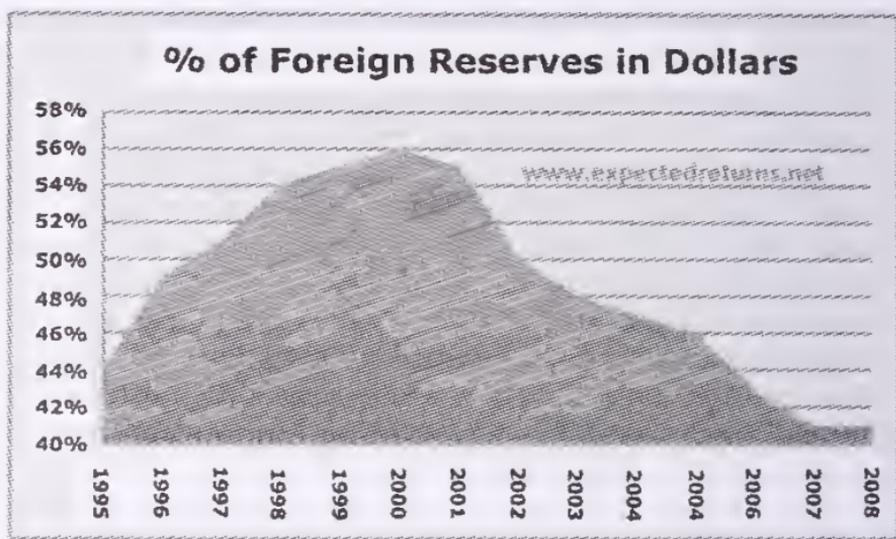
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<sup>23</sup> Egon von Greyerz, *op. cit.*

2010 (up to March 5<sup>th</sup>), and there were 702 with payment problems. Many states of the Union are highly indebted and bankrupt – something that may even threaten the Union. This possibility was analyzed in our 2009 book, *The great depression of the 21<sup>st</sup> century*. Some parallel with the disintegration of the Soviet Union in the 1990s may be noticed.

Chart No. 6

Percent of Foreign Reserves in dollars 1995-2008



Source: [www.expectedreturns.net](http://www.expectedreturns.net)

Until the end of 2008, the US government got almost limitless credit. This was just because international reserves are principally in dollars and international trade is basically in dollars. The dollar received a first blow in 1999 with the introduction of the euro. International reserves in dollars fell notably, although they are still very important, as can be seen in the chart above. Reduction of international reserves in dollars leads to a reduction to obtain credit. Up to now the US could consume much more than its GDP because they could get wide international loans. This trend led to the increase of foreign debt. But this debt reached such a magnitude now, that creditor countries have doubt about the

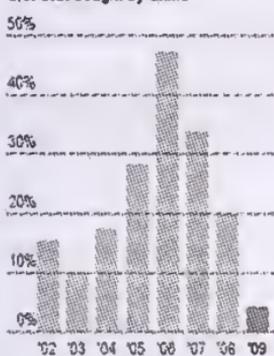
paying capacity of the US for its liabilities. From this moment on, emergent countries that possess large amounts of treasury bonds (long term bonds), as in the case of China, are no longer interested in buying these reserves, as can be seen in the chart below.

Since other nations stopped buying treasury bonds in 2009, the Federal Reserve has bought more than half of the bonds issued by the Treasury Department. With this "guarantee" it is issuing dollars that do not have any backing. In 2009, by means of the above mentioned practice and with shorter-term loans, the US managed to get loans for almost 1.5 trillion dollars. The participation of China in buying US bonds has fallen from 12 percent to 10 percent in a year, as can be seen in the third chart below. This situation leads to a downward trend in the price of the dollar. This will reduce even more the possibility that the US may obtain foreign funding to finance its deficit. The Federal Reserve will respond to this by issuing more dollars without backing. An increasingly deeper vicious circle with a constant depreciation of the dollar in terms of real purchasing power is going on. This means, a fall of the intrinsic value of the dollar.

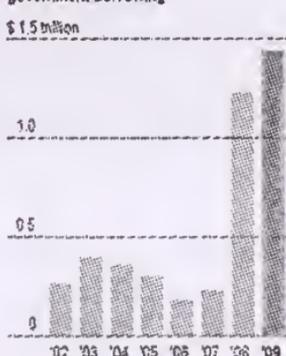
*Chart No. 7*

**Percentage of net new US debt bought by China,  
net new government borrowing, and percentage  
of outstanding US Treasury securities owned by China**

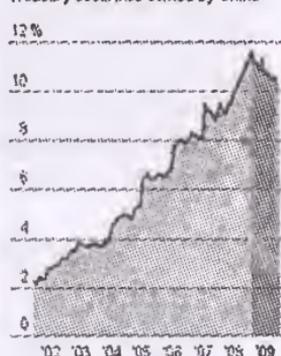
Percentage of net new U.S. debt bought by China



Net new government borrowing



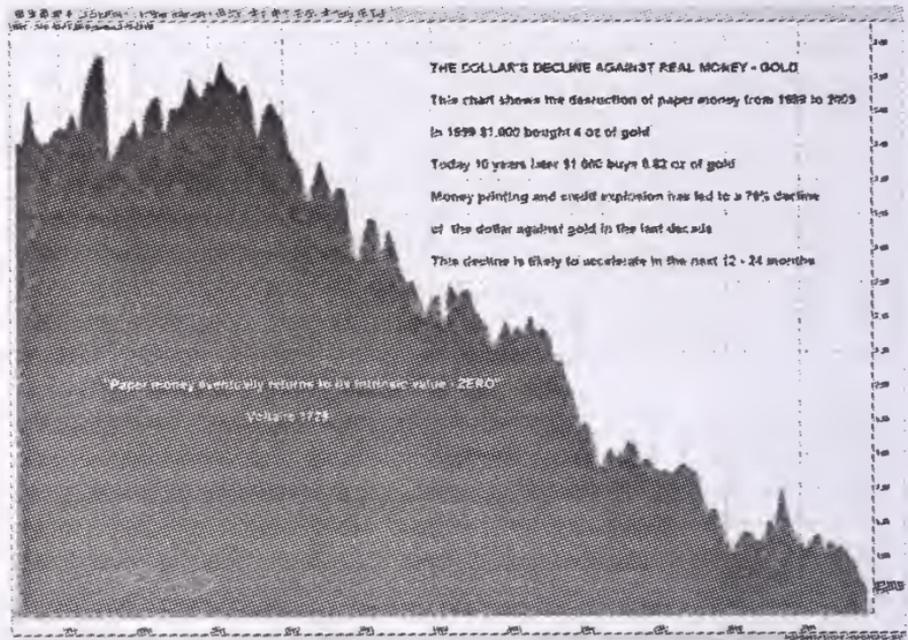
Percentage of outstanding U.S. Treasury securities owned by China



Over the last ten years, the dollar has fallen 79 percent against gold. In the coming years the Federal Reserve will do what its

president Bernanke has always said: Unlimited amounts of dollars without backing will be issued. This is quantitative easing. It means that the intrinsic value of the dollar will go almost to zero. This international currency will be reduced to the level of "toilet paper"<sup>24</sup>. The problem with paper money, when not backed up, as for example with the gold standard, is that it could be issued in unlimited quantities by governments. It however carries disastrous consequences for their economies. Such a situation already caused destruction of several currencies in the history of capitalism. Now we are witnessing it again.

Chart No. 8



Source: Egon von Greyerz, *Gold is not going up – paper money is going down*.

During the last two years, the Federal Reserve and the Treasury Department injected in the US financial system trillions

<sup>24</sup> Véase Egon von Greyerz, *op. cit.*

of dollars without any backing. During 2010 and the coming years, this process of monetization will be even worse. It will generate a trend to massive inflation similar to what happened in Argentina some years ago or during the Weimar Republic in the 1930s. Many people just wonder when the US Treasury will default, with a subsequent strong devaluation of the dollar. Some analysts, as Bob Chapman <sup>25</sup>, state that the discussion is not whether the US will go bankrupt or not, but when it will happen.

## 5. The power of the US Federal Reserve

*The central bank is an institution of the most deadly hostility existing against the principles and form of our constitution...*

President Thomas  
Jefferson

Let us analyse now – for those readers who are not very familiar with the topic – the reach of the bankers' power by means of the US Federal Reserve. A brief account is necessary. Congress established the First Bank of the US in 1791. At that moment, the government had twenty percent of the capital while the remaining eighty percent was private. There were allegations of conspiracy to put the bank in foreign hands, mainly the Bank of England. Many private banks emerged, created by the State, and after a short period of time there was more paper money in circulation than gold and silver for backing. So it was necessary to create the Second Bank of the US in 1816. The government kept only 20 percent. In 1836 there was a speculative bubble in the prices of land caused by imports of Mexican silver. The burst occurred in 1837. This situation attracted the Rothschild bankers of England. They sent a representative (August Belmont), who ended up being adviser to President Andrew Jackson (who considered the banks unconstitutional and antidemocratic).

The book *The Rothschilds – the Financial Rulers of Nations*, gives details about a secret meeting in London in 1857. There the international banking syndicate decided to bring about a civil war to force the creation of a central bank. The American Civil War

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<sup>25</sup> Bob Chapman, "All currencies will continue to fall against gold", en *www.globalreearch.ca* <http://www.globalreearch.ca>

started in April 1861, four years after the meeting of the Rothschilds in London. The war caused more than one million deaths, three percent of the population. Another attempt to force the creation of a private central bank was attributed to the Rothschilds in 1907. According to the conspiracy theory, the agent was the American banker J. P. Morgan who was in charge of triggering a banking crisis and spreading panic concerning the integrity of the banks established by the government. Once more the pressure for creating a private central bank emerged.

The creation of the Federal Reserve was hidden from the public. The bankers chose Senator Nelson Aldrich, grandfather of Nelson and David Rockefeller, to introduce a law prepared by the bankers for the House of Representatives and the Senate. President William H. Taft had said he would veto the law. The bankers supported the campaign of Woodrow Wilson. He accepted the law when he got to the White House. The idea that the bankers would be in charge of the Federal Reserve faced opposition within the Democratic Party. In order to allow it, the concession had to be made that the president was to be the one in charge of appointing the Fed's staff.

The Federal Reserve was legally founded in 1913 with 203.053 shares. A total of 70.000 shares (35%) was in the hands of four banks: the Rockefeller' National City Bank with 30.000 shares; the Chase National (currently the Chase Manhattan of David Rockefeller) with 6.000; The National Bank of Commerce (now Morgan Guaranty Trust) with 21.000; and the Morgan's First National Bank with 15.000 shares. A total of 133.053 shares (65%) was in the hands of a bigger group of bankers, foreigners mainly. Among them: Rothschild Banks of London and Berlin; Lazard Brothers Bank of Paris; Israel Moses Sieff Banks of Italy; Warburg Bank of Hamburg, Germany and Amsterdam; Kuhn Loeb Bank of New York; Lehman Brothers Bank of New York and Goldman Sachs Bank of New York.

That is why the US Federal Reserve – unlike others – is a Central Bank managed mainly by private bankers, with the power of creating, out of nothing, bonds and securities without any backing. It is the biggest factory of money without backing in the world, in the hands of private bankers of the US and Europe. Since its establishment, and even before, bankers have been a determining factor in the economic, political and military course of events in the US, and the rest of the world by extension. They are the biggest consortium on earth and behave like a supra-

government behind the scenes. It is all about businesses and profits at any cost.

It is said that on June 4<sup>th</sup> 1963, John F. Kennedy signed the executive order No. 11110 stripping the Federal Reserve of its power to lend money to the government with interest. With this action, JFK was returning to government (Treasury Department) the constitutional right to create and issue money without passing through the Federal Reserve Banks controlled by private bankers, thus interfering in their business. The Treasury Department received the authority to issue silver certificates backed with physical silver or Treasury standard silver dollar coins. More than 4 billion dollars were issued in denominations of 2, 5, 10 and 20 dollars. At that time Kennedy was making efforts to bring back the troops from Vietnam (Robert McNamara), also affecting the interests of the military industrial complex. Kennedy was assassinated some months later, on November 22<sup>nd</sup> 1963. The silver backed notes were taken out of circulation and the war in Vietnam continued <sup>26</sup>.

Ben Bernanke, Federal Reserve chairman, warned Congress in February 2010 about the possibility that the Greek debt crisis could soon extend to the US. He pointed out recent developments in Europe, where countries like Greece and other nations with huge and unsustainable deficits, the same as the US, are having problems to sell more of their debt to investors. This means that this country is vulnerable to a sudden reversal of fortunes that will force citizens to pay more taxes and higher interest on loans. "It is not something that will happen within 10 years. It is already affecting the markets," he said in the Congress Finance Committee. "Today we could be facing higher interest rates" <sup>27</sup>.

## 6. How long will the reign of the dollar last?

Although the price of gold in dollars had a fivefold increase in the last ten years, it could skyrocket once more from 2010 on. The reason is obvious: Issuing of dollars increases as the US government deficit grows. In a context full of threats of bankruptcies, gold eventually appears as the only safe haven. The risk of bankruptcies

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<sup>26</sup> Edward Griffin, "The JFK Myth", Christian Common Law Institute.

<sup>27</sup> See, *Global Research*, February 27<sup>th</sup>, 2010, and *Washington's Blog* – Feb. 26<sup>th</sup> 2010, quoting *The Washington Times*.

in the super powers is more and more a concrete threat, and could be widespread. The fall of main currencies such as the dollar, the euro, the pound sterling, the Swiss franc, etc, is not a theoretical abstraction. As the threat increases the demand for gold will be higher.

The central banks of China, India, Russia, Japan, Brazil, South Korea, among others, whose economies are more connected with productive investments, have already lost confidence in the dollar and are currently net buyers of gold. Pension funds need to place their contributions into safe investments, and in view of the lack of financial stability they will be forced to invest more in gold as the only safe reserve. Trust in gold certificates has decreased because there are more gold certificates than gold. Besides this, gold production shows a downward trend over the last years. The last audit of the real stock of gold stored in Fort Knox, US (which backs the dollar), occurred in 1953. There are no subsequent data on this. There is no certainty about their full existence. In a word, the dollar, which has functioned as a safe haven during many decades, seems to have reached the end of its reign as the main reserve currency and as its currency for international trade.

The point is how long will the world allow a country, in an objective situation of bankruptcy like the US, to continue using money created out of nothing. By means of issuing dollars without backing, the US is able to pay goods and services that are produced by workers in supplier countries, particularly in the third world. In essence, the US exports increasingly devaluated dollars to countries like China that give in return real goods and services. Such a situation continues just because the dollar is the most widely held reserve currency and the main currency in international trade. But the huge trade deficit of the West, particularly that of the US, and the surplus of the East, represent a threat to the current international monetary order. It is just a matter of time that both, creditor and debtor, reach the conclusion that the debt of the Empire will never be paid. And as the creditor countries do not want to finance the US, as is the case of China nowadays, issuing dollars without backing will grow nonstop. When creditor countries stop accepting those worthless papers, US hegemony will depend more exclusively on their military strength. In consequence, the possibility of a war is no longer a theoretical option<sup>28</sup>.

