The Age of
Unproductive Capital

The Age of Unproductive Capital:

New Architectures of Power

By

Ladislau Dowbor

Cambridge Scholars Publishing

The Age of Unproductive Capital: New Architectures of Power

By Ladislau Dowbor

This book first published 2019

Cambridge Scholars Publishing

Lady Stephenson Library, Newcastle upon Tyne, NE6 2PA, UK

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

ISBN (10): 1-5275-2129-X
ISBN (13): 978-1-5275-2129-2

Dedicated to ex-president Lula, who took millions out of poverty, and is paying for it in jail.

“Nowhere are these connections between finance, inequality and poverty more apparent than in the provision of banking services to the poor and to families in financial difficulties”

Roosevelt Institute, Epstein and Montecino, 2016

"Brazil has long had some of the highest interest rates in the world. There is a vast body of literature seeking to understand the reasons for such high interest rates.”

World Bank, 2016, pg.67

“The national financial system will be structured in a way to promote the balanced development of the country and to serve the collective interest”

Article 192º, Constitution of the Federal Republic of Brazil

CONTENTS

PREFACE TO THE ENGLISH EDITION

Whatever happened to Brazil? How could a hugely successful administration, with results widely publicized throughout the world that include 20 million new jobs, 50 million taken out of poverty, removal from the FAO world hunger map, and impressive growth in both economic and social terms, have so suddenly been thrown into political and economic turmoil? A thinly disguised parliamentary coup, deep recession, and the whole process's emblematic personality, ex-president Lula, sent to jail on the basis of accusations which, according to the *New York Times*, would not have been received by any civilized judiciary system. This is a complete reversal of the period of democratic government between 2003–2013, which was termed "The Golden Decade of Brazil" by the World Bank.

Brazil is not only important for Brazilians. It is the 8th economic world power, it has 210 million inhabitants, and it has managed to raise hopes in so many other countries that share the common complaints of dramatic inequality, poverty, and subservient international relations. Infant mortality has been halved and life expectancy at birth has grown from 65 to 75 years, which has raised comments that Brazilians have 10 more years to complain about their government. A broad spectrum of international south-south relations has generated a new political climate of regained sovereignty and mutual respect, particularly within Latin America but also in Africa and other regions.

Yet the backlash was absolutely overwhelming, with the oligarchy and the upper middle-class denouncing that the pro-poor policy was unsustainable, that the government was financially broken, and that a gang of corrupt leftists had taken over politics and state enterprises. Banks, the huge Globo media group, the militant judiciary, Congress (elected by corporate money, legal at the time) and the upper middle class joined forces to bring down not only President Dilma, but also all the policies that had permitted the poor to have access to better living conditions. Their final victory was to jail Lula, in order to prevent him from participating in the national elections in October 2018. We no longer need generals to mess things up; judges are quite up to the job. As it turned out, an openly fascist ex-captain, Bolsonaro, in impressively skewed elections, with massive fake-news and financial support, was elected president for the next four years. Barbara Tuchman would call it The March of Folly.

Brazil is not an island. Similar crises are hitting a number of countries, it seems that democracy has no place in this new economic and financial set-up. Therefore, unveiling the Brazilian drama has led us to understand the new power architecture of global finance. We have adopted a long-standing rule: follow the money. This includes the banking system, the new ways finance can control both business and governments, and the emergence of unproductive capital. All this political theatre is not about corruption, of course. It is about power. This is not a book full of economic theory, with equations and mysterious "laws" as, instead, it is a down-to-earth, plain-language analysis of how things work. While my analysis centers on Brazil, its application extends well beyond these parameters.

INTRODUCTION

We all have our favorite crises. These are crises of values, pandemics, demography, economics, energy, financial speculation, education, cultural pasteurization, identities, the banalization of life, the misery that explodes in the world, and the shortage of water that already affects over one billion people. The issue is no longer choosing the crisis that seems most threatening. The real threat comes from an impressive convergence of critical trends and from the synergy of a range of behaviors that, although understandable, are deeply irresponsible, often criminal, and plague our small spacecraft.

The overall purpose here is not to be a wailing wall or to create an array of our misfortunes. Nowadays, human beings are not significantly better or worse than previous generations. The central issue is that the institutions that govern us and the ground rules of society can lead us to extremely positive dynamics—such as the social democracy phase between 1945 and 1975 in so-called developed countries—and it can throw us into absurd and destructive conflicts, irrespective of how much technology, knowledge, or wealth we have.

The chaos that progressively spreads in the world is directly tied to a set of institutions that no longer meet our requirements for productive and civilized living. A wide gap has been created between our technological advances, which have been, and continue to be, spectacular and our civilized conviviality that has become stagnant and may even be regressing. It is a systemic dysrhythmia; a mismatch in times. This challenge has been correctly conceptualized as a civilizing crisis.

Part of this civilization crisis is also centered on a mismatch in spaces. The economy has become globalized, with transnational corporations and financial giants operating on a world scale, while governments continue to be largely national and powerless in the face of prevailing economic flows. The political regulatory instruments remain fragmented in the 200 countries that constitute our real political planet. With the resulting disorganization, insecure populations seek solutions by migrating or supporting reactionary movements.

The world is clearly ripe for a planetary governance, in order to achieve a minimum of coherence between the spaces of economics and those of politics. The fragments of global governance that have emerged with the UN, the World Bank, the IMF, the WTO and similar, or *ad hoc* meetings, such as G8, G20 or BRICS, clearly signal the need to rethink spaces and to create a different system of governance.

