Finance - A Garrotte?

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Short Communication

The garrotte was a terrible instrument used to execute death row inmates in Spain until 1972. A metal wire or collar was placed around the neck of the condemned man causing death by strangulation. The dominant role that finance seems to have today is an invisible garrotte in the life of society that influences the models of development, inhibiting and stifling those aspirations for democracy that appeared to be the global ends to be achieved after the Second World War with the universal human rights declaration issued on 10 December 1948 [1]. Over the centuries, finance has often been attributed a predatory role that was moderated from time to time by laws or by wars but when debt created to meet weaknesses, errors and needs is in the hands of another, one becomes a victim of dependence and passive and at times desperate submission.

The socio-cultural model of our times has contributed to deifying finance as a type of magical philosopher’s stone that is able to grant wealth and happiness in the short term. Man is easy prey to illusions when these promise to remove the pain of life and make everything look like a glittering casino where life seems to come to a halt. The tragedy befalls when the game and the dealers who preside over the game present the bill. The players become victims of their own weaknesses leading to a deadly game with the ever-present risk of being strangled like those condemned to death with the garrotte.

Economics and then finance with an absolute rational culture have come to assume the role of the ends and no longer the means, studied in precisely the same way as the exact sciences and elevating these to incontrovertible truth. We have exchanged the ends for the means and come to passively accept as absolute and unquestionable truth, as a “magic philosopher’s stone”, a science that lacks real scientific foundations because the assumptions on which it is based have become completely asymmetric to the results. The experiment is thus considered to have failed and the evidence is in the facts. Hayek, in his 1974 Nobel Memorial Lecture entitled “The pretence of knowledge” [2] defined this cultural approach as “…decidedly unscientific in the true sense of the word, since it involves a mechanical and uncritical application of habits of thought to fields different from those in which they have been formed”. It is not true that these are exact sciences, it is not true that the more the economy improves the more society improves, it is not true that man’s nature is irrelevant in his wealth allocation choices, it is not true that markets are rational and never wrong, but not the spread so that it can be increased according to need. The rating continually worsens however the rating was ABB+. Asymmetry that goes against the second law of Aristotelian logic or non-contradiction, but in the meantime the shadow of the garrotte emerges. The rating continually becomes elusive and full of indecipherable shadows; the rationality of markets disappears in the face of a fluid stream of data and figures that seem to dance to the sound of a magic flute without following those exact mathematical models that were supposed to relieve us from the many problems of life and thus leading to quite the opposite of universal human rights, namely, poverty, unemployment, moral decay, reprehensible corruption, exasperated conflict and the superfluous replacing the necessary.

Yet every day we can see the false numbers game and what is hidden behind it but we seem incapable of understanding the relationships that link their trends with the higher games of which they are only the effect, the media first of all. As a country, Italy has a BBB-rating, indeed junk, but the spread reached 122 bp in April 2011 when however the rating was ABB+. Asymmetry that goes against the second law of Aristotelian logic or non-contradiction, but in the meantime the shadow of the garrotte emerges. The rating continually worsens but not the spread so that it can be increased according to need. The finance of derivatives, subprime lending, CDS, futures, toxic products

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regulated only by dominant interests has in a few years swept away the results of centuries of the real economy, thwarting the efforts of entire generations but also the lucidity to understand the real causes of our problems. The Financial European’s system - BCE- have the control of all the banks in Europe because there is a reunion of different country with different stories one by one. But in the USA the system is different because the FED doesn’t have the necessary control over the Wall Street banks so them can use whithout limit toxic product as dramatic sub-prime, derivatives, cds, futures… and other “financial weapons of mass destruction” [4] as Warren Buffet describes this dangerous finance. Whitout an accountable control it’s impossible staying against them, for that we have to see this kind of puzzle-game that the USA’ PIL is using with the same score whortly than the best Russian’s mountains. The accountability is another stuff.