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<sup>28</sup> Véase Bob Chapman, "Currency warfare: Review of financial markets", in *www.globalresearch.ca*.

The real wealth of the world has been moving from one region to another. First world worthless papers of the financial speculative sector are exchanged for the real wealth created in the real economy of the South. Besides that, G-7 countries are currently the biggest debtors in the world, and emergent economies their creditors. In this context, the emergence of BRIC (Brazil, Russia, India and China) is considered a threat. Since bankruptcy of the super powers is a real threat, political power tends to shift or be shared. This tendency has already been seen in G-20 gaining prevalence over G-7 <sup>29</sup>. Then, military blackmail emerges. It is a form of stopping these changes. It increases the threat of a large military conflict. This is something extremely dangerous as military arsenals of the big powers are full of conventional arms and weapons of mass destruction. The US in particular, does not seem to be willing to give up its idea of unipolar control of the world. The United States tries to keep this control at all cost, even resorting to war.

Summing up, it is not a theoretical abstraction that sooner or later we will witness the "Weimarization" of the US Federal Reserve and the dollar. It will mean the bankruptcy of the US, the biggest power on earth. In order to avoid this collapse and save American hegemony, a diplomatic offensive by means of the G-20 is being carried out. The idea is the same as Keynes's in the 1930s to face the Great Depression: the coordination of global economic policy by means of a Supranational Central Bank and the establishment of a single currency (not the dollar). Keynes also advocated, back in the 1930s, the transition from the casino economy to an economy based on productive investment. It has to avoid capital flight to speculative and unproductive spheres <sup>30</sup>. However, the question is, what kind of political institution could control the movement of capital around the world? Could it be the renewed IMF? In the European Union they are already talking about the European Monetary Fund. Everybody seems to be trying to find his own way out of the problem. Is it necessary to wait for the collapse of the monetary system to achieve a real global regulation? The whole world would be in a state of shock if the euro collapses. Needless to say what would happen if that is the

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<sup>29</sup> Ty Andros, "When hope turns to fear III", in [www.financialsense.com](http://www.financialsense.com).

<sup>30</sup> Ngoc Liem, *La facture sociale: sommes-nous condamnés au libéralisme?* Paris, Editorial Arléa, 1998, p. 150.

fate of the dollar? However, in the words of Jim Willie <sup>31</sup>, such a thing may occur any time in the near future.

From 2010 on, confidence in the greenback will be under growing pressure. So, we may wonder if there is still any reliable currency left. At the current stage of the crisis, growing negative effects are not only felt in the financial economy or the real economy but also in currency markets. These markets work as circulating blood of all economic activity. A more or less generalized monetary crisis is possible and would represent a general crisis of confidence in the market economy. It would mean its chaotic disintegration. So we are facing a crisis of the capitalist system as such. The possible disintegration of the whole monetary system constitutes the highest expression of disconnection. In that case, the local or regional market become not only an opportunity but an urgent need. Projects that are currently trying to achieve that disconnection, such as ALBA or *Banco del Sur*, will find a much better environment to prosper. New currencies for international trade are emerging. Such is the case of the Sucre in Latin America. Creation of local currencies not only will become a possibility but an urgent need. Growing economic insecurity caused by the crisis of the international monetary system, implies emancipating opportunities for the world in general, and for the South in particular.

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<sup>31</sup> Willie, *op. cit.*

## Chapter III

# The War Economy in the Great Depression of the 21st Century Military Keynesianism and the Military-Industrial Complex

In the last nine years civil industrial production in the US has decreased by 19%. It took around four years for the manufacture sector to recover and reach once again levels shown before the recession of 2001. However, all these profits completely vanished in the current recession. The military-industrial complex, however, increased by 67% from levels reached in 1999. It expanded severely as the domestic economy shrank (see chart below). Military spending indicates that the government generates artificial demand for military products. It does so when the civil economy contracts in the area of equipment or so called capital goods. In the short run this investment may represent a sustained global demand. At mid term, however, defense spending is a drain on the economy, reducing efficiency, slowing growth and costing jobs. A loss in the rhythm of growth occurs mainly without taxes

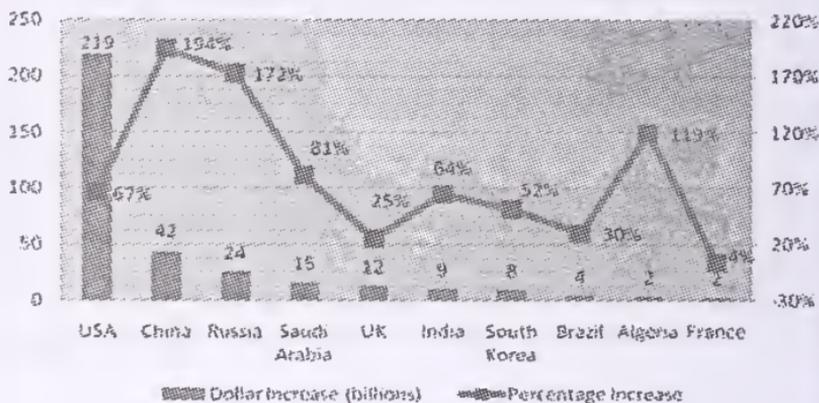
previously collected. In that case military investments are done with growing public debt <sup>1</sup>.

Graph No. 1

Increase in the percentage of military spending in selected countries

www.globalissues.org

Military Expenditure Increase, 1999-2008, selected countries



Source: SIPRI Military Expenditure Database. Accessed February 2009

The announced military budget of the US for 2010 is 680 billion dollars and for 2011 around one trillion. As a matter of fact, asserts Rick Rozoff <sup>2</sup>, an expert on the matter, this represents half of the real military spending of the US. With this, military spending reaches 9% of GDP of the US. It is the highest budget since 1945, the last year of World War II, in comparative terms. The official military budget of the US represents almost 50% of world military spending. It is six times larger than that of China, which holds the second place. It is even ten times larger than that of Russia, which at present has to settle for a modest fifth place behind France and Great Britain <sup>3</sup>.

<sup>1</sup> See, Washington's Blog, "The Military-Industrial Complex is Ruining the Economy", in [www.globalresearch.ca](http://www.globalresearch.ca)

<sup>2</sup> Rick Rozoff, "Nobel Committee Celebrates War As Peace", in <http://www.rickrozoff.wordpress.com>

<sup>3</sup> See, The Economist, "The world in 2010", p. 113.

Even if there are economic arguments to support accumulation of capital goods, this trend could not be explained without arguments of geopolitical order. The United States is preparing to unleash a great war. This is eventually to maintain their hegemonic place in the world. The consequence is that other countries are forced to become a part of the logic of a new arms race. Even Latin-American countries like Brazil and Venezuela have followed this logic as net buyers, especially in the case of Venezuela. The consequences will be negative for any country's economy which practices this unproductive spending. Examples of civil economies ruined by unwieldy military spending we found in the case of Nicaragua in the 80's. With or without war the current arms race means a decline in the civil economy, due to a great unproductive consumption of wealth in new armaments. With an eventual great war, the US has to manage this time the major part of its unproductive spending without being able to transfer them to third countries. If this Great War were to occur, the US would definitively lose its hegemony. The fall of another empire is thus in sight. In Napoleon's terms, there is only one thing more disastrous than winning a war: That's losing one. This is a valid lesson for today's US elite.

Due to the great crisis of 1929 and the 30's British economist John Maynard Keynes (1883-1946), considered the founder of modern macro-economics, is the father of the theory of "regulated capitalism." The Keynesian school sustains that the States role is to protect, preserve and develop the economic system. To do so, it had constantly and actively to intervene in economic life. The objective is to secure high profits especially for major capitals and monopolies, as their investment would grant employment and growth. Following the same logic policies had to increase tax revenues and productivity. It would do so by maintaining strict monetary and fiscal policies, encouraging demand through consumption and investment in the public sector which includes the military. This would increase profits of bigger capital and so therefore increase stability of the system itself. This has been called "Military Keynesianism".

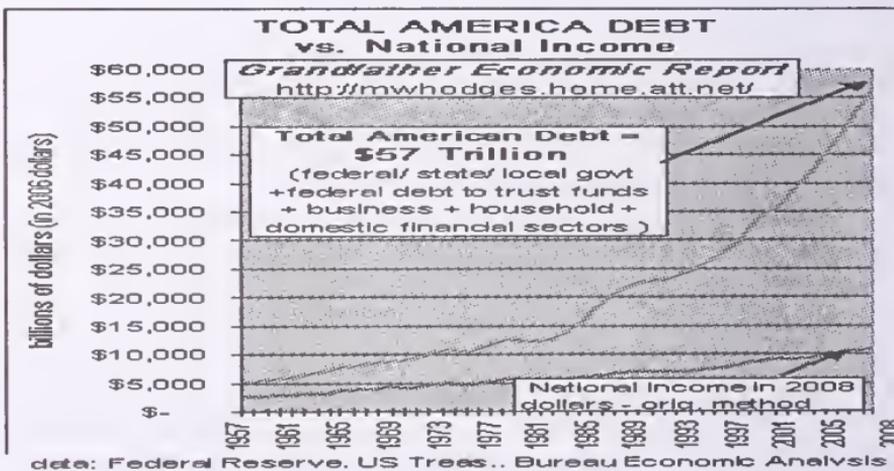
Nowadays, due to the crisis, Military Keynesianism again is considered the main recipe to face the current crisis. Supposedly it was a way-out of the crisis of the 30's that ended in World War II. To uphold "Military Keynesianism" much is referred to the crisis of 1929 in the United States and to its economic situation during World War II. It is true that this war assured the US's definitive world hegemony. There are, however, some differences between that scenario and the current situation of the US. During most of World War II, the US became rich by being the world's factory of weapons and civilian products for the powers in dispute. It was

not US interest to get involved in the conflict. However towards the end of it, in order to become the winning power and the absolute leader of the world economy, the US entered the war. Its territory did not suffer as Eurasia did because of the destructive effects of war.

However, it was not until the 50's that markets became stable after the Great Depression. By then, the total indebtedness of the US was already twice the amount of its total income. This gap only became wider since then. The next graph shows the progressive gap since the 50's between total debt and the total income of the United States. The Cold War provided an alternative scenario for exports to allies in the North and South. Europe was destroyed, the Marshall Plan was operating, NATO was developing. A possible next stage are operations of a limited nuclear war. Permanent conflicts in the Middle East increased. Demand for weapons are a way to recycle petrodollars to the US. During the Cold War, more than 2000 military low intensity conflicts in the Third World, with direct or indirect participation of the US, granted constant effective demand for weapons. The amount of human lives lost exceeded 20 million people. Damages to the ecosystems and economies of attacked countries are still incalculable. Vietnam and Nicaragua are examples. The last one suffered damage equivalent to 84 years of its gross domestic product during the US led war of the 80's <sup>4</sup>. After the Cold War, the drug war and then war against terrorism followed. Permanent war seems to be a part of capitalism.

Graph No. 2

US debt (federal, financial, housing) vs. GDP: 1957-2008



<sup>4</sup> Medipaz, *Guerra de baja intensidad*. Managua, 1994.

The Second World War may have secured US hegemony in the world. Their elite may think to sustain it during this current crisis. It left, however, a huge debt then. An even larger debt will result from a great war in these days. General Eisenhower warned already in the 50's that "we might lose control over the military-industrial complex". Today it is really out of control. The toxic medicine used in the past by presidents Roosevelt and Truman is the same as the one used today. The difference is that this one is more venomous. Bullets were made of lead during the second war. Now they are made of radioactive plutonium. It may be the guarantee for extinction of life in the planet.

## 1. Military spending and economic growth

Total debt of the US (private and public together) reaches 350% of GDP and military spending surpasses public spending. This has strategic consequences for US hegemony. China, with a GDP growing 8% per year, can double its annual expenses every nine years (between 1999 and 2008 it increased by 194%) and nothing will change in the relative relation between military spending and GDP. The US, on the other hand, increased its military spending by 67%. With negative GDP growth, the US will see how this unproductive spending will impact negatively on economic growth. By focusing its economy on productive work, China can afford to become involved in the arms race. The same race for the US means a deeper crisis. Rising defense spending by pure credit in a time of sustained recession leads to a downward spiral in the civil economy. It expresses itself in the end by ever more negative growth rates. The US, in other words, is digging its own grave just as the Soviet Union did a few decades ago.

The big difference between the economies of the US and China is that since several decades ago the latter invests mainly in the real economy. In other words, China invests in the productive area of its economy. In the last decades, China has become the world manufacturer par excellence. With a vigorous civil economy, it shows high rates of sustained economic growth. The US however, has centered much of its investment in the last decades in financial and speculative areas. In other words, it has developed mostly fictitious capital. Military spending, by its content, represents an unproductive expense which affected already the existence of socialism, which collapsed two decades ago as it may destroy today's capitalism in full crisis.

Instead of encouraging the growth of the civil economy, military spending tends to limit reproduction of its own. In other words, after surpassing certain limits it simply causes

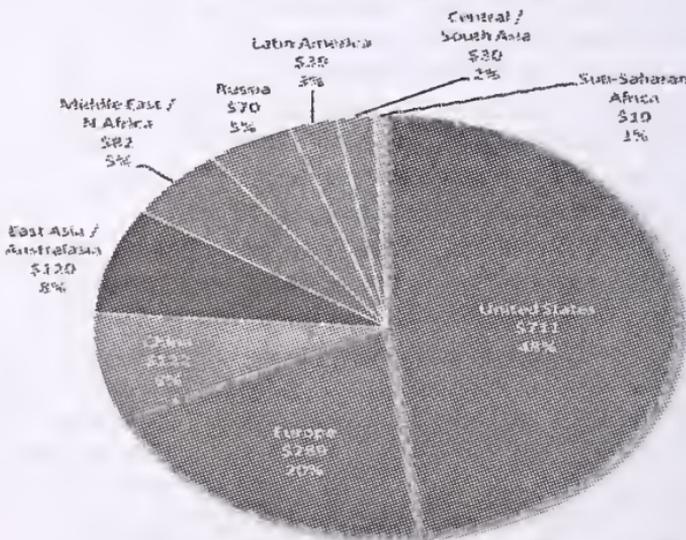
negative growth. All investments made in the war economy represent investments and products extracted from the process of reproduction or real growth of society. It limits the expansive capacity of a civil economy and the creation of new wealth. This economic contraction may not necessarily be observed in the short term. A strong investment in the military-industrial complex tends to generate, in the short term, employment, products and growth. It will show as well expansion of technology and knowledge. We must not forget the essence of it all: extraordinary profits for big capital active in this sector. "Military Keynesianism" may give a boost to growth in the short term. In the middle and long term things are quite different. It has been one of the main causes of the breakdown and disintegration of the Soviet Union. This might be applicable to the United States who today, is at risk of encouraging its own collapse.

*Graph No. 3*

**US Military spending in the world context, 2008**

**US Military Spending vs. The World, 2008**

(in billions of US dollars and % of world total)  
**2008 Total Military Spending: \$1.473 Trillion**



Source: Center for Arms Control and Non-Proliferation, February 20, 2008.