Since politics is what it is, the most general tendency is to seek the culprits, be they right or left. The media that today penetrate almost every home on the planet will know how to manipulate the hatred that has been generated. To support prejudices yields more audience points than to clarify matters. This leads us to take problems personally, instead of understanding dynamics. A little bit of common sense suggests that we need a better understanding of both what has gone wrong and the ground rules of the game, which will allow us to make the planet work.

First of all, we need to use common sense to pay closer attention to poor judgment within politics. In general, politics has more to do with emotions, hopes, and fears than with rationality. Was Hitler a psychopath? It is much more important to understand how large economic groups supported him, how more than half of German doctors joined the Nazi party, and how the population finally voted and elected him. The election of Donald Trump worries me just as it worries Democrats all over the planet. More troubling than the person, is the fact that the United States—a wealthy nation with so many universities and a booming culture—elected him. People have been sensitive towards his arguments that were not arguments at all, but emotional expressions, insecurities, and hatreds with which they could identify.

Functioning governance is not built on hatred, it requires a rational overview of what might work and it is important to even consider irrationalities. Are we going to solve the drama of inequality and migration by building a wall? A fenced-in condominium called the USA? The truth is that the inherited system, so-called neoliberalism, no longer fits the modern world. The modern world needs to reinvent its ways.

This book articulates several aspects of the research that I have developed in the last years, herein expanded and grouped under a systemic overview. The common denominator or guiding axis for these separate strands is the quest for governance and for a decision-making process that works. Data from previous studies has been updated. Current research, studies, and discussions have been added. We will characterize the systemic challenges, delineate the new architecture of power on the stage of global capitalism, analyze the actions that brought about financialization, and finally present how this process has been manifested in the most recent Brazilian crisis.

First, a remark on the reliability of our analysis. Today in the economic field—which is so closely linked with politics and also deeply rooted in our emotions, family heritage, corporate hatred or whatever—scientific information is often rejected *en bloc* for the simple conviction that it is unfriendly information. This tribal treatment of scientific analysis allows that, for instance, in the United States, Democrats consider the climate issue as real while Republicans consider it an unsupported invention: why would Republicans be less scientific? How can science be filtered in such way by political emotions and by clan identifications? Indeed, it is so easy to consider something as rational and scientific when it endorses our prejudices. We are not naturally objective and I worry about this.

Two precautions: first, I have taken care in this work to point out, as strictly as possible, the primary sources of information. That is, I do not work with comments from a newspaper that favors my opinion, but with the primary source of the institution that has compiled the statistics and, therefore, has to answer to other research institutions. In addition, each piece of information is presented along with the link; this allows the reader to verify the accuracy of the mentioned data. Some time ago I organized a course entitled the *Primary Sources of Economic Information* at PUC-SP, in order to try to strengthen the ability of future economists to work with data rather than opinions. To think, as we all know, is laborious. Many would rather have an opinion.

Second, to the greatest extent possible, I seek objectivity. This is slippery because, like all of us, I tend to find something objective when it convinces me or reinforces my standpoint. Over the years, I have learned the importance of paying attention to data that is not in tune with my point of view and, clearly, this is something that needs to be checked. Perhaps the most brilliant reading in this area is Gunnar Myrdal's little book, *Objectivity in Social Research*. Old, but excellent. Basically, it shows that rather than wanting to present "just the facts", it is better to state right from the start the convictions and values, because this gives the reader a general view of the situation. This old book is easily available in our emergency library, *Estante Virtual*.

What are my convictions? The force that moves me is a deep indignation. Today, 800 million people are starving, which is not due to their own fault but because of a system of resource allocation over which they have no influence. The impotence of not being able to provide food for your child is a terrible feeling. Millions of children die every year; this is about five times the number of New York’s Twin Tower victims every day. Such an evident injustice as well as the conceit of the wealthy who show off their success without seeing the misfortunes they reproduce, frankly, pisses me off. Therefore, my most powerful motivation is to understand the "why": the mechanisms and the alternatives. This is because simply being pissed off will not solve much.

It is relatively easy to point out the culprits and expect them to disappear. However, they will not disappear because the problem is not restricted to people and their lies, instead, in the system: in the form of social organization, in the decision-making process prevalent in society, and in the so-called governance. It is my conviction that the way forward is to build a more enlightened society, with governments and companies legally obliged to operate in a more transparent manner and with more decentralized management systems and participatory communities. In short, more democratic societies. For those who have read the previous books that I have written, such as A *Reprodução Social* (Social Reproduction) *The Broken Mosaic, Economic Democracy* or *O Pão Nosso de Cada Dia* (Our Daily Bread), my propositive standpoint will be obvious. Shouting and hate speech will be of little use, we have to think in an organized way about how decisions are taken in the current system and what alternatives are opening in this age of so much technology and so much misused wealth.

The last item of this introduction is concerned with my career. Working in my early twenties during the 1960s at “Jornal do Comércio” in Recife, I was overwhelmed by the level of wealth and opulence on the one hand, and misery and truculence on the other. There is no science, no religion, and no ethics to justify that. I decided to study economics as an endeavor to understand how barbarism and primitivism could be sustained and, at the same time, be presented as if it were natural. From then on, my problems began. I fought against the 1964–1985 military dictatorship because I believed—and I still believe—that fighting a dictatorship is not only legitimate, it is a duty. Exiled, I got my master's degree and my doctorate in socialist Poland, the land of my parents. There I realized the nonsense that was written about socialism. In a way, I stopped believing in the "isms" of any genre and started to look for what works.

