

Economic Democracy

Strolling through theories

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Negative Balance

To pluck one hair off an European hurts much more
than to amputate, in cold blood, the leg of an African.
A Frenchman with three meals a day goes hungrier
than a Sudanese with one rat a week.

A German with flu is much sicker
than an Indian with leprosy.
An American with dandruff suffers much more
than an Iraqi woman with no milk for her children.

It is more perverse to cancel the credit card of a Belgian
than to rob bread from the mouth of a Thai.
It is much more serious to throw a paper on the ground in Switzerland
than to burn down an entire forest in Brazil.

The chador of a Muslim is more intolerable
than the drama of a thousand unemployed in Spain.
The lack of toilet paper in a Swedish home is more obscene
Than lack of drinking water in ten Sudanese villages.

Shortage of gasoline in Holland is more unconceivable
than that of insulin in Honduras.
A Portuguese without a mobile phone is more revolting
than a Mozambican without books to study.

A dried up orange tree in a Hebrew kibbutz is sadder
than the demolition of a Palestinian home.

A little English girl without a Barbie is more traumatic
than to see the assassination of the parents of a Uganda boy.

And this is not poetry; these are liabilities
in an account still ignored by the West.

Fernando Correia Pina, Portuguese poet



In a truly free economy, payment of wages should be optional,,,

INTRODUCTION¹

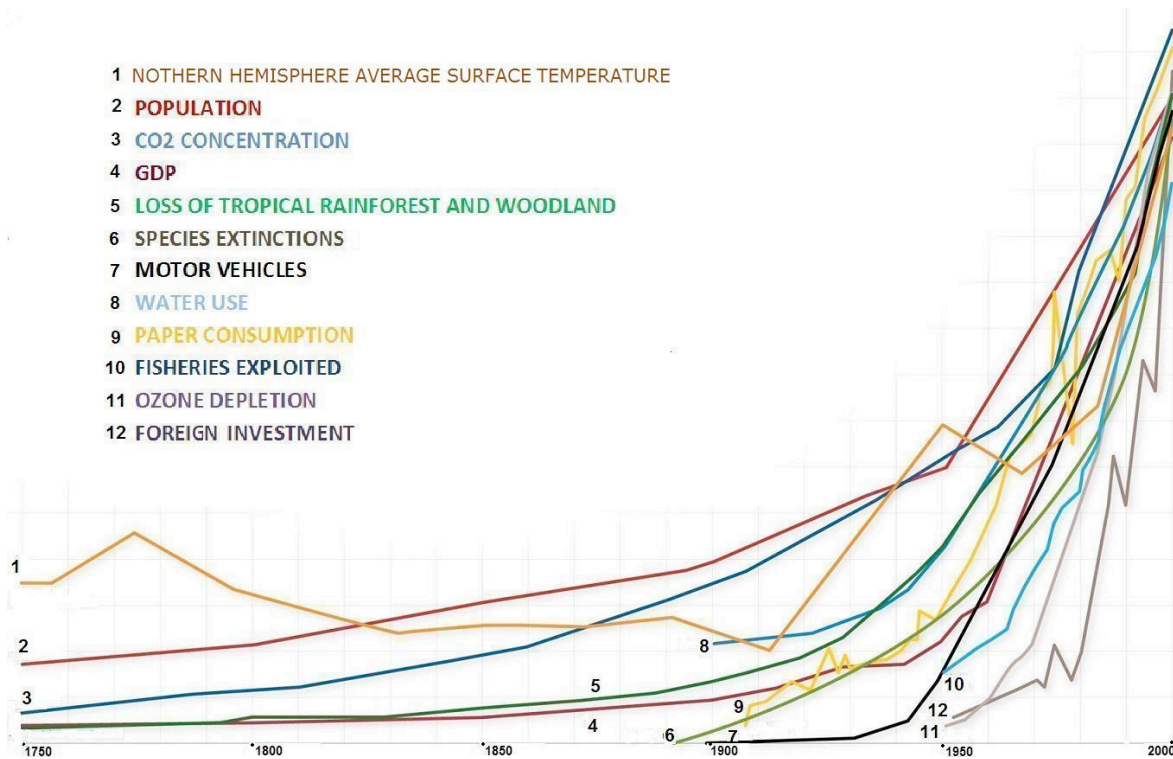
We are all adverse to catastrophism. We do not want to look like prophets of doom who only paint a bleak future. The Club of Rome went some way toward turning us against alerts that seemed premature. Today we are starting to evaluate the realism of these predictions in a more rational way. With information easily exchanged, the generalization and improvement of models, online accessibility to the most varied scientific data, allowing for the comparison of results from innumerable research centers, the future is no longer a vague threat, a wavering outline. In a way, and in our consciousness, the future has already arrived.

In this brief introduction, we shall focus on what seem to be four major trends that defy us, in the long term. We have to save the planet, to reduce inequalities, to ensure access to decent jobs and to correct production priorities. Too big a challenge? We are not concerned in reducing our fall from the 20th to the 15th floor. We are concerned with not destroying ourselves.

A threatened planet

The chart we show below constitutes a summary of megatrends during the historic period from 1750 until the present day. The scales had to be made compatible and some lines represent the processes for which we have only more recent figures. But as a whole, the chart shows the coming together of areas traditionally studied separately, such as demography, climate, automobile production, paper consumption, water contamination, extinction of ocean life and others. The synergy of the process becomes obvious, as does the size of the environmental challenges.

¹ This introduction is based on a paper jointly prepared with Ignacy Sachs and Carlos Lopes, *Crisis and Opportunities in times of Change*, 2010, <http://dowbor.org/fmt7crisesandopportunities.doc>



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

The New Scientist comment regarding these megatrends focuses directly on our own concept of economic growth:

Science tells us that if we are serious about saving the 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 growth, ever. In recent weeks it has become clear just how terrified governments are of anything that threatens growth, as they pour billions 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 for the planet becomes evident. We cannot congratulate ourselves anymore for the increased fishing catches when we are extinguishing life in the oceans or when the increase in crop production is eliminating the aquifers and contaminating the planet's fresh water resources. Not to speak of automobile production and the expansion of other production chains which generate climate change.

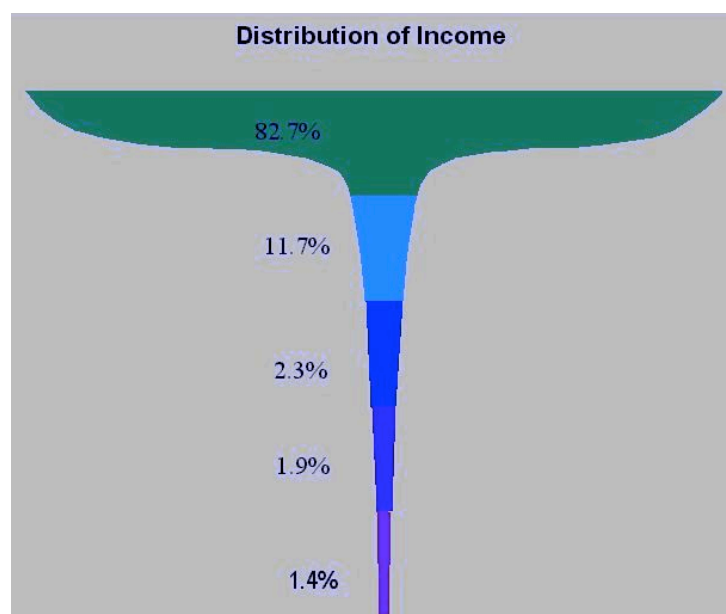
² New Scientist, October 18, 2008, p. 40; to Access the chart on-line go to <http://dowbor.org/ar/ns.doc>; the complete dossier can be consulted at www.newscientist.com/opinion ; the support tables and primary sources can be seen at http://dowbor.org/ar/08_ns_overconsumption.pdf; contributed with the dossier: Tim Jackson, David Suzuki, Jo Marchant, Herman Daly, Gus Speth, Liz Else, Andrew Simms, Suzan George and Kate Soper.

The solutions have to be systemic. This broader view can – and it is only a possibility – trigger profound changes as we raise the overall level of awareness of the challenges.

The dilemma is clear: what development do we want? And for this development, what kind of State and regulatory mechanisms will be necessary? There is no way to minimize the size of the challenges. With 7 billion inhabitants – and 75 million extra per year – who adopt a steadily expanding level of consumption and utilize more and more powerful technology, our planet shows all its vulnerability. And we, our irresponsibility or helplessness.

The scandal of inequality

The economic expansion of recent decades has been fed on the earnings from productivity that new technologies have brought about. The distribution has been radically unbalanced. It is not the place here to study this process, but it is important to remember that the concentration of income on the planet is reaching absolutely obscene limits.³



Source: Human Development Reports (1992, p. 35 e 2005 p. 37)

The image of the champagne glass is extremely expressive because it shows who gets what of the overall content, and in general people are not aware of how critical the drama is. The

³ There is immense literature on the subject. The chart attached, known as the “Champagne glass” is from the United Nations 1992 Human Development Report; for an update in 2005, see Human Development Report 2005, p.37. The Champagne glass has only narrowed the bottleneck, there were no significant changes. An excellent analysis of the recent aggravation of these numbers can be found in the Report on the World Social Situation 2005, *The Inequality Predicament*, United Nations, New York 2005; The World Bank document, *The Next 4 Billion*, estimates that 4 billion people do not have access to what is qualified as “the benefits of globalization” – IFC. *The next 4 Billion*, Washington, 2007; we are talking about almost two thirds of the world population.

richest 20% get 82.7% of the income. The poorest two thirds have access to only 6%. In 1960, the income earned by the richest 20% was 70 times the equivalent of the poorest 20%; in 1989 it was 140 times more. The concentration of income is absolutely scandalous and forces us to face the ethical question of justice, and social and economic drama of billions of people who could not only be living better, but also contributing to sustainable development. There will be no stability on this planet while the economy is organized around the interests of one third of the world's population.

This unjust concentration is not due only to financial speculation, but its contribution is significant and, above all, it is absurd to divert the capital from obvious planetary priorities. The Economist brings strong figures concerning economic growth, generated essentially by technological progress in the production area, but appropriated by the so called "financial services industry": "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."⁴

A clear gap is generated between those who generate technological innovations with the potential of producing socially useful goods and services – the engineers of the process, so to speak – and the financial intermediaries who take over the surplus and limit the options to short term profit maximization. The engineers of the process create important technological advances, but their use and commercialization are handled by financial, marketing and legal departments which dominate companies and take over their final destination. It is a system which has generated a deep divide between those who contribute to new potentials and those who take over the surplus.

When putting both charts together, the one from New Scientist concerning historic megatrends and the "champagne glass" from the Human Development Report, we reach a very obvious conclusion: we are destroying the planet for the benefit of one third of the world's population. This is the basic reference which guides our future actions: revert the march of the destruction of the planet and reduce accumulated inequality.

It is important to stress that our main instrument to measure progress, Gross Domestic Product (GDP), measures neither one nor the other. It does not take into account the planet's natural capital reduction, and in reality only shows us the national average intensity of the use of the production machine, not what is produced, for whom and at what costs. And the main motivator of private investments, profit, acts against both: it has everything to gain from the maximum extraction of natural resources and externalizing pollution costs, and has nothing to gain from producing for those who do not have money to spend. The fantastic possibilities that new technologies open to us are simply wasted.

The challenge of access to decent jobs

Inequality and sustainability are directly linked to the imbalances of inclusion in the production process. Manpower, our immense unused production capacity, looks more like a problem than an opportunity. In the present form of use of production factors and technologies, the productive inclusion is an exception. In Brazil, with a population of roughly 200 million, less than 40 million are formally employed in the private sector. As a

⁴ The Economist, *A Special Report on the Future of Finance*, January 24th 2009, p. 20

whole, a huge mass of people are classified under the vague concept of “informal sector”, measured at 51% of the economically active population by IPEA (Institute of Applied Economic Research). The study underlines that “the existence of this portion of workers on the edge of the system cannot, under any circumstances, be seen as a solution for the market” (IPEA p. 346). This “portion” represents half the country.⁵

The essential fact for us is that the present model under-utilizes half of the country’s production capacity. And to imagine that the growth centered in multinational companies, huge plantations of soya beans (200 hectares to generate one job) or even in a hypothetical increase of public jobs, will allow it to absorb this manpower is not realistic. To evolve to alternative forms of organization becomes absolutely necessary.

The drama in Brazil is representative of a broader universe: “Informal employment accounts for between one half and three quarters of non-agricultural employment in the majority of developing countries. The share of informal workers in the non-agricultural labour force ranges from 48% in North Africa and 51% in Latin America and the Caribbean, to 65% in Asia and 78% in sub-Saharan Africa”.⁶

In this way, the inequality drama seen above does not only constitute a problem of fair distribution of income and wealth: it also involves the productive inclusion of the majority of the population that is unemployed, under-employed or trapped in different types of informal activities. The ILO proposals concerning decent jobs, the World Bank concerns about the 4 billion that are excluded from the “benefits of globalization”, and the numerous initiatives centred on local development belong to the same drama: economic growth that leaves a huge part of the population out of the process is not sustainable. We are talking about almost two thirds of the world’s population to whom we block the access to finance, technologies, and the right of each individual to provide for his family.

Deformation of Priorities

The table below, extracted from the Human Development Report 1998, represents the deformation of priorities of the the use of our production capacity. The reading is simple: we cannot obtain the supplementary 6 billion to universalize basic education, but we can obtain 8 billion for cosmetics in the USA, and so on. The values are low because they are in dollars which were worth more at the time, but the contrast is evident. The 780 billion dollars spent on the military already added up to 1.5 trillion in 2008. And if we think about the trillions of dollars of public resources transferred during the 2008 financial crisis, we will have a real idea of the absurd disregard for human and environmental priorities.

⁵ IPEA – *Brazil, the state of the nation – labor market, jobs and informality* – IPEA, Rio de Janeiro 2006 – “In its most direct form of expression, the informal sector is treated as a generator of jobs with low quality and income, ineffectiveness and additional economical costs, constituting a distortion to be fought”...”In 1992 the informality percentage was 51,9%, reached 53,9% in 1998, returning to 51,7% in 2003 and falling to 51,2% in 2004”. The data is practically very similar for the totality of Latin America. – (pp. 337 and 339)

⁶ UN – *The Inequality Predicament*, New York, 2005, p. 30

THE WORLD'S PRIORITIES?

(Annual Expeniture) in Dollars

Basic Education for all	\$6 billion*
Cosmetics in the USA	\$8 billion
Water and sanitation for all	\$9 billion
Ice-cream in Europe	\$11 billion
Reproductive health for all women	\$12 billion
Perfumes in Europe and the USA	\$12 billion
Basic health and nutrition	\$13 billion
Pet Foods in Europe and the USA	\$17 billion
Business Entertainment in Japan	\$ 35 billion
Cigarettes in Europe	\$ 50 billion
Alcoholic drinks in Europe	\$ 105 billion
Narcotic drugs in the world	\$ 400 billion
Military spending in the world	\$ 780 billion

* Estimated additional annual cost to achieve universal access to basic social services in all developing countries.

Source: Euromonitor 1997; UN 1997g; UNDP, UNFPA and UNICEF 1994; Worldwide Research, Advisory and Business Intelligence Services 1997.

In: *Human Development Report 1998*, New York, p. 37

In reality, what needs to be expanded in the world today are basic services for the billions who barely survive, much more than diversified and fancy consumer goods. Some things should be accessible to everyone. The planet produces almost a kilo of grain per day per inhabitant and we have more than one billion people going hungry. The ten million children who die of hunger, no access to clean water and other absurd causes constitutes an unbearable scandal. But from the private investment point of view, solving essential problems generates no profits, and the orientation of our production capacity is radically deformed.

In terms of economic, social and environmental megatrends, we are drifting. We are destroying the planet in favor of a minority, in order to increase the supply of goods without any other criteria than monetary capacity, creating advanced technologies without spreading access, thereby reducing, instead of fostering, the capacity of people to make a living. The level of accumulated imbalances is exceeding the bearable limit. And we have as a background the huge task of organizing the transition to another productive energy paradigm, the post-petroleum era. There will always be people who expect an invisible hand to solve these challenges. Who are the dreamers here?

We have included this brief summary of a few of our major dramas in order to provide a background picture to the theories we discuss in the main text. In a way, we have tried to give the reader a feeling of the urgency of building more responsible forms of managing our planet and our society. It may be strange to demand urgent solutions for old problems. But the world is changing. People are more conscious. Where we once had the humble peasant or slum dweller, kow-towing to authorities, we now have a growing number of people who are informed, and feel revolted for not having a medicine for their child or an opportunity to make a living, while being bombarded with media messages promoting luxury goods. People are waking up in Latin America, in the Arab world, and, one may suspect, even in the rich world.

A new world is being born. And we need the science to understand and to organize the transformations. The inherited mainstream theories have little to show, so we have to look at what is looming on the horizon.

São Paulo, 16 March 2011

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“Evolution of the power structures in advanced capitalism eludes the theoretical frameworks we inherited from the past” –

C. Furtado – *Em busca de novo modelo* – Paz e Terra, 2002, p. 9

“If economists could manage to get themselves thought of as humble, competent people, on a level with dentists, that would be splendid!” – Keynes, Economic Possibilities for our

Grandchildren, 1930

The economic and social reality is undergoing profound changes. As such it is natural that a significant instrument for its interpretation, economics, should also undergo deep change. The rules of the game were different in the agrarian societies, where the main reference was control of the land, or in industrial society, where the line of discussion and political strife was ownership of the production means. When knowledge, social services and other “intangibles” become the central issues in the economy, not to speak of the environmental predicament, can we uphold the same framework for analysis?

Recently, reading a small but extremely engaging book by Celso Furtado, *“Em Busca de Novo Modelo”* (In Search of a New Model), I realized to what extent the points of reference had changed, how badly we need other concepts, a fresh outlook. Hence the idea of doing a kind of review of recent, international, economic literature seeking an answer to a basic question: could a new outlook be in the making? Is a new economic science, more attuned with current issues, closer to the needs of society in general, now emerging?

Of course, it is not a matter of browsing through the recent floods of economic literature in general. Theoretical and econometric juggling that endeavors to justify the fortune of the wealthy, excuse poverty of the poor or trivialize the environmental tragedy assailing the planet, simply are of no interest here. Furthermore, most of these efforts belong more to cosmetics than to economics, trying to make the picture look better. What matters here are the proposals that seek realistic and decent alternatives to the surrounding economic and political mess.

Taken as a whole, this approach may be summarized in the concept of economic democracy. Political democracy, the idea that power over society must be wielded according to a social pact and in a democratic way, was an impressive progress, if the relative historical proximity of kings who wielded absolute power by “divine right” is taken into account. It is good to remember that colonial empires date from only a few decades

ago, formal apartheid dates from yesterday, while various forms of dictatorships still survive. In many countries democracy is still a very fragile construction, and we should certainly protect each trembling flame of democratic rule.

This very fragility deserves to be better understood. Some people are missing in the democratic process: the 4 billion poor in the world have little say, although we hear the volcano grumbling; the future generations are not here to protest the overconsumption of non-renewable natural resources, but will have to bear the consequences; nature has no voice, and is silently being destroyed, although here too the grumbling is becoming evident; and most of all, for a mysterious – or not so mysterious – reason, democracy stops at the gates of the corporate world.

Economic democracy still seems a rather unfamiliar concept. Bertrand Russell, however, described a paradox in the forties: we consider as remote past a royal family waging absolute power over a country as well as bestowing a region with inhabitants and all to a nephew, but we find it absolutely normal that families or corporate groups should wield the economic and political power they hold, and buy or sell enterprises with workers and all as if they were personal fiefdoms. Today, with 435 families in the world managing, as they please, more resources than the income of the poorer half of the globe's population, and steering the planet through increasingly irresponsible paths according to their whims, it becomes legitimate to expand Russell's intuition and start to focus on a central theme in economic science: the economy could use some forms of democratic management, corporations could go about their business with some transparency, and banks who play around with our money could be held responsible for the impact of their initiatives. In a word, economic activities must be democratized.⁷

1 – A broader outlook

One of Celso Furtado's most important legacies was his effort to make economic theory "stick" to reality. This is evident in the citation that opens this essay as well as in the direct evaluation of what the economics student learns: "the student will have read, in a non-systematic way, extensive material about economic development, though not always having found a clear connection between these readings and reality".⁸

This "not always" is pure generosity on the part of the economist: we all have sensed the widening gap between what we study or teach in economics, and what happens in the economic world. There is little doubt that theory no longer shows the way. Nevertheless things are coming to light and, responding to Celso Furtado's challenge, we decided to

⁷ "We accept the principle of heredity in relation to economic power while we reject it concerning political power. The political dynasties have disappeared, but economic dynasties survive." – Bertrand Russell – *The History of Western Philosophy*, p. 622

⁸ Celso Furtado – *Em busca de novo modelo – Reflexões sobre a crise contemporânea (In Search of a New Model – Reflections about the Contemporary Crisis)* – Paz e Terra, Rio de Janeiro 2002, p. 69

systematize some recent inputs, looking in a way at what is appearing on the horizon of economic theories in various countries and concentrating on authors who, up to a certain point, tend to bridge the gap.

Tânia Bacelar introduces Celso Furtado as a “leftish Keynesian”, Ricardo Bielschowski views his method as “historical-structural”⁹. Both qualifications are unquestionably correct, but do not fully encompass the vision of this man who aggregated social concerns, ethical posture and a theoretical open-mindedness, and pragmatically used key concepts from the most diversified trends and scientific areas. For him, what mattered was the explanatory value of the theories, and the definition of realistic alternatives. Perhaps, one of Celso Furtado’s more important traits, in terms of his theoretical legacy, is the refusal to force reality to fit into preconceived theories. The focus is on reality, in all its richness and complexity, seen against a background of basic values of social justice, economic feasibility and, particularly in his more recent works, environmental sustainability and cultural change. Theory, in this sense, again becomes an instrument for human progress, leaving behind an archipelago of theoretical academic havens and inflexible ideologies. Reality is stubborn, and tends to give theories little importance. Rethinking our theories is a necessary exercise, and a permanent one, if we want to keep pace with the evolution of reality.

One way to face this theoretical gap is to have a look at how the different traditional theoretical schools have been faring. This is done, for instance, in the special issue of the French publication *Alternatives Economiques*¹⁰, that shows the evolution of Keynesians towards neo-Keynesianism, of liberalism towards neo-liberalism, of the trend of institutional economics towards neo-institutionalism, with the frequent addition of post-neo and the like. The “neo” or “post” parts often represent the more recent trends in theoretical facelifting. This is comfortable because it builds a small bridge between inherited theory and a reality that insists on following along a direction not foreseen by theory. However, it gives us a certain feeling of using patches, where perhaps new outlooks may be needed. Indeed, from “neo” to “post” we have been building something that increasingly looks like a quilt with often too visible stitches, and traditional lines may furthermore even imprison the attempts at original thinking by the historic weight they carry.

Another approach is to come to key problems with a fresh mind, in a way looking for the basic data of economic and social reality, enhancing the empirical approach and trying to describe, as clearly as possible, the various transformations that are going on, such as the dominance of financial interests in the overall economic activity, putting aside for later the broader theorizing and eventual labelings.

⁹ Tânia Bacelar de Araújo – “Celso Furtado: economista e cientista social” (Celso Furtado: economist and social scientist) – *Teoria e Debate (Theory and Debate)*, February/March 2005, p. 38 ff.

¹⁰ *Alternatives Economiques, La science économique aujourd’hui*, special number 2003, 3rd trimester, presents a general view of current trends in economic thinking – www.alternatives-economiques.fr

There is no doubt that we all feel a little like orphans. Not orphans of values, since the quest for what Paulo Freire used to call quaintly “a less evil society” keeps us moving, or at least those of us who have not forgotten. But orphans of a generation of thinkers taken from us, Celso Furtado and also Paulo Freire, Florestan Fernandes, Darcy Ribeiro, Milton Santos and other giants who were our points of reference in Brazil. In the absence of the great masters and facing ever increasing dramatic challenges we are forced to pursue a permanent reconstruction of our capacity to understand the world and detect viable alternatives.

In the 20th Century things seemed simpler. Whether we were rightists or leftists there was a relatively straight “road”, theoretical avenues one just had to follow. To the left, the road would be nationalization of production means, central planning and a redeeming class, the proletariat. To the right, another straight road, privatization, market mechanisms and another redeeming class, the bourgeoisie. Thus symmetrically were defined the institutional reference of ownership, the dominant regulatory mechanism and the social foundation of power. In view of the complex society we are facing, these models shriveled. The *statism* of the left simply disappeared from the horizon, albeit the pendular movement to the right has weakened the State to a point of concern, generating increasingly chaotic tendencies. And the *privatist* view of the right, summarized in the capitalistic equivalent to the Little Red Book, the Washington Consensus, was sustained not by theoretical credibility, but by serving dominant interests. These ideological clashes warmed our guts, led to much violence, but brought little responses, and we rightly feel them as hopelessly outdated.¹¹

The fact is that with global warming, soil erosion, destruction of biodiversity, devastation of marine life, generalized polarization between the rich and the poor, there is a progressive loss of governance – and therefore, of actual capacity to put things in order, and we are quickly heading towards dramatic structural impasses, in the literal sense and not in the academic sense of the word. Only those uninformed, mentally confused or privileged by the present system have failed to notice what is at stake. We are living what was aptly called a “slow motion catastrophe”.