See important notes in accompanying table

As the final product of the military-industrial complex is extracted from the economy, the arms race limits the expansive

capacity of the economy as a whole. In the best case scenario, the final product is not used. This is especially the case of nuclear weapons whose eventual use is not dismissed. Nuclear weapons have not been used in conventional wars after Hiroshima and Nagasaki. Actual programs of nuclear disarmament probably follow policies of substitution of obsolete nuclear weapons for more modern, lethal and strategic ones. In other words, nuclear disarmament policies do not follow the objective of reconversion of the military economy into a civil one. A policy of sustained arms race, -as in permanent war- implies a loss of dynamism in economic growth. A growing proportion of the installed capacity of the industrial park, becomes as a whole more unproductive. Reconversion of the military industry into a civil one becomes more difficult as time passes by. This happened to the former Soviet Union two decades ago and is endangering the US today<sup>5</sup>.

## 2. Perestroika revisited

In the 80's the US spent in defense, in absolute terms, more than the USSR. With an economy two or three times smaller, military spending (as a proportion of Soviet GDP) reached in 1984 14%. This, represents more than two times the proportion of the US invested. In the 80's the US also increased its defense spending and the USSR joined this arms race. The result was that the economic growth of the USSR became negative. A loss of 40% of industrial product in the civil economy was observed. Hence consumption per capita showed a negative growth. An increase in military spending in a decreasing economy represents an ever more negative growth of a nation's economy as time goes by. The Soviet economy was in a vicious circle towards its collapse. The conversion of the military economy into a civil economy became necessary. President Mijail Gorbachov was just forced to introduce the policy known as "Perestroika".

Uprising of the civil economy of the USSR required a bigger decentralization. That meant a higher degree of autonomy and democratization for the Union republics. Economy based on heavy military-industrial complex implied a strong centralization of the economy. It sacrificed the republic's development plans. "Perestroika" caused unexpected nationalist feelings. This strengthened local powers in the republics. Separation from the central power was the result. It was a clear phenomenon of

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<sup>5</sup> See, Wim Dierckxsens, *De la globalización a la perestroika occidental*. San José, DEL, 1994, p. 84.

disconnection or disengagement with existing socialism. The fall of the Berlin Wall symbolizes this breakdown of the socialist bloc and with it the fall of existing or so called real socialism. This breakdown opened a new path to understand the big problems, errors and contradictions accumulated by the Soviet Union since Stalin. These contradictions had rotted away the foundations of real socialism, in both Soviet society and the Warsaw Pact. In a trice this alternative project to capitalism, proposed in a historic period, thus collapsed.

At the end of the 80's, everyone pointed out that capitalism seemed to be the only possible system for humanity. It seemed to be eternal by nature. This perspective was promoted by Francis Fukuyama. It meant that any alternative project for countries of the South was closed. The consequence was their virtual subordination to the super powers during the era of neoliberal globalization. These powers as a whole, but mainly the US, displayed themselves as glorious winners of the Cold War. This interpretation is marred by a serious error, as capitalism was already at the edge of its own collapse, as reality now demonstrates. As a matter of fact, no one won the Cold War. The Soviet Union was the first power to fall and now civilization of the West is falling. Both are victims mostly of fictitious capital, corruption, wastefulness, and last but not least, massive military spending. 20<sup>th</sup> century socialism failed and today 21<sup>th</sup> century capitalism follows. No other clear options are left than good and bad experiences from the past. With this inheritance we will have to try reconstructing the world in a different and fairer manner.

### **3. The necessity for Perestroika in the West**

In celebrations early November 2009 because of the twentieth anniversary of the fall of the Berlin Wall, former Soviet president Mijail Gorbachov referred to the fall of another wall, this time in New York (Wall Street). He referred to the systemic crisis of capitalism. He stated the United States "needs its own Perestroika." This implies that the US needs to convert its military economy into a civil one. Chronic negative growth rates will show this need. Reconversion is neither easy nor can be done quickly. We recommended in the past the reconversion of the military-industrial complex into a civil industrial complex in the context of international cooperation and peace. With best intentions, which we doubt exist among the elites of the United States, such a process would take quite a long time, maybe even decades. A collapse of the globalized system implies disconnection of wide regions

of the world. It creates opportunities for more independence in social projects. During an arms race with China, for instance, the US will lose in economic terms. A process of disconnection would suddenly accelerate just as happened with the Soviet Bloc.

The former Soviet president added that there are signs of change favoring the whole world. He referred to the process of decentralization and independence in peripheral economies. Gorbachov asked for "more transparency and more openness" ("glasnost"). Finally, he wished President Barack Obama good luck. In other words, he recommended preparing himself for an eventual disintegration of the whole US empire and even of the United States of America. In our book *The great Depression of the 21<sup>st</sup> century*<sup>6</sup>, we already referred to the possibility of a Perestroika in the West. It may risk an eventual disintegration of the European Union and even the American Union.

The only way the current arms race of the United States may avoid a regressive economy and its eventual collapse, is transferring unproductive military spending to third nations. This encourages weapons exports among others. The Cold War and new war threats are excellent ways to increase the effective demand for weapons. It seems that current US policy with its real wars in Irak, Afghanistan and soon Pakistan, Yemen or Iran, etc., is the way to invigorate the US economy. It implies plunder, obstruction of energetic resources to its main rivals, and obstructing emerging countries like China or Russia, its geopolitical competitors. In any case, possible transfers of military spending towards its allies and plunder during each invasion clearly do not compensate its very deep economic breakdown. When losing hegemony, each empire tends to unleash a last great war. This could become an imperative for the elites of the United States.

A country's capacity to transfer unproductive military spending is measured in weapon exports. Numbers in the chart above indicate that weapons exports of the US did not increase since the last decade. This implies that the US had to assume internally growing unproductive defense spending those years. In reality, what actually happens is that the US obtains credit from their own opponents (China and Russia especially). As the US was unable to export more weapons than in the past, they may transfer the effects of this unproductive-destructive expense by eventual nonpayment of their debt to China and Russia. A conflict with these nations is eventually an argument to avoid paying its debt.

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<sup>6</sup> *La gran depresión del siglo XXI: causas, carácter, perspectivas*. San José, DEI, 2009, p. 103.

## World's largest arms exporters 2000-2008 in US dollars

## World's largest arms exporters 2000-2008 in US dollars

Current Rank	Supplier	2000	2001	2002	2003	2004	2005	2006	2007	2008
1	USA	7505	5801	4984	5581	6616	7026	7821	7454	
2	Russia	4190	5631	5458	5355	6400	5576	6463	4588	
3	Germany	1622	825	910	1707	1017	1879	2891	3395	
4	France	1033	1235	1342	1313	2267	1688	1586	2690	
5	Ukraine	280	649	440	530	600	700	1000	1395	
6	Netherlands	259	192	243	342	218	611	1575	1355	
7	UK	1356	1116	772	624	1143	871	978	1151	
8	South Korea	100	240	140	140	410	260	260	844	
9	Italy	192	224	407	321	216	787	860	562	
10	Sweden	46	7	120	158	73	116	803	529	

Source: SIPRI

To the displeasure of the US, not even its own European allies are willing to share military spending. The five European Union countries with more weapon exports (Germany, France, the Netherlands, Great Britain and Italy) show a large advantage over the US in this area. This might be an indicator of reluctance in other core countries to be net contributors to the US military-industrial complex. The European Union has its own small military-industrial complex but with a better capacity to transfer unproductive spending through exports than the US. A growing dispute between super powers in crisis time is not an abstraction. It creates a favorable scenario for the disconnection of the peripheral countries.

#### **4. The "boomerang" effect in the domino theory of geopolitics**

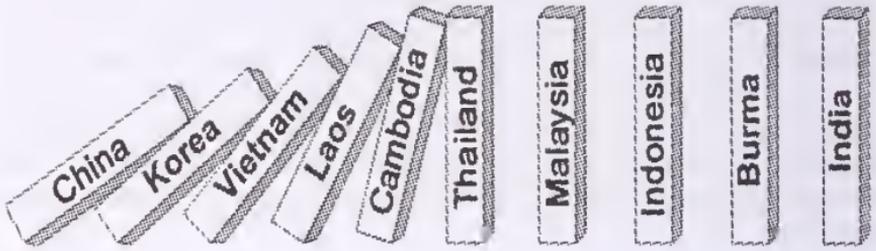
The military-industrial complex has been a considerable good business. A high price has been paid however by periphery countries, targets of this policy of permanent war. Former President Richard Nixon called it the "first skirmishes of World War III." The south of the planet is being systemically destroyed by permanent war. It opens the road beyond a structural crisis of capitalism. A world wide crisis of civilization is close. Militarism together with the Domino Theory or "snowball effect" is applicable to geopolitics. It states that an ideology and political system in a country would drag its neighbors into the same system. This statement, attributed to John Foster Dulles and President Truman was later advocated by Dr. Henry Kissinger among others, during war in Vietnam and Southeast Asia, to justify US intervention. Apparently it worked, not as its advocates foretold but the other way around. We observe a "boomerang" effect <sup>7</sup> of accumulating contradictions among super powers. First they were observed in the USSR and then the US. Examples are the failed US intervention in Vietnam and other countries, the Soviet intervention in Afghanistan and now US failed interventions in Irak, Afghanistan, etc. It seems that the power which dared to practice such a theory ends up paying an expensive price.

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<sup>7</sup> Medipaz, *op. cit.*

Figure No. 1

The Domino Theory  
It was proved but:



Those military operations and ones to destabilize countries and entire regions of the world were part of the cold war. This caused a negative “boomerang” effect upon the very core countries. Today this is expressed in its slowing accumulation over decades finally resulting in the current crisis.

In the 80’s, not the industrialized countries but precisely those of the South, and especially oil producing countries, absorbed 80% of global weapon imports. After the Cold War, possibilities to transfer US military exports and spending decreased dramatically. This country needed more wars and excuses to go to war. Wars could not be justified any longer by the cold war. Creation of new enemies became indispensable to support “Military Keynesianism” and permanent war. In this context arises first the Persian Gulf War in 1990, the war against drug dealing and later the War against Terrorism, with September 11, 2001.

For almost the entire history of capitalism, super powers recurred to military spending in times of crisis. Political pressures of bigger multinationals producing machinery tools are growing to support the military-industrial complex. Long economic cycles go together with long wars. Due to the impossibility of selling its capital goods in times of crises, the State has to guarantee the demand of its final product. States so favor actively unproductive capital in the military and industrial complex. In the last few years defense spending is no longer funded by taxes yearly collected among US citizens. It would directly decrease growth potential. The US government funds war by pure credit. It is acquired abroad from its main rivals (China and Russia) or with the printing of money without any backup. This may go on while this universal currency is still accepted.

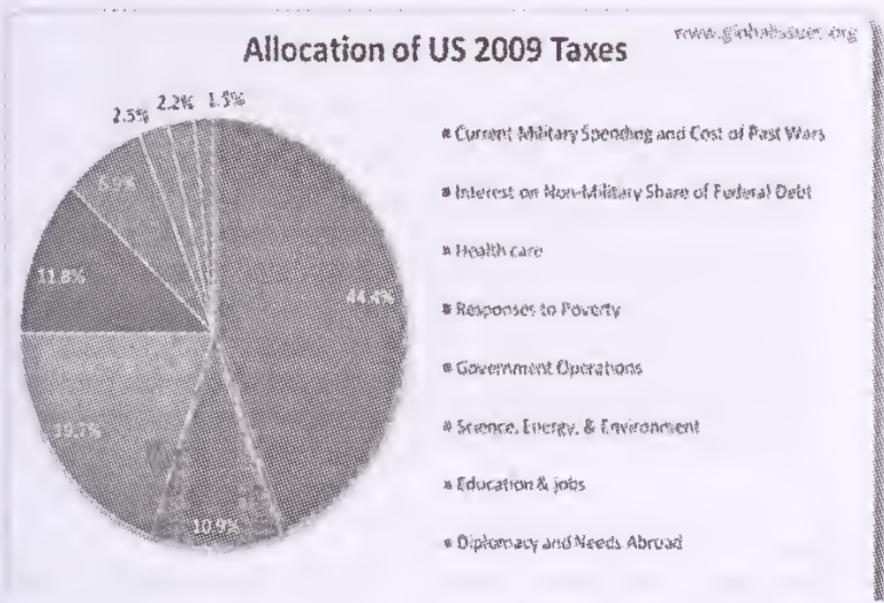
It could be arguable that China, for instance, is forced today to increase its defense spending because of pure economic motives. Economic crisis in China is not due to overproduction of goods

and equipment, but due to the contraction in export possibilities. This may be solved in different ways. By decreasing US imports, China and Japan have intensified commerce between themselves during this crisis. Doing so, dollars and bonds without value are released. As exports of consumer goods made in China go down, the country tries to replace external demand by internal demand. As exports from the South fall down, substitution of imports becomes a general policy in peripheral economies.

Decreases in exports of most industrialized countries and mainly of the US, on the other hand, imply a decrease in capital goods, such as machinery-tools. Reduced civil demand is substituted by an increase in defense spending. A consequence is the enlargement of the military-industrial complex. This apparent solution sooner or later will intensify the already existent economic crisis. The only way out is to transfer military spending to third countries. In other words they search for a long war. In our opinion, this is what we may expect. This war is directed to those countries with possibilities of payment. In other words war will affect countries with huge energetic and natural resources, those the whole world needs and consumes. However, a "great war" will be addressed specially against those powers which could represent a threat to the current established order. That is to say mainly towards China and Russia.

*Graph No. 4*

**Allocation of US 2009 Taxes**



We believe, together with Sara Flounders<sup>8</sup>, that this time the economic crisis of the US is so large and its military spending so unbearable that the transfer possibilities to third nations are limited. Transferring the huge military spending by credit leads to default. The US will have to declare a payment cessation. This might best be done in the context of war. This transfer attempt, instead of representing a solution, more likely may imply the definitive burial of the US economy.

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<sup>8</sup> Sara Flounders, "The Pentagon Budget: Largest ever and growing", in *www.globalresearch.ca*

## Chapter IV

# Is a “New Green Deal” an alternative?



*Control oil and you control nations, control food and you control  
the people*  
*Henry Kissinger (1970)*

## 1. Sustainable Growth, myth or reality?

For the elites in power, "Military Keynesianism," is not at all an option for meeting the current crisis, as was the case in 1929. Is there a possibility of another "New Deal" in order to rescue the capitalist economy? All conventional ways out of the crisis point to a tacit condition and sine qua non: the necessity of sustained economic growth. Capitalist society clings to the myth of economic growth. Without it sustainable accumulation is impossible. Myth holds that growth would be a necessary condition for people's welfare. Although economic growth may be and has been through history an important vehicle to create greater welfare, it is not a necessary condition for it. At certain degrees of capitalistic development, according to authors like Daly<sup>1</sup>, it is more likely to obstruct welfare.

Economic growth, however, is a very necessary condition to make profits in the long run. Sustainable capital accumulation requires investments in productive labor by its content. It is simply not possible to sustain productive labor based on its form (making profits) without productive labor based on its content. Only then when sustainable growth is guaranteed as permanent economic growth, sustainable capital accumulation will be assured. Without economic growth, it is only possible to accumulate capital temporarily. In that case it is based on a more unequal distribution of income and existing wealth, mortgaging the future. Another way to do so is by means of fictitious capital accumulation. This way to accumulate however, sooner or later, reaches a limit and henceforward produces a deep economic crisis. This evidences the impossibility of creating profits without creating real wealth based on real value.