I taught development economics and public finance at the University of Coimbra, then worked for seven years in various African countries within the United Nations: a professional link that also allowed me to understand economic and social situations in Asia and in several countries in Latin America. I now believe in "isms" even less and seek, more and more, to find what actually works: a sort of civilized pragmatism, with the conviction that if it only works for the elites it is not sufficient because certain things must be available for everyone.

Economic analysis is strongly tainted by ideologies, and whenever people are in trouble and need to refute arguments, the tendency is to refute the person instead. It is easier. Frankly, I could say that this is not my problem, but since I know that there will be no solution until the number of people who understand what is happening increases significantly, I stubbornly continue to organize and disseminate information as clearly as possible and as honestly as I can. Back in the 1990s, when the then-First Lady and anthropologist Ruth Cardoso asked me to help with the Solidarity Community, I helped for four years, for free. People of the left criticized me, saying that I was "sleeping with the enemy". Today, it is evident that the redistributive and inclusion policies of the Lula governments, which I strongly supported, make up an important pathway, albeit with structural limitations, which I present in the text below. People of the right criticized me, calling me "Petista" (a follower of Lula’s Partido dos Trabalhadores), which is apparently easier than to face the arguments and reason over our real challenges.

I beg you to spare me, as I am only a Corinthian, which is not always easy. I am three-quarters of a century old, I have managed ministries of economics in several countries, I have been a consultant to the UN Secretary General, and I have written more than forty books. My problem is not to wave an ideological banner or to beat pans that only echo misinformation. I just do my homework: I read, study, teach, and write. Enjoy it.

1– THE DIMENSION OF CHALLENGES

In this first subject, I want to outline the articulation of the three dynamics that structurally unbalance the development and quality of life in the world. Simply stated, we are destroying the planet for the benefit of a minority while the resources necessary for sustainable and balanced development are sterilized by the global financial system.

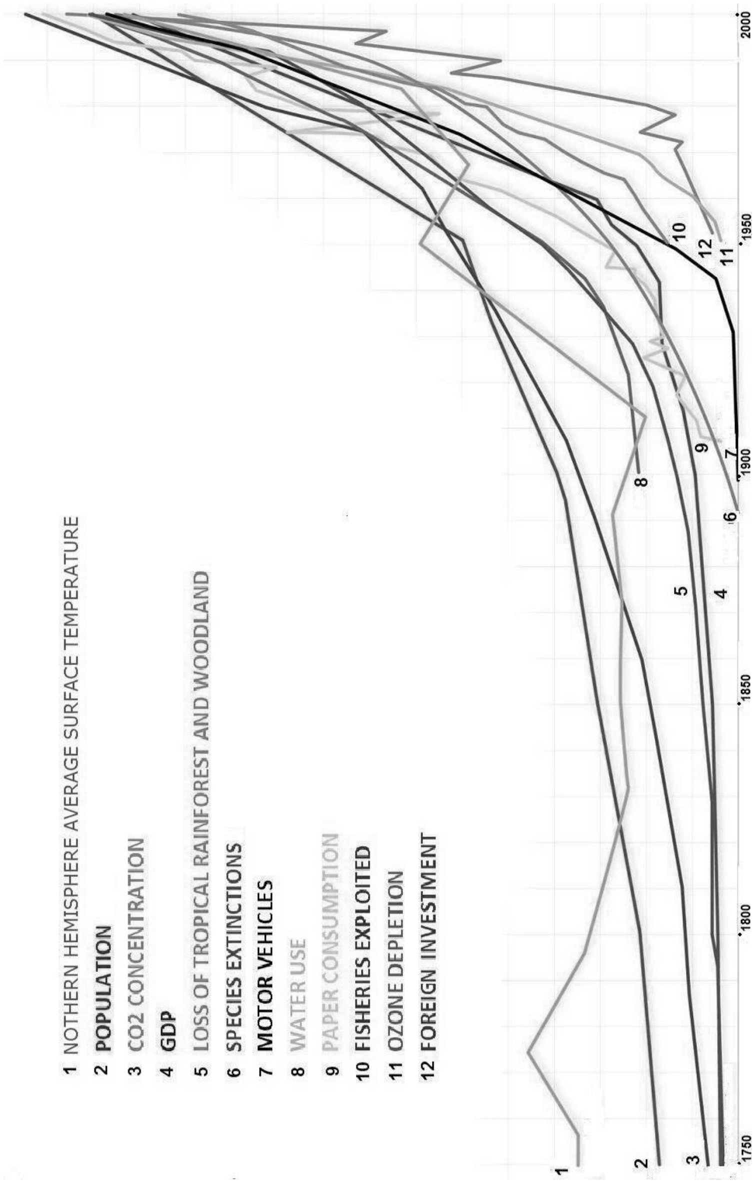
The environmental dynamics

Our small planet is clearly suffering from a viral attack called *homo sapiens*. Sometimes from the window of the plane, looking down from the top at the urban clusters that multiply on the surface of the earth, gray over green, I have the impression of a disease spreading like spots that may appear on our skin. The vast deforested areas and the numerous columns of smoke that rise in the distance as a result of forest fires only heighten this impression. In fact, the least we can say is that we are not taking good care of our home.