The outlook we advocate is that many punctual analyses of concrete processes of change are contributing to design a new theoretical configuration. This is not a macro theory such as that of Marx for the second half of the 19th Century, but a set of studies rooted in what is happening in different sectors of the economy, gradually contributing to erect another still ill defined *Weltanschauung*, whose outlines are just appearing. Unquestionably, these are theories dominantly emerging in the area of the traditional left, which has suffered enough setbacks to be the first to sound the wake up call and to question former simplifications. But we can also see an increasing number of theoreticians of the “system”, who are

¹¹ Commenting on the Washington Consensus, the Director of the IMF Strauss-Kahn is quite candid: “The global financial crisis has shattered the illusion of stability” – The Triple Comeback, Geneva, December 8, 2010

abandoning the boat that carried them to success, now aware of the absurdities created on the planet. It is no longer a matter of another “neo” stitched to former theories, but of contributions that, although still scattered and punctual, belong to the construction of a different architecture.

Each one of us has a different reading experience. Aware that it is strictly impossible to keep abreast with all the scientific production published, even in relatively specific scientific domains, we have endeavored to identify some of the new reference points. In a certain sense, we are condemned to a methodology of sketching, or that of *impressionism*, as in a painting by Renoir, where we see numerous meaningless dots. Moving away from the painting a shape becomes apparent. The theoretical vision is only starting to emerge.

2 – Seeking results

On a more general level, as a guiding instrument for politics, economics need to be rehabilitated. Celso Furtado explains this very clearly: “development policies have to be formulated based upon an explanation of the substantive ends we seek to achieve and not based upon the logic of the means set forth by the accumulation process controlled by transnational enterprises”.¹² In methodological terms this point is central. Lately we have viewed economics only from the standpoint of the rate of growth, forgetting to think about *what* is growing, at *what costs* and *for whom*. Or else, asserting a false objectivity, we limit ourselves to make up models permitting to forecast on the value of the different commodities, whether the dollar is going up or down, or if the last bomb in Iraq is going to affect oil prices. Here, we have to rescue an obvious issue: the economy is a means to be used for the balanced development of humanity, and economics as a science should help us select the most positive solutions, and avoid the most dangerous deadlocks.

The importance of the appearance in 1990 of the United Nations Report on Human Development¹³ is noteworthy as it suggests a simple, but powerful formula: we have to pursue an economically viable society, socially balanced and environmentally sustainable. Insofar as this blending of objectives is being widely accepted, with the availability of an annual world report that encompasses the three approaches and notwithstanding the limitations of general studies, then we have a reference, a “North” of some significance. In the academia, we still face difficulties, because some scientific areas study the social issues, others the economy and still others the environmental aspects, when all initiatives have to be viewed simultaneously from all three angles. Segmentation is becoming more clearly contested since it hinders a systemic view of the process. And in this tripple bottom-line approach, the democratic decisions-making process that must accompany the

¹²[C. Furtado, Op. Cit. p. 36

¹³[Reports prepared by the United Nations Program for Development, PNUD, are available at <http://undp.org/hdro>

transformations has had little voice. Our approach here, of course, will be that the process of change would be more stable with four legs, instead of three. Let us call them four pillars, as we have them for education, even if for elegance's sake.

However, the key to overcome a tradition of make-believe objectivity in economics, as if it were only restricted to modeling what is happening, is to read through the concerned interests: economics often seems so complicated because different interpretations merely serve different interests and we face contradictory analyses because the interests are different. The Federation of Banks says, judging by profits, that Brazil has a solid system of financial intermediation. It does not say that this solidity is nurtured by the borrowers' fragility and especially that of the productive sector of the economy. Often the reader sees scientific chaos where there is only a defense of diverging interests with each of the parties introduced as "scientific".

The economist who on TV or in a paper interprets reality for us, is frequently using a lawyer's tie, elegantly presenting not reality, but interests. And yet we do have economists who insist on explaining the interests and seek overall common good beyond the narrow interests. Narrow interests, it must be understood, are always presented as the best interest of everyone, which adds to the confusion. Lawyers at least say "this is the best for my client", while economists tend to say "this is the best for everybody".

An excellent view of this coming back of economics to a normative outlook centered on the construction of our objectives as humanity is the book by Herman Daly and John Cobb Jr., *"For the Common Good: redirecting the economy towards community, the environment and a sustainable future"*.¹⁴ According to these authors, we must acknowledge the boundaries of the inherited mechanisms: "The change will imply correction and expansion, a more empirical and historical attitude, less pretension to be a "science", and the will to subordinate the market to purposes it is not equipped to set forth". This change would result in a loss on the part of the market of its basic capacity to allocate scarce resources among alternative uses. "Economists identified three major categories of problems with the market: (1) a tendency of the competition to be self-eliminating; (2) the corrosive effect of self-interest, implicit in the market, on the moral context of the community and (3) the existence of public goods and of externalities".¹⁵

This outlook appears in recent recommendations of United Nations studies: we should concentrate "on explicit policies to avoid the negative effects of globalization on social development as well as new threats by reforms focused on markets. A deliberate action must be carried out to warrant that cultural, religious and ethnic identities and rights are explicitly protected in international agreements and national and local legislation. This protection must be defined in a code of conduct that can be implemented by national and

¹⁴ Herman E. Daly and John B. Cobb Jr., *For the Common Good* – Beacon Press, Boston 1994, p. 534.

¹⁵ Daly & Cobb, op. cit., pp. 8 and 34

transnational corporations as well as private interests operating under national jurisdiction”.¹⁶

When we speak of “explicit policies” and “deliberate action”, we already do not restrict ourselves to obeying “mechanisms”. In other words, it is not sufficient to create a favorable environment for the market, the economy must be steered towards what society expects of it. “The common good” seems to be a satisfactory definition of what we want, as we understand better every day that to steer the economy in function of the dominant minorities, generates problems for all of us. This idea, of rescuing economics as an instrument for the construction of the common good, as simple as it seems, is important. Of course, we have different views of what is “common good”, but at least we can start measuring the different outcomes.

3 – Measuring results

If we want to steer the economy, rationally channeling our productive efforts towards results of interest to us, we must fashion tools for the assessment of these results. Celso Furtado uses the concept of “social outcome”, that states the essential, but may lead us to confuse the macro-economic productivity approach with that of sectors we usually identify as “social”, as education, health, etc. Maybe the concept of *systemic productivity* would be more explicit.¹⁷

The basic logic is simple: when a large producer of soybeans expels family farmers to the urban fringe of the region, we may perhaps say that the production of grain per hectare has increased, and so has the productivity of the rural area. The entrepreneur will say that he has enriched the community. However, if the costs generated for society are counted in, with the shantytowns, with water pollution, for instance, or the discomfort of the families expelled from their land, in addition to unemployment, the cost/benefit evaluation will be different. When calculating the increase in soybeans production but putting aside indirect costs generated for society, the systemic balance will be simply wrong. Externalities may be external from the point of view the corporation’s costs, but belong very much to the same territory. Externalities have causes and consequences, just like everything else. That is to say we must advance towards an accounting that explains results in terms of overall results, *outcomes* and not just *outputs*, and measuring genuine social progress.

¹⁶ UN – *The Inequality Predicament: Report on the World Social Situation 2005* – United Nations, New York, 2005, p. 135

¹⁷ Everyone is groping for a concept that more fully expresses socio-economic results expected. Simple economic productivity is too restrictive to reflect social objectives. Jörg Meyer-Stamer uses *systemic competition* in his work on *Strategies of Local and Regional Development*; (*Estratégias de Desenvolvimento Local e Regional*); *The Economist* uses the concept of “social return” to calculate the impact of social investments that make the greatest possible contribution to society’s needs. For a technical note on the subject, see our *Produtividade sistêmica do território*, 2010, 4 p., <http://dowbor.org/09produtividade%20sistemica%20do%20territorio.doc>

Likewise, when a country sells its natural resources, this appears in our accounts as an increase of the GDP, when in fact the country is selling inherited natural resources it did not have to produce and will be unable to replace. Therefore it is eating its capital by increasing the immediate wealth in detriment of the future.

What we inherited in terms of methodology is a system of national accounts drawn up in the 30's, set up still in the fifties in the United Nations framework, adjusted in 1993, that give us the famous GDP, the sum of values and costs of goods and services produced, restricted as such, to the area of commercial activities and government costs. We are not going to describe here once again the limits of this methodology, nowadays quite obvious.¹⁸

It is important that as from 1990, with the new trends stimulated by Amartya Sen¹⁹ and the methodology of *human development indicators (HDI)*, a radical inversion took place. The human being is no longer seen as an instrument to serve the enterprises – at the time the World Bank used to say that education was good because it would supply corporations with more productive workers – and our simple quality of life now begins to be seen as the major goal to be achieved. In other words, the social area is no longer a means to assure economic goals, conversely, the economic aspect begins to be seen as a means to improve everyone's well being. A life with health, education, culture, leisure, safety is what we want. Economics must be at the service of these social goals, the prosaic quality of life. Purchasing goods certainly is an important part of the process, but dwindling as basic comfort is attained. One thing is not suppressing the other, but the balance is changing.

Of course, quality of life is more difficult to measure than the sales value of an enterprise or the cost of running a public school, not to speak of the economics of volunteers and women's house chores. The truth is that until we adopt accepted and generalized forms of measuring the end value, *the results*, of our activities, we will have no way to evaluate public or private policies. Today, by profiting from and going beyond the HDI methodologies we have gone a long way. The book by Jean Gadrey and Florence Jany-Catrice, "*Les nouveaux indicateurs de richesse*" (The new indicators of wealth) presents an extremely well organized systematization of the new conceptual framework of national accounts that is being shaped.²⁰

¹⁸ In this regard, see our *A Reprodução Social (Social Reproduction)*, Editora Vozes, Petrópolis, 2003 – <http://dowbor.org> ; notes on the Stiglitz, Sen and Fitoussi report on new GDP methodologies (2009) can be found in the same site, as well as a technical note *PIB: estamos fazendo a conta errada*, <http://bit.ly/evI3x8>

¹⁹ The basic book by Amartya Sen, *Desenvolvimento como Liberdade (Development as Freedom)*, was published by Companhia das Letras, São Paulo, 1999, editora@companhiadasletras.com.br

²⁰ Jean Gadrey and Florence Jany-Catrice, *Les nouveaux indicateurs de richesse (The New Wealth Indicators)*, Ed. La Découverte, Paris 2005, www.editionsladecouverte.fr - see more details about the book at <http://dowbor.org> under "Dicas de leitura" The Brazilian edition is by Senac, 2006, editora@sp.senac.br ; another excellent publication is the book by Patrick Viveret, *Reconsiderar a Riqueza (Reconsidering Wealth)*, Ed. UNB, Brasília, 2006; an excellent online compendium, *Sustainability Compendium of Nations*, can be found at <http://bit.ly/esNkXx>

Thus, beyond the evaluation of *outputs*, we are starting to measure the final results in terms of social values, *outcomes*; economic, social and environmental indicators are being brought together; the objective indicators (for instance, infant mortality rate) and the subjective (achieved satisfaction) converge to bring a more complete picture; monetary and non-monetary indicators are viewed as complementary systems of evaluation. A series of coherent systems are emerging, such as Osberg and Sharpe's *economic well being index*, the *index of sustainable economic well being (ISEWB)*, the *genuine progress indicator (GPI)*, the *genuine savings indicator* of the World Bank, the *Happy Planet Index*, *Gross National Happiness index* and others.

The methodology adopted by the “*Calvert-Henderson Quality of Life Indicators: a new tool for assessing national trends*”²¹ is of special interest, an authentic balance of national accounts applied to the United States. Instead of continuing in the sum of the monetary product, it distributes indicators over 12 areas, including income but also human rights, public safety, quality of the environment and so forth. The outcome is that for the first time, Americans have an instrument to assess how and in which areas the country is improving (or losing ground). It is interesting that neither new indicators nor new research were necessary; they started from existing data, by selecting the most reliable, and simply grouped the informations intelligently according to major lines of practical results expected by the population.

The World Bank itself is finally rethinking its methodologies. In the *World Development Indicators 2003*²², on chart 3.15 that assesses savings, tree felling is presented not as a positive figure (increase of GDP) but as reducing the country's capital. By the same logic, countries that export oil are shown as spending their natural capital, presenting negative savings accounts. In car production, additional expenses with health due to pollution were taken into consideration. Because the World Bank methodologies have a powerful influence, this improvement is certainly late but welcome.

Moreover, there are quite practical creative solutions. In São Paulo, the Rede Nossa São Paulo movement has organized, with the participation of the civil society organizations, 130 key indicators concerning the quality of life in the city. And a law was approved making the mayor accountable according to quantified results. As a mayor, he does not manage “his program” but the program the city wants. These are first steps, but they represent an important bottom up democratic process that has already been adopted by 32 different cities in Brasil.²³ People can vote according to actual results for their lives and not according to who distributes more T-shirts. The innovation did not demand major econometric calculations since data already existed, but it signaled a most important

²¹ Hazel Henderson, Jon Lickerman and Patrice Flynn (editors) – *Calvert Henderson Quality of Life Indicators: a new tool for assessing national trends*. – www.calvertgroup.com

²² World Bank – *World Development Indicators 2003*, Washington, 2003, pgs 174ff.

²³ See www.nossasaopaulo.org.br

political change: information is organized *for* the population and data are collected according to the greatest impact on the quality of life of these people. That is to say, economic accounting becomes a tool of citizenship, and initiatives of the various public and private agents will be assessed in terms of final results for society, and at the local level, where people can participate more easily in the decision making process.

What we are pointing out is that the change of approach to economic accounting is essential. A bank that diverts our savings to make speculative financial investments and presents high profits increases the GDP, but reduces our systemic productivity when it decapitalizes communities and reduces productive use of our savings. The German system for financial intermediation, based upon small municipal savings banks, does not present high profits, but channels savings towards socially useful investments, generating better living conditions for all, and the profits end up showing in other areas.²⁴ Under this approach, “profit” has to be social and productivity has to be systemic. That economic calculations progress towards this integral accounting and go beyond the sum of micro-economic commercial transactions is a significant step in the right direction.²⁵

Generally speaking, an important advance for economic empowerment is the radical change about how the information on the achieved results is organized. While the sum of the values of the enterprises’ production and costs of public services was the only measurement, we were naturally led to believe that the entrepreneurial profit was the only way to progress, and that public services were a burden. As we begin to systematically assess results for society as a whole, the necessary policies for real progress tend to become more obvious, or at least less complicated. How can we expect to achieve good results if the way we measure results is biased? Economics is certainly pointing to new directions in this area.

Much of our feeling of helplessness in the face of the economic forces comes from the fact that we simply do not have tools to evaluate the contributions of various activities to our well being. The almost hysterical outcry for an additional percentage point of GDP growth is understandable. When GDP goes up, so does employment, and a great part of our silent nightmares is linked to the possibility of not being able to support our family. This is natural, but it takes our focus away from the primary goal that is the quality of life in our society. The economy moving faster is good, but moving in the right direction is just as

²⁴ The data about savings management in Germany can be found in *The Economist*, June 26th 2004, p. 77. *The Economist* naturally laments that German regional legislators “refuse to authorize the sale of savings banks, which are the property of local communities, to purchasers in the private sector.” The 2008 financial crisis clearly shows why this was wise, although the speculative high finance system did breach the whole system. In the US the whole system was gradually taken over by the big finance speculation system.

²⁵ For a discussion of the role of information in this citizen’s empowerment over economic policy, see our article *Informação para a Cidadania e o Desenvolvimento Sustentável (Information for Citizenship and Sustainable Development)*, <http://dowbor.org>, under “Artigos Online.” It is important to mention here the methodological approaches such as those of Ipea, with Marcio Pochmann, or studies on the territorial distribution of wealth in Brazil with the “maps of exclusion” by Aldaiza Sposatti. Ipea papers can be found on www.ipea.gov.br.

important. When outdoors were forbidden in São Paulo, after having covered the whole city with rubbish, there was an outcry that jobs would be lost. From this point of view, even crime is positive, as it generates lots of jobs in the production of better locks, new jailing capacity, more police. The way we see economic activity must start to make sense again.

The way it is, people just feel lost, and when a sweeping crisis takes our savings or pension funds, we look for the guilty guys. There are no guilty guys, they all say they do what everyone else is doing in their area. And if this is the case, the workings are wrong. Can we afford to have a huge financial intermediation system which is not accountable to anyone, and not even expected to produce information on what it is doing? There is no economic democracy without adequate information on the truly important dynamics and outcomes. In this sense the building of new indicators of wealth is an especially important line of action.²⁶

4 – Financial takeover of economics

Financial speculation gained a central role in the economy, and also in economics. Everyone is trying to understand what happens with financial intermediation. Curiously, the prevailing theoretical research is not concerned with making our savings more productive, but with generating more advanced instruments to profit from financial investment. Thereupon, the financial area began to be analyzed apart from its consequences and economical usefulness. That is, until it crashed. The French finance minister commented briefly that “the financial system is supposed to provide financial services, rather than serve itself”. With impressive wisdom, the IMF director concludes that “the idea that it was possible to rely solely on the market to ensure strong, sustainable growth has lost credibility. The crisis showed that this was wrong.”²⁷

Joel Kurtzman’s book “*The Death of Money*” continues to be very timely. As money became an electronic notation traveling at the speed of light on virtual waves, the world has become a global casino. More important for us, profit and power generated by financial speculation have led economics to concentrate obsessively on this area. The list of so-called economics Nobel winners, with very rare exceptions such as Amarty Sen, is essentially comprised of specialists on behavior of the financial market.

²⁶ It seems the world is waking up to this obvious gap in the way the economy works, the information gap. New trends can be found at The *Beyond GDP* movement in the OECD reports, the studies of the Stiglitz-Sen-Fitoussi Commission, <http://www.stiglitz-sen-fitoussi.fr/>. John Gertner has produced an excellent overview in the New York Times http://www.nytimes.com/2010/05/16/magazine/16GDP-t.html?_r=1. A short account of the GDP woes can be found in our paper *PIB: Estamos fazendo a conta errada*, <http://bit.ly/esNkXx>

²⁷ Strauss-Kahn, Geneva, 8 December 2010. The idea that economics is essentially about speculative markets has deep penetration. An excellent presentation of how the financial system has been deformed can be seen in the film *Inside Job*, 2010, by Charles Ferguson, Best Documentary Oscar award. <http://www.imdb.com/title/tt1645089/>. The French finance minister comment on the banking system is in the film.

The situation is worsened by that fact that the Nobel in economics is not really a Nobel Prize, but an award from the Bank of Sweden. Peter Nobel, grandson of Alfred Nobel who instituted the award, explains the confusion purposely created by a peculiar arrangement of a peculiar group of economists: “In Alfred Nobel’s correspondence there never was any mention of a Nobel Prize in economics. The Bank of Sweden put its egg in the nest of another highly respected bird, and thus violates the trademark Nobel. Two thirds of the awards of the Bank of Sweden were granted to American economists from the Chicago School, whose mathematical models serve to speculate in the stock market – in the opposite direction of Alfred Nobel’s intentions, who aimed to improve the human condition”. Therefore, the money does not come from the Nobel fund and the criteria for granting the award come from the same financial area that thus assumed, by fraud, a respectability it does not have. That the financial area succeeded in granting the award at the same ceremony in Sweden, contributes to the confusion, but not to the ethics of the process.²⁸

Another expression of the power of this segment of the economy is that of the risk assessment agencies. All our newspapers make quite a fanfare about the latest ratings concerning Brazil. But even the highly conservative *The Economist* becomes indignant with the might gained by the oligopoly of three groups – Moody’s, Standard & Poor (S&P) and Fitch – “who in recent years face heavy criticisms, because they were mistaken about the Enron, WorldCom and Parmalat crises. These errors, the growing importance of agencies, the lack of competition between them and the absence of external scrutiny are beginning to make some people nervous”. *The Economist* further argues that the assessment agencies are paid by those issuing the financial papers, and not by investors who take the risk, with a clear conflict of interests. The outcome is that “the most powerful force in the capital markets is devoid of any significant regulation”.²⁹

In financial speculation the essential aspect is that it entails accumulating wealth without needing to produce anything. In practical terms, these are people who live at the expense of others, in a game where what one earns corresponds to someone else’s loss. Joseph Stiglitz understood this and wrote a forceful book, “Globalization and its Discontents”³⁰,

²⁸ In this regard see the article by Hazel Henderson in *Le Monde Diplomatique*, February, 2005, p. 28. The formal name of the “Nobel” prize in economics is the “Prize of the Bank of Sweden in Economic Sciences in Memory of Alfred Nobel,” a name which facilitates the fraud: the economists only use the first and the last word. The prize is not paid for by the Nobel Foundation. Wikipedia presents the facts: “The [Bank of Sweden Prize in Economic Sciences in Memory of Alfred Nobel](#), sometimes referred to as the Nobel prize in economics, was not a part of Nobel's will. It was instituted in 1969 by [Sveriges Riksbank](#), the Bank of Sweden. Since this prize has no reference in Nobel's will, and is not paid for by his money, it is technically not a Nobel Prize. However, it is awarded with the official Nobel prizes.” It is significant that Yunus, one of the most innovative economists of the present day, has been awarded the Nobel Peace Prize.

²⁹ *The Economist*, *Credit-rating agencies: Special Report* – 26 March 2005, p. 67ff. The last citation is by Glenn Reynolds, from an independent credit research firm, in the same article. We are well before the financial crisis here, and when the major financial institutions crumbled in 2008, they were still rated as double or triple A.

³⁰ Joseph Stiglitz, *Globalization and its Discontents*, W.W. Norton & Co., New York, 2002.

showing how countries in difficulty need more capital to balance their economy, and that is precisely when speculative capitals flees, and the country goes broke. Stiglitz illustrates his point of view of the role of liberalization of capitals with the case of Southeast Asia, but the same rationale applies, for instance, to Argentina at the moment of “corralito”, and obviously to capitals presently leaving Europe and the US to seek better luck in China or in Brazil.³¹

The official theory of the International Monetary Fund, widely publicized during so many years, sounds almost as a joke at present: “The fundamental benefits of financial globalization are well known; when channeling funds to more productive ends, it may help developed countries as well as those developing to attain higher levels of life.”³² But it was not “wrong” in scientific terms, because it was not intended to be right. It simply defended the financial community’s interests, stating they corresponded to our own interests.

The real process is quite different. The productive sector, the government, the communities and the consumers are decapitalized. Liberalizing capital flows, which theoretically should “channel funds to more productive uses”, on the contrary, tends to drain resources for speculative purposes which forces enterprises to seek self-financing, generating a financial feudalism in which productive sectors seek self-sufficiency, losing precisely the capacity for savings by some to nurture investments by others. The effect is rigorously the reverse of what the Fund imagined or at least declared, but rigorously coherent with common economic sense.

For us it is interesting to note that these are not objective economic mechanisms or laws, of the “market reactions” type; this is a conscious assembly of an economic and financial process of destabilization, involving gigantic payoffs and articulation of a network of friends in the American government, Wall Street, in multilateral financial organizations and in large enterprises. No conspiracy or dark cloaks are needed: their common interests just pull them together. Market mechanisms? *Free market?*

We may, of course, attribute ugly names to this process, but in fact they are mechanisms of political and financial manipulation that are not found in traditional compendiums and that authors such as Stiglitz gradually “disassemble” in a kind of *reverse engineering*, explaining “how” a given segment of economic activities “works”, based upon examples witnessed, and not on Chicago School compendiums.

³¹ Stiglitz analyses, in the case of Asia, what he calls “the naked self-interest of financial markets” and observes that “capital flows out of a country in a recession, precisely when the country needs it most, and flows in during a boom, exacerbating inflationary pressures. Sure enough, just at the time the countries needed outside funds, the bankers asked for their money back”. (Stiglitz, op. cit. p. 100). For the case of Argentina, see our *Altos juros e descapitalização da economia (High Taxes and Undercapitalization of the Economy)*, <http://dowbor.org> under “Articles Online”.

³² *Finance & Development*, IMF, March 2002, p. 13

The extent of misinformation on such an elementary fact as that financial speculation, which banks like to call *investment*, lead to the enrichment of middlemen, without generating new assets, is amazing. Also ignored is the fact that these fortunes gathered without the stressing activity of production, allow their owners to purchase real products. Furthermore, this enrichment without corresponding production, an appropriation of third party production, is done with our money and not with that of the middlemen. These are conservative people who detest risk, and certainly expect governments to bail them out in unfortunate moments.³³

Do we teach this? The economics we teach does not teach us the essential, how to set up objectives for development in the new context of technological change, deregulation and institutional change, to use the three categories of change adopted by the IMF. The transition in analysis by the Fund is moving. In 2005, it was becoming more careful with the globalization issue: “While it is hard to be categorical about anything as complex as the modern financial system, it’s possible that these developments are creating more financial-sector induced procyclicality than in the past. They may also create a greater (albeit still small) probability of a catastrophic meltdown.”³⁴

The international financial casino (with its national dimensions) thereby generates a process of decapitalization of the economy, leading to an amazing subutilization of one of the main factors of economic stimulation that are our savings. And here it is appropriate to say *our* savings, because the casino gambles with the money of the pension funds, the modest family savings of our deposits. Banking still sounds as a serious name. Actually, they are just financial middlemen, who do not have, and are not paid to have, any idea about the real economy. And they boldly sail on the expectations of so many of us that we can make a good buck without working for it, by putting our savings in good hands.