Nowadays the world economy is five times greater than a half century ago. The globe is in danger. Although no one could imagine it a half century ago, today energy resources and natural resources cannot provide enough supply to sustain capital development and its perspectives of growth. Global warming is an immediate threat. CO<sub>2</sub> pollution and other forms of contamination represent a threat to the life of ever more species and for natural life in general

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<sup>1</sup> Herman E. Daly, *Beyond Growth: The Economics of Sustainable Development*. Beacon Press, 1996.

on our planet. If hypothetically the world economy continues to grow by 3% annually the way it has grown in the past half century, in fifty years the world economy will have a volume five times larger than its current size and ten times in a century. Every ten years we would need to occupy another planet to maintain this current state of growth. This simply is impossible.

Nowadays our planet is more than saturated. In other words, at present there is already a need for another globe. Humanity, however, will have to manage with only one. If we do not stop global economic growth, nature will destroy us due to our destruction of the natural resources necessary for our survival as a human species. So it is absurd to maintain the myth of sustainable growth. We are facing a deep crisis derived from western lifestyle. Its logic of practical ideological and political performance rules the world today. In other words, this crisis is not only one of this mode of production. It is a crisis of the very western "civilization" itself.

## 2. The limits of growth

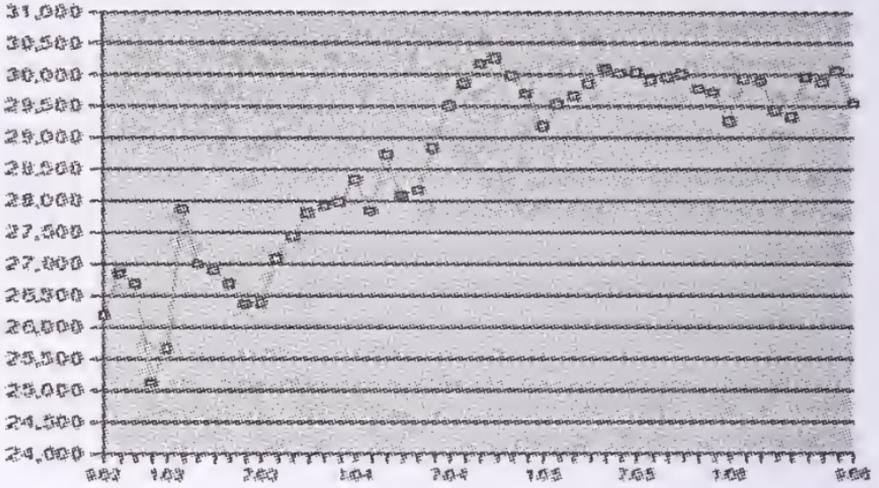
As western model of development is based on economic growth, energy resources are the very basis for this process. They represent the most strategic resource to maintain the engine of growth of the current economy. Therefore, with continuous shortage of such resources, this development paradigm reaches the limits of its possibilities. Oil is the main energy resource today, which together with natural gas, covers more than 90% of all the energy used on a global scale. According to the Energy Information Administration of the US (EIA) oil production has not covered world demand since 2005. The graph below shows how oil production did not increase in the OPEC countries since 2004.

We are currently facing the so called "peak-oil". Peak exists when the difference between demand and possible supply becomes negative. In other words, peak exists when new discoveries and development (supply) do not meet the ever higher demand. In that case price tends to a permanent increase. New discoveries in countries which do not belong to OPEC or Russia also show decreasing trends, as the graph below shows. "Peak oil" is in other words a world phenomenon.

Graph No. 1

OPEC, Crude Oil Production 2002-2006

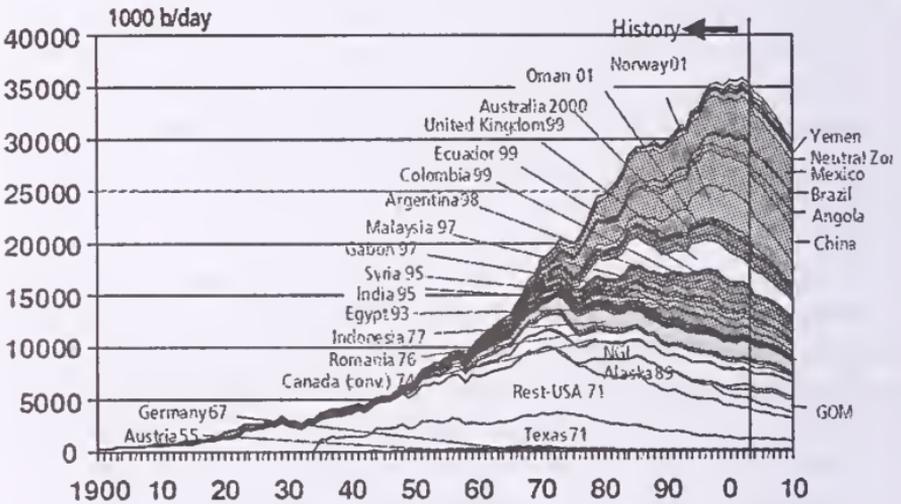
OPEC Crude Production (MEES)



Source: Crude Oil Production Middle East Economic Survey

Graph No. 2

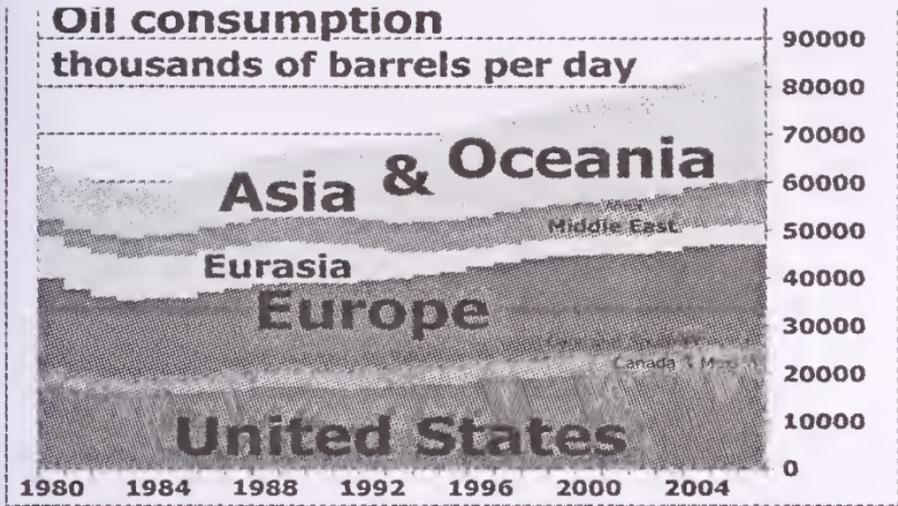
Evolution of oil production of countries which already reached their peak (does not include OPEC or Russia). To the right of the vertical line is a forecast



Source: Industry database, 2003 (IHS 2003)  
OGJ, 9 Feb 2004 (Jan-Nov 2003)

Graph No. 3

Curve of Oil Demand in thousands of barrels per day by region 1980 to 2006



Source: Wikimedia Commons

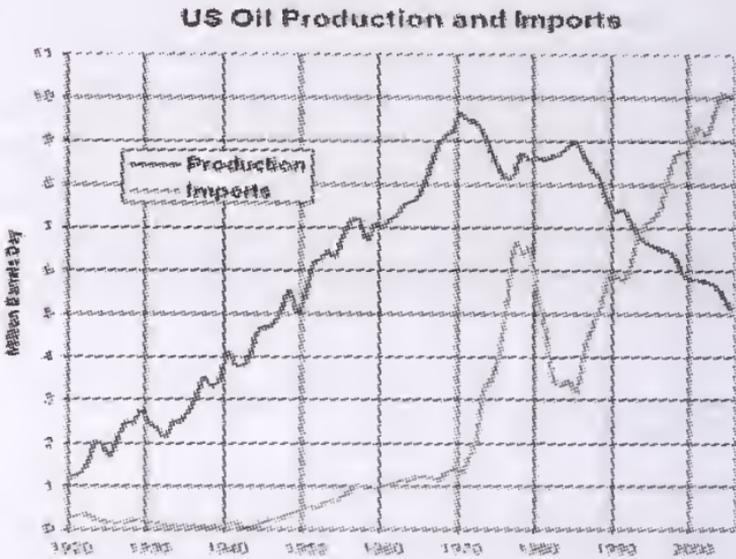
For years many authors forewarned the arrival of "peak-oil". Even if estimated dates vary, it is generally accepted that if we have not gone through that peak yet, we will do so in a few years. Authors also agree that we will soon be witnessing the 'natural gas peak', an energy resource which supply depends heavily on oil discoveries. When oil is relatively scarce, its price tends to rise, as we have seen in recent years. Due to the current crisis, oil prices decreased just temporarily. Recently they rapidly increased again. It demonstrates the relative shortage of this energy resource. Super powers, including first of all the US, are net oil importers. The difference between oil imports and domestic supply is ever larger as can be seen in graph No. 4 below.

Energy resources represent the engine of economic growth on a world scale. Just due to their running out support of such growth is in danger. We, however, should not underestimate relative shortage of other minerals. Besides "peak-oil" other limits are already reached among minerals. Eleven out of fifty seven minerals (almost 20%) already reached their extraction limit: Mercury (1962), Tellurium (1984), Lead (1986), Cadmium (1989), Potassium (1989), Phosphate (1989), Thallium (1995), Selenium

(1994), Zirconium (1994), Rhenium (1998), Gallium (2002). More than half of minerals will reach their extraction limit in the next 30 years<sup>2</sup>.

Graph No. 4

### US Oil Production and Imports



Mineral coal, a still much used energy resource today, will also have its "peak coal." The "Energy Watch Group" (EWG) estimates this peak for 2025 while the US Energy Information Administration projects that mineral coal production may increase until 2030. On the other hand, B. Kavalov and S. D. Peteves, from the Institute for Energy Technology, do not make estimations on concrete dates. They conclude however, that coal in the future may not be plentiful and widely available. Growing dependence on this energy resource has no future. Besides nearing its peak, mineral coal contaminates the atmosphere and the environment and intensifies global warming. These are important reasons why it will be questioned as an energy resource as time passes by.

<sup>2</sup> See, "Industry database", 2003 IHS, en *Wikipedia Free Encyclopedia "Peak Oil"*, [www.en.wikipedia.org](http://www.en.wikipedia.org)

Substitution of non-renewable energy resources for renewable ones is an immediate necessity. It is not only a relatively slow process, but it also has its limits. For 2020 it is expected that all alternative energy resources together will cover at most 20% of total of the world's energy demand <sup>3</sup>. Furthermore, energy production based on renewable resources (including agro-fuels) will not be enough to properly compensate non-renewable energy decline (oil, gas and coal). This will be manifested by a permanent oil price rise. Supply of renewable resources cannot satisfy its growing demand. An increase in prices of such renewable resources will be a consequence.

### 3. Agro-fuels: Speculating with hunger

Competition between agro-fuels and food, tends to increase the price of the latter. Something similar happens with prices of arable lands. They are used more and more in the production of agro-fuels of all kinds in detriment to food production. The outcome will be the omnipresence of famine precisely in places where purchasing capacity is lower, affecting the poorest countries. Permanent price rises of all energy resources will imply a constant increase in production costs. The recovery of these costs will become a chronic difficulty. It will hinder capital to realize profits creating a more or less chronic crisis. In Middelkoop's view <sup>4</sup>, the so called credit crisis will be an insignificant one compared to the chronic crisis caused by "peak-oil."

The current world crisis will be more devastating than the Great Depression of the 30's, asserts Chossudovsky. It has many more geopolitical implications. Economic dislocations have accompanied the beginning of regional wars, the fracture of national societies, and in some cases, the destruction of entire countries. This is, by far, the most severe economic crisis of modern history <sup>5</sup>. Faced with the real estate and financial crisis, that hit the United States in August 2007, large speculative investment funds transferred huge amounts of money to control agricultural products (agricultural commodities) on international markets.

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<sup>3</sup> Willem Middelkoop and Rembrandt Koppelaar, *De permanente oliecrisis*. Amsterdam, Nieuw Amsterdam, 2008, p. 108.

<sup>4</sup> *Ibid.*, p. 166.

<sup>5</sup> See, Michel Chossudovsky, "Hambre global", in *Rebelión*, May 12th 2008.

Once real estate bubbles burst, speculators returned to a former paradise: cereal markets<sup>6</sup>. It is estimated that these funds control 60 percent of wheat business and a high percentage of other main grain markets. A greater part of the soy harvest for the next few years has already been purchased as "futures". These grains have become another object of speculation. Its changing (rising) prices, are the result of speculative ups and downs and not of changing local markets or people's needs.

This mix of speculative increases in food prices, led to a wave of world famines with no precedent due to its scale. Absence of regulations in these speculative markets triggers famine. Volatility in food markets is mostly due to deregulation, lack of control over big agents, and lack of necessary State intervention on the international and national levels in order to stabilize markets. During 2009 speculation with new menaces of hunger were back in the economy. A stop on speculation in staple food markets, taken as an imperative political decision, would immediately contribute to decrease food prices. There is nothing to prevent this from happening. We cannot foresee, however, a cautious group of measures of this kind being implemented<sup>7</sup>.

The food crisis is occurring despite there being enough food in the world to feed the global population. Famine is not the consequence of the shortage of food but the other way around. In the past, food surpluses in the core countries were used to destabilize production in developing countries. According to the FAO, the world is able to feed up to 12 billion people in the future. World grain production in 2007/2008 was estimated to be 2108 million tons (a rise by 4.7% in comparison with that of 2006/2007). This surpasses the standard of a 2% increase during the last decade. Even though production remains at a high level, speculators bet on an expected shortage and artificially did increase prices. According to FAO reports, price of basic necessity grains rose by 88% since March 2007<sup>8</sup>.

While speculators and large scale commercial groups profit from the current crisis, most farmers won't get benefits from these high prices. As land becomes more expensive, speculation on agricultural land rises. Evictions, sometimes by force, are one

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<sup>6</sup> Serge Halimi, "El FMI y el hambre", in *Le Monde Diplomatique*, May 2008, p. 40.

<sup>7</sup> See, Chossudovsky, *op. cit.*

<sup>8</sup> See the article of Ian Angus, Food Crisis: "The greatest demonstration of the historical failure of the capitalist model," in *Global Research*, April 2008.

of the consequences. Farmers that 'survive' cultivate their land, but their harvest is frequently already sold either to the lender, to a provider, to agro industry companies or a merchant. Even when prices paid to the farmers have increased in some cereals, the rise is too small compared to both the increase in the world market and consumer taxes.

During the last years, super powers and multinationals have rapidly developed production of agro-fuels. For this reason subsidies and large investments are being allocated to this growing sector. As a result, land usage is largely being redirected from food production to agro-fuel production. Multinationals and conventional analysts foretell that lands will be increasingly utilized for agro-fuels (corn, but also palm oil, sugarcane, etc....). An important part of US corn suddenly "disappeared" because of purchases for ethanol production. This uncontrolled explosion in the agro-fuel sector caused a great crash in already unstable international grain markets. Speculation takes advantage of the relative shortage of food. Sellers keep their stocks off the local market to stimulate price rises in the domestic market, obtaining huge profits. Multinationals aggressively obtain large areas of agricultural land around cities, dislodging farmers, for speculative purposes.