The chart below presents a summary of megatrends, in the historical period from 1750 to date. The scales have been made compatible and some of the lines represent processes for which we have only more recent figures; however, overall the chart allows us to join areas traditionally studied separately: such as demography, climate, car production, paper consumption, water contamination, extinction of sea life, and others. The synergy of the process is obvious, as well as the dimension of the environmental challenges.[1]

---

[1] *New Scientist*, October 18, 2008, p. 40: to access the chart online see http://dowbor.org/ar/ns.doc; the whole file may be consulted in www.newscientist.com/opinion; the support graphs and primary sources can be seen in http://dowbor.org/ar/08_ns_overconsumption.pdf; Tim Jackson, David Suzuki, Jo Marchant, Herman Daly, Gus Speth, Liz Else, Andrew Simms, Suzan George, and Kate Soper contributed to the graph.



Source: *New Scientist* (October 18, 2008 p. 40).

It does not matter that the graph is from 2008, since these are megatrends that cover the period from 1750 to the present, which equals two and a half centuries in the broad overview of the Anthropocene. It is important to note the dramatically rising curve after 1850, which worsens in the most recent period. The population curve (2) in the above graph is sufficiently explicit. I understand it by thinking of my father. When he was born in 1900, there were 1.5 billion people on the planet and today, in 2018, there are 7.5 billion. I am talking about my father, not prehistory. The population grows at a lower rate, but on a much larger basis: we increase by 80 million each year. Everyone wants to consume more, all corporations want to extract and sell more, and increasingly powerful technologies allow this process to expand. Or course, from a systemic and long-term outlook this does not make sense.

The *New Scientist*'s comment on these megatrends focuses directly on our own concept of economic growth and it is ironic that the chart was presented in the midst of the financial crisis of 2008:

> The science tells us that if we are serious about saving Earth, we must reshape our economy. This, of course, is economic heresy. Growth to most economists is as essential as the air we breathe: it is, they claim, the only force capable of lifting the poor out of poverty, feeding the world's growing population, meeting the costs of rising public spending and stimulating technological development—not to mention funding increasingly expensive lifestyles. They see no limits to that growth, ever. In recent weeks it has become clear just how terrified governments are of anything that threatens growth, as they pour billions worth of public money into a failing financial system. Amid the confusion, any challenge to the growth dogma needs to be looked at very carefully. This one is built on a long-standing question: how do we square Earth's finite resources with the fact that as the economy grows, the amount of natural resources needed to sustain that activity must grow too? It has taken all of human history for the economy to reach its current size. On current form it will take just two decades to double.[2]

The convergence of tensions generated over the planet became evident. We can no longer rejoice over the increase in fishing when we are extinguishing sea life, or the increase in agricultural production when we are extinguishing the aquifers and contaminating the planetary freshwater reserves. This is not to mention the increase in car production and the expansion of other productive chains that also cause climate warming. It is

---

[2] *New Scientist*, October 18, 2008, p. 40

quite impressive that in 2016 WWF noted that between 1970 and 2010, in just forty years, we have destroyed 52% of the planet's fauna.

Even more striking is the climatic effect of greenhouse gases, which was proven in 1859, while the first broad discussion of this threat occurred in Stockholm in 1972. It took us 20 more years to present a first climate convention in 1992 in Rio de Janeiro. Finally, the Paris Conference in 2015 decided that now we are really going to act. Well, we would have to to convince the new president of the USA. Interestingly, recent research shows that Americans' convictions about climate change do not depend on their level of scientific knowledge, but rather on the party to which they belong. Apparently, the feeling of belonging to "our club" or "our tribe" is more important than research and scientific evidence. The truth is that systemic and long-term threats, even if scientifically proven, have little room in our awareness or daily struggles. Even though they are clearly critical threats.

Today we have strikingly accurate statistics involving ocean overfishing, the destruction of forests, the contamination and overexploitation of water resources, and similar aspects in the most diverse sectors of activity. Solutions must be systemic. A broader awareness might—just might—enable deeper changes by disseminating an understanding of the challenges. Considering the existing awareness and the perplexity brought about by abounding irrationalities, the obvious question arises: What development do we want? And in order to ensure this development, what State and regulatory mechanisms are needed? There is no way to minimize the scale of the challenges. Our planet shows all of its fragility and our irresponsibility, or helplessness. We are all looking for political bases to support governance on the planet, in nations, and even in cities where the majority of the world's population lives today. The decision-making process has to change, and governance needs to become much more competent and drastically reoriented towards sustainability.

The growing inequality

We are not only violating the planet at an environmental level. On the social front, according to the World Bank, poverty has declined by about 1 billion people in recent decades, which is a breakthrough, even though the \$1.90 per day criterion is absurdly low. Of this 1 billion, 700 million are

Chinese.[3] It is an improvement, indeed. In general, however, the truth is that we are failing to meet the challenge of balanced and inclusive development and much less the challenge of inequality. The World Economic Forum itself points out in 2017 that "Over the past several years, a worldwide consensus has emerged on the need for a more socially-inclusive approach to generating economic growth. However, inclusive growth and development remain primarily an aspiration. No systemic framework has emerged to guide policy and practice." (WEF, 2017, p. v) Here, in addition to the obvious realization that we are experiencing growth that propagates exclusion, is the acknowledgement that we lack governance for inclusive growth.