In fact, a culture has been generated. The area of credits cards is a curious illustration of how at the same time they fleece us and show us how we may appear important, when paying for dinner with a girlfriend with a “gold card”. The looks on the faces in the commercial leave no doubt about who is going to be dined, but who is proudly fleeced is obviously the credit card owner. The card simply imposes fees on all transactions, charging the establishment as well as the consumer, and hoping the customer will default, which

³³ A discussion of this subject may be found in our *O que é capital? (What is Capital?)*, editora Brasiliense, São Paulo, 2004, 10th ed. revised and expanded. Also our paper *Economic Crisis with no Mysteries*, 2009, <http://dowbor.org/09crisisnomystery.doc> ; for an amusing sarcastic (but technically correct) description of how this system works, see the 8 minute film on youtube, *The Last Laugh*. <http://bit.ly/JIKf>

³⁴ Raghuram Rajan, director of the research department of the IMF, *Finance and Development*, IMF, September 2005, p. 54, under the title “Risky Business:” *Procyclicality*, in the jargon of the IMF, refers to the phenomenon identified by Stiglitz, of capital fleeing precisely when the economy is in difficulty, at the moment it is most needed, accentuating the unbalanced situation. These are the institutions fed trillions in public money after the 2008 meltdown, with the declared expectation that the new money would not feed more speculation, but lead to investment in the real economy. We are obviously still waiting for that to happen.

generates huge interest on late payments, in addition to the rent of the equipment involved. General Electric, for instance, has already issued 68 million cards, 40% in developing countries. It is one more corporation that discovered there is more easy money in playing with other people's money than in facing the difficulties of productive processes. The average American proudly shows off an average of eight credit cards and lives in debt, working a great part of his life to pay middlemen. And they both happily charge government and high taxes for their woes.

Curiously, The Economist considers that Brazilians are among the few who are smart: "the number of credit cards in Brazil for instance, grew an average of 17.3% a year between 1999 and 2004, according to Bain & Company, another consulting enterprise. However, Brazilians tend to settle their bills monthly because of the high interest rates (8-11% per month), also because they would rather use cards as a convenient way of payment, rather than a form of loan. There are other cheaper loans available, says Rodolfo Spielmann from Bain. This may explain why Brazilian's yearly expenditures with credits cards have dropped 4.1% a year, discounting inflation, between 1990 and 2004."³⁵

As one says in the land of Celso Furtado, this is *parading around with another man's hat*. By the way, Celso Furtado likes to be clear: "Nobody ignores the fantastic concentration of power present today in the so-called financial markets ruled by speculative exchange activities."³⁶

We are well aware of how the world automotive industry is structured, but ignore how the groups that appropriate our savings are structured and how they organize their political power. We see pages in all newspapers with all the stock market numbers, but not a word about how the process is managed. To gamble at the tables of the casino is allowed (in fact we bring our savings to institutional investors who will gamble for us), but to know how the tables are managed, what the chances are and who wins, how much, is out of our grasp. It is a huge area where economics could shed some light. Innumerable economics nobels (some *prefer ignobels*) devise formulas to improve our roulette performances, but only a few, like Stiglitz, for instance, have lifted the corner of the veil, and addressed the resulting process of political-financial power. Wouldn't a little democracy, if not regarding control, but at least concerning information, be welcome?

³⁵ *The Economist*, January 14th 2006, p. 74

³⁶ Celso Furtado, *O capitalismo global*, Ed. Paz e Terra, Rio de Janeiro 1998, p. 7; the system of electronic operations, such as *algorithmic trading*, requires impressive investments in information technology, an estimated 26.4 billion dollars only in 2005 by groups of American speculators. Smaller or weaker countries are all free to try to keep up. This is free market. It really is a global system of expropriation of savings by those who have the means to dominate these resources. See *The Economist*, February 4th 2006, p. 68 about "Technology and Exchanges," also see the explanation of the economic system on the world level in *Trade and Development Report 1998*, from UNCTAD, one of the few international institutions to realistically address the problem, at the time when it was headed by Rubens Ricupero.

5 – *From speculation to socially useful investments*

Obviously, not all financial activities amount to speculation. The casino is curiously producing its own antidotes. While the prevalent theoretical trend – and the bulk of resources – strengthen the speculative activities, another trend is emerging, seeking to respond to the prosaic requirements of finance of the small and medium sized enterprises, family agriculture and civil society organizations. The basic fact is that a great deal of money in a few hands tends to generate chaos, while a little money in the hands of many generates impressive results in terms of economic and social progress. From a strictly economical perspective, for those who have almost nothing, a small amount of money makes a huge difference in terms of health, schooling for the children, better production conditions, social and economic outcomes. Yunus' ideas on how credit can work have hugely contributed to our understanding of how the economy can be fed.³⁷

The *sub-prime* mess has obviously been shown as the result of getting money to the poor, not a result of gambling with the resulting credit flows, transformed into Structured Investment Vehicles (SIVs). The poor apparently have a natural tendency to being guilty. But in a less speculative environment the approach is sound, and working in Brasil. Adequately orienting credit may prosaically support our development. Stiglitz correctly stresses the importance of the 1977 *Community Reinvestment Act* – CRA - in the United States, which obliges financial intermediation institutions to invest at least part of the resources in community development, since the communities after all are the owners of these resources. The Federal Register of July 19, 2001 specifies the warranty that financial agencies “comply with continued and affirmative obligations in an effort to meet needs for credit by the local communities where they are certified. Furthermore, Congress instructed agencies to assess performance of the financial institution in satisfying credit requirements of the whole community”. This was positive.³⁸

What was less positive is the “assess performance of the financial institution” part, taken over by the global casino. The present game is to try to shift the responsibility of speculation with debt from the speculators to the communities. Funding housing in the communities, through “obligations” and “affirmative” actions, makes people live better and creates jobs. Throwing these papers around in the global financial market does not belong to “obligations”, but to the freedom of financial middlemen of merely speculating with third party resources.

Stiglitz also describes the importance of the Chinese system: “Cities and villages channeled their precious resources to the generation of wealth and there was strong competition for success. City and village inhabitants could see what was happening

³⁷ Mohammad Yunus, *Banqueiro dos pobres (Banker to the Poor)*, Ática, São Paulo, 2000; Yunus was awarded the Nobel Peace Prize in 2006, not in economics. He works with small money and lots of people.

³⁸ Federal Register, Proposed Rules, vol. 66 No 139, July 19, 2001, p. 37603 - <http://www.ffiec.gov/cra/about.htm>

with their funds. They knew if new jobs were being created and if income had increased. Even though there is no democracy, there is responsibility. In China, new industries were located in rural areas. This helped to reduce social tension that inevitably comes with industrialization. This is the China that launched the foundations of a New Economy on top of the existing institutions, maintaining and strengthening its social capital while in Russia it was eroded.”³⁹

Germany offers another interesting example, in a quick overview. The gigantic mass of the country’s family savings is not entrusted to the so-called “institutional investors” for speculation. It is managed by small saving banks founded in each city or village. *The Economist* informs that more than half of the German savings is administered this way. The magazine considered, of course, that this is a matter of backwardness, because the money would be invested in a more dynamic way if savings were managed by some international groups.⁴⁰

This is not seeing the wide range of small-scale initiatives that well capitalized localities may take, bringing about small enterprises, typical restaurants, processing of local agricultural products – not everything has to go to McDonalds or to a hypermarket chain – in a process that is not merely economical, it is cultural and associative. It makes a region be the “owner” of its territory, with its own creative initiative. One must recall that 54% of the United States enterprises, employ 5 people or less and that the country has 26 million of micro and small enterprises. The matter here is a significant gap in economic theory that considers the small enterprise productive only when it is reduced to being an outsourcing instrument for a corporate giant.

If theories ignore the crushing of individual and associative economic initiatives in globalized capitalism, on the level of applied economics very interesting things surface.

³⁹ J. Stiglitz – Globalization... - The CRA is detailed on page 70 as a reaction to the gap between savings and the needs of development. The Chinese option is on pp. 174 and 175. Stiglitz also mentions the case of the Czech Republic: “It had created a capital market which did not raise money for new investment, but allowed a few smart money managers (more accurately, white-collar criminals - if they did what they did in the Czech Republic when in the United States, they would be behind bars) to walk off with millions of dollars of money belonging to others”. Stiglitz’s view of the few successful cases of financial politics is interesting: “One attribute of the success cases is that they are “homegrown”, designed by people within each country, sensitive to the needs and concerns of their country”. (p. 186) His view that the smart money managers would be behind bars in the US, or in Europe, is obviously optimistic. They were barely touched in their bonuses.

⁴⁰ *The Economist*, October 15th, 2004 – “The public sector banks – 11 regional wholesale *Landesbanken*, a few development banks and nearly 500 savings banks – account for 36% of German banking assets and more than half of savings deposits. For years they have been protected by laws and state guarantees from the full force of the market.” (p. 73). *The Economist* is strongly biased and conducts a campaign. In its December 13, 2003 issue, there was already this indignant note : “Consider the 500-odd municipal savings banks that hold half of the money in German savings accounts. None of these banks has ever been privatized, even though private-sector banks, which have only 15% of the savings deposits, would like the chance to buy some.” The article laments the existence in Germany “of the three-pillar structure of private, public and co-operative banks that stultifies the banking system” (p. 69). It is what has partly protected Germany in the face of the crisis.

The book *Les placements éthiques* is a kind of small handbook for those who want to do useful things with their money, instead of putting it in the bank.⁴¹ Without much theory, the book starts from the principle that real life people want to balance various interests, such as having a reasonable remuneration for their money, as well as safety, liquidity if they need it unexpectedly, and also a feeling that their money is being useful. Useful financial investments presented in the book relate specifically to France, but open overall perspectives.

In practical terms, it is a small handbook that has on each page an ethical fund with indications of the investment's average interest rate, liquidity (some funds require a minimum period of investment), safety (there are options ranging from investments warranted by the State up to those of risk in the stock market) and the "ethical surplus-value", which describes in detail the kind of socially or environmentally useful activity that is involved. The process consolidated in France because, in addition to popular interest, the local banks – community or state – began to guarantee investments made in initiatives of the social economy, engendering a perfectly safe process in financial terms and of high systemic productivity.

Investments typically include enterprises in the so-called social economy – for instance, your money will be invested in a small enterprise that organizes transportation for the handicapped in the city, an initiative too punctual to attract traditional entrepreneurial groups – or traditional enterprises that were screened by a series of criteria such as respect for labor laws, respect for the consumer, green economy and so on. There are funds that furthermore exclude many notorious anti-social enterprises, such as those that produce arms, tobacco or alcoholic beverages.

This requires a set of criteria to assess entrepreneurial success that go far beyond profit. That is how various institutions that systematically follow up various sectors of activity and enterprises came into being, so that a person investing in a fund may effectively know the end-use of the money. We are all accustomed to indicators such as "Brazil risk", which describes the risk of a given country or enterprise for financial investors. However, the indicators of social return of enterprises almost never appear, and never the risk *for* Brazil, for instance, of speculative activities by the international financial community. For us, this concept is of great importance, because contrary to Germany, where small municipal banks are predominant and the population may reasonably follow what is being done with its

⁴¹ Alternatives Economiques – *Les placements éthiques : comment placer son argent (Investment Ethics: How to Invest Your Money)*– www.alternatives-economiques.fr , Paris, 2003, 176 p. ; in addition, in France the various local systems of public savings management (La Poste, Caisse d'Épargne, Crédit Mutuel) administer 40% of French savings, according to *The Economist*, December 24th 2005-January 6th 2006 double-issue, p. 99.

money, normally we have not the faintest idea of what is happening in the private and the public domain.⁴²

The system set up in France is mature and rather sophisticated. It involves a legal framework that allows certain financial investments to be treated differently by the fiscal authorities, a notation system of enterprises by the assessment institutions, a large participation by civil society organizations, unions and local powers, resulting in a regular information system for the stockholder or financial investor. The system is expanding at a 20% yearly rate. There are civil society organizations that already manage more than 800 million euros.

In theoretical terms, success of such experiences is of utmost importance because it implies that, in the end, people do not merely want maximum return and safety of their money. People really want to do socially useful things, if given the opportunity, and this opportunity is being organized. An introductory note by Henri Rouille d'Orfeuil, sets the tone: "the objectives are clear. Solidarity is being introduced. That is to say, a concern for common good in the heart of economics itself, so that growth leads to social progress and sustainable development for enterprises to become socially and ecologically responsible".⁴³

This alternative line of financial intermediation is under attack by large speculative groups and is scorned by the mainstream of economics. Nevertheless, when Hazel Henderson and others created the ethical market place, literally the "market of ethical investments", they discovered a huge social interest that is materializing in an impressive flow of resources. Presently, the speculative financial groups and large banks are opening niches of socially responsible activities, even if only to improve their image.⁴⁴

It is interesting for all of us to see that while market mechanisms are being taken over by transnational or national giants that monopolize wide sectors of the economy, manipulate the flows and restrain access to information, alternative forms of economic regulation are arising, based upon values and direct participation of the citizen. Community development banks in Brazil are spreading a new financial culture in Brazil, with local money already in some 50 regions of the country.

We always considered the practice of politics as an activity focused on votes, on the party, on the government. But civil society organizations which traditionally have been concerned with health, education, environment and the like, are paving the way to a more responsible allocation of resources. Thereby, economic activity oriented by values, by political outlooks

⁴² With regard to companies, it is worthwhile following the progress of initiatives by the Ethos Institute and its indicators of corporate responsibility. www.ethos.org.br

⁴³ Rouillé D'Orfeuil, Henri – "Finances solidaires: changer d'échelle" – in *Les Placements éthiques, Alternatives Economiques*, Paris, 2003, p. 18 – www.alternatives-economiques.fr

⁴⁴ See www.hazelhenderson.com and www.ethicalmarkets.com; *The Scientific American* (December, 2002) had an interesting article about Joan Bavaria, head of Trillium Asset Management, with an evaluation that "the world community of social investors controls more than \$2 trillion in applications" – p. 40 – In Brazil, the portal www.mercadoetico.com.br was launched in February, 2007, with similar objectives.

in the broader sense is becoming clearer and taking shape. People are discovering that they may “vote with their money”. New activities have emerged in Brazil, stimulated by Paul Singer and others, in the line of the *Economia Solidária* (solidary economy). The micro-credit initiatives, particularly through the Banco do Nordeste, solidary credit, NGOs for credit warranty and other initiatives are mushrooming.

This is an area where excellent descriptive studies have appeared, along the line of “how it works” without a great deal of economic theorizing. Also emerging is a generalized practice of seminars and conferences where those who administer these new forms of managing our savings encounter social scientists and build new visions.⁴⁵

Here, a short digression should be made. Our view of economics is still focused on the industrial image of the 20th Century, with a recent takeover by studies of finance. However, the emergent sectors in the economy are not factories, they are health networks, education systems, research and organization of knowledge, cultural activities and so forth. People are surprised to find that total industrial activities represent 14% of the GDP in the United States and 10% of employment and in rapid decline, while health represents 17% of the GDP and growing. If we add education, cultural and security services, we will be reaching something like 40% of GDP.

On the other hand, the economy is less and less based upon fixed capital (machines, equipment, buildings) and more and more on organization and knowledge. That is, the emerging economy no longer needs gigantism to be efficient. Indeed gigantism, in these areas, generates diseconomies of scale, due to bureaucracy and monopolized control of access to essential services.⁴⁶

In other words, there is a convergence to be built between emerging new sectors of activities and the corresponding required forms of financing. When economic activities of the social area, such as health, education, culture and others become prevalent in our production process, the concept of finance changes. The huge finance corporations may operate well with gigantic health insurance corporations: in this case, we have an absurd alliance of speculative interests with the industry of disease. But, if a social policy with results in terms of quality of life is desired, financial management innovations, in the line of various forms of credit that emerge, prove themselves quite coherent and economically much more productive. These are the capillary activities that adjust well to the systems of network financing.

⁴⁵ For a systematic account of some tendencies in Brazil, see the work by Sérgio Roschel, *Microcrédito no Brasil*, (Microcredit in Brazil) and the recent study of community development banks by Flávio Foguel, both described at <http://dowbor.org> under “Pesquisas conexas” See also information from the Brazilian Association of Microcredit Companies, lavorato@abcred.org.br

⁴⁶ We cover this subject in more detail in the article *Gestão Social e Transformação da Sociedade*, (*Social Management and the Transformation of Society*) see <http://dowbor.org> under “Articles Online”, 2000, p.18

Here, we are suggesting that there is a new economic theory in the making, perhaps without our being aware of it, as we are too busy refuting neo-classic theories or Ricardo's law of comparative advantages. We are not speaking here of a socially charitable and economically marginal dynamic. It is an important space being taken over by new forms of organization and management. We do not have to wait for a good government that will do the things that please us. We can take our money out of the bank and invest our savings in useful things. Taking control our own savings arises as a structuring thrust of social dynamics, and the right to control our money and to demand accountability in the financial area is perfectly democratic.

6 – Economic and political power.

Another way of looking at things is being built. Economics is not a science that should supply more sophisticated instruments for analysis of the situations to orient speculators: it has, once again, to concentrate on the outcomes – the “substantive aims” – we wish to construct, especially those of a viable society not only in economic terms, but social and environmental as well. The “North” defined by these objectives must, in turn, renew economic accounting, the calculation of results, and it is towards these results that once again must be channeled the savings of the people, who after all own this money, but are deprived of its control. This expropriation, moreover, is the outcome of economic power structures that are also changing.

Returning to Celso Furtado's text: “a development policy must be formulated based upon explanation of the substantive aims we hope to achieve and not based upon the logic of means imposed by the accumulation process orchestrated by transnational corporations.” Later, Furtado comments that “action of corporations of a planetary scope is a major mutation in the evolution of the capitalistic system, as it displaces to a subaltern position the social forces that were ascending, and substantially changes the role of the national State”.⁴⁷

The transnational corporation defines its own ends – the highest profit in the shortest time, but also the corresponding power structures – and it becomes a key factor of political power, without needing to be elected. Their sheer financial muscle, the amount of money they pour into the election process, the fact they can move from country to country while regulations are national, the permanent threat of financial destabilization they can scare governments with, the image building capacity they have through media control (directly or through advertising), the growing control of the judiciary by corporate law firms – we are facing a convergence of factors that transform our fragile democracies into corporate fiefdoms.

⁴⁷ C. Furtado, *Em busca de novo modelo (In Search of a New Model)*, op. cit. pps. 36 and 50

David Korten is today probably the one who best did his “home work”, in terms of explaining how the power of large corporations is organized and articulated. Author of “*When Corporations Rule de World*” , this quiet official of USAID, after years of social work in Asia, was convinced that the conflict between the declared objectives – promote the well-being of populations – and the practices by corporations had reached the limit, rendering insignificant other kinds of efforts towards social promotion. His effort consists mainly in laying bare the mechanisms of corporate power.⁴⁸

The book became a classic. In part because of the excellent systematization of information and capacity of analysis, in part because it discloses the impressive gap created between the importance that transnational enterprises assumed in economic – and increasingly political – management of society and how little information we have about how they function. The only effective center of research on transnational enterprises, that operated in the United Nations under the name of United Nations Center for Transnational Corporations – UNCTC, was dismantled in the 1990’s.

This programmed opacity was reinforced by the mechanisms that sustain the media worldwide. Today, the advertising costs are included in the price we pay for products. This private tax according to the 1998 PNUD costs us about 430 billion dollars and according to Lawrence Lessig in 2001, about one trillion dollars. Since this advertising is mainly financed by large corporations and is the basis of the economic survival of the means of information we have, these tend to present only pleasant images of those who ensure their survival. The outcome is that when the Enron, WorldCom, Parmalat and other scandals broke out, we were taken by surprise. But what is really surprising is that these economic giants and their problems were completely absent from the mainstream media, except for the sweet looking ladies transmitting soft spoken messages. How was it that high level technical warnings of the financial risks that led to the 2008 meltdown never reached the media? How is it that such a corporate friendly regime as Egypt had, all of a sudden is discovered to having been a dictatorship? They may even discover that Saudi Arabia is not democratic, and wonder why Khaddafi had all these tanks, airplanes and bombs supplied by the war industry.

These are common procedures. Top executives, when caught in some careless oversight that becomes public, only shrug their shoulders and comment that “everybody does it”. John Perkins in his “*Confessions of an Economic Hitman*,” showed how the indebtedness of politically fragile countries is literally rigged. Chief economist of the Main enterprise (Chas. T. Main Inc., consultants who work in the line of infrastructure like Enron, Bechtel, Halliburton and other famous ones) he signs a forecast of knowingly exaggerated economic growth if the country invests large sums in infrastructure. With this report and in view of the (fraudulent) forecasts of growth that make the later

⁴⁸ David Korten – *When Corporations Rule the World* – published in Brazil by Editora Futura, under the title *Quando as corporações regem o mundo*.

payment of loans plausible, the enterprises negotiate with the World Bank and other financiers, and the corresponding loans and contracts for execution, of course, go to enterprises that helped to pressure for the loan, such as those mentioned above. Enterprises become wealthy with the contracts, growth does not take place (there is no miracle) and the country exceeds its capacity for indebtedness. That is when the second mechanism comes into the picture, which is the renegotiation of contracts for oil exploration and other resources, taking advantage of the resulting financial fragility. The mechanism is normally referred to as aid to poor countries and these, in general, are not at liberty to turn down a friendly hug. Ministers – and governments – do fall. Most do take bribes. The procedure has been used in Saudi Arabia, Ecuador and many others.⁴⁹

Another very interesting study is that by Joel Bakan, *“The Corporation: the pathological pursuit of profit and power.”*⁵⁰ The author begins with something evident but forgotten: the law that created the “legal person” was intended to protect people, but was expanded to enterprises that began to benefit from rights as if they were human beings. Of course, as says the author, while an individual may be put in jail, this does not happen with a legal entity. And a legal entity with a great deal of money, legions of lawyers, control of media and permanent self-financing of the practice of power – for which we pay when purchasing their products or pay their interest rates – progressively gains more power. However, while an individual has various facets, diversified interests, ethical concerns, by law the corporation is only obliged to maximize profit, thereby satisfying shareholders. By its very legal framework they restrict their accountability to a very limited public and a very limited scope. It is only when public outrage hits profits – as with the fast-food and soft-drinks invasion of schools – that the corporations move to some higher moral grounds.

In this way a pseudo-person is created, without scruples (amoral, not immoral) and with immense power. How corporations begin to dominate us is judged by the same criteria that health uses to classify psychopaths: lack of social interest, absence of ethical feelings and so on. A group of persons had the idea to make a motion picture of this book that is an innovative methodology: instead of reading what Peter Drucker has to say on a given issue in quotes in the book, the citation becomes an audiovisual where we see Peter Drucker explaining his opinion on the screen. The set of opinions

⁴⁹ John Perkins – *Confessions of an Economic Hit Man* – Berrett-Koehler, San Francisco 2004 – It became a best-seller in the US; a full page review can be found in the edition of April 2, 2006 of *Folha de São Paulo*. Perkins took nearly two decades to decide to publish his account. More recently, we got to know through Wikileaks how Shell organized the control of key ministries in Nigeria: the political agenda of corporations is a centerpiece of their strategy. Nobody has voted for Shell. The Guardian, 8 December 2010, <http://is.gd/irYEd>. Joan Alier of the Barcelona University published an excellent study of Chevron Texaco management in Ecuador, <http://bit.ly/fb45Hj>, 2011, 13 p.

⁵⁰ Joel Bakan – *The Corporation: The Pathological Pursuit of Profit and Power* – Ree Press, New York, 2004

grouped in cinematographic “chapters” ends by generating an excellent scientific document on the behavior of corporations. Arguments are narrated by images and speech and not on pages. The outcome is extremely convincing, these are people talking, and it points to a more dynamic and lively manner of presenting economic analysis.⁵¹

Notwithstanding the permanent advertising harassment of the large corporation, the illegal dimension of corporate activities is slowly surfacing. Interesting reading along these lines is “*The Citizen Economy*” by Henri Rouillé d’Orfeuil: “Fiscal havens that play the double role of legal cache for capitals seeking to avoid fiscal and social obligations and of an interface with the economics of crime whose gross product is evaluated at one trillion dollars by the IMF, from 2 to 5% of the planet’s GDP - assessments are obviously not precise – they thereby pass through launderers that clean the dirty money. François Xavier Vershave, who studied some of those labyrinths, likes to state “that soon only the poor and imbeciles will pay taxes’. The Judge Jean de Maillard also makes a clear and clean judgment: ‘This globalization of criminal economics comes together with a criminalization of global economics and both move towards a common logic. The merger between the legal economy and the criminal economy seems to have been carried out.’”⁵²

David Korten, Joel Bakan, John Perkins, among others, are authors who study the power of transnational enterprises, but do not draft general theories: rather they study what is going on and how. Gradually, however, regularities, trends and mechanisms appear. Thus are drafted the outlines of theories that will have to be confronted with other empirical studies, and studies in other scientific areas.

The 2008 financial crisis gives us an excellent example of the power financial corporations wield. The completely irresponsible financial speculation and the fraudulent accounting had

⁵¹ The scientific documentary *The Corporation* is available at www.thecorporation.com. The Oscar given to Al Gore’s film *An Inconvenient Truth*, shows a strong inclination toward intelligent and non-elitist forms of expression, as was the Oscar given to *Inside Job* on the 2008 financial crisis. Creating multimedia products that effectively communicate and explain important issues beyond the specialized scientific sphere is essential for democracy.