In the last decades, the World Bank and the IFM, together with the World Trade Organization (WTO) forced peripheral countries into diminishing their food production investments and their support to small farmers who are basically responsible for food production. The rules of the game changed dramatically in 1995. Then, the WTO treaty on agriculture came into force. Neoliberal policies undermined domestic food production. They forced farmers to produce commercial crops for multinational companies and to buy their food from multinationals in the world market. Free Trade Areas (FTA) have compelled countries to "liberalize" their agricultural markets and dismantle their import barriers. At the same time, multinationals dumped their often transgenic surpluses in these markets, using direct and indirect export subsidies. As a result, Egypt, former wheat provider of the Roman Empire, became the principal importer of transgenic wheat. Indonesia, one of the rice cradles, nowadays imports transgenic rice. Mexico, a corn cradle, imports transgenic corn at present. The US, European Union, Canada and Australia are major exporters.

Peripheral countries became addicted to cheap food imports. However as price increases, famine becomes a world menace. Many countries that till now produced enough food for their own consumption, were forced to open their markets to agricultural products from abroad. At the same time, most of state regulations concerning the existence of stocks, prices, production, import and export control, were gradually dismantled. As a result, small agricultural and cattle raising initiatives all around the world have not been able to compete in the international market place and many went broke <sup>9</sup>.

Neoliberal policies from the last decades expelled millions of people from the countryside to the cities where most of them end up in slums, with very precarious lives. They will be the first victims of the current crisis because they are not able to produce their own food. Their number has dramatically increased and they have to spend large amounts of their income on food. According to the FAO, in developing countries food represents, up to 60-80% of consumer expenses. A sharp increase in prices condemns great majorities to famine and even to massive death. It is not odd that in recent years many disturbances burst out all around the world due to rising food prices. A struggle for life itself is at stake.

#### **4. Towards an economy in favor of life**

As we have seen, conventional ways out of the crisis are strategically nonviable. Income and wealth concentration, military Keynesianism, economic growth with rising expenditures of energy, food and natural resources, etc. are nonviable. On the other hand, it is important to analyze the current huge waste of energy from the perspective of the world 's diminishing oil production. In fact, is the much touted modern productivity a phenomenon that comprises the whole society or does it limit itself to products and specific services which reaffirm life? Productivity of a rifle factory, for instance, may be high and even growing in terms of profits for private capital. From the point of view of society as a whole, rifles instead of supporting growth cause the contrary. In that case, all the work involved in this production is a waste and

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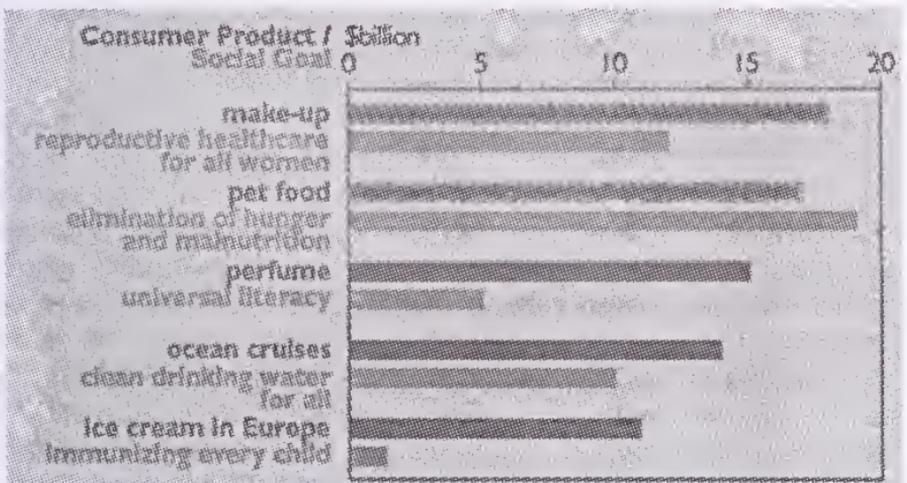
<sup>9</sup> See Henry Saragih, "La Vía Campesina saluda el reconocimiento preliminar de los derechos de la/os campesinas/os por la ONU", in [www.ecoport.net](http://www.ecoport.net)

therefore becomes socially useless. Furthermore, it is a destructive enterprise in which a death ethic is involved, and thus is even reproachable from an ethical viewpoint which stands up for life.

Our societies produce ever more goods that are useless and dispensable. In other words, it concerns products and services which do not reaffirm life. Vehicles, weapons, wars, the whole structural system of cities for automobiles, publicity, innumerable merchandise and services of needless consumption, etc., all tend to be produced with growing productivities. They only create more profits, regardless of their real use in people's lives, without mentioning the decreasing lifespan or durability of all what is produced. As a fact, the simple change of current emphasis on individual transportation based on vehicles, to an emphasis on collective transportation, would substantially reduce the size of cities. It would thus lower the cost of equipment and urban services needed for people such as parking lots, highways, bridges, sewers, electricity lines, etc. Hence, cities would become more livable. By the same token, urban planning based on concepts of local production taking into account the location of factories, shops, and residential neighborhoods in accord with collective interest, would substantially reduce both size of cities as well as costs.

*Graph No. 5*

**Luxury vs. Necessity: The western world spends more in luxury than what it would cost to reach the goal of the millennium**



The gap between production to support people's lives and production to make profits, taking into account those desires and/or "necessities" created by capital itself is illustrated in the previous graph. It shows how in the western world of the XXI century, 30% more is invested in cosmetics than in reproductive care for all women. Barely 10% less is spent in dog and pet food than in finding a solution for famine and malnutrition for all human beings. 300% more is invested in perfumes than in teaching illiterates how to read and write. 30% more in ocean cruises than in drinkable water for all. 600% more in ice cream in Europe than in investment to immunize all children against curable diseases. The West's production and consumption is, in other words, directed far from life itself.

In the graph there is no mention of weapons. An important decrease or even the eradication of the arms race and of all wars in the world would create enormous surpluses in governmental budgets. These might be directed to services really needed by people as in the area of health and education as well as other needs that reaffirm people's lives. Increase in lifespan or durability of goods would save energy and raw materials and would reduce a lot of work necessary to produce these goods and services one time and another. This would create more leisure time for workers and their families. If publicity, needed mainly to create "new indispensable necessities," were restricted to its purely informative aspect, it would reduce the cost of selling products and services and it would direct information to the real usage of things. It is clear that productivity of modern societies exists just in the sphere of microeconomics because it is falling, wasteful and irrational on the level of macroeconomics. Thus, we support the necessity for a stationary or zero growth economy in terms of value. Even a negative growth economy may be the only alternative to overcome the blind alley in which our economies are placed. This concept will be analyzed below.

Simple democratic and participative control of the amount, specifications, localization and durability of goods and services, or in extreme cases, their pure and simple elimination, would reduce pollution, save energy and natural resources. It would create leisure time for the worker's personal growth. This is the road needed to transform the current economy of constant growth and microeconomic productivity into a stationary or zero growth economy, with high productivity not only in the micro world but principally in macroeconomics. Such an economy would

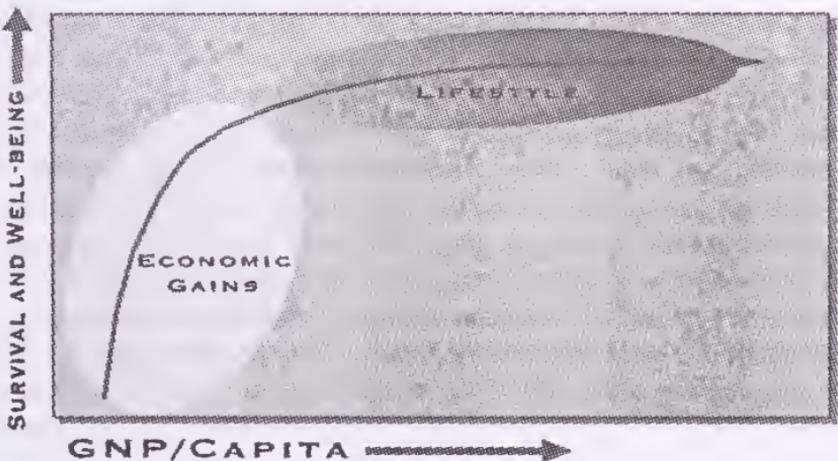
substantially improve people's material and spiritual quality of life.

## 5. About the transition moment

Current civilization is based on two basic pillars. The first one is the isolated and vertical decision making by elites controlling productive and financial processes. The second pillar is the existence of an individualistic, selfish and non-inclusive rationality. It is derived from a dogma of making free choices. Those are supposed to be free from these same controllers, who end up obliterating freedom of all other human beings. Both the way of exercising power and the ideology of our societies derive from these two pillars. Transition to and the existence and effective performance of a zero growth economy requires a new civilization. In this new society decisions in fact will be democratic and based on as large as possible citizen's participation. It will be in such a way that rationality and the prevailing power are englobing as well as cooperative.

Figure No. 1

Scheme for survival and well-being: transferring profit to improve life quality



Source: H. Engelhardt 1987

On the other hand, we can ask ourselves if it is plausible to envisage this transition process. We make this question in view of the measure and its seriousness in which western civilization, based on the myth of growth, is wearing itself out. Ecological economists such as Daly<sup>10</sup> have shown with enough clarity that people's welfare does not depend on economic growth per se. Writers such as Daly point out that after having reached a certain growth level, another increase in a country's GDP is more likely to decrease material welfare of a nation (See graph above). These authors along with us, conceive as a necessity, promotion on a global scale of a stationary or zero growth economy. This implies a regulated economy.

This kind of economy, however, should not be centralized nor administered by elites, as happens with money under bankers' control, nor at rich countries' discretion, in particular that of the US, as they consume, squander and contaminate the most. Nor must it take place under a scheme similar to that of the UN Security Council, as just five members with veto power decide for the rest.

The implementation of a stationary or zero growth economy implies a re-arranging of the world economy and society. It supposes an absolutely democratic participation of all countries and regions. This process will require wealth redistribution from rich countries to those of the South in order to eliminate existing imbalances. The basic principle is the common good and not the privileging of the strongest. These latter factors led nations to current imbalances and to this actual civilization crisis which is just beginning. The cancer tentacles represented by bankers, corporations and multinationals of the North are spread all around the planet and must be controlled as the first step. They are like an unproductive parasite which sucks all productive wealth and life out of the so called third world. They do so in order to reinvest in militarism, warfare, wasteful and unproductive consumption in rich countries. Such a regulation does not have to deteriorate life quality of populations in the richer countries. On the contrary, regulation will improve it through a more rational and efficient use of world resources. In the meantime food supply problems, which are most indispensable, proper housing, decent public transportation, public health and good quality education, among others, need to be solved with immediacy for the poorest

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<sup>10</sup> Daly, *op. cit.*

populations. We need to begin repairing these fundamental imbalances. In the middle and long run reorganization of a new, balanced, stable, fair and democratic world system is priority.

*Figure No. 2*

**Number of planets required today to sustain our world if we transfer the consumption of each country to the rest of the world**



*Source:* New Economics Foundation

However, if countries of the South would proceed in accordance with the same western rationality, the world economy would soon need several globes in order to maintain itself. We all know we only have one. There is no justification to hinder or block Southern countries in their right to use their own resources. It implies stopping core countries and their elites in their continuous ravishing of peripheral countries. These countries keep their

consumption and contamination levels within sustainable limits for the planet and nature. If consumption and contamination of India or Malawi, for instance, would be generalized to the entire globe, less than half the planet would be required to sustain the economy and repair damage done to nature. If the levels of Latin America and the Caribbean were to be used, even less than half the planet would be required. If those of Africa were to be used, less than a quarter of the planet would be required. On the contrary, if we apply consumption levels of Europe, we would need three planets and those of the United States, today would require more than 5 planets. The problem is that we only have one. See next image:

In order to reduce contamination levels and avoid depletion of natural resources, Malthusian theses are promoted in the West. It states the need for population growth reduction in the South. Eventhough we know that more than 80% of natural resources are absorbed by just 20% of world population concentrated in the North. This population is responsible for almost 80% of all contamination due to their style of consumption. It is appropriate to pin down in the first place that populations not just only consume. They are the real wealth creators, based on productive labor. This productive labor is concentrated more and more in the South. Unproductive labor takes place in the North, as we mentioned already.

Although it is not what is happening today, welfare of its citizens should be the objective of any political and socio-economical system. World population is made up of consumers and in 2010 it reached almost 7 billion inhabitants. In 2050, according to United Nations projections, world population will surpass 9 billion, a growth of almost 30% in 40 years (see next chart). Global fertility rate, as we can now foresee, will be 2.05 children per woman. This means that in a few years population will start to decrease. It is a phenomenon already happening in many countries classified as "more developed" by this organization. The conclusion of countless investigations is that this historic trend is irreversible. It is mostly caused by a rapid decrease in fertility in all countries classified as "less developed," since the 1960's. The main challenge drawn from the previous facts is that the economy will have to solve the welfare problem of a big poor population which will still grow by 30% in the near future. On the other hand, these figures show the strategic geopolitical change occurred in the 20<sup>th</sup> century. In other words, a huge difference exists between

population size of less developed countries, 85%, against 15% of the more developed ones.

**World population in 1950, 2010 and projection for 2050 regarding more and less developed countries**

Year	World Population	More developed population	Less developed population	% population less developed
1950	2.519.470	812.772	1.706.698	67,7
2010	6.842.923	1.225.678	5.617.246	82,1
2050	9.075.903	1.236.200	7.839.702	86,4

*Source:* United Nations Fund for Population Activities, middle variant projection.

A system of stationary or even negative growth economy has to be established in all those countries which consume above the planet's capacities. Countries that consume less may grow for a while until a balanced world system is established. As previously stated, transformation of the current military-industrial complex into an industrial complex for cooperation and international solidarity would be helpful. It would sever unproductive squander of weapons and wars. It would favor as well the establishment of a more equal and coherent world system. This subsector would change from being destructive and unproductive to productive and constructive. This would not imply massive unemployment in countries where it is strongly developed, as in the United States.

Another clear example is China. This country opened up to capitalist markets, which allowed its economy to grow spectacularly. China has achieved already a third position among world's largest economies, a position which turned into second very recently. China is a direct rival of western economies, and competes using the same voracious rationality. Nowadays China is not only the world's second economy but also holds a first place as contaminator. India is another emerging country with more than a billion inhabitants. It also follows the same quantitative

development. With a generalization of this manner of western development, we would soon need two more globes in order to maintain such a western lifestyle.