Then there was the attack on the Italian BTPs (treasury bonds) in the planned European campaign (2010-2012) that began in 2010 with the attack on the Greek government debt bonds that easily weakened, with waves of discounted sales thanks to the CDS (credit default swaps, unregulated financial weapons of mass destruction), and being a small and illiquid market, the domino effect - Portugal, Ireland, Spain - then reached Italy. An excessively strong euro destabilises the dollar, so did Europe have to be split with greater speed? How easy it was - using the subservient media so used to writing under dictation - to persuade and frighten into favourable and then using the garrotte.

In recent months, all of a sudden, the price of oil actually halved from 110/120 dollars a barrel to around 50 dollars a barrel. Arab producers increased production capacity despite decreasing demand, an uneconomic choice that goes against their history while commodities such as corn, wheat etc. endured a price collapse yet developing countries depend on these. The attacked rouble lost half its value in just a few months (less 19% in one day only, 15 December), the sanctions of the US weighing heavily although their methods of interrogating prisoners do not seem very civil, that curious asymmetries of judgment… The Middle East seems to be on a warpath rather than a peace path, the level of confrontation and consequently the level of instability continuously intensify with unacceptable and backsliding waves of violence; the banality of evil is always before us and leaves us indifferent and devoid of moral conscience. Is all this a way of weakening the BRIC countries and Russia that jointly have the power to redefine the global equilibrium that Wall Street finance does not want to accept?

Is this an interlocking game towards ends that conversely seem less indistinct? A puzzle where the pieces seem to have a clearer general outline when starting to link the financial market trends with global geopolitical choices? By contrast, the value of the mountains of paper dollars is an enigma - no longer tied to gold since 1971 - sustained by an immense volume of derivatives of Wall Street investment banks to reduce its volatility but still the currency for oil transactions, the "petrodollar". The Fed continues disclosing the growth of GDP that in the first quarter stood at 2.8%, unemployment is masked by underemployment; the model of democracy has clearly evolved towards oligarchy but the problem continues to be the economy and social instability that in the long run erodes the system. If GDP also continues but without fair redistribution, its growth has negative utility and illiquid market, the domino effect - Portugal, Ireland, Spain - then reached Italy. An excessively strong euro destabilises the dollar, so did Europe have to be split with greater speed? How easy it was - using the subservient media so used to writing under dictation - to persuade and frighten into favouring and then using the garrotte.

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If the system built on the "petrodollar" begins to crack, does it become a problem for Wall Street finance and the US? But if the US is unable to question a sociocultural model that has exacerbated social pathologies and inequality, it will never be able to stand as a champion of democracy. Everything thus seems unstable and denying precisely the principle of rationality on which the certainty of data should be based, yet everything seems to move not by chance but by following a foreshadowed design that suggests the non-culpable origins of this crisis because in this case an admission of blame should suggest the correct remedies.

This finance without control that the US government is unable to harness and the recent budget bill passed with an amendment that granted greater freedom to investment banks on the use of derivatives has become too distended in relation to the real economy. The economy from solid has become liquid and having flooded the market with financial values that are far from reality has detached the real value of goods from those negotiated and no longer allows us to understand their value. Today’s prices are in fact determined by expectations of future prices driven by the endless speculations of a few operators that dominate the market with a concentration of wealth that is unparalleled in history. The variations do not follow strict market logic but the will of those who are able to direct them, the croupier controls the game and not the non-existent rationality of markets.

In the novel "The Adolescent", Dostoevsky [5] describes the wise old man’s narrative to the young man on the end of the states:

"I think it will all come about somehow in an extremely ordinary way… Quite simply, all the states, despite all balancing of budgets and absence of deficits, 'un beau matin will become utterly confused, and each and every one of them will refuse to pay up, so that each and every one of them will be renewed in a general bankruptcy. Meanwhile, all the conservative elements of the whole world will be opposed to that, for it will be they who are the shareholders and creditors, and they will not want to allow the bankruptcy… A struggle will begin… Beyond that, my friend, I can’t predict anything in the destinies that will change the face of this world…"

Then the adolescent asked, "But can it all be so material? Can the present-day world end only because of finances?".

References