⁵² Henri Rouillé D’Orfeuil – *Economia Cidadã: alternativas ao neoliberalismo (Economic Citizenship: alternatives to neoliberalism)* – Editora Vozes, Petrópolis, 2002, p. 38 – It should be noted that our bankers are neither poor nor imbeciles. Jean de Maillard, cited above, is a French judge who investigates illegal financial transactions and made an interesting atlas of money: *Un monde sans loi. La criminalité financière en images (A World without Law: financial criminality in images)*, Ed. Stock, Paris, 1998, 140 p. The book is dedicated to the 26 magistrates assassinated while investigating these transactions. Most certainly it is not a world of *Alice in Wonderland*. In a meeting we had with de Maillard in France, he explained that one of the main problems in the repression of economic criminality is that there is never a clear division between the criminal and the entrepreneur, but rather a gradual variation of criminal density, from the great entrepreneur who “could not know” up to the front line of corruption, passing by the lawyer who dresses up criminal activities in elegant legal terms. Joel Bakan drew up a list of criminal allegations and condemnations of General Electric. Jack Welch, former president of the company, in his classic white book *Straight from the Gut*, which can be found in any airport bookstore in Brazil, mentions the word “ethics” on every third page. Not a word about fraud. My son eloquently calls the book “straight from the butt”.

been approved by the auditing firms, and trillions of dollars were found overnight, throwing a number of nations into deep public deficit. Even the bonuses keep on being paid.

Once more, the way the facts are presented is contradictory, and our tendency will be to believe what satisfies us: heads of corporations will point to attractive new technologies, the efficiency, the creative power; others will point to environmental disasters, income concentration, unemployment, information manipulation and destructive power. Both are obviously true. The contradiction is not resolved within the economic sphere but by introducing the broader outlook: power without control to degenerate. Economic science has to view itself as another piece in the mosaic, that only becomes comprehensible in its wider dimension. And the broad picture is becoming obvious: a widespread political power emerges, but with an economic face, and therefore is not submitted to political controls, since it would be controlled by the “market forces”. As a matter of fact, it is not controlled by any outside force, it is the force.

7 – The Theory of Consumption

Let us return to the methodological line we are following in this short essay. This is not a theoretical review in the sense of analyzing the major schools of thought and seeing to what extent their instruments still have an explanatory potential. We are looking at major trends of change, those we think are having structural impact on how reality is moving, such as the power of transnational corporations, or financial domination of the economic activities and so forth. We then suggest readings that help clarify the mechanisms, following in a free way ideas suggested by readings of Celso Furtado, particularly in his study “*In Search of a New Model*”.

This by no means underestimates the classics. They deserve to be studied, but within their reference framework, which requires a good historical knowledge of the reality they endeavored to explain. To quote the great masters, without an effort to demonstrate to what extent an idea continues valid in the current context, is merely borrowing authority. “Because the behavior of economic variables mostly relies on these parameters (non-economic) that are defined and evolve in a historical context, it is not possible to separate studies of economic phenomena from their historical framework”.⁵³

In a context that transforms itself, economic science has to transform itself as well. “The value of an economist’s work, as well as that of any researcher”, writes Celso Furtado, “is the outcome of the combination of two ingredients: imagination and courage to risk, in quest of the uncertain”. Moving away from consensus, the economist “will perceive that

⁵³ C Furtado – *Em busca...* op. cit. p. 72

paths beaten by others are of little value”, and “will soon lose reverence for what is established and found in compendiums.”⁵⁴

Once this point is made we want to approach another “line of reality”, which is consumption. “The consumer”, Furtado tells us, “has an essentially passive role. His rationale consists in “correctly” responding to each stimulus to which he is submitted... The individual may surround himself with a myriad of objects without having contributed at all to their creation. Invention of such objects is subordinated to the process of accumulation that finds powerful leverage in homogenization of consumption standards”. The outcome is that man is no longer the subject of the process. In the setting of “instrumental rationality”, “man is identified as the object susceptible to be analyzed and programmed”.⁵⁵

The ideal anti-text here is obviously the work by Milton Friedman, from the Chicago school, who with the daring of one who does not have to answer to reality, but the corporation, wrote the classic “Free to Choose”. I always thought that Friedman owes his fame and his pseudo-nobel less to his capacity and much more to disseminating ideas that defend the system. His thinking is coherent, but based on wrong premises. This gives us good mental exercise, but no answer to the real world. Most of all, the system can be generous.⁵⁶

John K. Galbraith certainly does not belong to “the system”. Furthermore, he writes masterfully. Formerly, masterful writing implied complex sentences and refined expressions. In the stylistic desert of contemporary economics this means, above all, to write in a simple and straightforward way. When reading “*The Economics of Innocent Fraud*” we can feel how much Galbraith clearly enjoyed writing it. It is the pleasure of putting ideas in good order, as when we enjoy a job well done.⁵⁷

Corporate power dresses in a respectable way. The corporation is no longer a monopoly or oligopoly, but is called the “market”.⁵⁸ The official version built around this market, according to Galbraith, fits into one paragraph: “In the market system the ultimate power, to repeat, is held to be with those who buy or choose not to buy; thus, with some

⁵⁴ C. Furtado – *Capitalismo Global (Global Capitalism)*, p. 10

⁵⁵ C. Furtado – *Em busca...* op. cit. p. 60 and 61

⁵⁶ Milton and Rose Friedman, *Free to Choose*, Harvest Books, New York, 1990

⁵⁷ John Kenneth Galbraith – *The Economics of Innocent Fraud: Truth for Our Time* - Houghton Mifflin Co., New York, 2004, p. 62

⁵⁸ An important distinction must be made here. Originally, when we spoke of the market in economics, we were referring to mechanisms of competition that would allow thousands of economic agents to compete on an equal basis in an arena of commercial activities. A kind of a fair game. Because of the inviting nature of this approach, with its implication of democratic mechanisms, large economic groups appropriated the term and today “market” refers more and more to the groups of large corporations that dominate the market, substituting impersonal competition by mechanisms of control, the so-called “managed market.” More recently, with the strength of the financial speculation groups, “market” has come to designate a nucleus of large institutional investors. This is what is understood today in the specialized press, when reported, for example, in the face of great volatility, that “the market is nervous.” In general it is the nervousness of a very select group of people.

qualifications, the ultimate power is that of the consumer. Consumer choice shapes the demand curve. As the ballot gives authority to the citizen, so in economic life the demand curve accords authority to the consumer” The proclaimed mechanism is quite clear, but has some problems with the really existing economic world.

Reality is what Galbraith calls the “corporate system”, which relies on the monopoly or oligopoly and drastically centralizes economic power in the world of the large enterprise, eroding the space of competition, leaving the consumer without options. On the other hand, the gigantic system of consumer manipulation through advertising induces the corporate system itself to define the profile of demand. In turn, in the corporation, power is no longer diluted among a large number of shareholders but concentrated in the corporate bureaucracy, which is made clear by the astronomic salaries that they attribute to each other, or the size of the bonuses in high finance recently disclosed. Because oligopolization permits manipulation of prices, costs of corporate brand identity and image building are included, closing the circle. The market mechanism has been replaced by a mechanism of power.

In another study, Galbraith is even more explicit, commenting that the concept of capitalism is out of fashion: “The approved reference now is to the market system. Instead of capital owners in control, we have the admirably impersonal role of ‘market forces’. It would be hard to think of a change in terminology more in the interest of those to whom money accords power. They have now a functional anonymity”.⁵⁹

Another line of Galbraith’s reasoning, concerns another fraud, which takes place when interpreting the macroeconomic situation. “The false and palatable reputation of the FED has solid foundations: there is the power and the prestige of banks and of bankers and the magic power attributed to currency. They go together and support the Federal Reserve and its members – that is to say banks that belong to it. In the case of a recession the interest rate is reduced by the central bank, banks that are affiliated should pass on the reduced rate to clients, thereby encouraging them to ask for loans. Producers will then produce goods and services, they will now be able to buy industrial plants and machinery with which they will earn money and the consumption financed by cheaper loans will increase. The economy will react and the recession will end. If then, a “boom” takes place with a threat of inflation, a higher cost of credit also promoted by the Federal Reserve and imposed to the affiliated banks will raise the interest rates. This will restrict entrepreneurial investment and loans for consumption, it will reduce excessive optimism, balance prices, protecting us from inflation”. The difficulty, states Galbraith, “is that this highly plausible process, that receives full agreement, only exists in the well established economic belief and not in real life”.⁶⁰

⁵⁹ J. K. Galbraith – “Free Market Fraud” – *The Progressive*, Jan. 1999, 63 (1); in Marjorie Kelly, *The Divine Rights of Capital*, Berrett-Koehler, New York, 2001, p. 76.

⁶⁰ Galbraith, op. cit. p. 44

“In reality, according to the author, interest rates are a detail, when sales are bad. Enterprises do not ask for loans nor expand production that has no way to be sold. The fact remains: when times are good, higher interest rates do not reduce entrepreneurial investment. They do not matter much: the perspective of a higher profit is what matters. And in the recession or the depression, the controlling aspect is a perspective of low profits.”⁶¹ According to Galbraith, “The one wholly reliable remedy for recession is a solid flow of consumer demand.”⁶² And the best way to guarantee this flow, is not to reduce taxes of the rich who save and speculate, but to increase the income of the needful, who consume.

Thus, we live in the realm of science fiction: “Economics and larger economic and political systems cultivate their own version of truth. This last has not necessarily a relation to reality”.⁶³

What remains of the consumption theory, central in the traditional outlook of economics, if the enterprises do not need to compete for prices increasingly administered by oligopolies, if the consumer has no information or is too heavily bombarded by advertising to have an option of rational consumption, and if the State’s regulating capacity becomes irrelevant in face of the globalization process? Very little, of course, and this is going to reflect on the absurd deformation of priorities of economic development.

The “Report on Human Development 1998” examines consumptions problems from the point of view of people’s needs, a daring innovation. This outlook is essentially a call for reality: “The world has more than enough resources to accelerate human development for all and to eradicate the worst forms of poverty on the planet. To promote human development is not an exorbitant task. For instance, it is estimated that the total additional yearly investment needed to achieve universal access to basic social services would be of approximately \$40 billion, 0.1% of the world income, a little more than a statistical rounding. This covers the accounts of elementary education, health, nutrition, reproductive health, family planning and access to water and sanitation for all.”⁶⁴

Under the title “Priorities of the World?”, and to illustrate, the Report compares needs not covered by lack of resources and resources of questionable priority. For instance, the yearly added investment necessary to guarantee elementary education for all would be of \$6 billion, that are not provided, while in the USA \$8 billion are spent on cosmetics; to guarantee safe water and sanitation for all, would require \$9 more billion, while in Europe \$11 billion are spent on ice-cream: universal reproductive health would require a

⁶¹ Idem, p. 45 and 47

⁶² Idem, p. 61

⁶³ Idem, p. x

⁶⁴ - UNDP – *Human Development Report 1998*, New York, 1998, p. 37 – We are not concerned with updating figures in this broad view of structural trends, seeking a kind of precision in absurdity. For a time reference consider that narcotics are now nearer to one trillion, while military expenditures have reached 1,5 trillion in 2010.

supplementary \$12 billion a year, the same as spent on perfume in Europe and the United States; health and basic nutrition for all would require a supplementary \$13 billion per year and \$17 are spent on pet food in Europe and the United States.. Furthermore, \$35 are spent in entertainment for executives in Japan, \$50 billion in cigarettes in Europe, \$105 billion in alcoholic beverages in Europe, \$400 billion in narcotics worldwide and \$780 billion in military expenses in the world.⁶⁵

As such, the simultaneous degradation of the market's regulatory capacity and the smaller role of the State lead to a deformation of consumption. When the ultimate interest of the consumer is no longer decisive, production processes are warped. The world we have inherited from this process is increasingly surrealistic. What is happening, indeed, is that we are applying outdated regulatory systems to a new reality. Theoretically objective and democratic market mechanisms are used to explain dynamics that belong to articulated power mechanisms that, in turn, bring about a surrealistic culture of economic behavior that has very little in common with what we want of our lives.

The very mechanism of consumption is changing. Our expenses correspond less to purchasing a product and more to acquiring a right to access. This is true in health plans, in telephones, in cable TV, in the condominium and many other consumption systems where our choice is extremely restricted.⁶⁶ Urbanization led to an expansion of collective consumption that also involves few options. We are clients of a bank because our enterprise made an agreement to "supply" it with a given number of accounts of employees and not because we chose it; furthermore, with cartelization the remaining options are quite similar. Knowledge is a merchandise between quotes, since it only becomes a source of profit if an enterprise can charge a toll for its use. These are the new realities. And what is capitalism when the main regulatory element that would be the final demand, no longer plays this role?

To the extent that markets – in the original meaning of the democratic regulatory mechanism of numberless economic agents – ceases to operate, or rather is confined to less significative and limited areas, the system evolves to differentiated pools of organized articulation of interests, varying according to sectors, regions and inherited economic cultures. To understand these subsystems we need innovative empirical studies. The market under control of large groups is becoming increasingly less democratic and in reality less of a market. As the divorce between our needs and the corporate accomplishments grows deeper, many corporations adopt try to uneasily adapt, mixing the bottom line with social and environmental responsibility. But it is a difficult marriage, still based on greenwashing and social marketing, and also important examples of real change. Is this "market"?

⁶⁵ - id. *ibid.*, p. 37, Table 1.12

⁶⁶ See in particular Jeremy Rifkin's excellent *The Age of Access* which details the change taking place.

In the age of corporations, when the economy is no longer ruled by effective competition nor by democratic mechanisms, an ungoverned space is generated. Where a few years ago it was fashionable to refer to reengineering and “lean and mean” efficiency, different winds are blowing. Economic democracy has become a necessity.⁶⁷

8 – Commercial harassment

In the absence of adequate regulatory systems, and with the erosion of the market’s regulatory capacity, the free for all prevails, where the winners are simply the bigger ones, with more capacity to buy advertising time, a deeper pocket to fight the financial or price wars. We have always been taught that competition is good. There is a tacit condition behind the argument by which enterprises would be competing to serve us better. Wouldn’t it be right to think that enterprises compete to serve themselves better? And that finding common a common ground of understanding among them would make sense?

The mere war between enterprises is not necessarily waged for our good. Increasingly we ask what is the role we really play in the process. When, after a half hour spent on the telephone trying to get a human being to answer and solve our problem, the telephone is suddenly busy, we learned only one phrase by heart because it was endlessly repeated: “Your call is very important for us”. And as people are often led to abusive language, when an outsourced enterprise finally answers, before the personalized attention we hear “For your safety, this call is being recorded”. Of course, for our safety, but also for the attendant’s mother reputation.

Our daily relationships involve contacts with enterprises or people with whom we share no personal interests, but economic interests. These are the small negotiations in our daily life. Increasingly we feel like warriors with slingshots in our hands, facing the cannons of entrepreneurial giants who have scores of outsourced attendants and powerful law firms. The fact is that the corporation increasingly feels like traditional state bureaucracy.

New technologies allow us to do things at a distance: communications move our daily issues around instantaneously, when before we had to move around with the papers and folders. This new culture is extremely positive and rapidly pervades bureaucratic procedures. However, when oligarchic systems such as banks, telephone corporations or others take over the process, it is the consumer who is being outsourced. In an amusing article, the *The Economist* comments: “Many people complain about enterprises that outsource work to low wage countries: but how many notice that enterprises are

⁶⁷ An avalanche of texts grope for new ideas. The *Vision 2050* signed by major world corporations is an interesting attempt by the World Business Council for Sustainable Development <http://dowbor.org/wp/?p=2594> ; Peter Senge’s *The Necessary Revolution*, Doubleday New York 2008 brings excellent ideas; Alvin Toffler’s *Revolutionary Wealth*, Doubleday 2006 is also very interesting. The common ground is that things have to change, although the trends are naturally different, depending on the ideology and even more on the economic areas the authors are concerned with.

increasingly outsourcing work to their own consumers?... Who has not yet been trapped by endless numerical menus? – this may enrage and alienate clients. In their wish to cut costs, many enterprises deliberately hinder access to a human operator”⁶⁸ The line is cut off when you are *just about to* reach someone who could solve your problem.

Do we have any choice? The article in *The Economist* confirms that because all banks adopt the system, the consumer has no way to “vote with his feet” by going to another bank. And the various institutions are increasingly penalizing personalized access even by telephone. We have not been hearing about banks reducing fees. We pay for a service that we do ourselves. According to the magazine, “perhaps you may not have noticed, but you are now also working for your bank or telephone company”. In the example given, “the online self-service may reduce the cost of a transaction up to a minimum of \$0.10, compared to \$7 for the same transaction in a call center”.⁶⁹

The anger with unsolicited advertising in our computers, likewise reflects the growing feeling of helplessness. In the United States, laws to limit “junk faxing” are being introduced, since the advertisement is our fax terminal and printed on paper and toner we buy.⁷⁰ The fax machine, it is true, is going, and the illegality is a little late. But spam is coming. Advertising agencies find this cheaper. The streets of our cities are gradually being covered with out-doors, assailing us with unwanted images. Is there an ethical limit? Another article in *The Economist*, tells about the Coca-Cola, Pepsi and others in a war against water and milk in schools: in exchange for installing the soft-drink vending machines, the schools are granted scholarships, software, sports equipment and so on.⁷¹

It is interesting to perceive another dimension of this crossing of the centralized corporate economic power with the capillarity of new technologies. When the computer of an enterprise can send, at virtually no cost, 10 million messages that land in our home or office, economic relationships change. In addition, the same mechanism permits, for instance, to add a small fee to what we are paying, without our noticing. *Business Week*, in

⁶⁸ *The Economist*, September 18th 2004, p. 16

⁶⁹ *The Economist* – page 16 of the “Technology Quarterly” inserted in the above issue.

⁷⁰ *Id.*, *ibid.*, p. 11

⁷¹ *The Economist*, December 13 2003, p. 15 “*Survey of Food*”. It is interesting to observe that the growing indignation is beginning to bear fruit. Coca-Cola discontinued selling soft-drinks in elementary schools in Belgium. There the local Coca-Cola communications director Tom Delforge explained that “in the last two years the company has introduced a new code of conduct in which we have established that the school is not a commercial environment.” This is only true for the French-speaking portion of Belgium, and only for elementary schools. *Folha de São Paulo*, January 5, 2005. In the United States, the American Beverage Association decided in May, 2006 to begin to remove Coca-cola, Pepsi and Schweppes from the schools, according to *New Scientist* of May 13, 2006. For a more complete evaluation of the process, see the article “Resgatando a Importância da Informação Publicitária,” (Rescuing the Importance of Advertising Information) by Helio Silva and Ladislau Dowbor, *Meio & Mensagem*, May 9, 2005, p. 49 www.meioemensagem.com.br

a special report on the subject, concluded that the United States, that were the *Land of the Free*, are quickly becoming the *Land of the Fee*, that is of “hidden charges.”⁷²

The article shows, for instance, how the AT&T company, by adding a modest “charge for regulatory assessment” of 99 cents per month to the account of its clients for long distance calls, raised something like 475 million dollars. Discreet charges to consumers who pay their bills online bring to the banks, profits estimated at US\$2 billion. According to the article “enterprises cannot raise prices without losing business, so they are burying higher charges in the fine print”. According to Stephen Brobeck, director of the Consumer Federation of America “it is much easier to raise prices through obscure charges and surcharges than to boost sale prices”. A judge of the California Supreme Court forced MasterCard and Visa to reimburse \$800 million for hidden charges on purchases made in foreign currency. The article considers that “charging of fees is out of control. One of the worst violators is the telecommunication industry that advertises cheap plans for long distance calls and throws in extras that add an average of 20% to the bill of the client’s mobile phone.”

The ruling ethics of “everybody does it” prevails: the spokesperson for AT&T explains that “if you publish higher rates based on your expenses and your competitors publish lower rates but add various extras at the bottom of the page, what are you going to do?” The the Business Week report further finds that “nobody can surpass the credit card industry in their ability to invent extra charges”. The list of banditry is extensive and involves many large corporations. These small legal thefts involve, for instance, the time we are relaxed, offguard, such as when renting a DVD at Blockbuster. A good name, considering its recent history.

The airline companies discovered that they may invent fines because the passenger had to change his flight schedule, in addition to attracting passengers promising mileage for which there is not always a seat. Mostly, those are small add-ons to larger expenses and the consumer sighs but pays.⁷³ In the United States anger and outrage led to the emergence of numberless civil society institutions. But the fight is tough, because the everyday citizen has no time or resources to face outsourcing by the large corporation, which has permanent legal advisors to defend itself from collection, agencies that calculate risks and benefits,

⁷² *Business Week*, September 29, 2003, Cover Story – “Fees! Fees! Fees! Unable to raise prices, companies are hitting consumers with hundreds of hidden charges. That’s creating stealth inflation and fueling a popular backlash.”

⁷³ The scale of action that the new technologies permit has become essential. A corporation, with tens of millions of clients, can dilute rates in an extremely cheap manner – an insertion in the system – and the customers normally will either not realize, or not have the time to spend on each variation of the innumerable hits.

and public relation agencies that soften the consumer and engage millionaire “image” campaigns to deflect pressure.⁷⁴

The overall result is that when various economic transformations are put together, like the formation of a universe of corporate giants, cartelization that permits manipulation of prices, generalization of invasive advertising that at our expense shapes our consumer profile, the ease of corporate entry into our homes by computer, charging small fees on everything we are doing and even maintaining themselves informed about what we are doing by means of inserted “cookies”, all these things create a new universe where traditional concepts are no longer convincing. Information on the process is scarce, because these are corporations that the media views as clients, buyers of advertising space. It is a new *system* that demands reformulation of the traditional categories and above all the accumulation of empirical studies that permit theoretical advances closer to reality.

Celso Furtado views consumption as a central factor in the chain of events that shape the system governing us and shows that in our case, of less developed economies that adopt practices of the rich, deformation becomes more severe: “Adoption by the ruling classes of consumption patterns of countries with much higher accumulation standards than ours explains the high income concentration, the persistence of social heterogeneity and the penetration into international trade. The independent variable is, ultimately, the flow of innovations in the consumption pattern that spread from the high-income countries. Yet, the counterpart of this cultural mimicry is the pattern of income concentration we are aware of. To free ourselves from the effects of this perverse cultural imperative, the consumption pattern must change, within the settings of a broad social policy and, at the same time, substantially increase savings, compressing consumption of the high-income groups.”⁷⁵

The logical circle closes. If the large corporations can shape consumption, satisfying the consumer has a different meaning. In fact, we begin to satisfy the enterprise. An “executive health plan” offers care in a luxury house with expensive chairs and fragrant receptionists. The medical service falls short, not because of the physicians but because it is regulated by the just-in-time logic of financial interests applied to health. Marketing surveys show that a client with health problems feels unprotected, insecure: let us give him the impression that he is going into a four star hotel. As for treatment, which is more expensive than the young ladies, that is not what clients come for. The healthcare service thus becomes an industry of disease by the simple rationality of profit. They have able health personnel, but the logic of the system is dictated by financial and marketing specialists, who run the show.⁷⁶

⁷⁴ The *Business Week* report cites as examples www.saveonphone.com, www.ripoffreport.com, www.complaints.com and others. In Brazil, the IDEC provides important services at www.idec.org.br.

⁷⁵ Celso Furtado – *O Capitalismo Global* (Global Capitalism) – Ed. Paz e Terra, Rio de Janeiro 1998, p. 60.

⁷⁶ “The only way is up for US healthcare. The nation has finished bottom of the pile in a survey of health provision in similarly developed countries.(...)Based on a series of numbers designed to assess healthcare quality, efficiency, ease of access, equality and the promotion of a long and healthy life, the US showed the biggest room for improvement, even though it spent \$7290 per person on healthcare in 2007. The winners

There is a new generation of studies on consumption. This is, clearly, not a new subject. It is worthwhile to read again the somewhat sarcastic Thorstein Veblen, who wrote about ostensive consumption already in 1899: “Since consumption of these luxuries is a proof of wealth, it becomes honorable. Likewise, the fact of not consuming them in the due quantity and quality constitutes a mark of inferiority and blemish”.⁷⁷ We also have the studies by Wright Mills, Vance Packard, the school of Frankfurt and others. But works such as those by Robert Kuttner or Juliet Schor, bring a vision of new qualitative expansion of this commercial invasion. Henrique Rattner, in his recent *O Resgate da Utopia* (The Rescue of Utopia) simply states: “the world is not a merchandise”. The phrase translates well this diffuse feeling that we all have of broken boundaries.⁷⁸

The introduction of Kuttner’s book summarizes the approach when denouncing “the chain of circular arguments and of complex mathematical models that ignore the conditions of the real world and disregard values and goals that cannot be easily transformed into commodities. It so happens that these values and goals are what Americans still consider an integral part of the national identity: justice, freedom, faith, leisure, family, charity, love”. When people are viewed as consumers and not as citizens, the system stresses efficiency for the production of useless things. As the process is not ruled by the people’s needs but by the purchasing, inequalities deepen. In addition to loss of the quality of life for all, inequalities generate a low systemic productivity. Thus, micro-economic efficiencies generate a macro-economic inefficiency: “Negative social consequences of inequality surpass by far the gain of allocative efficiency”.⁷⁹

Juliet B. Schor is a well organized researcher. She wrote a book of great international impact, “*The Overworked American*”, in which she analyzed how Americans relate to work. The fact is that Americans really started to live for work, exhibiting, for instance – and with pride – holiday and leisure times that are much shorter than what is known in other countries. Is this advantageous? After all what do we live for?