## **6. Positive growth in the South and negative in the North**

A logical fact in the North-South imbalance frame is the following: a canary-legged weightlifter is not efficient, nor is a track runner with the lungs of a mouse. To pretend otherwise is abnormal and this is what large capital precisely established for its exclusive benefit – to concentrate almost all wealth and world power in a small number of powerful hands. We are facing a real dilemma. We cannot and must not restrain the development of countries of the South. Moreover, peripheral countries will call for it with increasing force. There are several reasons for this. During the last decades, real economy has been gradually moving towards the South. The highest potential for real economic growth will be there where activities are based on productive labor by its content as we see may observe during the current crisis. Most natural resources necessary for economic growth are right there as well. All this may be done without an increase or just a small one in energy costs and natural resources, as long as productivity growth of society as a whole is achieved through participative and democratic mechanisms. It implies a reduction of production and/or consumption of weapons and needless spending. It implies changing the structure of the urban system. It implies as well changing production profiles by giving priority to the collective consumption of goods, etc.

As for the core countries, apart from previous measures mentioned, the message is different. In order to achieve ecological sustainability, a dematerialization of their economies is required. This means that the demand for energy and natural resources per unit of the GDP should decrease, not only in relative terms (relative dematerialization) but even in absolute terms (absolute dematerialization). Relative dematerialization implies that the impact on the environment is lower by unit of product. Impact continues to grow in absolute terms in a specific time span (a year generally) due to GDP growth. In these analyses it is very important to segregate results obtained in the consumption sphere from those obtained in the production sphere. We will look at this in more detail.

On a world scale, between 1970 and 1999, energy demand decreased almost 33% to obtain an equivalent GDP. What is not mentioned is that this reduction was made mainly by conscientious consumers. The battle for a more rational use of energy, which is becoming more aggressive as time goes by, is happening there. We cannot say the same about the production sphere where this battle is not being fought. CO2 emissions, for instance, increased between 1990 and 2009 by almost 40% in the production sphere. Demand and consumption of large amounts of minerals (iron, copper, nickel, bauxite) increased in the productive area even faster than GDP growth. This happens basically due to shortening the life cycle of produced goods. When everything made is short life cycle based, a smaller percentage of material per product or value unit is required. However, a higher volume is produced per time unit, contaminating therefore more than before. This implies lower use of material per product unit but an equal contamination as more products with resources and contamination are produced per time unit (a year). This due to the shortening of the life cycle of all what is produced. In such cases we cannot talk about dematerialization in absolute terms.

Authors in ecological economy consider it impossible to achieve real dematerialization without a policy of absolute dematerialization. This implies the necessity for negative growth. It involves making more durable and better quality products. It would imply a historic triumph of use value over exchange value. A higher percentage of material per product unit will be used producing a much longer lasting product. Only then a process of dematerialization and decontamination per time unit may be achieved. How much dematerialization do ecologists talk about? Ernst von Weisäcker talks about a need of "Factor 4". This means a duplication of the world wealth should be reached with half the natural resources in 3 to 5 decades. Schmidt-Bleek talks even of a "Factor 10"<sup>11</sup>. Analysts agree that reaching a "Factor 4" or even a "Factor 10" without negative economic growth, is a mere illusion. Thus it is very clear that a "New Green Deal," that is to say, continuous economic growth with ecological sustainability, is purely a myth. There is no real possibility for capitalism to turn around economic growth with a "New Green Deal".

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<sup>11</sup> See, Peter Tom Jones and Vicky Meyere, *Terra reversa*. Antwerpen, Ed. Jan van Arkel, 2009, pp. 83 and 84.

"New Green Deal" promoters, like Al Gore, for instance, do not question capitalistic production systems as such. Their solutions basically refer to individual consumptive behaviors. They refer to a reduced use of electric energy, a more moderate and rational use of automotive transportation and to a more moderate and rational consumption of food (less meat mostly). It is a positive result of course and everybody will agree about it. As energy and natural resources become scarcer for productive purposes, however this might bring about the imposition of an authoritarian society. Consumers may be pressed by authoritarian rules to consume less energy and resources (by sky high taxes for example) just in order to release energy resources and contamination rights for producers. The final result will be a more contaminated world with even less resources. In this context it is particularly interesting to mention recent changes proposed in the automotive industry aiming at massive introduction of a cleaner electric car.

Hitherto, cars with more economical motors in fuel consumption have not succeeded in a lower use of fuel. It is due to users' preference for heavy cars and long journeys. On top of that, "ecological tourism" involves travel by plane to exotic and faraway places. It is not unreal to foresee a future society with high energy taxes on the consumers' side combined with sky high taxes on CO<sub>2</sub>. On the production side it may be a completely different picture with all kind of subsidies. The alternative presented in the automotive industry is the electric car with an electric motor which works together with a combustible motor to charge the battery. Such a vehicle is able to reach 1000 kilometers before charging its battery again <sup>12</sup>.

By focusing the issue of contamination and energy use exclusively on the consumer side, promoters of the "New Green Deal," support and promote manufacturing new car models. It is presented as the great solution to the problem. Permanent technological innovation, that is "creative destruction", would be the nostrum. By promoting massive construction of new more eco-friendly car models, average life expectancy span of these models becomes shorter and shorter as time goes by. From the perspective of automotive manufacturers, this implies an increase in capital rotation. It increases the sales and therefore profitability for big private capital. Making profits more quickly increases the profit rate, which is the essence of capitalism. For promoters of

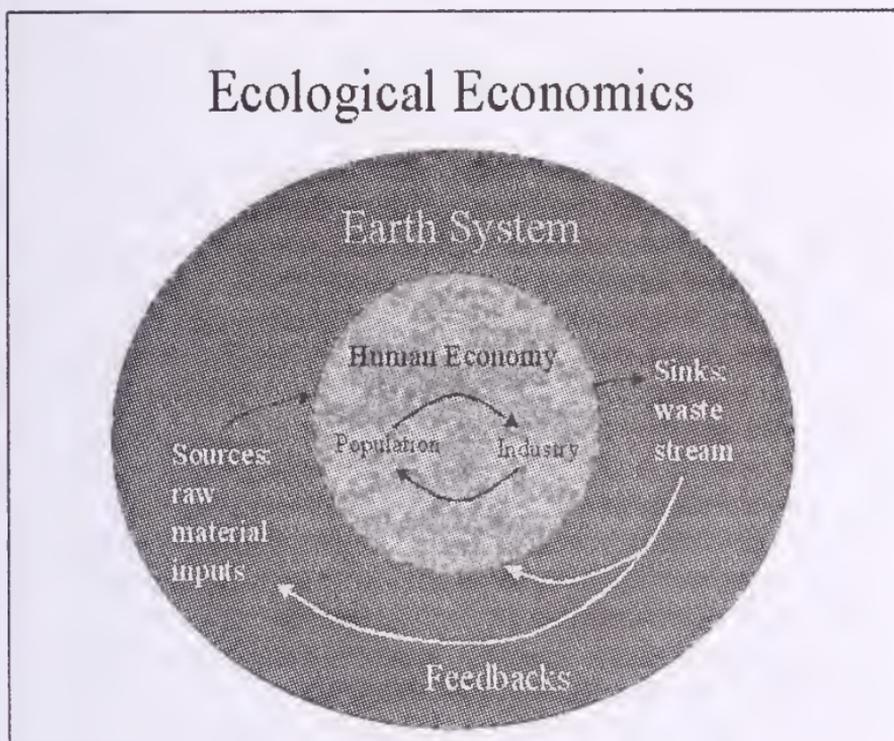
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<sup>12</sup> Middelkoop and Koppelaar, *op. cit.*, p. 145.

the "New Green Deal", permanent innovation must provide the solution for capital. Hence, for instance, Peugeot encourages you to buy new models with the following ad: "20% of the oldest cars is responsible for 60% of automotive contaminating emissions. Replace them!"<sup>13</sup>.

Figure No. 3

Scheme performance for an ecological economy:  
To gather what is squandered with the necessary  
raw materials for building a human economy



From an ecological point of view, car production with shorter useful life means growing use of raw materials and greater energy consumption. This also causes more contamination. CO<sub>2</sub> emissions in industries are already higher (40% of all emissions)

<sup>13</sup> See, François Houtart, *La agroenergía: solución para el clima o salida de la crisis para el capital*. Ruth Casa Editorial, 2009, p. 93.

than the mere use of manufactured vehicles (responsible for only 30% of all emissions). The benefits supposed to be obtained in transportation after introducing new car models are lost when producing them with a greater speed and rotation <sup>14</sup>. The lesson is clear: in order to achieve an absolute dematerialization it is not only necessary to produce cars more economical in fuels and cleaner in gas emissions, but above all it is necessary to produce more long lasting and collective means of transportation. It is not about improving vehicles with ever shorter life expectancy but progressively substituting them by durable collective transport of good quality.

The "New Green Deal" inspired in the "New Deal" was introduced in the second half of the 1930's during President Roosevelt's administration. It pretends to be a paradigmatic answer to the current world crisis. It conceives large scale investment programs in infrastructure and eco-friendly production. The ultimate purpose is promoting sustainable growth and so prolonging capital accumulation. In other words, the final goal is sustainable accumulation. By focusing on the consumer side in how to save energy and reduce contamination, it not only promotes the massive introduction of short-lived so called eco-friendly cars. It also introduces construction of residential and public buildings which save energy by improving isolation mechanisms. By promoting the replacement of older and less eco-friendly buildings, technological innovation in shorter life construction is encouraged. By promoting buildings which meet the conditions of the newest technology, the existing stock of buildings becomes ever sooner obsolete. More and more old buildings do not meet requirements for energy consumption. We have gone from one extreme to the other. Today, people are already talking about "sick buildings" due to the lack of ventilation in new construction because of high isolation degrees. Summing up, technological innovation in construction norms shortens average life expectancy of buildings permanently.

Energy consumption in construction of short life new buildings, require more frequently extraction of natural resources (cement, steel, wood, etc.) and energy to manufacture construction materials and require more frequently transportation. So it would damage the environment more than ecological benefits obtained

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<sup>14</sup> *Ibid.*, p. 44.

with a more rational use of energy in those new buildings. This is the opinion of Peter Tom Jones and Vicky Meyre<sup>15</sup>. We can perform this analysis on most durable products and the story would be almost the same. The "New Green Deal" includes then a more generalized tendency towards less lasting products in the area of production. This would imply a larger absolute materialization of the economy. The consequence is a growing shortage and even an accelerated depletion of available natural resources and greater contamination. Alternative rational would be to build longer lasting and cleaner community buildings. Such a measure would imply however the end of economic growth and thus the end of capitalism. To avoid this, the system will seek by all means an ecological approach on the consumer side to safeguard growth in the production area. It may even imply ecological dictatorship. This will only guarantee depletion at an ever higher rate of natural and energy resources. Sooner or later absolute limits to growth on a global scale will become evident.

In order to achieve a stationary economy on a world scale, a change of paradigm is needed. It will imply mainly negative growth in the North with positive growth ideally directed in favor of the common good in the South. Without achieving the first it becomes really difficult to achieve the second. In the first case, the South finds no other alternative but to disconnect from the North in order to survive in a more or less united South-South relation. As we previously stated it is very clear that there is a shortage of natural resources on a global scale and these are concentrated mainly in the South. So, we consider that negative growth must first take place in core countries. For a determined time it will be possible and even necessary to stimulate positive growth in the peripheral countries. While capitalism rules on a global scale and imposes its seal, it is however really difficult to pass beyond neo-development projects in the South. This is what happens today in the Southern Cone of Latin America.

Where is the weaker link to break current economic rationality? A new rationality will imply a change not only in the core country's lifestyle, which focuses more on consumption, but also require a change in their own mode of production. Civilization change this implies must happen first of all in core countries. It will be based on their more difficult access to natural resources. It is obvious

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<sup>15</sup> *Op. cit.*, p. 268.

that current and future wars for natural resources will postpone this situation. However, facing the Great Depression of the 21<sup>st</sup> century, the process of disconnection of the South will be sudden and strong. Their reorientation towards the center and unification among themselves will be very strong.

A crucial question remains: How is this change going to occur? Will it be spontaneous? Will it be derived from profound crisis? Crisis, without any doubt will create favorable conditions. We do not believe, however, that this change will occur without social conflict of various kinds and intensities. We will observe both poor people struggling for survival and privileged minorities who seek to maintain their habits of squander and will fight tooth and nail to keep the status quo. In any case, it is about class struggle. With this, other questions emerge: Who will be the historical actor of change in the 21<sup>st</sup> century? ¿Where is it more likely that more advanced social forces will appear to lead this civilization change...? We believe that main forces will emerge from the necessity for survival. Great majorities in the South and even in the North, are faced with catastrophes already established as a real possibility in the 21<sup>st</sup> century. Climate change and raw materials depletion may be the more important ones.

## Chapter V

# The Historical Actor confronting a civilization change: challenges and threats

### 1. The Historical Actor confronting a civilization change

From 1980 to 2000, population involved in the globalized world economy doubled its number. Until 1980 there was a relative autonomy in national economies with respect to the world market of products and services. The labor force operated mainly within the limits of national borders. Much attention has been given to the globalization process and its impact on commercial and financial markets. Less attention has been given to impact on the labor market and on living conditions of majorities. The neoliberal process has destroyed all traces of economic sovereignty in most countries of Asia, Africa, Latin America and the Caribbean. In Latin America, structural adjustment policies in force before the 80's dismantled the relative internal autonomy of national economies. This was achieved by forcing national economies to compete with transnational products and subordinating them to foreign investment. Since then, opportunities for local, formal

jobs have been reduced, and the replacement capacity of the labor force has increased.

Since the mid 80's, population of the globalized world economy, in other words, population available to major capital interests, has more than doubled, passing from 2.5 billion to 6 billion human beings. This figure includes both economically active and inactive population. According to a study conducted by the International Labor Organization (ILO), the working class, which is potentially available for exploitation by transnational capital, had doubled its number from an economically active population of 1.46 billion in 1985 to almost 2.93 billion in 2000 <sup>1</sup>. In this process of expansion it is important to highlight the relative weight of China's opening to the world market and foreign investment. The breakdown of the Soviet Union as well, including Eastern Europe, and the final consequence of the so called "autarchy" of India, subordinated since 1991 to the International Monetary Fund (IMF), opening up these markets to foreign investment.

The incorporation of almost 1.5 billion new potential workers to the world labor market, in regions with high rates of unemployment and underemployment has had a huge impact. This will be remembered for decades in the labor markets of core and periphery countries. It represents mainly a higher replacement capacity of the labor force in the entire world and therefore a trend to wage reduction, prolongation in working day hours and a worsening of labor conditions. This takes place not only in the periphery but also in the very core countries. Summing up, we are faced with an increase in the rate of exploitation of the labor force on a global scale. The current crisis, in a dramatic way, is reinforcing this tendency which began decades ago. Today all the brutal ways of exploitation denounced at the beginning of industrial capitalism exist in abundance, and the practice of forced labor, human trade and even semi-slavery is multiplying.

Although due to geopolitical motives there is a very clear exception made for agricultural products subsidized in core countries, the current trend is that products which can be produced in the periphery at lesser costs, are usually produced there in order to be exported to the rest of the world. Due to China's large industrial reserve capacity, its large labor force and the most competitive wages in the world (with long and intense

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<sup>1</sup> See, Fred Goldstein (ed.), *Low wage capitalism*. Nueva York, World View Forum, 2008, pp. 4-5.

working days), it is the champion in this race, and will remain so for a long time. Suzan Berger<sup>2</sup> found that in 2005, participation in international commerce of 500 largest corporations in the world from periphery countries, had already reached almost a third of all world commerce. 70% of cases were involved in commerce of products and the remaining 30% mainly in productive services (transportation, telecommunication, tourism, etc.).