There is no objective reason for the social dramas borne by the world. If we round the world GDP to 80 trillion dollars, we reach an average per capita product of 11 thousand dollars. This represents $3,600 per month per family of four: about R$ 11,000 per month. This is also the case in Brazil, which is exactly on the world average in terms of income. There is no objective reason for the gigantic misery in which billions of people live, other than the fact that "No systemic framework has emerged to guide policy and practice"; the system is mismanaged, or rather poorly governed, and there are no prospects on the horizon.

As a matter of fact, inequality has reached obscene levels. When 8 people own more wealth than half of the world's population, while 850 million people go hungry (a figure that is rising again), to believe that the system works signals, frankly, advanced mental blindness. Did those eight fortune-owners produce all that? Or have they simply set up a system of wealth appropriation through papers? And how is that possible? They own financial papers which produce little product, but much rent.

The fog surrounding the most recent financial mechanisms of growing inequality has been dissipating in recent decades. From the 1980s on, capitalism enters the stage of domination by the financial intermediaries over the productive processes—"the tail is wagging the dog" as the American saying goes—and this deepens inequality. However, it was only after the crisis of 2008, with the impact of panic, that research on both the new mechanisms of speculative gains and the creation of inequality was undertaken on a new and global scale.

[3] "For four decades, China, while increasingly integrating its economy with the global economy, grew at double-digit rates and lifted more than 700 million people out of poverty. This successful track record of economic growth is well known." The World Bank, *World Development Report 2017*, p. 2 e 3

An extensive World Bank study, *Voices of the Poor*, was a major contribution that basically showed that poor people remain poor and only those who have been wellborn become wealthy. It is the so-called poverty trap, which has also been called structural poverty: put simply, real poverty blocks opportunities to break free from it. How does a child study in a house where there is no electricity? How do you store medicines or food? With Amartya Sen we came to understand poverty as the lack of freedom to choose the life that one wants to live; it is, essentially, a lack of options. ECLAC's excellent, *La Hora de la Igualdad*, has shown that Latin America and the Caribbean have reached a degree of inequality that demands a focus on development strategies to resolve this issue.

The setback in the United States is particularly worrying and unquestionably explains recent political transformations. A short and exceptionally good text provides some shocking statistics:

> Our data shows that the bottom half of the income distribution in the United States has been completely shut off from economic growth since the 1970s. From 1980 to 2014, the average national income per adult grew by 61 percent in the United States, yet the average pre-tax income of the bottom 50 percent of individual income earners stagnated at about $16,000 per adult after adjusting for inflation. In contrast, income skyrocketed at the top of the income distribution, rising 121 percent for the top 10 percent, 205 percent for the top 1 percent, and 636 percent for the top 0.001 percent.

Particularly important, research shows that the increase in wealth at the top is primarily due to income from financial allocation and unproductive capital. The political implications do not escape the authors: "An economy that fails to deliver growth for half of its people for an entire generation is bound to generate discontent with the *status quo* and a rejection of establishment politics.”[4]

---

[4] Thomas Piketty, Emmanuel Saez and Gabriel Zucman – *Economic Growth in the United States: a Tale of two Countries* - December 6, 2016 – Washington Center for Economic Growth (3p)
http://equitablegrowth.org/research-analysis/economic-growth-in-the-united-states-a-tale-of-two-countries/

Source: http://equitablegrowth.org/research-analysis/economic-growth-in-the-united-states-a-tale-of-two-countries/. After the 1980s, there was a radical inversion of the appropriation of the 50% who earn less and the 1% who earn more.

The concentration of income is absolutely scandalous and compels us to see not only the ethical problem, the injustice, and the dramas of billions of people, but also the economic problem. Indeed, we are excluding people who could not only be living better, but also contributing more substantially to the productive capacity, thereby boosting economic demand and production. There will be no tranquility on the planet while the economy is only organized for 1/3 of the world's population. How much longer will we blame the poor themselves for their poverty and alleged lack of effort or initiative, which indirectly suggests that the wealth of the rich results from their dedication and merit? Inequality is the result of an institutionalized system whose structural dynamics must be reversed. The rich, on the other hand, have an impressive propensity to think that they are rich because of their own exceptional qualities. There is no shortage of economic discourse to reinforce this thinking.