After showing that Americans are literally enslaved by their work– the film *American Beauty* comes to mind, naturally – Schor carried out another extensive survey to see if at least what the Americans do with their money is worth the effort. This second book, “*The*

were the Netherlands, who achieved the best results despite spending just \$3837 per person.” *US last in healthcare test*, New Scientist 26 June 2010

⁷⁷ Thorstein Veblen – *The Theory of the Leisure Class* - Dover Publications, New York, 1994, p. 46

⁷⁸ Henrique Rattner – *O resgate da utopia: cultura, política e sociedade* – Palas Athenas, São Paulo, 2005, p. 196 - *The Economist* presents a balance of the economy of faith, and the expansion of what Americans call “passion dollars.” “The reconciliation between the evangelical American and Disney is the latest example of a major trend – the reconciliation between religious America and corporate America. Many of the largest American media companies are entering the religious market.” You can buy dieting books that ask “what Jesus ate”. Commenting that “the large corporations only recently discovered God,” the article analyzes the force of Rupert Murdoch, Random House, Time-Warner, Sony and others. The ‘profit motive’ has become the ‘prophet motive’:” *The Economist*, December 3rd 2005, p. 61

⁷⁹ Robert Kuttner – *Everything for Sale: the virtues and limits of markets* – Alfred A. Knopf, New York, 1998, p. 86.

Overspent American”, analyzes obsessive consumption as well as the distress of American families permanently in debt by their purchases, who spend 18% of their income with the service of debt.⁸⁰ Of course, the process is very focused on the lifestyle marketing, in the creation of consumption behavior clusters.

What interests us is the mechanism. A longer citation that explains it is worthwhile. “The intensification of competitive spending affected more than family finances. There is the boomerang effect on the public purse and collective consumption. As pressures on private spending escalate, support to public goods and payment of taxes become eroded. Education, social services, public safety, recreation and culture are being squeezed. Then, deterioration of public goods leads to an even greater pressure for private spending. People respond to inadequate public services by enrolling their children in private schools, buying safety systems and spending more time in the Discovery Zone, than in the local leisure space. Personal financial pressures have also reduced the Americans’ willingness to support transfer programs of resources to the poor or near poor. Coupled with dramatic decline of resources, the outcome has been a substantial increase in poverty, the deterioration of poor neighborhoods, and alarming levels of crime and drug use. People with money try “to spend” their way around these problems. But that is not a solution for these social ills”.

“One problem with the national discourse is its focus on commercial exchanges, instead of quality of life, or social health. Gross domestic product is the god to whom we pray. But GDP is an increasingly poor measure of well-being: it fails to factor in pollution, parental time with children, the strength of the nation's social fabric, or the chance of being mugged while walking down the street.” The ‘indicator of genuine progress’ a measure that admittedly is still crude but comprehensive of quality of life has, increasingly and negatively diverged from the GDP since 1973. The ‘social health index’ another alternative measure, also dropped dramatically since 1976, remaining at a record low level in the nineties. When we consider not only our income but also the tendencies of free time, public safety, environmental quality, income distribution, adolescent suicides and child abuse, we discover that things have been getting worse for more than twenty years, even though consumption has grown”.⁸¹

It is quite evident that killing oneself with work to purchase useless things and then to work even more because of the indebtedness generated by these purchases may seem positive from the corporation point of view. Yet from a citizen’s point of view, it amounts to a regretful idiocy. Wose logic should the economy serve?

⁸⁰ Juliet B. Schor - *The Overspent American: why we want what we don't need* – Harper Perennial, New York 1998, p. 19: “Debt service as a percentage of disposable income now stands at 18%, even higher than during the recession in the early 1990s.”

⁸¹ Id., *ibid.*, p. 21

A third survey by Juliet Schor merits mentioning: she decided to study how the process affects children in a very powerful book, *“Born to Buy”*.⁸² The systematic analysis of the advertising universe focused on the child shows that the bulk of advertising comes from a small number of corporations, that work a relatively small set of products that also belong to large corporations. In the media those are Disney, Viacom, Murdock and AOL Time Warner. Products are from Mattel and Hasbro in the area of toys (“American Girl” etc); Nintendo, Sony and Microsoft in the area of electronic games; Coca-Cola and Pepsi in the area of soft drinks; McDonald’s and Burger King in the area of fast-food and so forth.

“In the world of products for children, markets are ruled by some powerful enterprises. This is important for many reasons. One is that with monopoly comes uniformity. The economic theory foresees that when two opponents face each other, the winning strategy for both leads them to be almost identical... What this means for consumers is that it becomes difficult to find genuine variety and diversity of products. Should you be interested in a fatty pizza, soft drinks, plastic toys and violent programs for your children, no problem. What’s missing are the other things.”⁸³

For the child, on the average exposed to the media for 38 hours per week, the impact is powerful. Besides the indirect impact of publicity directed to the adult world, an impressive advertisement industry now addresses children up to three years old, to those a little older called “tweens” because they are between the small ones and the teens, and of course, to the adolescents themselves. Content is focused on relatively few products, essentially fast foods and soft drinks, toys and clothes.

The philosophy transmitted is that the child needs to feel that without a given product it is an outsider. In the words of Nancy Shalek, president of the Shalek Agency “advertising reaches the ideal when it is making people feel that without this product you are a loser. Children are very sensitive to this. If you tell them that they have to buy something, they resist. But if you tell them that if they don’t, they will be dorks, they pay attention. You access their emotional vulnerability and that is easy with children because they are more vulnerable emotionally”.⁸⁴

Juliet Schor analyzes this universe, sector by sector, in a well documented approach. There is an industry of the so-called “Big Food”, large food enterprises characterized by high-fat, high sodium, high-sugar that generate an epidemic of obese children, to whom in turn is offered esthetical surgery that allows them to eat more food. This battle includes the fight against milk and water, to be replaced by soft drinks with high sugar content.

⁸² Juliet B. Schor – *Born to Buy: the Commercialized Child and the New Consumer Culture* – Scribner, New York, 2004

⁸³ Id., *ibid.*, p. 28

⁸⁴ Id., *ibid.*, p. 65 – It is important to remember that in our marketing courses we *teach* young people to master these techniques.

Battalions of psychologists are researching with children to define how to achieve a point of complicity between corporations and children. The ideal is to drive a wedge between the parents (old, boring, full of natural juices, milk, vegetables, fruit and other old fashioned idiocies) and the cool kids, much smarter.

Obviously there is a struggle for insertion of advertising (and products) in schools using even the class schedule. Much of the impact results from the view children have that if these things are legal, authorized by the parents and transmitted in schools, they must be legitimate. Penetrating in schools is done in the most obvious way, as schools are always in desperate need of funds, and the enterprises exchange help (computers etc) for the right to enter the school, the classroom and even the schoolbook content.

The author uses impressive arguments to support the economic view. First, the statement that television is free: "Population pays for advertising and programs when it pays higher prices for the products presented. The fact is that if you are a consumer, you pay for the TV, whether you watch it or not". The idea is that advertising promotes competition and therefore leads to better products is another nonsense: "With today's monopolized industries, the high cost of publicity campaigns maintains the giants in control and keeps out newcomers. If we really wanted to maximize innovation and improvement of products, we would organize the system so that advertising would be less expensive and essentially informative."

Another argument is that advertising increases demand and therefore production and jobs. "But most economists disagree with this logic. They see advertising as affecting the choice of a brand and not the global volume of purchases". There is also the argument that advertising itself generates jobs, a last resort argument by the president of one of the largest advertising agencies, frustrated with his feeling of having dedicated his life to promote bad food to the detriment of culture and local traditions. According to Juliet Schor, "when children are involved, this instrumentality is much more questionable. Indeed, there is little justification to produce advertising for children merely to guarantee the profit of the agencies".⁸⁵

Equally powerful is the eternal argument that "everybody does it". Schor interviews an advertising executive who openly states that she pushes products that she would not let her own children use. The key to the issue is that "in the agencies people are afraid to confront clients. In the enterprises there is a similar absence of accountability; on the whole, pressure to make money overcomes the need to make good things for the children". According to Schor, enterprises are tied to the system: "As the level drops, the individual enterprises are caught in the dynamics. If competitors do it, pressure to go along is strong".⁸⁶

⁸⁵ The various citations above are on pp. 181 and 182 of the book cited.

⁸⁶ Id., Ibid., p. 188 and 193

The author is particularly informative when she describes the alternatives: ensuring part of the advertising funds for cultural information programs on advertising itself and on the products; facilitate creating local and community broadcasting stations and TVs with programs for children and teenagers (there are many successful examples); retrieving the right of children to play away from home, instead of remaining confined in front of a TV set (Sweden reduced by one half the number of accidents with children in the streets by means of some simple measures); generating cultural dynamics with collaboration from the children themselves, and so forth.

In the United States there is a wave of protests that is growing each year and the perception of ways in which parents are organizing – for example, prohibiting in the state of California school books donated by enterprises, where children learned to read and write using corporate advertising – is especially useful. In fact, the basics of economics should be taught in school, for kids to understand how things work in the really existing world.⁸⁷

Indeed, given the amount of work that we dedicate to produce useless things, given the amount of things that we waste, given the environmental impact of unsustainable consumption, leading us to widespread impasses, given the additional costs to treat our obesity and other diseases generated by irrational consumption, given the social isolation that brings about the individual accumulation of goods, given the expenses with safety and general discomfort that results from inequality and social elitism – the inadequacy of our analytical instruments, and the theories we teach leave us with the growing feeling of artificial and useless theoretical constructions. Wrong questions and wrong answers. They point to the *freedom of choice* without mentioning the idiotic choices to which we are reduced, they put GDP on the altar without referring to *what* and for *whom* we produce, they calculate the enterprise profitability without referring to the practical outcomes in terms of quality of life of society, they point to a growing consumer curve without drawing a parallel to the decapitalization of non-renewable resources.

The truth is that we are working more and more to produce things that make less and less sense. And graduating professionals to render this process more “efficient” does not make the slightest bit of sense. Economic democracy, in this essential area of consumption, consists of respecting each one’s right to seek information that is of interest (logic of demand) instead of intruding in the person’s time and private space, with products that are meant to be pushed on consumers and fail to respond to the basic objective of improving our lives.

9 – Economic infrastructure and external economies

⁸⁷ The book is also worthwhile for its excellent bibliography and for the Internet sites where documentation can be found about the most varied aspects of the problem (on pp. 215 ff).

It is amazing to what extent the study of economic infrastructure is so scarce in economics. There are, unquestionably, people researching energy, others studying solutions for logistics and transportation, still others the problem of communications or of water. It is in general a field for engineers, seeking solutions for specific issues. Is the stock market more important for economic development than good solutions for transportation? We do not have a Reuters for effectively important issues.

One thing is the operation of the economic machine, its day-by-day, its faster or slower rhythm according to the situation. Another thing is the structure of the machine itself: in this sense, infrastructure options tend to organize our options in many other areas of the economy. The railway and shipping infrastructures have been dismantled in Brazil: there is no other option for persons or individual firms then using cars or trucks. A ship arriving in Rotterdam is offloaded in hours, at terminals specialized by type of cargo, it goes directly from the ship to the train wagon, with electronic labels that permit the entrepreneur to follow the expected cargo. In Imperatriz, in the north of Brazil, consumers buy products transported by lorries over more than 2000 kilometers, wasting diesel, emitting carbon dioxide.

In another essay, we developed a study on how the large infrastructure networks, that permit productive activities to develop efficiently, can be planned to improve systemic efficiency and ensure a better quality of life.⁸⁸ Here, we are not interested in eventual solutions for transportation or energy, but in the necessary intensification of studies of the infrastructure in economics, in order to understand the overall efficiency of the system, or systemic productivity.

Tradition wants that in economics we concentrate on productive processes, on the corresponding financial and commercial flows, but less on the physical infrastructure that enables production. The World Bank uses the good image that infrastructures represent “if not the engine, then the wheels of economic activity”. We may also use the image of the body: to function, the body has organs like the liver, heart, brain. But the systemic quality of the body depends on the nervous system that conveys information, the bloodstream that warrants internal transportation, the skeleton ensuring structure and articulations. In fact, to have good enterprises and inadequate infrastructure reduces systemic productivity.⁸⁹

Large infrastructures require a strong presence of the State, since these are very significant investments and a long term payout of no interest to private investors. The private sector in general prefers that the State be burdened with the large expenditures and that cheaper

⁸⁸ Ladislau Dowbor – *A Reprodução Social: propostas para uma gestão descentralizada* (Social Reproduction: Proposals for Decentralized Management)– Editora Vozes, Petrópolis 2003, 3ª Edition revised, see in particular vol. II.

⁸⁹ The World Bank – *World Development Report 1994: Infrastructure for Development* - Washington, Oxford University Press, 1994 – “Recent studies in the United States suggests that the impact of infrastructure on economic growth represents startlingly high rates of return (up to 60 percent),” p. 15.

energy, transportation and water result in external savings for their production. The report mentioned, by the World Bank, analyzing 200 billion dollars of investment in infrastructures in the developing countries, found that only 14 billion dollars were private, 7 per cent.⁹⁰

But there is an even stronger reason for the presence of the State in the area: while industry, for example, develops its activities in geographically located entrepreneurial units, infrastructures, by their nature, are essentially networks and therefore must follow a systemic and long term outlook of territorial development. Both require planning capacity, an activity that has practically vanished from the horizon of the economists' work, buried under the nonsense of the Chicago School theoretical simplifications and mathematical rubbish.

The practical outcome for the country is that the capacity of the the State to act in this area was drastically restricted, while the private sector does not have the capacity for significant intervention or pursues narrow interests. A governance gap is generated, since planning has been abandoned as a communist conspiracy, and the market is of little use to regulate the area.

When the private sector becomes interested, it does so by seeking punctual solutions that reduce its costs and not the implementation of an integrated network able to revitalize a region. The soybeans farms of the West are interested in a railway that links their plantations to the ports of Paranaguá or Santos, the Japanese are interested in a railroad that connects Carajás to the nearest port, São Luis, for the aluminum and iron exports, and so on. This is what took place in Africa, where railroads are part of outlets for large groups (mining or monoculture) always linking the port and a specific region in the interior, instead of connecting the various regions. They are infrastructures whose logic is to drain wealth away and not to integrate economic spaces of the region and the whole. In Europe good examples can be seen, where a network in the shape of a web interlinks all significant centers and unfolds in secondary branches for each small productive region, generating a system that operates in the large axes as well as in the capillarity of support to local production. High speed train networks, (TGV) in turn, offer comfortable and rapid trips between capital cities, reducing dependence on private cars and planes, incomparably more expensive, thereby generating savings for all involved. Planning connected to public interest is simply more efficient for everyone.

In terms of economic studies this is not a matter of developing new territories but of recovering a technical capacity we once had. Celso Furtado comes from two interesting influences: Cepal, which sought to retrieve the macro-economic outlook and create conditions to actively promote development, and more so France where studies for urban and regional planning (*aménagement du territoire*) and corresponding infrastructure were

⁹⁰ Op. Cit., p. 10

always present in economics. These influences produced a more realistic analysis of regional unbalances and of the need to generate economies external to the enterprise but coherent in the territory.

Territorial study is just about absent from the economic mainstream analyses that endeavor to solve economic problems by creating a continuous global planetary space, where the market will solve problems by some magic efficiency of resource allocation. Looking at how the financial system allocates resources and generated the 2008 crisis, this view is pathetic. In the analyses, the important issues of local development, and of the overall territorial balanced development fall so short that we have to resort to Milton Santos, a geographer, to understand the function of space in economic activities.⁹¹

The results are critical. In a metropolitan region such as São Paulo there is no institution that studies and promotes land rationalization and planning of the infrastructures. Emplasa, the sole planning agency created for this purpose, survives *pro forma*, when it should have an essential role. In this largest and most modern metropolis of Latin-America, we do not even have a study or research center for the city. Efforts to establish an office for metropolitan affairs remain in the limbo. The results are that over a million people live in watershed areas; local rivers and watersheds are irresponsibly polluted while the water is pumped from the basin of Piracicaba 150 kilometers distant; sewage treatment stations in lamentable conditions, causing disease for which a cure demand more resources than the cost of prevention; daily millions of “paulistanos” take their own car to remain stuck in the expressway, pathetically watching sewage spewing into the Tiete River. The average speed of the automobiles in São Paulo reaches 14 kilometers per hour, the speed of wagons at the dawning of the last century; the collective network boasts of a ridiculous 60 kilometers of subway, a prehistoric mayor invents the “elevated expressways” and tunnels with the help of large contractors pretending to solve transportation problems by overlapping layers of private cars instead of investing in public transport.⁹²

Considering the country as a whole, things do not seem any better. Looking at the map, we see that almost all economic centers, with the exception of the Belo Horizonte region, are ports or semiportuary regions, from Manaus to Belém, as well as Fortaleza, Recife, Salvador, Rio de Janeiro, Santos-São Paulo, Paranaguá-Curitiba, Florianópolis, Porto Alegre. An obvious solution are policies strongly centered on the modernization of ports and the development of shipping along the coast, associated to the development of an

⁹¹ Milton Santos – *O Espaço Dividido: Os dois circuitos da economia urbana dos países subdesenvolvidos* (*Divided Space: The two circuits of the urban economy of underdeveloped countries*) – Francisco Alves Editora, Rio de Janeiro 1979; see also the excellent *Espaço, Ciência e Técnicas* (*Space, Science and Techniques*).

⁹² The city of Boston recently dismantled its last elevated highways, these monuments to technical stupidity and to the disregard of urban quality of life. According to the Nossa São Paulo 2010 statistics, the average worker in São Paulo spends 2:43 hours a day in traffic, a time where he does not rest or work, but spews pollution into the air. www.nossasaopaulo.org.br

integrated inland railway network, while trucks should be used only for short distance, distributed cargo. Wasting asphalt, oil and tires to transport large bulky merchandise on highways – the most expensive option in terms of costs per ton/kilometer – is surrealistic. Transport of soybeans leaving Mato Grosso do Sul to be shipped in Santos, for instance, absurdly raises the costs of the product. To remain competitive, producers then compensate with low wages, which reduces the internal market.

The result is that everything gets more expensive for everyone. In a metropolis, a morning is lost to resolve a simple problem, young people die like flies in motorcycle accidents, since as if it were not enough to clog the streets, now they fill the spaces between the lines of cars. Only in the city of São Paulo, there are more than 150 thousand bikers that carry documents and small orders through the paralyzed city, creating a new generation of paraplegics and quadriplegics. Young “motoboys” are dying at the rate of 1,5 a day in the city alone. The infrastructure options are far from neutral or innocent.

Media and economic journals talk only about inflation, exchange rates, financial papers, mergers, trade balance. The structural problems are left without effective studies, only the analysis of short-term trends remains, or the fascinating abstract economic cycles. Here we must retrieve a tradition and reorganize the planning capability, leading to the construction of a systemic and long term outlook of our development. Meanwhile, with the infrastructures we have actually created in Brazil, what we have are not external economies, but external *diseconomies*, overcosts, brought about by an irrational matrix.

Infrastructures have a deep impact on the spatial design of economic activities. Intelligent solutions do not require reinventing the wheel, but require a serious exercise of comparative economic studies to understand the solutions that have been proven in various countries as well as an equally serious study of the interaction potential of different options at various territorial levels. Our universities do not even study their own regions, when they could become scientific arms for the mobilization of regional resources.

What are talking about, in reality, is the retrieval of the structuring role of the public sector, through planning and investment capacity, on the overall and long term options that have disappeared from the horizon of economics. We do not have to go back to *Gosplan* centralized planning. Economic planning and structural analysis are important democratic instruments, and obviously deformed in an authoritarian regime. The lack of democracy is wrong, not the planning activity itself. When there is planning and a comprehensive view of the objectives, they may be submitted to society that may pronounce itself. Without planning, the *faits accomplis* come to the surface. There is no democratic option, only business.

10 – Local development

Is it feasible to think of the city as a capital accumulation territory? We can, of course, think of an enterprise as an accumulation unit, and the managers of an enterprise have available an array of techniques to guarantee that resources available are fully utilized, that the different entrepreneurial activities form a coherent cluster, that processes and rhythms of the different departments be compatible. That is to say, the enterprise declares the invisible hand, but only out there. On the inside rules a sometimes oppressive rationality, sometimes hypocritical, sometimes corrupt and very often simply efficient, but on the whole nobody denies the need for rational management.

Can a territory such as a municipality be rationally managed? City hall itself is a managing unit, and renders accounts. But can a city, with or without its rural environment, be seen as a space of coherent, articulate and integrated processes aiming for high systemic productivity? Until recently the issue was not so relevant, since in the 1950s, for example, the majority of the population lived in a scattered rural environment. The outcome was that government only existed in the few capital cities, where wealthy families controlled both economic and political activities. Today, urban population Brazil is 84%, and the 5,565 municipalities have become the building blocks of the nation, the basic units of political, economic, social and cultural organization. The 1988 Constitution granted autonomy to the municipalities. Can the rationality of the whole – the country – be considered, without rescuing the internal coherence of the basic units, the municipalities?

This outlook is a change of perspective. In a way, we no longer see the municipality as the distant place where central government projects or initiatives of the large enterprises must *arrive*, but consider the municipality as the basic building block of the whole. Could an economy function well if its enterprises were managed in a chaotic way? Adopting the same reasoning for the nation, we can ask ourselves if a national coherent development is possible without rational management at the local level.

Moreover, when a large part of development initiatives is displaced to local level, the decision is closer to the space where the citizens may genuinely participate, especially facing the issue of urban fringes that became the dominant manifestation of our social tragedy.

John Friedmann clearly establishes that this shift of focus in terms of objectives, as well as the corresponding regulatory mechanisms, requires territorialization: “The mainstream model of economic growth expresses the yearning of the global capital for an economy ‘without frontiers’ in which there are no organized interests nor powers mediating the corporate decision centers on the one side and individual workers and consumers on the other. In the ideology of capital, this type of economy is called ‘free’. It reduces territorial interest to a minimum of ‘law and order’, such as assuring respect for contracts and keeping order in the streets. This outlook further brings about the expectation that the territorial States will deal as well as they possibly can with the social consequences of private investment and productive decisions, such as scarce resources, unemployment,

pauperization, pollution, deforestation and other issues of the ‘commons’. Territoriality calls our attention to the physical environment: the local economic resources, the esthetical value of traditional landscapes and the quality of life in the built environment where all our actions take place and that directly and immediately affect our life”.⁹³

Friedmann stresses the understanding that besides entrepreneurial and governmental regulation there is a growing regulation process at the roots of society, starting from the place where people live, along the line of what he called participative government. “An alternative development is centered on people and their environment more than on production and profit. Just like the dogmatic paradigm addresses the issue of economic growth under the enterprise perspective, which is the basis of neoclassical economy, an alternative development based, as it should be, upon the space of life of civil society, addresses the issue of improvement of the conditions of life and of experiencing in the perspective of the home”.

These objectives lead us to the concept of local empowerment, articulation of local regulation with the power of the State. “Although it points toward a locally rooted policy, an alternative development requires a strong State to implement its policies. A strong State, however, does not need to be weighty on the top, with an arrogant and hard bureaucracy. An agile State would be better, one that responds and renders account to its citizens. This is a State that heavily leans on an inclusive democracy, where powers to administrate problems will ideally be locally managed, returning to local governance units and to the people, the organization of their communities.”⁹⁴

That is how community participation, through direct involvement in matters of rational management of locally available resources, appears as a complementary regulatory mechanism, adding itself to the market that constitutes the prevailing regulatory mechanism of the entrepreneurial sector and to the public management regulations that rule the action of state agencies. Thus the community’s quality of life demands become a relevant organizing mechanism for the outcome expected from development, just as demand of the individual consumer was for the traditional productive processes.

In this respect, the works by Robert Putman brought significant advances because they showed to what point participative mechanisms not only complement the state and the market regulation, they further are an important condition for the efficacy of these mechanisms. The social capital appears as an important factor of the governance quality of a given territory. The study about Italy has become a classic, but it is above all in the analysis of the United States that Putman discloses the significance of organizational

⁹³ John Friedmann – *Empowerment: the politics of alternative development* – Blackwell, Cambridge 1992 – Citations were taken from pps. 31 and 35.