Not all manufacturers or services can be moved to periphery countries. Construction of highways, infrastructure, houses and buildings is a clear example of this. Agriculture protected by huge subsidies is another one. Due to geopolitical reasons, subsidies to basic food products in core countries will unlikely be removed. In times of war food must be guaranteed, or the resistance capacity of people is shortened to days. In the internal economy of core countries, manpower replacement capacity has been increased by means of the South-North migratory process, especially in productive areas. With capital emigration from North to South and cheap manpower immigration to North countries from the South, labor force replacement capacity at the service of the world's major private capital has been increased.

Production chains have been lengthened with the new division of world labor. What can be manufactured at lower costs outside core countries tends to be transferred to the periphery. In order to reduce labor costs within core countries, not only immigration has been an appropriate tool. Before this phenomenon happened on a large scale, the massive incorporation of cheaper feminine work had notoriously expanded during the last four decades. When this additional source of employment became relatively scarcer in the 80's, cheaper migrant labor from periphery countries flooded the market like a wave. Labor insertion of migrant population occurs mainly in the productive area.

The "New York Times" published that there are 200 million immigrants in the world currently giving support to more than 500 million people, in other words, to a little short of 10% of all humanity. Between 1980 and 2005 more than 20 million immigrants were admitted in the US and it is estimated that another 12 million entered the country illegally. Thus in total, there are more than 32 million immigrants in the US, i.e. more than 10% of the population of this country. Latin Americans represented in 2005 14.5% of the economically active population, Asians 4.5% and

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<sup>2</sup> *Ibid.*, p. 12.

Afro-Americans, another wrongly classified "minority" in the US, 12%. These overexploited "minorities" together represent almost a third of the economically active population, a proportion which grows every year.

Immigrants' bonds with their country of origin are manifested very clearly through remittances they send to their country of origin. It is estimated that US immigrants send 300 billion dollars per year. China, India and Mexico are the top countries on the list of remittances in terms of volume, with approximately 25 billion dollars each. There are 22 countries where remittances surpass 10% of the GDP, with Haiti in the first position with 23%, followed by Lebanon with 22%<sup>3</sup>. Due to the economic crisis, unemployment has increased sharply, particularly for the so called minorities. With it, remittances in the world have also suffered a strong decrease and return migration is becoming a more common phenomenon, as it was during the Great Depression of the 20<sup>th</sup> century.

Based on the foregoing we can observe how the process of production of wealth and productive content based work, very often the hardest and less valued work, has become the responsibility of inhabitants of the periphery. This is carried out either in their own countries, with their own natural resources, or as immigrants in core countries. At the same time, during the neo-liberal era, unproductive work has developed in the financial sector in rich countries, often parasitical in its form. In these sectors there is a greater concentration of the non-immigrant population, with mostly a white labor force.

Neoliberal globalization has created the basis of an era of capitalism of low and decreasing salaries on a global scale with a progressive concentration of wealth and universal exclusion. The new great depression has also created the objective basis for a wide rebellion beyond individual differences, and as we have seen lately, even beyond borders. During the last decade World Social Forums have been the meeting place for critical social forces on a global scale. From there, alliances between movements and forms of integration between movements beyond borders have emerged. However, the process of moving from dialogue to political action is missing. Non-Governmental Organizations of the North especially have not been able to question the very system at its base. It seems that the Great Depression of the 21<sup>st</sup> century might change this. A struggle beyond particularities and borders

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<sup>3</sup> *Ibid.*, pp. 159 y 224.

is without any doubt a challenge with no historic precedent. We believe that the Great Depression of the 21<sup>st</sup> century will be able to provide a historic opportunity for this.

In this context, critical thinkers such as Samir Amin<sup>4</sup> talk about an appropriate occasion for the creation of a New International in the same style as the First International in times of Marx and Engels. Today in fact we are witnessing tenacious social struggles in the very core countries. Massive demonstrations are taking place not only in Greece but also in Spain and Portugal, among others. The Icelandic people have risen together against speculative bankers, calling for a participative democracy. The movement transcends its national character when it affects more countries at the same historic moment. The possibility of a common struggle of workers around the world against global and speculative capital will stop being a mere illusion during the Great Depression of the 21<sup>st</sup> century.

This process of unification and solidarity of social movements beyond individual differences, borders and continents is foreseeable when the Great Depression of the 21<sup>st</sup> century deepens. However it will not be a movement without counter-movements. As the crisis of capital deepens, so the dominant elite will aim to divide the working class through racism, sexism, xenophobia, religion, ideology, and other means of division. They will try to appeal to "everyone for themselves," stating that some, of a certain race, nationality, culture, etc., have more right to be in this world and to be saved from the crisis than others. It is especially the case in core countries, where the idea is encouraged, that the chosen ones in core countries have more right to be in this world than entire countries of the periphery. This reactionary ideology will reach a rising degree of diffusion manifest in the rebirth of neo-fascism. However, in these countries there are also clear lines of exclusion by which there is no salvation for the so called "minorities". Banking elites are willing to save themselves at the cost of sacrificing the great majorities in their own land. The latter, after realizing that in this "everyone for themselves" not many of them will be saved, may be inclined to fight for another world in which they are considered fairly and equally. Due to the number of places where this struggle will take place, a New International may consequently occur. It is in this scenario that immigrants

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<sup>4</sup> *Pour la cinquième Internationale*. Paris, Ed. Le Temps des Crises, 2006.

coming from periphery countries may be the cement for a struggle beyond borders between North and South.

Forces of solidarity and integration of the working class and citizens of different social strata tend to be greater where the "everyone for themselves" is less seen as an alternative, that is, in the periphery. Therefore it is not odd that the process of disconnection from the globalization process and the search for sovereignty and local alternatives occurs in periphery countries, especially in Latin America. There will be fascist movements in periphery countries, but they will lack popular support. In the outskirts of the very core countries such as Southern Europe, there are more possibilities of rupture in the search for more democratic alternatives than in most core countries such as Germany or the US. There, reactionary tendencies will have a wider social base. Popular rejection in the Netherlands and Germany to help Greece when it was facing bankruptcy is a clear example of this ideology of "everyone for themselves." In the meantime, the social struggle in Greece is gaining massive dimensions.

The search for more democratic alternatives is seen today with particularly interesting characteristics in Latin America. It is the continent with more referendums in the last decade. France and Holland tried it once in voting on the European constitution. By empowering themselves and voting against the initiative, participative democracy turned out to be opposed to existing institutionalism. Formal democracy without content is more governable for the elites in power. Countries where the referendum and consultations really lead to a change for a more participative democracy, such as in Bolivia, Ecuador, or Venezuela, are not functional for the elites in power. However, it is there, precisely at this moment, where the Historical Actor, "Subject of Change" may be perceived.

In Bolivia, a country where many forms of exclusion have been practiced in the history of the last centuries, the thesis of "everyone for themselves" would not save the large majorities. In such circumstances the "I am only if you are" prevails. This solidarity and communitarian alternative represents a social basis in a process of transition. The periphery is seen then as a strategic region in a transition towards post-capitalism. This has direct implications for core countries and a boomerang effect for the periphery. We cannot hide the great risks for countries of the periphery. They are not exempt from eventual attacks from the North guided by the doctrine of preventive war.

## **2. The extra economic factors will triumph over the economic ones**

The new division of world labor, which implies a gradual transfer of productive labor to periphery countries, does not eliminate the historic plunder of raw materials and natural resources nor eliminate multinational agricultural monocultures. On the contrary, the search for natural resources of all kinds becomes more aggressive as there is rising competition due to growth in the emerging economies who are faced with growing shortages in these very resources. Current reserves are more concentrated in periphery countries along with cheaper manpower. These two conditions erroneously called "extra-economic factors" are fundamental to guarantee a larger expansion of capital in the productive area in general. With it periphery countries will be the future centers of productive labor, even though temporarily under the capitalist form of production.

These so called "extra-economic factors" place the emerging countries at a relative advantage over core countries. Wars over natural resources have become more severe in the last years and will become even more so in the future. We are witness once again to neocolonial tendencies which seize territories militarily, either by coups as in Honduras, earthquakes as in Haiti or by means of local reactionary elites on the continent, as in Colombia. A transition to post-capitalism thus implies a deep change in existing power relations between the core and periphery. The reality is that wars over natural resources tend to be lost with growing frequency by core countries in general, and the US in particular. Such was the case of Vietnam in the recent past, and currently Iraq and Afghanistan. Poor people of the periphery, accustomed to all sorts of privations, have more capacity when the time of sustained resistance comes to defend their territory and freedom. Their survival capacity is more powerful than great armies gifted with modern technology. The foregoing does not mean there is no real threat today at the geopolitical and military level.

We have referred to a number of critical situations which converge in the 21<sup>st</sup> century which we have characterized as a "crisis of civilization". We have approached situations and dangers of the current moment, one of them being the possibility of a larger military conflict, a new cold war or a series of military conflicts

in different places. This scenario will be more dangerous than previous ones due to the current advance of military technology and armaments owned by the great powers. Humanity's most precious gift is life itself. It is even more precious to the extent that we can develop as a collective in peace, with liberty, justice and dignity. Confronting this vision is an extreme anti-life logic that has been developed, as the rationale is to obtain profits at any cost. This rationale has gained control over most important world issues.

The original and prehistoric logic that led humanity to the rationale of an economy in function of life was based on the unity and solidarity needed to survive in nature. This rationale was a necessity in order to use nature better for individual's welfare, security, progress and reproduction as a community and as a species. The rationale of an economy that reaffirms life will become a necessity again to save nature and finally humanity. It is also the rationality for society claimed by today's social movements, although of course at a superior level of the productive forces and their consequent material welfare. The logic that feeds bankers, owners of the military-industrial complex and corporations is a very different one. It is motivated mainly by greed and ambition of collecting more and more money and power, and ideally without the use of a labor force. This is a contradiction which progressively grows in view of the current crisis of civilization. Either the rationale of unlimited profit for "the happy few" at the expense of everything and everyone else wins, or the right to life itself, both human and natural will triumph.

We believe that in order to face the growing shortage of natural resources, an inevitable occurrence, in the short or middle term will be a lifecycle prolongation of products in general. This will occur first in the core countries. It implies that wealth created year by year will decrease in terms of money. The same wealth as use value, however, will be with us for a longer time span. When we retain existing wealth, in other words the use values, genuine welfare increases although the creation of new wealth and money year by year will decrease. Thus, the economy decreases in terms of value. This new approach leads to a more rational use of the natural resources of the planet by decreasing their squander. Instead of tabulating wealth as the volume of products generated year by year in terms of value or money (economic growth in monetary terms), wealth would be seen as the generated product which really satisfies the needs of the community. This material

wealth stays around a longer time with us, so satisfying us more time<sup>5</sup>.

Instead of focusing on economic growth as a supposed condition for better welfare benefiting in reality private interests, we approach genuine well being provided by those use values sought by the majorities. In other words, individual exchange values of wealth lose ground in favor of use value for the welfare of the community. The durability and use of objects starts to prevail over the amount of money produced by objects sold every year. By decreasing wealth created year by year, economic growth becomes negative. This means that the historic role of capital wears out, and especially of financial capital. In such a scenario we would be on our way towards post-capitalism and the simultaneous burial of financial capital. It would be clear that the more reactionary forces to avoid this historic process may be found precisely in the club of the banking and financial elite.

This contradiction between the struggle for an economic rationale which encourages life on the one hand and the salvation of the rationality of capital at any cost, is reaching extreme levels. This may appeal to mankind's most primary instinctive mechanism: its survival. Survival as a people, social group, nation and as a species. It is a contradiction referred to by Pope John Paul II as "Savage Capitalism". This confronts tiny elites of power against interests of all humans, beyond nationalities, races, religions, social classes and ideologies. Two great forces come into play: the power of barbarism based on a speculative and parasitical accumulation of money on one hand, against an economy that reaffirms life of the majorities as worthy human beings in complete harmony with nature. This contradiction will be at stake in the 21<sup>st</sup> century. On its outcome the survival and quality of life of the great majorities will depend. We cannot assure with full certainty that this contradiction will not result in a great war or in many more minor wars. We may agree, however, with the phrase of Albert Einstein in the following section.

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<sup>5</sup> Paulo Campanario, "Hegemonía del valor de uso social avanzado: clave para superar las sociedades actuales", International Observatory of the Crisis.

### 3. Threats facing a civilization change

*I know not with what weapons World War III will be fought, but World War IV will be fought with sticks and stones...*  
Albert Einstein

We cannot conclude that capitalism under US hegemony, despite the deep crisis, definitely is at a hopelessly dead end. Capitalism has shown a great ability to adapt to new situations in the past, although always with growing costs for the majority of humanity and with ever greater concentration of power. Capitalism would eventually be able to recompose itself but at the cost of a loss of liberty, democracy, justice and equity among the immense majority of human beings, even in core countries. Part of this way out could be a militarization of the entire world, with repression and neo-fascism on a global scale with centralized control of all resources under a scheme of centralized command.

Two geopolitical trends strive to lead the way: one leads to the multipolar reorganization of the world and the other to a strengthening of unipolar control by US military power. This latter would be characterized by growing unproductive costs with a simultaneous decrease in the productive sphere. This represents the declining phase of every civilization. It would be a phase with resistance by people the world over, including US citizens. The alternatives seek a different way and more just way: the sharing of power and wealth to empower people and improve life quality. A society where solidarity is the principle of cohesion. This implies redistribution and democratization of power that is concentrated today in very small elites, returning to societies their condition of actors and builders or "subject" of history rather than object and victim of it.

### 4. The limits of power sustained on an unproductive basis

Since the 'discovery' of America and in only 100 years, 90% of Native Americans were exterminated. Gold and silver taken from the original populations flowed in great amounts to the old continent providing the primitive or original capital accumulation which formed the basis for productive capital in the Industrial Revolution. Monarchies of the continent, especially Spain,

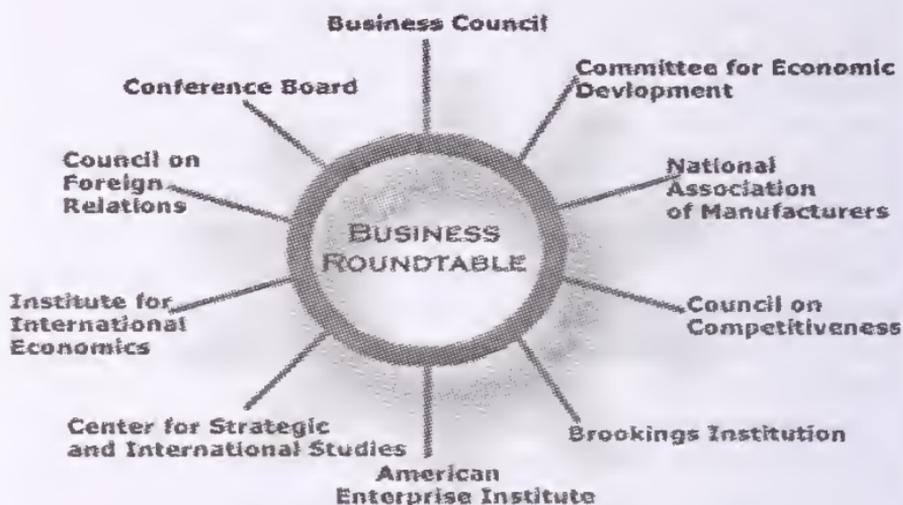
focused mostly on sumptuary and unproductive consumption based on the wealth taken from Native Americans, Africans and Asiatics. The result was an economic, human and demographic catastrophe, as well as a forced and massive migration movement to America. Famine, plagues, wars, unproductive squander, conspiracies among the European nobility with fiscal pressures, debts and currency manipulation, were habitual on the European continent. The unproductive and sumptuary consumption of the Spanish courts led to the demise of this empire in the great crisis of the 17<sup>th</sup> century. However, productive investment inherent in the Industrial Revolution created a huge growth in England which expanded later to the European continent and the US.