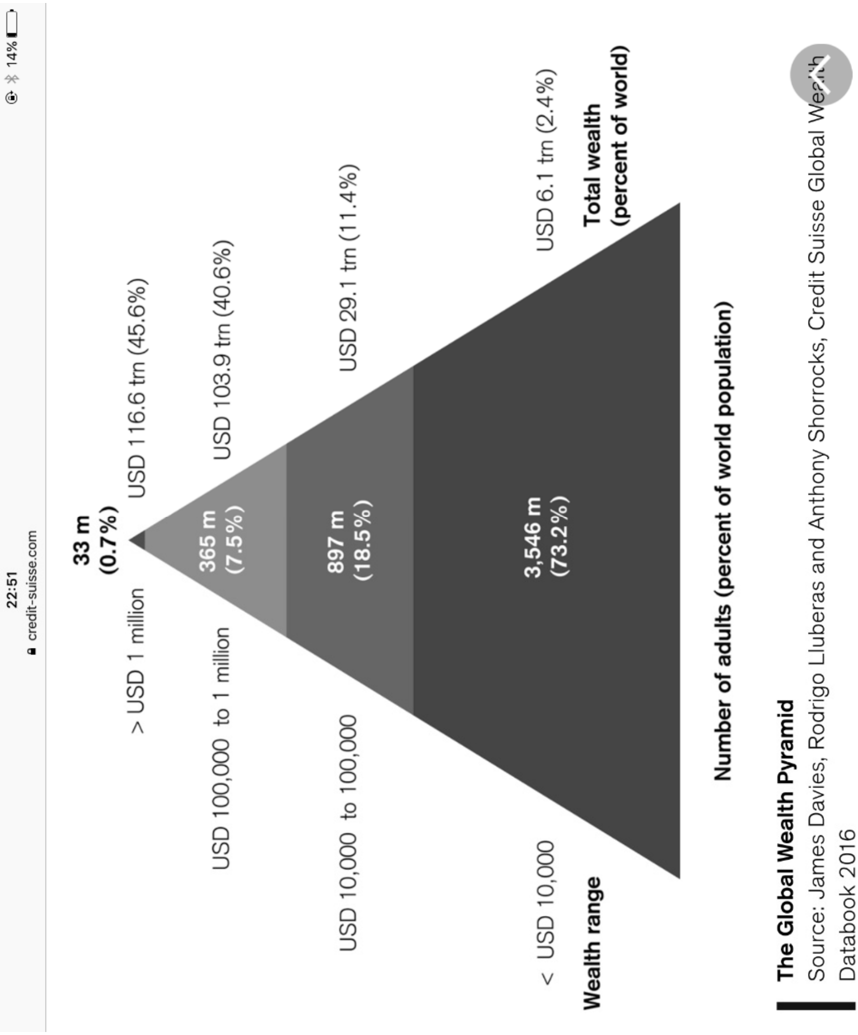
Today, studies allow us to understand inequality in a much more systemic way. On income inequality—the money that goes into our pocket for private expenses—we have all the information we want; we even know that Brazil is among the 10 most unequal countries on the planet. However, families also depend on accumulated assets, such as home and household goods, which we qualify as wealth or assets. Equally important are the indirect wages constituted by access to public policies such as health, education, security, as well as infrastructure, such as paved streets and street lighting. A Canadian may have a lower salary than an American, but he has universal free access to public goods and services that more than make up for the difference. Finally, families depend on access to common goods such as open beaches, clean air, uncontaminated rivers, and so on. The balance of these various welfare factors is essential to engender governance that makes sense and ensures a decent life.[5]

Inequality in terms of wealth or assets has been widely publicized, especially after the 2008 crisis. It is the net household wealth that shows a radically greater inequality than access to income. The logic is simple: those who receive medium or low salaries pay for food and transportation and those who have high incomes buy houses for rent, stocks, and other financial papers that yield rent, which all leads to a process of wealth accumulation. This is further enhanced when wealth is passed from father to son creating castes of the wealthy. A simple example helps us to understand the cumulative enrichment process: a billionaire who invests 1 billion dollars to make a modest 5% a year is increasing his wealth by $137,000 a day. One cannot spend this amount of earnings in consumption. Re-invested, the 137,000 will further enhance the wealth, generating the so-called *snowball effect* of riches to the rich. The permanent flow of rights over the production of third parties is received without even taking your hands out of your pockets.[6]

---

[5] A clear example is the case of vital access to electric power. The International Energy Agency informs us that in 2016 1.2 billion people had no access to electricity, while 2.7 billion still cooked with biomass and suffer “continued exposure to the smoky indoor environments that are currently linked to 3.5 million premature deaths each year”. World Energy Report 2016, IEA 2016 (summary), p.2
http://www.iea.org/publications/freepublications/publication/WorldEnergyOutlook2016ExecutiveSummaryEnglish.pdf

[6] The lack of correspondence between the productive effort and remuneration is at the center of concern in the *UN Report on Human Development 2015*, which states that “without proper policies, work’s unequal opportunities and rewards can be divisive, perpetuating inequities in society.” The expression “can be divisive” is part of the moderate way the UN presents critical issues.



Income inequality has traditionally been measured by means of the Gini coefficient. The higher it is, the greater the inequality. In order of magnitude, the coefficient of income inequality is in the range of 0.25 in Sweden, 0.45 in the USA, 0.50 in Brazil, and is close to 0.60 in South Africa, which was, until recently, subject to apartheid. However, the inequality of wealth is becoming incomparably greater and has reached the absurd level of 0.80: a frightening inequality. The data below is part of a survey by the Swiss financial group *Crédit Suisse*, an institution above any suspicion of antipathy towards the rich.

Reading the pyramid is simple. At the top, adults who have more than one million dollars equals 33 million people, which is equivalent to 0.7% of total adults on the planet. The sum of their available wealth is $116.6 trillion, representing 45.6 percent of the assessed wealth of $256 trillion. One must remember that the great fortunes in this part of the pyramid are not owned by real producers, but are dominated by people who deal with stock, information flows, or commodity intermediation. The top of the pyramid is particularly interesting and consists of so-called ultra-high net worth individuals. If we expand the wealthiest 0.7% to 1%, we find that this 1% has more wealth than the remaining 99% of the planet. Note that a significant part of this great fortune does not appear because it is in tax havens, as detailed by James Henry from the Tax Justice Network.