⁹⁴ Idem – It may be noted that although Friedmann works with the concept of local development, it is from the perspective of articulated territorialities (see p. 133 for corresponding definitions). We have moved beyond “*Small is beautiful*”, which continues to be hugely relevant.

capacity of society in terms of its interests – the participative dimension of economic and political regulation – as a key element of development's rationality, in general.⁹⁵

From the standpoint of economic theory, the process itself is interesting, as society becomes more complex, we have gradually passed from the concept *physical capital* that still plays the central role in “The Capital” of Marx, to an understanding of the major role of the *financial capital* evolving towards the recent awareness of the importance of the *natural capital* that we are depleting on the planet, the broader understanding of the *human capital* which has become crucial with the technological breakthroughs and of the *social capital* that represents in a more ample manner the maturity and cohesion of the social fabric that supports the whole. This progression reflects, at the same time, the broader scope of economics and the articulation of economic science with other social sciences. The concept of social capital is certainly fashionable now, but indeed the important thing is to understand is the need to organize rational allocation of capital in a more complex sense.⁹⁶

The traditional outlook would be that municipalities are the bottom of a pyramid, and this theoretical “verticality” is deeply rooted in our convictions. In fact, new guidelines point towards the horizontal articulation of social actors within the municipality and for the inter-municipal forms of management (for instance, inter-municipal health consortia, water basins committees, regional development councils, networks of sister-cities) permitting complex regional articulations. The result is that communities are no longer “too small” to become viable, since they can creatively interact with the diverse territorialities. The key point here is local initiative, the feeling of appropriation of policies, where people can directly participate, because they are acquainted with the reality and the decision scale matches their horizon of knowledge.

This changes profoundly what could be called the development culture. A community is no longer a passive receptor of remote decisions of the state that will “donate” a healthcare center or of an enterprise that will arrive and “give” jobs. Development is no longer a thing patiently awaited; it becomes something that is carried out, even from the aspect of organizing the reception of external inputs. Thus political citizenship is complemented by economic citizenship and a feeling of social ownership of policies is rescued.⁹⁷

⁹⁵ Robert Putnam – *Bowling Alone: the collapse and revival of American community* - Simon & Schuster, New York, 2000; *Making Democracy Work* is his study about Italy.

⁹⁶ It is the vision that we develop in our “*The Social Reproduction*,” starting from the comprehension that *reproduction of capital* constitutes only one segment – albeit central – of the process of development. We go on to see development as an articulation of the various forms of capital in differentiated and complementary fields.

⁹⁷ An interesting aspect of this plan is that of Bruno Frey and Alois Stutzer, whose study about happiness and the economy insists on the relative importance of the *process* by which we come to economic results. The feeling of appropriation, of being a creative subject of the process, frequently constitutes a motivation more important than the sole *output* in the sense of economic advantages. Bruno S. Frey and Alois Stutzer, *Happiness and Economics*, Princeton University Press, Princeton 2002

An important dimension of this process is the change of the communication paradigm. “Space is dead” comments an American editor, seeing the instantaneous planetary connectivity of those who work with financial investments. It is an obvious exaggeration; people still live in a concrete city, look at the sunset on a concrete river bank. But the fact that information is instantly available in any part of the planet changes drastically our universe of thought. The municipality of Pirai, in the countryside of the state of Rio, created a public system of broadband access to the internet for all. It was a small public investment, but represented a major productivity factor for local enterprises and commerce, that started to relate with suppliers and consumers on a much larger scale. The slightly higher fee paid by the entrepreneurs generalized broadband access to the poorest neighborhoods for 35 reais (less than 20 dollars) a month. The impact of digital inclusion was strong, but it is noteworthy that extended connectivity allowed improvement in productivity of all the municipality’s social actors, of the schools, of the healthcare systems and so forth. The experience is a powerful illustration of how global, regional and local spaces may be articulated through modern forms of connectivity, in a process where the community owns its process of development, instead of waiting for a multinational to open a tourism resort and dress the local population in “typical” costumes.⁹⁸

Today, the Wi-Fi or Wi-Max technologies are being used in urban spaces, enabling people to work and study anywhere. It is the computer version of the mobile telephone, covering an entire urban space, converging with the smart phones internet capacity. There is a race between cities to set up relays so that the entire urban space is covered by the signal. It is called “municipal mesh Wi-Fi networking”. According to a study published in the *New Scientist*, “Public networks of Wi-Fi will also have an impact on the Wi-Fi in homes, schools, bookstores and cafeterias...Systems that cover an entire city connect a cluster of Wi-Fi points to form a mesh where the broadcast signals received at one point jump from antenna to antenna until they find someone connected to the net”.⁹⁹

As of now, the technology that permits connectivity of the entire urban space is cheap. For instance, in the city of Philadelphia in the United States “about 4000 posts in the 320 square kilometers of the city will have Wi-Fi antennas that will cover the city with wireless broadband signals. The promise is an internet access of 1 megabyte/second for less than 10 dollars per month, compared with the 45 dollars for today’s cable connection”. The city of Taipei in Taiwan is spreading the system at an overall fee of 12 dollars a month. Seoul and Singapore are other examples. It is not a smooth road: cellphone corporations are fighting this free access which they see as a threat to their oligopoly. And yet free circulation of

⁹⁸ The Digital Pirai Project resulted from a partnership between the municipality and the Federal Fluminense University, and was organized by Prof Franklin Coelho. Today various cities of the region are following this example and creating an integrated digital regional hub. This focus on making all of the social actors more productive through public service initiatives, generating external economies in the territory, is studied in a systematic manner by Carlos Trigilia, in his *Sviluppo Locale*, Ed. Laterza, 2005.

⁹⁹ Paul Marks, *New Scientist*, 25 March 2006 – “Cities race to reap the rewards of wireless net for all”

information on the waves should be as obvious as free circulation of persons in the street. Free streets do not prevent economic activities, on the contrary. Free access to information likewise generates economic opportunities, through innovative use of the information, but not through placing tollbooths on every corner of information flows.

The theoretical convergence mentioned thus points toward an array of studies centered on the various vectors that build modernity. Works by Manuel Castells on the *network society* indicate that local regulation is made easier by using horizontal connectivity of all the social actors sharing the development process. Studies by Pierre Lévy on *collective intelligence* give a glimpse of social effort synergy through convergence of information and of knowledge in a territorial community articulated with virtual communities. The works by Ignacy Sachs, starting from the concern with sustainability of the development process, disclose the importance of underutilized resources – inheritance of the discussions on economic planning in socialist Poland, times of Lange and Kalecki – found in each locality.¹⁰⁰

Here we return, in a way, to our starting point, to the outlook that Celso Furtado's brought us, of a propositive economic science that points the way to the construction of the desired outcomes, instead of losing ourselves in prognoses on how jittery are speculators on the financial market. Of course, the outcome must be our prosaic quality of life, in a sustainable environment. The image of quality of life takes us back to a pleasant neighborhood, with reasonable prosperity, health, cultural wealth, equity and safety: most of these things are locally organized, and to have an economy managed by results implies that these results be in their majority established by the creative and differentiated communities that we have and not by reproducing a standard model decided at the top. As such, when we associate local development with the concept of development culture we are looking towards a reconciliation between political democracy and economic democracy. This possible other world will also demand another economic science that embodies these dimensions. It will concern not "economics", but the economic dimensions of social transformation, with its obvious complexity and interactions.¹⁰¹

¹⁰⁰ Manuel Castells – *The Rise of the Network Society* – Blackwell, Oxford 1996; Pierre Lévy – *L'intelligence collective* – Ed. La Découverte, Paris, 1994; Ignacy Sachs – *Inclusão Social pelo Trabalho* – Ed. Garamond/Sebrae, Rio de Janeiro, 2003. Sach's studies are particularly useful in his understanding of planning as a democratic process. In bureaucratic planning, the bureaucracy is the problem not the planning.

¹⁰¹ An extremely rich dossier about the economic, political and cultural dimensions of the construction of alternatives can be found in *Pour Changer le Monde (To Change the World)*, number 83 (Oct.-Nov. 2005) by *Manière de Voir*, published by *Le Monde Diplomatique*, which brings together essential articles about a particular theme every two months. Two articles in particular, by Claude Julien and José Saramago, focus on the relations between economics and politics, and show to what point our race to make politics function through different electoral legislations, without facing the great economic power that overwhelms politics, inclusively through the funding of electoral campaigns, simply doesn't solve the problem. In our view, reviving the economic potential of local management not only involves efficient management, but also places a great part of the economy on a scale where people have greater control, thus also recovering control over their own lives. An economy that is more owned by citizens opens more space for authentic political

11- The Economics of Knowledge

The same technologies that favor globalization may likewise favor local spaces, participative dimensions, democratic connectivity, cultural diversity. For multinationals, new technologies imply in a higher pyramid with the central power of a mega-corporation extending longer fingers to more faraway places, thanks to the power of connectivity to transmit orders and reports worldwide. It also implies the possibility of a stronger planetary presence of electronic control, new forms of repressive power, control of cultural production exchanges, citizen control through credit card use and internet profiling, the explosion of places where we are pleasingly informed that we are being filmed, for our security. Smile. Not always informed, of course.

But for us mortals, these technologies open a horizon of opportunities for a wider, more horizontal network, where each locality can cross the specificity of local interests with the potential of planetary collaboration. Longer fingers of these same corporations do not decentralize anything; they only mean that the same hand has a longer reach, that manipulation takes place on a larger scale. Local appropriation of the connectivity potential represents new opportunities for a more democratic society.

Changes in information and communications technologies that open these new options, however, are linked with broader technological changes that are raising the knowledge content of all productive processes and reducing the relative weight of material inputs that once were the backbone of production.

Is knowledge a production factor? How does the theory that Castell calls the “new socio-technical paradigm” develop? Castells introduces the interesting category of *informative production factors* that leads us to a basic question: is knowledge adequately regulated through market mechanisms as, for instance, the goods and services in the setting of an industrial economy?¹⁰²

What becomes of what we have inherited in economic theory when its *raison d'être*, the rational allocation of scarce resources, has to face resources that are not only not scarce, but freely accessible and easily multiplied throughout the planet? Displacement of the main paradigm of the value formation from concrete time and natural resources consuming goods and services such as shoes and cosmetic services, to knowledge which can be freely shared to millions, compels us to make an in depth review of the production concept itself. André

citizenship. For an excellent presentation of the funding of political campaigns, see Hazel Henderson, *The best congress your money can buy*, 2010, www.ethicalmarketplace.org

¹⁰² M. Castells – *The rise of the network society*, vol. I, p. 75 – Castells considers that this new factor of production requires State intervention: “Deregulation and privatization may be elements of states’ development strategy, but their impact on economic growth will depend on the actual content of these measures and on their linkage to strategies of positive intervention, such as technological and educational policies to enhance the country’s endowment in informational production factors” (id., *ibid.*, p. 90).

Gorz states that “production means have become liable to appropriation and susceptible to being shared. The computer surfaces as a universal instrument, accepted everywhere by which all the knowledge and all activities may, in principle, be shared”.¹⁰³

The economy of knowledge is just being born. Lawrence Lessig in *The Future of Ideas*, brings a systematic and balanced analysis of this major challenge we are facing today: management of information and knowledge. Lessig’s book, precisely focused on how to develop planetary connectivity, brings up each issue – that of appropriation of the physical transmission means, that of access code control, as well as management of content – at a level permitting a realistic assessment and formulation of practical proposals. His previous book, “Code”, was already a reference point. *The Future of Ideas* is simply brilliant in terms of wealth of sources, of simplicity in the exposition and organization of key arguments and issues.¹⁰⁴

We are all somewhat slow in the understanding of these new dynamics, swinging between bleak visions of the Big Brother or an idyllic vision of multiplication of sources and means leading to general democratization of knowledge. As in so many issues, the truth is that simplification does not suffice and that we should do our homework and study what is going on.

Let us start from the fact that today, when we pay for a product, 25% of it is to pay for the material inputs and physical work, while 75% is for research, design, marketing strategies, advertising, lawyers, accountants, public relations, the so-called “intangibles” that Gorz calls the “immaterial”. It is a vague figure, but reasonable, and we are not interested in precision here. We are interested in the fact that the added value of a product is ever more in the incorporated knowledge. That is to say, knowledge and organized information represent a production factor, a first class economic capital.

However, the economic logic of knowledge is different from that governing physical production. When a person delivers a physical product it no longer belongs to this person, while knowledge passed to another person is not transferred, but shared: it continues with the person who shares it, and will moreover stimulate in the other person new ideas that will generate more knowledge and innovations. Therefore, in social terms, the society of knowledge does not get along well with private appropriation: it is a wealth that is multiplied when shared. The value added to a product by incorporated knowledge only

¹⁰³ André Gorz – *O Imaterial: conhecimento, valor e capital (The Immaterial: Knowledge, Value and Capital)* – Ed. Annablume, São Paulo, 2005, p. 21. The original in French, *L’immatériel*, was published in 2003. A basic introduction to what we would call the value theory of the knowledge economy can be found in Gar Alperovitz and Lew Daly, *Unjust Deserts*, 2010; Clay Shirky has published a wonderful book, *Cognitive Surplus*, Penguin Books, New York 2010, stressing that in the knowledge economy era, connecting the accumulated knowledge and free time of all humanity represents a gigantic capital for creativity, ill managed by restrictive competition measures. The sub-title, *Creativity and generosity in a connected age*, says it all.

¹⁰⁴ *The Future of Ideas: the Fate of the Commons in a Connected World* – Random House, New York, 2001, 340 p.

turns into price and consequently into greater profit when access to this knowledge is restricted. The struggles of the 20th Century, centered on ownership of the production means, evolved in the 21st century towards the control of knowledge.

Our society is evolving towards a knowledge economy, but it is governed by laws of the physical product era. In the classical example, if two individuals exchange the apple each one has, they continue having one apple each. If these individuals share each an idea, they have gained ideas. Consuming bread reduces the loaf. Consuming ideas does not reduce its stock. When knowledge becomes a key factor of value, sharing it makes everybody richer. Thus it is essential that knowledge be indefinitely shared. But from a microeconomic point of view, ideas only generate money when appropriated - usually by intermediaries - and duly gated. For those who try to control access to knowledge, it becomes valuable only if scarcity is artificially arranged by laws and repression and not by economic mechanisms. By the mere technical nature of the process, to apply reproduction laws of the industrial era to the era of knowledge reduces access. Curiously, to hinder the free circulation of ideas and of creative activities, corporations demand for greater State intervention. The same interests that led the corporation to globalize the territory to boost free circulation of goods, lead it to fragment knowledge and make its sharing more difficult.

The central issue of how we produce, use and distribute knowledge involves a dilemma: on the one hand, it is fair that he who struggled to develop new knowledge, be paid for his efforts. On the other hand, the appropriation of ideas as if they were material products reduces the impact of innovative efforts. Lessig reports the examples of moving picture directors in the United States who today film with lawyers on the team: to shoot a street take where per chance there is an outdoor may immediately induce the advertising agency to demand compensations. To shoot the room of a teenager requires extensive legal analysis because each banner, poster or picture may involve improper use of the image, bringing about other disputes. Has *intellectual property* no limits?

In an American university, with the acquisition of scientific journals by large economic groups, a professor who distributed copies of his own paper to his students was considered guilty of piracy. He could, if anything, demand that his students buy the journal with his article. Everyone is aware of the absurd patent Amazon tried to register, forbidding other companies to use the “one-click” for purchases. A common sense reason is that if the “one-click” is good, it must have been profitable for Amazon which is the normal form of retribution for an innovation and not by preventing others from using a process that was already in the public domain. Indeed, we are blocking dissemination of progress, instead of making it easier.

Lessig’s standpoint – explicit in the American Constitution – is that the effort of developing knowledge must be remunerated, but knowledge itself is not a “property” in the common

meaning of the word. For instance, many copyrights are the property of enterprises that for some reason are not interested in using or developing the corresponding knowledge, and as such it remains frozen. In other countries, the principle of “use it or lose it” prevails, so that a person or enterprise cannot paralyze, by patents or copyrights, a field of knowledge, when it has a social function. My car continues to belong to me if I forget it in the garage. But ideas are different, they cannot be locked up, their development by others must not be stopped.

This standpoint is based upon the idea that knowledge is not born alone. Every innovation relies upon thousands of advances in other times, in other countries, by different institutions, and in fact fundamental research is mainly done in so many public institutions. But with growing legal traps, research frequently involves so many legal complications, people just give up or leave it to big business with their awesome legal departments. Innovation, the creative work, is not only an output, it is also an input that begins with innumerable efforts of different people and enterprises. It needs an open collaborative environment. Innovation is a socially built process and there must be a limit to its individual appropriation.

The issue worsens drastically when not only ideas but vehicles of transmission are controlled. When a Hollywood producer controls not only production of contents (of the motion picture) but also the various distribution channels and even movie theaters, the end result is that free circulation of ideas becomes radically imbalanced. Lessig finds that in the United States foreign movies represented, a few years ago, 10% of the box office, and today represent 0.5%, generating a culture dangerously isolated from the world. With the progressive control of the three levels – physical infrastructure, codes and contents – the freedom of ideas to circulate, even on the internet, is rapidly being curtailed. Large enterprises continuously rummage in our computers by means of “spiders” or “bots” to see if per chance we do not mention, without the due sanction, the name of a group of protected ideas.

A text of 1813 by Thomas Jefferson, quoted in the book, is in this sense very eloquent: “If nature has made any one thing less susceptible than all others of exclusive property, it is the action of the thinking power, called an idea...That ideas should freely spread from one to another over the globe, for the moral and mutual instruction of man, and improvement of his condition, seems to have been peculiarly and benevolently designed by nature, when she made them, like fire, expansible over all space, without lessening their density at any point, and like the air in which we breathe, move, and have our physical being, incapable of confinement, or exclusive appropriation. Inventions then cannot, in nature, be a subject of property.”¹⁰⁵

¹⁰⁵ Lessig, op. cit p. 94.

An enterprise that installs one of the important infrastructures that is the cable, is the owner of this cable. However, may it dictate who may or who may not have access to transmit on this cable? An enterprise may find economic incentives to make agreements with other enterprises, ensuring exclusivity. Disney, for example, fought a hard battle to achieve this type of exclusivity. The brutality of these entrepreneurial disputes on this level, leaves little space for the ultimate end of the whole process, so well expressed by Thomas Jefferson, that is the social usefulness of the circulation of ideas. Government may even privatize maintenance of a highway and authorize tolls, but it guarantees its public character, no concessionaire may prevent free access of any person to this highway. And how does it work in the *infoway*? In many American cities like Chicago, City Hall is placing public cables to guarantee that users can receive and transmit whatever they want, reducing pressure from private enterprises to make agreements of exclusive access for a given type of client. In Canada, the process is spreading, as a reaction to controls that enterprises are imposing. Just as highways, infoways must constitute the so-called commons, common spaces that allow private spaces to communicate and interact freely.

Detailed analysis of the use of broadcast and TV wave spectrum is in this sense, very significant. In practice, the American government concedes spectrum bands to communication giants as we do in Brazil, virtually eliminating the possibility of each community to have its communication means, today a perfectly feasible and low cost technical affair. What we hear over and over again is that the spectrum is limited and therefore must be assigned to some and these, of course, monopolize access.

The first fact is that low power radio service is perfectly possible and must not be condemned as piracy. The second, more important, is that the idea of the limited spectrum is defended by enterprises, but it is true only because they use technologies that waste the spectrum: because they detain the monopoly, they are not interested, for example, in the sharing of bands (software defined radios) for use of waves, as in other means, using the “silences” and sub-utilization of the spectrum to facilitate various simultaneous communications, as takes place today in any telephone line. Lessig takes a tough stand with this overwhelming waste of such an important and natural resource – not created by anyone, so much so that it is granted by public license – as is the electromagnetic spectrum: “Pollution is precisely how we should view these old ways of using the spectrum: large and stupid towers invade the ether with powerful emissions, impeding smaller, less noisy and more efficient alternatives to flourish ... Commercial TV, for example, is an extraordinary waste of the spectrum, in the majority of contexts; the ideal would be to transfer it from the air to wires.”¹⁰⁶

Lessig is a pragmatist. For instance, he proposes that in each segment of the spectrum a free access band be expanded to balance private appropriation. In the various analyzed areas, he

¹⁰⁶ Lessig, op. cit., p. p. 243

seeks solutions that allow all to survive, but his concern is clear. “With these laws, technology now promises an almost perfect control over the content and its distribution. And it is this perfect control that threatens the innovation potential that the Internet promises.”¹⁰⁷

Rifkin analyzes the same process from another standpoint, highlighting especially the fact that the economy of knowledge changes our relationship with economic progress in general. The basic argument is that we are moving from an era of producers and buyers to an era of suppliers and users. The change is profound. In practice, we no longer buy a telephone (or the purchase is symbolic). But we pay every month for the right to use this item of communication. We also pay to have access to more decent television programs. We no longer pay for a medical consultation, but we pay monthly for a health insurance to have the right to access a healthcare service. Our printer costs a trifle; the important is to trap us into the regular purchase of an exclusive toner.¹⁰⁸

The examples are endless. Rifkin defines this tendency as characterizing “the era of access”. In our “*A Reprodução Social*” (The Social Reproduction) we already analyzed this trend that we characterized as “toll capitalism”. Just look at the number of fees we pay to have the right to banking services, or how condominiums on the beach block the access to stretches of sea while the ads “offer” them to us, as if they had invented the eighth wonder of the world. Free access to the sea does not fill anyone’s pockets. Let beaches be enclosed.

That’s how capitalism generates scarcity, since scarcity raises prices. According to this logic of the absurd, when fewer goods are available, they become more expensive, together with their potential value for those in control. There is nothing like polluted water to induce us to buy bottled water. People just don’t stop to think about it: we are buying water.

As such, all free spaces are going to disappear and we are more and more tied to a race to increase our monthly income, in order not to be deprived of a series of essential services, including participation in the culture around us. Life is no longer a stroll or a construction that belongs to us, but turns into a permanent struggle from toll to toll. Where previously people enjoyed playing an instrument, today they pay for the right to access the music, where before people played football in the streets, today they watch a sports spectacle while munching snacks on a sofa, all thanks to the pay-per-view.

¹⁰⁷ Idem p. 249

¹⁰⁸ Jeremy Rifkin – *The Age of Access* – Penguin Books, New York, 2001; published in Brazil as *A Era do Acesso*, Makron Books, 2001 – This need to pay a toll for everything we do, can be oppressive. Many invest their savings in their own house for the security of having a place to live that doesn’t depend on a variable capability of paying the rent. Today, everything depends on innumerable “rentals,” and we see no perspective on the horizon of living more calmly. A person, who for some reason loses his source of income, sees himself rigorously excluded from a combination of services that require regular payments. The situation, particularly dramatic for low-income retirees, has to be viewed from this perspective today, but in reality we are all feeling increasingly trapped.

The theoretical shift is significant. The owner of the production means had the key to the factory, a physical good that meant a concrete property, today he is the owner of a process and charges for its use. And as processes become increasingly permeated with information and knowledge, the intellectual property, patent and copyrights assume greater importance. As knowledge constitutes a good that still belongs to somebody after going on to another – and we are in the era of technology and connectivity – ease of dissemination becomes immense and private appropriation generates barriers. Thus, we see the weight of Gorz's suggestion that "the production means become susceptible of appropriation and of being shared". No wonder that the TRIPs (Trade Related Intellectual Property) negotiation has become the main debate of the World Trade Organization and is the core of the struggle for a freer society.

"Innovation", writes Stiglitz, "is the core of a modern economy's success. The issue is how best to promote it. The developed world carefully constructed laws that give innovators the exclusive right to their innovations and to the profits that ensue from them. But at what price? There is a growing feeling that something is wrong with the system that controls intellectual property. The fear is that the focus on profit for the rich corporations represents a death sentence for the many poor in the developing world."¹⁰⁹

For instance, explains Stiglitz, "this is particularly true when patents take what previously was of public domain and privatize it" – what attorneys of the Intellectual Property have called the new enclosure movement. Patents on Basmati rice (that the Hindustanis thought they knew for hundreds of years) or healing properties of *turmeric* (ginger) are good examples".

According to the author, "developing countries are poorer, not only because they have less resources, but because there is a knowledge gap. That is why access to knowledge is so important. But when strengthening the stranglehold on intellectual property, the IP rules (called TRIPS) of the Uruguay Round reduced access to knowledge for part of the developing countries. TRIPS imposed a system that was not ideally designed for an advanced industrial country, but it was even less adequate for a poor country. I was a member of the Economic Council of President Clinton when negotiations of the Uruguay Round were coming to an end. We and the Office of Science and Technology Policy opposed TRIPS. We believed that it was bad for American science, bad for the world of science, bad for the developing countries".

It is an important standpoint, at a time when it is proper to respect intellectual property without people noticing that we are essentially respecting their monopolization and stranglehold by intermediaries. We need more flexible and more intelligent rules and, above all, to reduce the absurd delays of decades that radically extrapolate the time required by an enterprise to recuperate investments on new technologies. As for licensing natural

¹⁰⁹ Joseph Stiglitz - *A Better Way to Crack it* – New Scientist, 16 September 2006, p. 20

resources of poor countries, to thereafter charge royalties on traditional production, it is plain extortion. Piracy in this case, comes from the top.

Thus, economics of knowledge sketches out a new international division of labor between the countries that concentrate on the intangibles – research and development, design, lawyering, accounting, advertising, control systems – and those that continue with tasks centered on physical production. Where formerly we had production of raw materials on one side and industrial products on the other, today we have a division more strongly centered on partition between material and immaterial production.