Colonialism first secured the plunder and permanent transfer of wealth from the South to the North. This original or unproductive accumulation allowed financing of a big part of the development of rich countries and their advances in all productive fields. Even though capitalism then had a mainly productive development, it is today again involved in an increasingly unproductive and parasitical phase. It has to do with the rise and fall of civilizations. By the end of the 1980's and facing progressive economic deterioration in core countries, a new period of re- or neo-colonization started with the support of institutions emerging from Bretton Woods (World Trade Organization, World Bank, International Monetary Fund, etc.) It is the period of Neoliberal Globalization which has created on a global scale a speculative, unproductive and parasitical capitalism which seeks to subordinate the productive area in general, in periphery countries in particular.

In 2010 just a bit more than a thousand people possess a total capital over 10 billion dollars in comparison to half of the world population which lives in poverty and more than one billion suffers from starvation. It is not an abstraction to think that with an even bigger concentration of wealth and more wars, in a near future half of humanity might be in danger of extinction due to starvation. Even eliminating the poorest half of the planet, the system's problems would not be solved. This is because, as we have asserted, local populations are not responsible for the depletion of natural resources nor contamination. On the contrary, periphery countries with their labor force are the new pole where productive labor is concentrated. The virtual disappearance of the American Indian did not save the Spanish Empire from sinking. On the contrary, it destroyed it's most important productive force: the human being.

Commercial and financial capital existed before productive capital. Dutch commercial capitalism and its wealth accumulation did not lead to an industrial revolution in Holland, but parasitically financed productive capital in England. That is why England later surpassed Holland. During the 18<sup>th</sup> and 19<sup>th</sup> centuries productive capital ruled over previous historic and unproductive practices. Today the situation is inverted once again. Banking and financial capital have formed powerful elites through time and mostly in the midst of crises. These elites were strengthened following the Great Depression of the 20<sup>th</sup> century. Today they represent a power that influences almost all important world issues. Their interests appear behind every war and crisis of the 20<sup>th</sup> century. They support the military-industrial complex, current conflicts, the policy of world domination, creation of ungovernable amounts of fictitious capital, consumerism and the massive debt and deterioration of the planet. In consequence: They are responsible for the crisis of the 21<sup>st</sup> century.

*Figure No. 1*



Richard K. Moore<sup>6</sup> affirms that banking families such as the Rothschild's and Rockefellers have achieved control of economic and political issues of the Western world. In 2005, the richest 450

<sup>6</sup> *Global Research*, February 27<sup>th</sup> 2010.

people, families or corporations, controlled more than 60% of the gross world product and as a consequence the present and future of more than six billion inhabitants. According to Moore, in the center are the executive directors of the largest financial companies and corporations of the United States, members of the almost unknown "Business Roundtable". This organization, of the most powerful and influential economic elite operates since 1972. Both "The Business Roundtable" together with "The Business Council" are at the heart of a community of corporations of the rich. They play a most powerful role within a network of policy formation in the United States and on an international level. The way they operate is summed up in the next figure:

## 5. Geo -strategy of the financial elite in the past

Bankers and transnational corporations have probably not been absent from any modern war of any importance. They financed one side of the conflict, often both sides, destroying entire countries, dragging millions of human beings to death and deciding on the winner at the end of the conflict. They financed both sides during the American Civil War and the Russian Czar while they supported the Bolshevik Revolution. They supported both sides during World War I, Hitler's National Socialism and at the same time the allies who defeated it. This is true in almost every war of the 19<sup>th</sup> and 20<sup>th</sup> centuries. They are the main element of the elite of powerful agents who decide the present and future of mankind<sup>7</sup>.

Throughout the 20<sup>th</sup> century, a whole theoretical and geo-strategic theory was developed to justify and advance in the concentration of wealth and power in the hands of few on a world scale. Halford John Mackinder, of English origin and father of geopolitics (1861-1947) established the link among geography, the human being and his surroundings as the basis of geopolitics.

In his 1904 essay "*The Geographical Pivot of History*"<sup>7</sup> he describes the world as a politically closed system where nations cannot ignore incidents in any place of the globe. It is an idea

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<sup>7</sup> See R. K Moore, "Prognosis 2012: Towards a New World Social Order", in [www.globalresearch.ca](http://www.globalresearch.ca)

which is precursor of globalization and the establishment of a policy of permanent war as a system of international relations. Mackinder asserted:

Whoever controls Eastern Europe (Russia), will rule the center of the World (the "Heartland"), whoever controls the center of the world will rule the "World Island" (Eurasia) and, whoever controls the World Island will rule the world.

American-Dutch geopolitician Nicholas Spykman would later provide the concepts of "contention" and "Rimland". He did so referring to the ring of countries, which by their proximity, size, importance, population and wealth, might be susceptible to an alliance with the Soviet Union, or later with Russia and China. The policy of contention would be developed further by George F. Kennan and be used as the basis for the defeat of the USSR.

#### Eurasia: Heartland and Rimland



McKinder's ideas became a key part of British foreign policy through the first half of the twentieth century and the two world wars. These ideas did not disappear after World War II. On the contrary, the United States strengthened them. One of its present, keen advocates is Zbigniew Brzezinski, currently advisor to president Obama. Brzezinski has announced the use of Europe

and NATO as a spearhead to besiege Russia and China. On this basis, the Cold War and the fear of communism, was justified before the people.

With the elimination of this ideological pretext with the collapse of the socialist system, it is clearer today what the objective of a new cold war is. It is to prevent the expansion of or alliances between Russia, China and Iran, or with other Asian countries. A further objective is to secure an entrance to Central Asia all the way to Siberia. This in order to control mineral and energy resources in this region of the world. As stated before, the policy recommended by Brezinsky includes containment of Russia and China.

An alliance of the triangle Russia, China, Iran, maybe India and others, is unacceptable to the US in the same way as is the Shanghai Cooperation Treaty. This makes Eurasia the first scenario of a great war or several minor ones in the context of a new cold war promoted by the US and NATO.

## 6. Present and future geo-strategy

The rich fields of Siberia and Central Asia are in the sights of the great capitals of the West. Current US strategy aims to separate Russia and China in order to end their joint competition in areas of the economy and military, and prevent possible alliances with European countries. This strategy has extremely dangerous variants. One is the current installation of US weapons close to the border between Russia and China in order to make the first strike, the so called "first nuclear strike". Reinstallation of a new cold war is supported by massive deliveries of weapons and plans for the installation of supposedly "interceptor" missiles. The provocation of conflicts with neighboring countries has caused strong reactions.

Moscow manifested its concern with regard to the expansion of NATO with its military blocs ever closer to the Russian border. It was learned that the US not only had placed antimissile shields in Eastern Europe, but installed 480 B61 thermonuclear bombs in five "non-nuclear" nations: Belgium, Germany, Italy, the Netherlands and Turkey <sup>8</sup>. Based on this, Russia announced in

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<sup>8</sup> M. Chossudovsky, "Europe's Five Undeclared Nuclear Weapons States", in *www.globalresearch.ca*, Feb 23<sup>rd</sup> 2010.

February 2010 that it will make use of atomic weapons if it feels threatened and will respond militarily to any attack on any of its allies. Furthermore Russia stated that it is "legitimate" to use its army outside its borders to defend its interests. Russia also criticized the intent to provide global functions for the military potential of NATO, in violation of international law<sup>9</sup>.

Reaction came right away. Russia threatened to install nuclear missiles in Kaliningrad on the border with the European Union. On the other hand *Rossiyskaya Gazeta*<sup>10</sup> informed about a regiment of anti-aircraft defense established recently in the outskirts of Moscow and showed journalists, the real masterpiece of Russian armament, the S-400 anti-aircraft system. Europe became nervous not wanting another major war. Pascal Mallet<sup>11</sup> reported that European allies of NATO were pressing president Obama to withdraw nuclear weapons from European territory. Furthermore, Belgium, Germany, Luxemburg, Holland and Norway would soon demand the withdrawal of nuclear heads installed mainly in Italy and Turkey.

## 7. The strategic location and role of Latin America and the Caribbean

Today Latin America and the Caribbean are of great strategic importance to the United States as they were during World War II. The region is a main secure, strategic reserve vis a vis the large military adventures planned in Eurasia. Latin America has every variety of world climate needed to grow all existing foods. It has large reserves of hydrocarbons, minerals, water and biodiversity. At the beginning of 2008 the United States launched their 4<sup>th</sup> fleet on Latin American seas. This action represents undoubtedly a threat to the safety and natural resources of the region. Latin America was forced then to acquire and invest in new equipment and military technology. This implies redirecting valuable productive resources necessary for their populations to nonproductive equipments. In so doing, however, it supported the western military-industrial complex.

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<sup>9</sup> Source: EFE.

<sup>10</sup> Moscow, February 19<sup>th</sup>, RIA Novosti.

<sup>11</sup> Source: AFP.

In response to this situation, it is strategic for Latin American people and governments to preserve this region as a zone of peace isolated from military conflicts of the United States and other nations. For this reason, their main struggle should be oriented toward preventing the militarization and intervention of the United States in the region. This measure is one for the survival of all, with independence for political thinking, religious beliefs and social position. UNASUR is the created regional institution to prevent Latin America from foreign interventions. This means preventing a new era of authoritarianism and moving forward in the construction of a system based on liberty, peace, democracy and social justice. The time has come for Latin American social forces to build a process of unity in diversity, starting with regional integration and the mechanisms that this implies in all spheres, economical, political and military.

There have been clear advances of unity and integration in the last years in matters of sovereignty. The unanimous opposition to the 4<sup>th</sup> fleet in Latin American waters, unanimity of governments rejecting the coup in Honduras and the condemnation of US military bases in Latin America are some examples. The proposals of the recently formed Organization of Latin American States, created in Cancun, Mexico, which excludes the United States and Canada, represent, from our point of view, remarkable advances on the road to a more sovereign integration. This effort must be supported not just by progressive people and social and political forces of the region. This road leads to disconnection from a process of globalization that supports foreign interests to a process of reconnection leading to self-determination. This would allow, yet does not guarantee, a reconnection to the interests of the Latin American countries.

It is advisable not to fall into the trap of entering in an arms race or in the militarization of the continent. What is needed is a defense with low investment in armament, accompanied by continental unity and non-conventional methods to deal with conflicts. With this it is possible to respond properly to any aggression. The immensity of the territory facilitates its self-defense. A military strategy to control a territory only with planes, ships and bombs has not been invented yet. This was already proved in Vietnam and Nicaragua and it is seen today in Iraq and Afghanistan. Any military presence of the United States in our territories and seas is highly dangerous and must be rejected. This is not only because it diminishes the strength of self-determination. In the event of a

great war, however, the Latin American country which holds a US military base, becomes the target of an eventual attack. This may happen even with nuclear weapons, either from the enemies of the US or from international terrorism. This is why it is necessary to strengthen the sustained and united struggle against all US military bases in the region and all foreign intervention in Latin American domestic issues. It is urgent to demand the withdrawal of foreign fleets from their seas. It is necessary to respond as a region to any external aggression, threat or intervention. For this it is appropriate to create regional mechanisms for the solution of conflicts without recourse to extra regional intervention.

We encourage Latin American and Caribbean leaders to gain full conscienceness of the historic moment. They must not give in to the temptation of rhetoric or unnecessary confrontations, or to fall into the hands of ambitious or authoritarian leaders. Liberty, justice and more integral democracy are not negotiable because they represent a precious heritage conquered by our people. Our struggle, that of all people, is for life itself and that claims first of all for the right of everyone's survival. In the middle of the "everyone for oneself" attitude, with threats of a great war, more than ever is the necessity for the ethic of "I am only if you are". We end up remembering once again the phrase from Julius Caesar "divide and conquer" as the anthem of dominators. Our purpose is to reveal its antithesis for people searching for their freedom and self determination. "Unite and prevail".

We have tried to describe from a realistic point of view the main crises and dangers of the epoch we are living in. Different simultaneous crises, from our point of view, do not converge just in another crisis of the capitalist system but more like a crisis of civilization. It has not been our intention to criticize any country, government, race or social group. We aim to make a documented statement on the destructive power of a tiny world elite whose greed has taken the world to its current situation. We have pointed out the danger of gathering and administrating the greater part of wealth and power for their exclusive benefit. Until the 1980's there were two main options: Socialism of the 20<sup>th</sup> century or capitalism of the 20<sup>th</sup> century. The first one sank with the collapse of the socialist system two decades ago. The second one is sinking in the current civilization crisis. The challenge of building an alternative choice for humanity on the basis of values which reaffirm the lives of the majorities still remains. For this there is no point in reviving exhausted models or a preconceived system.

Something drawn from past history is the desire of the majority of the world population to live at peace with liberty, justice, mutual respect and integral democracy. We think this is possible and we must devote ourselves to achieve it.

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**U**ntil the 1980's there were two main options: Socialism of the 20th century or capitalism of the 20th century. The first one sank with the collapse of the socialist system two decades ago. The second one is sinking in the current civilization crisis. The challenge of building an alternative choice for humanity on the basis of values which reaffirm the lives of the majorities still remains. For this there is no point in reviving exhausted models or a preconceived system. Something drawn from past history is the desire of the majority of the world population to live at peace with liberty, justice, mutual respect and integral democracy. We think this is possible and we must devote ourselves to achieve it.

This work aims at analyzing different aspects of the global crisis and depression of the 21st century, from a trans-disciplinary perspective and showing how these problems are perceived at the beginning of 2010. The crisis will be analyzed in its different aspects, that is to say, not only from an economic-financial perspective. A huge and unprecedented global crisis with economic, social, political, military, energy, food, ecological and even ethical manifestations, is the result of decades of combinations of numerous contradictions. In other words, we are in search of answers not limited to the economic dimension of the crisis, but integral and emancipating answers from the perspective of oppressed peoples of the South.

Although we are going through a very difficult period, it is also a time full of opportunities for building a new road for peace, democracy, freedom, justice, human dignity, equity in progress, common security, and a life in harmony with the planet. These objectives and values must not be subject to manipulation, renunciation or negotiation. They should be defended over political parties, races, ideologies and religions, until reaching a reasonable balance among human beings, and between them and nature.