Oxfam summarizes this worsening inherited situation:

> Despite world leaders signing up to a global goal to reduce inequality, the gap between the rich and the rest has widened. This cannot continue. As President Obama told the UN General Assembly in his departing speech in September 2016, "a world where 1% of humanity controls as much wealth as the bottom 99% will never be stable". Nevertheless, the crisis of global inequality remains unabated:
>
> - Since 2015, the richest 1% has had more wealth than the rest of the planet.
> - Currently, eight individuals hold the same wealth as the poorest half of the world.
> - Over the next 20 years, 500 people will pass on more than $2.1 trillion to their heirs: a sum higher than the GDP of India, which has a population of 1.2 billion.
> - Income of the poorest 10% increased by about $65 between 1988 and 2011, while that of the richest 1% increased by about $11,800, or 182 times more. (Oxfam, 2016, p. 2)

The concentration of income and wealth on the planet is reaching absolutely obscene levels.[7] The financialization of economic processes has

---

[7] There is already an endless amount of literature providing warnings about this subject. An excellent analysis of the increasing severity of these figures can be found in the *Report on the World Social Situation 2005: The Inequality Predicament,* United Nations, New York 2005. The document from the World Bank, *The Next 4 Billion*, evaluates the 4 billion people who "do not have access to the benefits of globalization" and is equally interesting (IFC). *The Next 4 Billion*, Washington, 2007 reveals that we are talking about two thirds of the world

been feeding for decades on the appropriation of productivity gains, which has been essentially enabled by the technological revolution in a radically unbalanced way. This mechanism is described in a particularly authoritative way by Gar Alperovitz and Lew Daly in their little book, *Unjust deserts: How the Rich Are Taking Our Common Inheritance.* The authors point out that if it were not for the technologies developed during and after World War II, such as the computer, the transistor, and other innovations, Bill Gates would still be playing with cathode ray tubes in his garage. Technological advances are planetary and belong to society at large, but appropriation is concentrated. The authors have developed the concept of "unearned income".[8]

This concentration is not only due to financial speculation, but its contribution is dominant, and it is absurd to divert capital from the obvious planetary priorities. Trying to understand the dimensions of the 2008 crisis, *The Economist* carries an impressive figure with regard to social surplus that has essentially been brought about by technological advances in the production area, but which benefits financial services: "The financial-services industry is condemned to suffer a horrible contraction. In America the industry's share of total corporate profits climbed from 10% in the early 1980s to 40% at its peak in 2007".[9] Calling financial services an industry is obviously self-serving.

There is a clear cleavage between those who bring technological innovations and produce socially useful goods and services—the process engineers, so to speak—and the financial intermediaries who appropriate the surplus and presently have a dominant say over the system. The engineers make important technological breakthroughs, but the use and commercialization of this technology belong to the finance, marketing, and legal affairs departments that dominate business, and then it benefits the shareholders and financial groups that are in control. It is a system that has generated a profound gap between who contributes productively to society and who is paid.

---

population. Since the onset of the financial crisis in 2008, figures have deteriorated even further and now strongly affect even the so-called developed countries, including the United States, thereby causing a widespread feeling of frustration.

[8] Gar Alperovitz and Lew Daly, *Unjust deserts: How the Rich Are Taking Our Common Inheritance* (The New Press, New York, 2008).

[9] *The Economist*, *A Special Report on the Future of Finance*, January 24th 2009, p. 20

Putting together the two graphs—the one from the *New Scientist*, on the environmental historical megatrends, and the pyramid from the Oxfam report—we come to a pretty obvious conclusion: we are destroying the planet for the benefit of at most 1/3 of the world's population and, in a very particular way, for the benefit of 1%. This basic data guides our future actions: to reverse the march of planet destruction and reverse the cumulative process of generating inequality. In order to achieve this, we must reorient the allocation of financial resources.

The truth is that we do not even measure the quality of resource allocation. Our main measure of progress, GDP, neither measures the environmental disaster nor the social drama. It does not account for *what* is produced, who receives the product, or the decrease of the planet's natural assets but, instead, accounts for the pollution that requires large programs of recovery as growth. In fact, GDP only provides the national average for how intensively the production machine is being used. [10]

A system in which the motivation axis is limited to profit without having to deal with environmental and social impacts remains locked in its own logic. It has everything to gain from the maximum extraction of natural resources and externalization of costs, and nothing to gain by producing for those who have little purchasing power. Short-term profit motivation works both against sustainability and against inclusive development. The deformation is systemic. It is the very concept of corporate governance that must be rethought. The ground rules need to change. The belief that if each one pursues individual advantages then the outcome will be the best possible is no longer acceptable. Adam Smith is a little dated here. The need to rescue the system's governance is unavoidable and the time we have to do it keeps getting shorter.

---

[10] See especially the report by Amartya Sen, Joseph Stiglitz, and Jean Paul Fitoussi, *Report by the Commission on the Measurement of Economic Performance and Social Progress*, available in www.stiglitz-sen-fitoussi.fr.. The environmental disaster created by British Petroleum in the Gulf of Mexico increased the USA's GDP by the volume of activities required to clear the coast and decontaminate a large region. The GDP measures the intensity of resources used, not the usefulness of what is done. See my technical note on this deformed accounting in http://dowbor.org/2009/04/o-debate-sobre-o-pib-estamos-fazendo-a-conta-errada-abr-2.html/.

Sterilization of financial resources

The bottom line is that the cause of the current difficulties is not a lack of financial resources but their appropriation by financial corporations that use them to speculate rather than invest. The financial system presently drains the productive system instead of stimulating it.