Of especially interesting reading is the book by Chang *Kicking Away the Ladder* that shows how today developed countries have appropriated knowledge generated in any part of the world by copy, theft or spying, without the slightest concern at the time with *intellectual property*. They used the ladder to go up and now kicked it aside, stopping others from following them. What would have happened to Japan or Korea if forced to close their eyes on the innovations in the rest of the world or to pay all the royalties? Chang's book is very well documented and shows how, before the Asians, the United States had already adopted the same practices, as well as Britain. The free access of poor countries to knowledge, an essential condition for their progress and for planetary rebalancing is today systematically blocked, when it should be favored and subsidized to reduce social and environmental tragedies.¹¹⁰

At another level, the change in the nature of production generates new relations and displaces the issue of labor remuneration. To measure labor hours worked, at this level of activity, becomes much less significant. Creative contribution with innovative ideas will not necessarily be proportional to the time we spend sitting in the office. Gorz cites a report from the Daimler-Chrysler manager of human resources: the contribution of “collaborators,” as he kindly calls them, “will not be calculated by the number of hours present but based upon the targets met and the quality of results. They are entrepreneurs”.¹¹¹ Thus, workers are promoted to entrepreneurs and why not, according to Gorz, to businessmen: “Instead of one who depends on the salary there should be the entrepreneur of the labor force, who provides his own qualification, improvement, health plan, etc. The person is an enterprise. Instead of exploitation comes self-exploitation and

¹¹⁰ - Ha-Joon Chang – *Kicking Away the Ladder: Development Strategy in Historical Perspective*, Anthem Press, London, 2002; in Brazil, Unesp edition 2003; in another book *Globalization, Economic Development and the Role of the State*, Chang presents results of various studies about the impact of protectionism thus generated by developed countries and concludes: “We have demonstrated that there is no theoretical basis for supporting the argument that strong protection of private intellectual property rights is necessary for technological progress and even for economic development, particularly for developing countries.” The “*cui bono*” here is clear: 97% of the patents in the world are issued to developed countries. (p. 293)

¹¹¹ A. Gorz, *O Imaterial, [L'immatériel]*, op. cit. p. 17

self-trading of ‘I Inc.’ that brings profits to the large enterprises that are the clients of the self-entrepreneur”.¹¹²

What we are trying to outline here is not a set of replies, but theoretical questions that challenge us as economists and that are the direct outcome of the broad tendency that we call knowledge economics. The main road to the appropriation of the surplus value moves from control of a factory or a piece of farmland to the control of intellectual property. As production relations change, the content and remuneration in the international exchanges are altered. These are lines of thought that demand new instruments for analysis and the quoted authors are opening visions worth following.

Under these circumstances, Brazil faces a peculiar situation, since by internalizing the North-South relationship with the setting up of a large transnational pole in the Southeastern region, it faces the most advanced contradictions created by the knowledge economy, as well as the precarious jobs economy generated by outsourcing, coexisting with the primitive relations of production inherited from previous economic cycles.

The challenge of democratization of economics takes on an interesting dimension, since access to knowledge, as a new factor of production, may become a privileged vector of productive inclusion of the masses of underprivileged. As we saw, once produced, knowledge may be disseminated and multiplied at a very limited cost.

We do not pay for walking or driving around in the streets, even if streets are expensive to build and to maintain. Having to pay for a stroll would be absurd. But that does not harm shopkeepers to make business on these streets. On the contrary, the free streets make good business possible. Free broadband access and free non-commercial access to information and knowledge work like streets and avenues for the knowledge economy, and it does not prevent creative people from using the infoways for economic products that will be sold. Democratic access to knowledge is a common sense concept, just as open streets are an obvious solution for a productive society. The right to access knowledge thereby becomes a central issue for the economic and cultural democratization of our societies.

12 – The economics of social services

Another line of thought that is changing the way we look at economic theory concerns the content itself of economic activities, meaning the profound change in the inter-sectorial composition of production processes. To take the big picture, if we look at the American example, agriculture currently involves less than 3% of the labor force and the manufacturing industry, in 2005, less than 10%.¹¹³

¹¹² A. Gorz, op. cit., p. 10

¹¹³ “For the first time since the industrial revolution, fewer than 10% of American workers are now employed in manufacturing. And since perhaps half of the workers in a typical manufacturing firm are involved in

The majority of our occupations have been called “services” as if the label would be self-explanatory. Castells is indignant and justly so: “Under the term services are dumped together miscellaneous activities with little in common except being other than agriculture, extractive industries, utilities, construction, and manufacturing. The ‘services’ category is a residual, negative notion, inducing analytical confusion”.¹¹⁴ Adopting Joachim Singlemann’s methodology, the author proposes a distinction of production support services (informatics, finances....), distributive services (transportation, communication and trading) social services (health, education etc.) and personal services (restaurants, catering, domestic...), and suggests that with the greater complexity of economics, the old Colin Clark paradigm that divided economic activities into primary, secondary and tertiary sectors be abandoned. According to Castells, “this distinction has become an epistemological obstacle to understanding of our societies”.¹¹⁵

The truth is that as the knowledge content of the diverse activities advances, the traditional classification becomes more precarious. What is of particular interest for us here is the confusion that arises from the excessively general concept of services obscuring an important phenomenon, the growing presence of social services in the overall economic activities. Above, we briefly mentioned this cluster of activities. Here, we are concerned with some characteristics that affect production relations of the sector and therefore the economic conceptualization.¹¹⁶

Above all, we must keep in mind that this field of activities is the one that expands the most. As we saw, health in the United States (adding public and private) represents today the largest economic sector of the country, with 17% of the GDP and growing, while industrial production represents 14% and is decreasing. Castells refers to a “dramatic increase of jobs with healthcare and in a lesser scale of jobs with education”.¹¹⁷ If we add health, education, culture, local police and the like, we have something like 40% of the jobs. There are large variations according to countries and classifications are questionable, but the fact remains that we have a giant growing and generating new production relationships.

service-type jobs, such as design, distribution and financial planning, the true number of workers, making things you could drop on your toe, may be only 5%. Is this a cause for concern? Our figure of 10% comes from dividing the number of manufacturing jobs – just over 14m, say the latest figures – by an estimated total workforce (including the self-employed, part-timers and the armed forces) of 147m. In 1970, around 25% of American workers were in manufacturing ... Most people today work in services: in America, as many as 80%” - *The Economist*, October 1st 2005, p. 69 It is interesting to remember that Manuel Castells predicted, in *The Rise of the Network Society* in 1995, that industrial labor in the United States would drop to 14% in 2005. In fact, as usual, things go faster than we imagined. (P. 223 of vol. I, Blackwells, Oxford 1996).

¹¹⁴ Castells, op. cit. p. 77

¹¹⁵ Castells, op. cit. p. 206; Anita Kon presents various attempts at classifying services in her *Economia de Serviços*, Ed. Campus, Rio de Janeiro, 2005, pp. 28ff; the classification by Singlemann, and a summary table may be found on p. 312 of Castells’ study.

¹¹⁶ We approach this sector of activities in a systematic manner in Vol. II of our *A Reprodução Social*, and in the article “Gestão social e transformação da sociedade”, <http://dowbor.org> (Artigos Online).

¹¹⁷ Castells, op. cit. p. 229.

Social activities are capillary – health must reach every person and education every child in the form of personalized assistance, which entails production relationships that differ from those in a factory with machines and workers, producing, for instance, shoes, sent to distant supermarkets. Health is not stored on shelves or sent in containers. Quality of education does not rest only upon the school, it also relies on the cultural climate generated within the country, among others, by the television programs. Forms of social organization generated by such activities are different from those that emerged with manufacturing. And the social activities are end-activities. Health, education, culture, safety – and time to enjoy them – that is what we want from life. “Production” or, for that matter, “services” are too general concepts to define anything usefully in a complex modern society.

Unquestionably, there is a capitalist way of rendering social services. Results, however, are that instead of health, the industry of disease surfaced, in the case of education, the diploma industry, in the case of culture, the entertainment industry, and so on. In theoretical terms, if there is a reasonable approximation between the profit objective and social satisfaction, for instance in the case of material production – Adam Smith’s example of the baker is always present – in the case of social policies the two objectives seldom coincide.

Usually the outcomes are disastrous. President Ricardo Lagos, of Chile, opened the International Congress of the Latin-American Center for Development of Administration (CLAD) in 2005 lamenting the rupture between privatized and luxurious social services for a minority and poorly equipped public social services for the great mass of the population. These are areas that, to operate adequately, must be public, decentralized and with a participative control by the communities. They involve collective consumption management, and strongly depend on a country’s overall level of scientific culture. It is to no avail if the rich have a luxury medical attention if there is no generalized social system of vaccination for disease prevention. Neither microbes nor mosquitoes heed the size of the bank account.

In terms of productive use of resources, there is little doubt about the widespread waste caused by privatization. An interesting correlation can be made here. Norway spends with health 9.6% of the GDP, with 8% in the public sector and 1.6% in the private; Canada also spends 9.6% with health, 5.7% in the public sector and 2.9% in the private. For the United States figures for 2002 are respectively 14.6%, 6.5% and 8.0%. Norway ranks first in the HDI and Canada fifth, the United States comes in 10th place. In the health component of HDI the United States are in 33rd place. In the United States, in 2002, expenditures with health were 5,274 dollars per person, in Canada they were 2,931.¹¹⁸

¹¹⁸ UNDP – *Human Development Report 2005* – pps. 219 and 236, Table I refers to the IDH in general and Table 6 refers to health policies. On page 58 there is an interesting note about health in the United States, in which it is observed that the United States leads the world in health expenditures, but since 2000 the tendency to “infant death rates first slowed and then reversed.” Of non-elderly Americans, 45 million are without a health plan. According to the *Report*, those lacking insurance have no regular accompaniment, and present

Indeed, this area relies heavily on collaborative forms of social organization. When an African country did not vaccinate children against poliomyelitis, an almost fully controlled disease broke out again. Education relies on an environment rich and dense in information throughout the territory, with libraries, theaters, intelligent television (yes), and intense cultural life. Culture itself, transformed into *entertainment industry*, generates passive and uninformed spectators. Safety transformed into industry of arms and drugs, takes nowhere: the United States have 2.5 million people in jail, everybody has weapons, and criminality is high.

The central role of social services in society is recent. Applying production relations typical of the industrial era to social areas merely leads to waste, inequalities and violence. These areas demand public, decentralized and participative management. Private institutions that work are non-profit foundations such as, for instance, many large American universities. The private ones operating for profit, such as Phoenix, turns out many diplomas and little science. It is interesting to compare the for profit universities or the health insurance controlled by financial institutions with the “Pastoral da Criança” (Children’s Pastoral) which today acts in over 3,500 municipalities of Brazil, is responsible for 50% of the infant mortality decrease for an 80% decrease in hospital admissions in their territories of activity. The monthly cost per child is of 1.70 reais, roughly one dollar. There is no health plan - nor any private enterprise – that achieves these cost-benefit results. Thus, the most competitive undertaking in Brazil is not based upon competition, but on a network of non-profit collaboration units. The Pastoral example can be found in big business publications, as an example of efficiency and of new horizontal collaborative networking. It simply works better.

The theoretical exercise imposed is the systemic analysis of sectors that comprise the area of social services. They demand different technical relations of production (usually not adapted to mass production, for example) and other types of social interaction (like the density of social networking involved). In a way, just as Marx analyzed in the 19th Century how the technical relations of industrial production affected the social relations of production, – involving for example integrated mechanical processes, the factory units and the rental of working hours – today we have to analyze what type of social organization is being built by social policies. As economists, we are far from answering this challenge.

In Brazil, in particular, (with honorable exceptions) an epistemological rupture took place between economists on the one hand, serious people who deal with interest rates, exchange, inflation and the like and, on the other hand, soft hearted people who deal with the social area. The large banks which block development and burden all our activities and charge absurd tolls on access to our own money, are presented as growth factors, while the social areas that directly respond to what we want from life – health, safety, culture, etc. – are

greater chances of being hospitalized, generating health problems and spending much greater than if they had coverage.

presented as “costs”. In this view, the taxes McDonald pays allow us to spend more on obesity medicine. It is an upside down world.¹¹⁹

The fact is that private for profit enterprise works well for the production of shoes, for example, which can be sent by containers, put on shelves, sold, and the money goes back to its origin for another cycle. Education, health, or community safety are not off-the-shelf products. And the money cycle involved is more complex.

For us the main point is that the mechanisms that govern the social areas are still on the fringe of the mainstream of economic analyses, like adjuvants of the process, when this is an area that typically encompasses – both in jobs and economic value – the double or triple of the activities that produce physically measurable goods. Where social services are adequately managed, considering their capillarity and character of collective consumption, they generate decentralized and intensely participative frameworks and therefore are a powerful social organizer, enriching with economic and social democracy our forms of social organization. Privatization of the social areas lead to high costs and low productivity, in turn leading to an overall high cost economy such as we have in Brazil. The corporate world is entering with a heavy hand to this area, systematically fighting democratic access to health, education and culture. When there is democratic access there is a lot of social gain, but little short term profit.

13 – The economics of time

Time is our primary not renewable resource. The waste is monumental for practically everybody. We are all aware that time is money, but few of us think about what is being bought. Time is the time of our life. Money lost may be recuperated, yet life...

Keynes had a very sympathetic view of the love for money: “The love of money as a possession – as distinguished from the love of money as a means to the enjoyments and realities of life – will be recognized for what it is, a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease”.¹²⁰ He wrote this in the thirties. It is difficult to escape the impression that these are the kind of people we trust our money to, and with our money they run the rest.

We are fully aware of the economic value of time. Any entrepreneur keeps a rigorous account of the time of his employees because this time is his money. Kuttner reports the

¹¹⁹ In the book *A Economia Social no Brasil (The Social Economy in Brazil)*, 2003 by Editora Senac, by Samuel Kilsztajn and the collaboration of a series of authors we tried to open more channels between the absurdly separated economic and social areas. In the entrepreneurial area itself, the comprehension of this need is becoming clearer.

¹²⁰ John Maynard Keynes–*Economic Possibilities for our Grandchildren*– (1930), in *Essays in Persuasion*, W.W. Norton, New York, London, 1963, p. 358ff.

visit he made to a telemarketing center where the girls are allotted only two seconds between one call and the next: once the two seconds are over, the salary starts going down. The documentary *The Corporation* shows enterprises where leading brands keep score of even hundredths of seconds of the operations of seamstresses.

Waste of our time is probably one of the more powerful externalities of capitalism. When a bank reduces the number of attendants and we wait in the line, it reduces the time of work offered that represents cost and increases the time lost by the clients that does not cost them anything. It just has to make sure that other banks are doing likewise, to avoid a bad name. The bus company prefers to have the bus well filled, improving its profits per passenger/mile, even if this entails time lost by the riders waiting at the bus stop. When we call a telephone service and wait for an eternity listening to how important our call is for a mysterious “us”, unquestionably our waiting time represents a cost for ourselves, but not for the other “us”. When we wait at home for the call of a technician or for a delivery, we were informed that we should be at home during business hours, at any moment of the day. Of course, as we have nothing to do, we will wait because we need the service. The enterprise does not commit to a promised schedule because flexibility allows it to save time. Basically, it is believed that an enterprise’s time is valuable whereas the consumer’s time is useless.

To have time to do pleasant things, is probably the major objective of how we organize ourselves as a society. That is to say, we must advance from the economics of time as a micro-economic concern, where the enterprise calculates our seconds, towards a social point of view, assessing the efficiency of our social organization according, in great part, to the freedom we have of choosing how we use our time.

The standpoint is quite evidently connected to the works of Amartya Sen, with the understanding that poverty is not necessarily being deprived of the right to certain products but also privation of a right to options. And the option of how we make use of our scarce time of life is essential.

In a work by Marcelo Traldi, a questionnaire about the use of time by middle class families led to interesting things, such as the fact that a professional classifies as leisure hours the time when, sitting comfortably at home, he reads a good technical book. The same activity in the office would be classified as work or even a sacrifice.¹²¹

We inherited from the Jewish-Christian tradition the virtue of sacrifice. The more our life is sacrificed, the more we are worthy of some kind of reward in this or the next life. In reality, doing a good job, exercising our creativity or simple ability, was never a sacrifice. Business Week is surprised, in a cover article on Linux, with the number of people who contribute to

¹²¹ Marcelo Traldi Fonseca – *Para onde vai o nosso tempo? Estudo exploratório sobre a utilização do tempo livre (Where Does Our Time Go)* – Master’s Dissertation in Administration, PUC-SP, 2004; see <http://dowbor.org> under “Pesquisas Conexas”.

the construction and improvement of free software, for the simple pleasure of creating something good and being useful. On the other hand, an unemployed person may unquestionably feel desperate – and this is especially true of the young – for not contributing, not participating, not *belonging* to a social process. And it is not only a question of income.

The economics of time does not exist as a scientific area but it is essential. It rests upon a basic premise: time as an economic category is not limited to the paid productive activity. Intelligent use of our time, in its diverse components, of sleep that recoups our strength, of entertainment that retrieves our inner balance, of the care with our children, the flower planted in the garden, chatting with friends, doing something useful in a work environment that respects us, all comprise the end-target, the quality of life we seek.

Let us get back to Keynes' text. Evaluating, in 1930, what would be the life of his grandchildren, who would have the intelligence to profit from the technology and productivity progress, he suggests "three-hour shifts or a fifteen-hour week may put off the problem for a great while. For three hours a day is quite enough to satisfy the old Adam in most of us"; Of course, there were technological breakthroughs that he was unable to foresee and surpass what he could imagine. Nevertheless, we are killing ourselves with work, and even proud of it.¹²²

There is a surrealistic dimension in the irrationality involving a poor distribution of our efforts. Part of society is desperate because of work overload and the other because it has no access to work. A minimum of common sense in the distribution of efforts is, in this sense, one of the central objectives of social management. In terms of regulation of the economy of time, one reaches the conclusion that the market is a structurally inadequate mechanism for work resource allotment: we need systemic solutions. There is nothing new in this finding. But from the standpoint we are suggesting here, when we attribute an economic value to social time, unemployment is no longer seen only as a regretful situation of despair, limited to the poor devils that did not get diplomas and hence "employability" status, but a cost for society: the value of the time wasted may be much higher than the cost of measures of organization that would useful jobs for all.¹²³

Another dimension of the economics of time involves the irrationality of the accumulation process. If we view time as an economic category and therefore waste of social time as a cost, we must think, for instance, about how to solve our transportation system. We work hard to earn money to buy a car. In the city of São Paulo, because of a dramatic shortage of public transportation, everybody tries to own a car. The practical result is, as we have seen

¹²² Keynes, op. cit. The old Adam, of course, is who earns the bread with the sweat of his brow...

¹²³ The classic work about the theme is by Guy Aznar, *La révolution du temps de travail* ["The Revolution in Work Time"]- prefaced by André Gorz in *Personnel*, - Paris. N° 348, February 1994, p. 8-75, *Futuribles*, [*Working Less So That All Can Work*] –Keynes had already made a point about "the enormous anomaly of unemployment in a world full of needs."

above, that we travel at an average speed of 14 kilometers per hour. We pay for the car and are tied to the recurring expenses with fuel, insurance, repair, parking, hospitals, not to speak of the fines and eventually the psychoanalyst and the tranquilizers he recommends.

When we confuse means and ends, we mix up use of our time with a perennially postponed happiness. The main target, the real value we pursue, it is quality of life for the greatest number, including our children and grandchildren. This quality of life involves, for example, being able to use a swimming pool or to rest during the weekend in a country house and so on. But do we really need to be the sole owners of these infrastructures? The truth is that we spend endless years of work to pay for them and we always underestimate the recurring expenses in the guise of maintenance, taxes and others. If we calculate the time of work destined to buy them, the time of work spent to keep them up and how little we use them – precisely because we have no time – we will see that it is much more practical to rely on social solutions.

Toronto, for instance, has many public swimming pools; furthermore, the school sport facilities are open to the general public. Residents do not need to remember the water's pH, if chlorine was bought, if the pool maintenance guy was paid – he only takes his shorts and bike and goes to the swimming pool where he can meet friends, where the children may swim at ease as there is municipal surveillance and protection and so forth. What is the intelligence of looking at your own empty swimming pool—they are so seldom used—and bearing the full cost, not to speak of the waste of water and mosquito nets?

When we dilute the leisure infrastructure costs among all citizens, they become very low. But above all, we do not constantly lose our time and money to organize the pleasant use of our time in the future. It is not a matter of disparaging consumption, but to consume in an intelligent way. With the inclusion of social time as an economic issue, the logic of social investment changes. When we follow the lifestyle of an average middle class couple, it is remarkable how there are periods of killing oneself with work to purchase all these things and then a struggle to get rid of these same things to retrieve the right to the money and time lost along the way.

The city of São Paulo may provide us here with a good illustration. São Paulo has 11 million inhabitants. The city's GDP is 320 billion reais. Dividing the GDP by the population gives us a *per capita* GDP of 29 thousand reais, roughly 17 thousand dollars a year. This is clearly a very high amount. But what is of interest for us here is that based upon this figure we can calculate the value of the hour *per capita*. Dividing 29 thousand reais by 8,760 hours, which is the number of hours in a year, we reach the value of 3.30 reais, about 2 dollars. This would be the mean value of the São Paulo citizen's hour, in general terms¹²⁴

¹²⁴ Data from Seade Foundation, www.seade.gov.br/produtos/perfil/perfil.php, *Perfil Municipal*, (Municipal Profile) São Paulo. There are various approaches to this calculation, but the point is to become aware that our

To define a basic value for the time of the “paulistano” allows us to reach a much more realistic outlook of the economic accounts. Essentially it is a practical way of allocating an equivalent money-value to a set of activities we do not account for, simply because they do not cost money nor bring about a register of monetary exchanges. Here, the issue is not to replace the concept of the Gross Domestic Product, but to give economic visibility to a set of activities not accounted for, but which are time consuming activities. If we use a general money equivalent to our time, we can have a more realistic GDP, not to speak of other possibilities.¹²⁵

It is widely known that time lost in traffic is a waste. From the point of view of the GDP growth, the fact that so many are obliged to buy a car and use it permanently – due to the precariousness of public transport services – appears to be a positive. The production of cars, fuel consumption, infrastructure investments, accidents and hospital bills all improve GDP. Starting in 2003, the World Bank began to discount in the calculation of the contribution of car production to the GDP, costs generated with healthcare. In our case, in a broader approach we shall consider that the six million people in the economically active population of the city are penalized by losing time in transport means where they do not rest, produce or invest (except those very few who for instance profit from traffic jams to study languages and similar activities). One hour lost by six million active persons means six million hours lost. If we calculate the value of the lost hour at 3.30 reais, these add up to 19, 8 million reais lost per hour, a little over 10 million dollars.

According to surveys of the *Nossa São Paulo Network*, the average active citizen of São Paulo wastes two hours and forty minutes in traffic each day. This means a time-cost of 52.8 million reais per day, representing the extent of the losses caused to the city by the inefficiency of transport options. Another way of approaching this calculation relates to investment policies. If São Paulo loses, in round numbers, 20 million reais per hour of time lost in traffic, this means if investments in the subway and bus corridors would save half an hour per day of our time, this would add up to 10 million reais gained per day. Since a kilometer of subway costs 200 million reais, in approximate values, this means that in the calculation of return on investments we should take into account not only how much people will pay for the tickets, but also the diffuse savings for society as a whole. With 10 million saved per day, this alone would already pay for a kilometer of subway every 20 days.

Not to include this calculation in the evaluation of investments is to make decisions with the wrong numbers. From a micro-economic standpoint it is even correct since those who invest believe that what interests them is only the money from the tickets: savings made by

time is not free and that when somebody wastes it, this waste has to be taken into account. See our technical note *The Economic Value of Free Time*, 2010, <http://dowbor.org/10timevaluejun2010.doc>

¹²⁵ The GDP itself is being reevaluated in the most varied jurisdictions. About the shortcomings of the GDP see our *Debate sobre o PIB: estamos fazendo a conta errada GDP* (We are making the wrong calculations). http://dowbor.org/09_pibestamosfazendoacontaerrada.doc

the population as a whole do not fill their pockets. But from the standpoint of the systemic productivity of the territory, the overall rationality increases, because as people waste less time and money in transportation, every one will be better off. And the overall transportation costs (fuel per person per kilometer and the like) will fall. Incomplete accounting is wrong accounting. It is important to remember that the most costly option is the most profitable for car makers, gas providers etc., if users agree to pay. And if there is no decent public transportation, the users have no option, and pay.

Here we have a proliferation of studies where the idiocy of wasting the principal non-renewable resource of our life becomes more evident. Robert Putman, regrets that “one of the inevitable aftermaths of how we organized our lives in terms of space is that, every day we spend more time to move ourselves around in metal boxes between the vertices of our private triangles. According to the Personal Transportation Department Study, adult Americans spend an average of seventy two minutes per day at the steering wheel. These studies on daily use of time indicate that this represents more than what we spend to cook or eat, and more than double what parents spend, on the average, with the children. Travelling in private cars represents more than 86% of all trips in America, two thirds of car use is for single persons and the fraction continues to climb”.¹²⁶

An indirect impact of this process is the growing isolation in which we live. Putman insists on the disjoining impact of social interaction brought about by commuting. On one side, he states that “every additional 10 minutes spent daily by commuting reduces community involvement by 10% – less participation in public meetings”, etc. On the other, “a further curious fact is not only the time spent in the car, but also the spatial fragmentation between home and work place, which is bad for community life”. We are familiar with this phenomenon in Brazil, with the spreading of the dormitory towns and all their impacts in terms of cultural poverty, crime and others. And among these others, something we call happiness.

The process in itself is quite interesting. Once we think of free time as a social economic category, we enter into a modern view of economics, centered on the outcomes, on the quality of life. In economic terms, this means we assign a value to the time not directly hired by an employer – and that enterprises consider free to squander as it does not burden them – as well as to time devoted to socially useful activities, not pertaining to the monetary circuit, such as family care, tending our garden etc. In Brazil it is curious that the working days are called ‘useful days’ (*dias úteis*). We are losing touch with what is really useful.