The 2008 crisis was a planetary shock. In 2018 we are still suffering from its impact because the essential dynamics that generated it are still present. It could undoubtedly have been a great opportunity to re-regulate the financial system and return economic usefulness to financial resources. The general regulatory framework that has structured finance since the 1929 crisis (the Glass-Steagall Act) was diluted by Reagan and Thatcher in the 1980s, and the finishing touch was its liquidation by Clinton in 1999. Attempts to organize a regulatory system from 2008 on by means of the Dodd-Frank Act simply did not work and the little achieved was lost. The main economic force of the so-called market runs without control.

The crisis was faced, not by decreasing the huge gaps through which resources leak out, but by transferring gigantic sums of public resources to compensate for the leaks. This appropriation of public resources by financial groups was given the friendly name of Quantitative Easing: "easing" here suggesting the feeling of those who loosen their belts with satisfaction after a hefty meal. We can speculate again and say that "the happy days are back", thereby repeating Wall Street and other similar centers' attitude toward this new phase.

As such problems remain unchanged, the gigantic mollusk that was based on fraud and the misappropriation of resources carries on uncontrolled, with the increased disadvantage of having grown to the extent that it can now dictate its own rules. With the election of Donald Trump in the United States, we can now see the dissolution of the final bit of regulation that the Obama administration had tried to implement. However, the academic community, research centers, and even governments decided that it was time to find out something about how the financial system actually works.

We have already seen from the *Crédit Suisse* data that the richest 1% possess more resources than the remaining 99% of the planet. The dimension of these fortunes does not allow them to be transformed into demand, notwithstanding the endless luxury consumption, because, instead, these fortunes are reinvested in other financial products. The truth is that financial allocations yield more than productive investment. The world GDP has grown between 1% and 2.5% over the years. Financial allocations earn 7% to 9% and often much more. Thus, a dynamic of transformation of productive capital into financial assets was generated and the real economy was swallowed by planetary financialization.[11]

We will later address details of this transformation, which are essential to understanding the political and economic planetary woes as well as the crisis in Brazil. However, for the time being we are interested in knowing that such resources exist, but that their productivity is sterilized by a generalized system of speculation which drains the real economy. Equally important is that public resources, our taxes, are also fueling this machine today through public debt.

The order of magnitude is impressive. For comparative purposes, let us remember that the huge global effort to tackle climate change, outlined in the Paris Agreement in 2015, set the ambitious goal of raising $100 billion annually to finance sustainability initiatives in the developing world. Such a sum of resources seems important. However, surveys of the Tax Justice Network and other groups since the 2008 crisis have shown that we have between 21 and $32 trillion in undeclared resources placed in tax havens; these are resources that, in addition to not being invested, do not even pay due taxes. *The Economist* rounds this up to 20 trillion and the figures may vary slightly. The fact is that what runs in the speculative paralegal world of the havens represents 200 times more than the ambitious goal of the Paris world summit. And, if we compare the stock of resources in tax havens with the world GDP of about $80 trillion, we are bound to see the mismatch between the means and the ends.

Sustainable Development Goals (SDGs) approved in New York in 2015, are certainly a breakthrough and we have today, with 17 goals, milestones to guide our steps up to 2030. But goals 16 and 17, which deal with the means to attain a minimum of sustainability, represent only dreams and the wishful thinking that so well characterizes desire without teeth.

Less well-known than the SDG is the action plan entitled Addis Ababa 2015 Action Agenda. Legally, this is an integral part of the SDG agreement, but has, however, focused specifically on how to finance sustainable development. With due caution in the expressions used, the

[11] For more details see the excellent *How Money Works: the facts visually explained,* published in 2017 by Penguin Random House. Senior editor Kathryn Hennessy.

conference noted that "Regulatory gaps and misaligned incentives continue to pose risks to financial stability, including risks of spillover effects of financial crises to developing countries, which suggests a need to pursue further reforms of the international financial and monetary system."[12] Translated, it means that international financial chaos does not allow resources to be "aligned", and that solutions require financial and monetary system reforms. At this stage, we are not going forward but backwards.

In its report on the world economic situation and outlook for 2017, the UN notes that "international capital remains volatile, and net flows to developing countries are expected to remain negative for at least 2017, underscoring the challenges of financing sustainable development in the long term" (p. viii). "Negative net flows" mean that the poor are financing the rich: i.e., the financial system drains. When our wallet is stolen, it usually qualifies as a negative net flow. The language of the UN is unrivalled.[13]

More importantly, it is a system that does not even reinvest productively the resources it drains: "In addition, productive investment in many developing countries has slowed in recent years, with much of the accumulated debt channeled into financial sector and real estate assets (see discussion in box III.1), escalating risks of assets bubbles, rather than boosting overall productivity" (p. 33). The same analysis is presented for corporate debt, which "has not been used to finance productive activities, but has instead been channeled mostly into very few sectors with an, at best, ambiguous impact on long-term productivity and transformational investment" (p. 89). Such an assessment of the main UN economic report helps to justify the focus of the present study: the financial system not only does not finance production but also drains its capacity. What we want to assert here is that it is not a lack of resources that plagues the world but their uncontrolled use or, arguably, the fact that they are only controlled by those who have no interest in making them socially and economically useful.

***

We have outlined the kind of Bermuda triangle formed by environmental drama, social tragedy, and financial chaos. Our dilemmas are not

[12].https://sustainabledevelopment.un.org/frameworks/addisababaactionagenda (105)
[13] UN – *World Economic Situation and Prospects 2017* – New York, 2017 http://www.un.org/en/development/desa/policy/wesp/