The invasion of our conscious time is also noteworthy. The cost of advertising, for example, only accounts for the expenses with different media that publicize advertisements.

¹²⁶ Robert D. Putnam – *Bowling Alone: the Collapse and Revival of American Community* – Simon and Schuster, New York, 2000, p. 212

The advertisement that invades the program I'm watching, forcing me to "zap" among a pile of nonsense on different channels, is a loss of time. Who pays for this time, for the rest that I am not enjoying? The advertising entrepreneurs, of course, will tell me that they are "offering" me a program. As people get lost in the economic explanations, only a few understand the process, and the argument holds. However, advertising costs are in fact included in the prices of a wide range of products. When a competitor uses advertising on his products, other competitors follow suit, so as not to lose market share. In the ensuing cacophony no one pays any attention, but no one can escape. This is the traditional story about "sit down!" that football fans shout, since those sitting down alone are unable to see the game. As mentioned in Juliet Schor's examples, what is wasted in the process, in addition to our money, is our time.

Invasion of our conscious time, when we are doing something we like or we chose to do for some reason, is a cost. In so many cities, we do not see houses or landscapes, we find ourselves in a corridor of outdoors. If we want to enjoy a minimum of tranquility, listening to music, our attention is constantly distracted by advertising. We could ignore the ads, but this is not our nature: we are made to pay attention to what is going on around us, which for example may help us avoiding an accident. The outcome is a tension between what we consciously want to do and the incessant invasion of interfering messages. Literally, this is garbage we have to throw away every moment. The process is tiresome, and has been studied as "sensorial overload". It costs money to all of us, generates only fatigue and an overall atmosphere of obsession for consumption. Is it worthwhile paying for? And it costs the loss of our conscious time.

It seems as though people are slowly becoming aware. There is a nice book by Eduardo Gianetti, called "Felicidade" (Happiness). Who would imagine an economist thinking about this? The book by Bruno S. Frey and Alois Stutzer, *Happiness and Business*, is excellent reading. Also particularly interesting is the work by Tim Kasser, *The High Price of Materialism*, which presents many surveys on the relation between the level of satisfaction with life and orientation towards the accumulation of material wealth. Rosiska Darcy wrote a fine book, *A Reengenharia do Tempo* (The Reengineering of Time).

Democratization of economics stands for much more than political balance: it represents a retrieval of the meaning of things, a re-encounter between economic instruments and human objectives. There is obviously a *psychopathology of everyday economics* that Milton Friedmann forgot to write about, which can be seen in the apoplectic face of one driver cursing another, or on the tired face of a woman who faces a triple shift journey and is supposed to look happy and, if possible, sexy. Life need not be as idiotic as it is.

Our purpose here is not to enumerate the gaps of economic science, but to show that when the values we wish for – namely the quality of life – are added to the core of economic outcomes, areas that normally are not taken into account emerge as economic categories. By retrieving the Lafargue, Russell and more recently De Masi tradition of leisure studies,

we begin to shape a content for our aspirations as human beings. Assigning an economic value to free time is a practical way to charge the economic agents for the time they make us lose. Economics are but a means, the objective is life. To submit corporations to our human objectives, instead of being impelled by them into a senseless race, makes more sense and is certainly far more democratic.

14- The Economics of sustainability

It seems rather absurd, but the essential economic theory with which we work does not take into account the planet's decapitalization. In practice, in domestic economy, it would be as if we could survive by selling the furniture and silverware, and believed that with this money, life would be good and therefore, we would be managing our home well. We are destroying the soil, the water, the life in the seas, the green canopy, the oil reserves, the ozone layer, the climate itself, but what we are accounting for is only the growth rate. Stiglitz uses a very good image: we are driving this planet looking only at the speed, the percentage of GDP growth, without bothering to think of how much gas is left.

Above, in the item "Measuring Results", we saw the various initiatives of changing accounting to portray the decapitalization of natural resources and other issues. Here, we are interested in the distortion of economic theories and in the necessary changes. Economics has focused on the diverse mechanisms that make the economic machine work faster, if possible avoiding short term disasters. The key variables are the rates of investment, interest, inflation, jobs, the balance of payments, the debt level and the consequent growth rate. According to the resulting growth numbers, we have either a bull or a bear market.

For some reason, studying these correlations and eventual causalities has been called a science. But brought down to earth, the complexity is roughly the same as my analysis that, given the resources I have, I must choose between buying a new car and fixing the roof, between consumption and investment, what amounts to rational allocation of resources, translated as good use of money. The mechanisms of financial speculation may look very sophisticated, but they amount to making money without having to work for it, an obvious result we have been reminded of in the recent financial crisis. We may not necessarily understand the "how", but the very simple fact is that our pockets are being picked.

The growth rate is indeed important, because if the economic machine is not moving ahead, we won't be going anywhere. However, a growing number of people ask the obvious question: where are we going?

Once again, we must have a long term and systemic vision. The mainstream of economics has banned the long term (nothing is very sure, least of all the unpleasant issues, and we shall all be dead anyway), and desperately tries to avoid facing issues of the structural impact of how and for whom we are wasting our limited resources. Adam Smith with his

division of labor, Malthus with the analysis of demographic trends, Marx with the analysis of the transformation of production forces, Schumpeter with the analysis of the dynamics of technological renewal, Castells with the study of the network society – analyzed reality by placing structuring or re-structuring elements of economics in the center their studies. They may have been right or wrong in their conclusions, but the categories used led them to look at the structural impacts.

One of the richest innovations, when renewing economic science, is the fact that a large group such as the Club of Rome, even making inflated projections, has put the long term view on the table again. Thousands of researchers have thrown themselves into the organization of the correct figures. And the main thrust of theoretical enrichment in this direction was unquestionably the concern with deterioration – and in various areas, destruction – of the environment. Let us that recall the reaction to the environmental issues in the corporate world and mainstream economics consisted until recently in ignoring the problem, pointing to the glamour of consumption, and suggesting other opinions came from some headstrong bores who refused to enjoy life. Perhaps, one of the most tragic features of neoliberal economics and most childish from the scientific point of view, is that it sees production (growth of the GDP) pretending not to see the costs (decapitalization of the planet, polarization between rich and poor, generalized waste of resources, social disarticulation). When we restrict our analyses to a quantitative comparison with the previous quarter and with the equivalent quarter of the previous year, of the outputs of goods and services, indeed one can ignore a lot of things. You throw collateral damage out of your accounting, call it “externality” and the trick is done.

It is not a question of ignorance. Corporate managers are aware that forests are disappearing, that the easy-oil era is ending, that ocean resources are being depleted. The tragedy is that conscious people in corporations are limited in their options. Industrial fishing enterprises comment that in the rush for what remains, profit goes to whoever gets to the resources first. And the resources will disappear anyway. Thus competition in an environment of scarce resources becomes counter-productive for everyone, and generates disaster on the long term.

It is impressive how the Brundtland Report continues to be timely, over twenty years after its release. This is not only due to the accuracy of the analysis but also because structural issues do not change from one day to the next. “Seen from space, the Earth is a small and fragile ball, mastered not by the work of man but by the ordered array of clouds, oceans, vegetation and soils. That humanity is unable to act according to the natural order, is fundamentally changing the planetary systems. Many of these changes are life threatening.

This new reality, from which there is no escape, has to be acknowledged – and faced”. This is our long-term starting point.¹²⁷

Regarding the long term and structural impacts, the Report is eloquent. “We borrow environmental capital from future generations without the slightest intention or perspective of returning it... Effects of this current dissipation are rapidly curtailing the options of future generations. Many of those responsible for decisions taken today will be dead before the planet begins to feel the more severe effects of acid rain, of earth warming, of ozone layer reduction, of generalized desertification or extinction of species.”

In this encompassing and long term overview of our little planet, the authors were naturally led to include in the analyses the social dimension of the economic processes: “Poverty is one of main causes and one of the main effects of the world’s environmental issues. Therefore, it is useless to approach these issues without a broader perspective that comprises the factors underlying global poverty and international inequalities... Ecology and economics are increasingly intertwined at local, regional, national and world levels – in an interactive network of cause and effect”.¹²⁸

It is therefore interesting to see how the environmental theory and the outlook of sustainable development may restore economic science to its bearings. Overcoming the narrow economic outlook, we are led to the process of social change and how it relates to our small planet. Concepts such as eco-development and eco-economics are gaining ground. Once we take the long term view, the structural implications as well as the historical outlook appear. Both the systemic approach and the long term view inevitably lead us to the normative level implicit in economic options, the values they support or destroy, the purpose of the whole process. In turn, the values and social objectives tend to shape the eminently political guidelines, subject to democratic decision. Hoping markets will solve our problems is wishful thinking, and frequently self-serving ideology. Having to invent the field of eco-economics, as if there could be economic science not taking the issue of existing resources into consideration, is ridiculous. Nothing to do with science.

Edward Wilson’s book *The Future of Life* is, first of all, beautiful. All data about our environmental drama are there, the text flows smoothly, and the author succeeds in both informing us and making us appreciate the subject. The resulting image, an overview of our environmental issues, is very rich.

Wilson is not a dreamer, an enemy of technology. Nevertheless he is aware of issues that this technology generates, and that it has to help us solve them. One of the issues mentioned is our “footprint”: to survive, the human being occupies space of dwelling, of

¹²⁷ UNCED (United Nations Commission on the Environment and Development) – *Our Common Future* - FGV, Rio de Janeiro, 1988, p. 1 - The study is also known as the Brundtland Report, for Gro Brundtland who coordinated it. For a recent overview, see Lester Brown, *Plan B 4.0*, 2010. For some reason the author considers that our “Plan A” is not working. The study is available online free.

¹²⁸ Idem, citations taken from pages 4 and 8 of the Report.

agriculture and others, adding up to 2.1 hectares per person, as a world average. The American, a little more demanding, needs 9.6 hectares. If one were to follow the American model, today we would need four Earths. It took us a long time to become aware of the fix we got ourselves into: "Humanity has so far played the role of planetary killer, concerned only with its own short-term survival...We know what to do, perhaps we will act in time".¹²⁹

The environmental issues lead us to the basic question, once again, of values: what is this all about? Showing off? Having a bigger car? "As in the case of all major decisions, the issue is moral. Science and technology are part of what we can do, moral is what we have agreed we should or should not do. Ethics, the source of moral decisions, is a standard or reference of behavior that supports a value, which in turn relies on the objectives. Objectives, whether personal or global, originated from our conscience or engraved in sacred scriptures describe the image we have of ourselves and of our society. In short, ethics evolve stepwise from the self-image towards the objective, towards values, towards ethical precepts and moral reasoning."¹³⁰

We are back to the core of Celso Furtado's thinking, of values in the center of the way we look at economics. Wilson keeps in mind the economic theory but is aware of how far it has strayed from reality. "In an analysis published in 1998, Norman Myers and Jennifer Kent from the Oxford University estimated the yearly subsidies in the world between 390 and 520 billion dollars for agriculture, 110 billion for fuels and nuclear energy and 220 billion for water. These and other aggregated subsidies increase to more than 2 trillion dollars, a good part of them damaging our economies as well as our governments. The average American pays two thousand dollars a year in subsidies, belying that the American economy operates with a really free competitive market".¹³¹

The process is particularly perverse, because when corporations extract the capital we received from nature, they bear only the expenses of extraction and distribution, although they call it "production". No one will demand that they replace the natural capital. Much to the contrary, we still subsidize them, generating as a whole an environment of exorbitant profits that allows them to occupy a growing space of political power, among others to politically negotiate access to nature's riches.¹³²

¹²⁹ Edward O. Wilson—*The Future of Life*—Alfred A. Knopf, New York 2002. p. 102

¹³⁰ *idem*, p. 130

¹³¹ *idem* p. 184 —The quoted study by Norman Myers and Jennifer Kent is *Perverse Subsidies: How Tax Dollars Can Undercut the Environment and the Economy*, Washington, Island Press, 2001 - Wilson, looking at the behavior of corporations, clearly takes sides: "At the risk of seeming politically correct, I will now close with a tribute to protest groups. . . The protest groups are the early warning system for the natural economy. They are the living world's immunological response. They ask us to listen." (p. 184).

¹³² Wikileaks managed a peek at how Shell controls key ministries in Nigeria, in a candid analysis by the American Ambassador, Wikileaks, December 2010; also see the excellent paper by Joan M. Alier, *El caso Chevron Texaco en Ecuador*, 2011, <http://bit.ly/fb45Hj>

The environmental issue thereby induces us to reconsider the economic paradigms. At an international seminar on water management, the issue arose quite neatly: water is a free good, and is merrily squandered until it becomes scarce. But it is an essential good for direct human consumption as well as for production processes. Those who pollute water reduce access for all and render appropriation more profitable, generating a vicious circle. The American corporation Bechtel, which through political pressure obtained monopoly over water in Cochabamba, made it illegal even to store rainwater. The scarcer the better. They faced violent protests and had to back out. The very idea of making more money by reducing access sounds as an epitaph for the system. The evident solution lies in collaborative processes, in the building of a rational evaluation of priorities and pricing. Market mechanisms are absolutely not a solution, we need a corresponding policy. Which does not mean that market mechanisms do not work in other areas. We are too complex a society for a “one size fits all” solution, the different pro or anti-market fundamentalisms.

Basic rounded figures show the following: to produce one kilo of grain demands a thousand liters of water, one liter of milk requires two thousand, a kilo of sugar three thousand, a kilo of rice up to five thousand. To produce the cotton found in a shirt costs six thousand liters, one big hamburger, eleven thousand, one kilo of coffee, twenty thousand, according to Fred Pearce. “The world produces twice as much food as one generation ago, but spends three times as much water for its cultivation. The International Water Management Institute (IWMI) estimates that in India 250 cubic kilometers of water are extracted from the groundwater, about 100 cubic kilometers more than is replaced by rain”. The practical outcome is that immense water reserves accumulated during centuries are rapidly running out. Where formerly there were primitive wells, now small pumps are used that pull water from ever increasing depths. Where open wells used to find water at 10 meters depth, today they have to go down 400 meters and even so they dry out. Small modern pumps that individual farmers buy in India draw 12 cubic meters per hour. Multiply this by millions of farmers...¹³³

The system has a relentless logic. An interviewed farmer comments: “Yes, I am worried that the water will disappear, but what can I do? I have to live and if I don’t pump the water, my neighbors will”. Pearce states that “all have full access to the equipment and overexploitation is almost unavoidable. It is a classic case of tragedy of the commons”.

Tushaar Schah from IWMI, “estimates that India, China and Pakistan together pump probably about 400 cubic kilometers of underground water per year, about twice as much as that replaced by rain”...” In addition to Asia, similar revolutions are taking place in

¹³³ Fred Pearce – *When Rivers Run Dry* – Beacon Press, New York, 2006, 320 p. (in *New Scientist*, 25 February 2006, p. 36); The *New Scientist* can be accessed at www.newscientist.com; see also the studies by Lester Brown about the “water bubble” that is going to burst with the over-exploitation of water. www.earth-policy.org/indicators/water/2006.htm, as well as *Plan B 4.0*, 2010, New York, Norton 2009

overcrowded countries such as Mexico, Argentina, Brazil and Morocco. Even the United States is exhausting precious underground water reserves to cultivate grain and beef for export”.

The international dimension is becoming evident: “Without being aware, a large part of the wealthy world is importing harvests generated by overexploitation of underground water reserves – cotton from Pakistan, rice from Thailand, tomatoes from Israel, coffee from Ethiopia, even oranges from Spain and sugar from Australia”. This radically changes the way we calculate our water consumption. “A typical Westerner with his carnivorous habits and waste of milk consumes up to one hundred times his weight in water every day.”

Is there an alternative? Curiously, it entails going back a little. In other times, the Hindustani dug innumerable small dams to hold the water in the valleys, which boosted infiltration into the soil and replenished groundwater. The small basins thus created were called *tanka*, a name the British adopted in the form of *tank* and we Brazilians transformed it in *tanque*. The process was renamed ‘water harvesting’: “In parts of Delhi where old *tanks* and waterholes were cleaned and waste removed, the water collected is replenishing the groundwater. The capital city could obtain one third of its water by collecting rain.”

The process obviously involves community organization. According to Schah, “an important factor in India is community control. Few individual farmers can successfully catch their water and store it underground – it would quickly dissipate into the larger aquifer. But if an entire village does it, effects are often spectacular. Ground water levels rise, dried out streams flow again and there is more water for irrigation, improving productivity of the fields.”

According to Schah, the movement to collect rain water “is mobilizing social energy on a scale and intensity that may turn it into one of the most effective responses to an environmental challenge anywhere on the planet”. This view also serves to recall the pioneer efforts of ASA “Semiarid Association”, about a thousand organizations of civil society fighting drought through family cisterns that collect rainwater from roofs.¹³⁴

In terms of economic theory, the example water example is important. In the economic mainstream we are stuck with the eternal image of Adam Smith’s baker, who, to maximize his own advantages, should produce more bread, of good quality and for a good price, or other bakers will appear. Thus, each one seeking his own interest will bring about a greater common good. The reasoning is certainly valid for the case of the baker and for that time. In the case of the Indian farmer seen above, however, the same reasoning brings about other results. The basic argument is that he has to feed his family and that anyway his neighbors also catch water from the same groundwater. That is to say, as each one cares for his own interests, the outcome is a general impasse. The basic rationale of mainstream economics is here totally inverted. Solutions arise in the community initiative of protecting

¹³⁴ about the initiatives of ASA in the Brazilian Northeast, see www.asabrasil.org.br

the common good, privileging the paradigm of collaboration over that of competition. The ways have changed. Beyond the tragedy of the commons, what we have here is the tragedy of private initiative, with powerful technologies and next-quarter-profit glasses.

With 7 billion inhabitants with a rising level of consumption, scarce goods are becoming the rule. Thus we face a widening gap in economic theory. We do not have a few issues of commons such as water, we have the issue of a commons planet. In the introduction of a book about water management, we emphasized these new challenges “We know how to manage an enterprise that produces shoes or cars; we know how to organize a ministry. But as innumerable public goods, the commons, become increasingly threatened and scarce, we have to start the discussion about innovative forms of management that simultaneously warrant economic feasibility, balanced access and environmental sustainability.”¹³⁵

Another good reading on economics and sustainability is Herman Daly. In his *Beyond Growth*, Daly presents four objectives: growth has to be *sustainable*, that is to say it has to respect a scale that in the long term the planet can support; this in turn implies that we respect the outlook of *sufficiency*, because it is impossible to forever increase our consumption without destroying the bases of reproduction; we have to ensure *efficiency* in the use of resources to minimize the impact and reduce the overwhelming wastes of our current way of economic organization; and we must warrant the *equity* of distribution, something market mechanisms do not ensure.¹³⁶

Traditionally, theories concerned with exploitation and inequality have centered on the distribution problem. This point is certainly essential: capitalism as we know it is a reasonable allocator of resources for production, but does not know how to distribute, on the contrary, there is a tendency to concentrate power that reinforces concentration of income. That is to say, the system is structurally incomplete, since it is distribution that closes the cycle of reproduction through consumption. Moreover, we have to go further. In Daly’s words, “The market’s inability to solve the problem of just distribution is widely recognized, but its similar inability to solve the problem of optimal or even sustainable scale is not as widely appreciated”. Thus “decisions affecting sustainable development should be open and permit informed participation of the affected and interested parties”.¹³⁷

Bob Goudzward and Harry de Lange expand this vision of “optimal scale”; it is increasingly obvious that expansion of consumption leads us to an impasse in terms of environmental exhaustion of the planet, of inequalities, of social and political disruption. An important and very simple concept emerges: what is *enough*? These authors begin with the fact that “because of our collective thrust towards more and more, we directly

¹³⁵ Ladislau Dowbor and Renato A. Tagnin (Orgs.) – *Administrando a água como se fosse importante [Managing water as if it were important]* – Senac, São Paulo, 2005, p. 12

¹³⁶ Herman E. Daly – *Beyond Growth: the economics of sustainable development* - Beacon Press, Boston, 1996 – see in particular pages 50 and 224.

¹³⁷ Idem p. 50.

jeopardize our own wellbeing. We need another outlook on life, an outlook where the word “enough” plays a positive role. Implementation of such an outlook will disclose new possibilities for neighborliness, to demonstrate care with our surroundings, to have more time available in our fast paced lives. Such an outlook will help to free not only the poor but the rich as well. “One more lost evident idea must be recovered: people are not made for production but production for the people”.¹³⁸

We are not endeavoring here to summarize some environmental issues. We are trying to clarify the importance of environmental issues on how we reconstruct economics. Once again, we find that studies starting from concrete problems such as sustainability lead to a reconstruction of economics on much more solid bases, because centered on the real threats that appear, on the results that we want, on the values that endorse them and on the mechanisms required to materialize them. The systematic incorporation of the environmental dimension in the study and research in economics – and no longer as a light touch of green in some optional discipline – leads to the understanding of complex interactions, out of the theoretical tunnel economics has got itself into.

Kenneth Boulding summarizes the issue in simple way: “In order to believe in unlimited growth in a limited world, one has to be either a fool or an economist.”¹³⁹ Common sense indicates that on a planet with limited resources, mere competition, where each one runs to grab as much as possible, is an absurd system. Just as we are painfully learning that politics require covenants to balance different interests, access to the scarce resources of the planet demands covenants that respect the needs of all. In other words, we must extend the concepts of democracy to control the resources that, after all, belong to all of us.

15 -Macroeconomic politics

Macroeconomics constitutes an area, among all the others, shrouded in mysteries. Nevertheless, the process does not differ basically from the management of our household. If we want to invest in a new kitchen we have to save. If we invest without the corresponding savings, we will be indebted. What we spend every year must correspond to what we make, to what we bring home in the form of wages, of profit or even our pension. If something is left over we have savings. If something is missing, in the next year we will have to pay or take out a loan. That is to say, the accounts have to match. Macroeconomics simply relate to the country’s accounts and, increasingly so, to our planetary account.

¹³⁸ Bob Goudzwaard and Harry de Lange – *Beyond Poverty and Affluence: towards an economy of care* - WCC Publications, Geneva, 1986, p. 159 e 74; The book contains a preface by Maurice Strong, who coordinated Eco-92 in Rio de Janeiro; see also the excellent study “*What Next?*,” in *Development Dialogue*, June 2006, Dag Hammarskjöld Foundation.

¹³⁹ In “Göran Backstrand and Lars Ingelstam, *Global challenges and responsible lifestyles, What Next?*” *Development Dialogue*, June 2006, p. 125

In the various production cycles, everything has to match because what requires efforts represents a cost. When we say that public schooling is free we mean that payment is not direct, it is through taxes. Thus, part of what we produce as a society is redistributed for direct expenditure in the form of profits and salaries and further in an indirect form as public services. If we are interested in commercial information on cars and we buy a specialized magazine, the expense is direct. If we are shown advertisements about automobiles on TV, the cost is part of the advertising budget we pay on the various products. Since what we pay is diluted in the different products we buy, we have the impression that it is free, and enterprises certainly prefer us to see it that way: they are gracefully offering us a football match or whatever, and we will gratefully buy the products and pay for the advertisement. That is to say, we pay in a direct or indirect form but we pay. Each social product requires effort, and the basic objective of macroeconomics is that this effort be intelligently directed towards what we technically call “rational allocation of resources”.

Is it worthwhile to allocate resources on technology? Of course, because technology makes our efforts more productive. In this sense, both machinery and education represent investments because they are going to yield more in terms of intelligent forms of work. The machine represented progress since, for example, to make clothes in a more efficient way made our efforts “yield” more. Telephones or the internet make us yield more, since instead of transporting our bodies in cars or buses we transport information, instantly and in a cheaper way. We make bits travel for us. Thus, our systemic productivity increases, the economy grows fatter, and we begin to have greater investment capacity and are able to obtain more products and services. It is worthwhile to allocate resources so that they generate more useful goods and services. The basic rule is to try to allocate resources where they will be more useful in terms of society in general. This constitutes, or should constitute, the heart of macroeconomic policies.

Goods and services are the products of efforts by the most diverse economic agents. Impacts on development will be different according to who takes ownership of the largest volume of wealth produced. A financial speculator’s accrued wealth tends to curb activities by sterilizing savings, besides throwing us all, non-speculators included, in a general mess. On the other hand, more money in the hands of small producers, for instance, will invigorate jobs and the internal market. Macroeconomic policy essentially regulates, for good or for bad, who will get what out of the general economic effort.

The macroeconomic mechanism is not complex in itself. As we have seen, one part of the product goes directly to the families in the form of wages, profits or other incomes allocated to final consumption. Another part will pass through the hands of the government and turn into indirect family consumption as public services, education, health, safety etc. A significant part of the resources will be transformed into public and private investments allowing for the expansion of the overall production capacity. Spending more

or less than each economic agent had will result in debts and savings that will generate financial returns based on interest rates. Playing around with the papers that represent other people's debts and savings generates huge private returns but no product. It is called speculation, since someone has to pay for the purchasing capacity they get, not with papers, but with real products, those that must be effectively produced.¹⁴⁰

Who deserves more products? There is an ethical dimension to this process, connected to the need of ensuring a minimally balanced access of all to the social product. For instance, a person cannot be left without access to a physician because he is poor or a child be left without milk with the excuse that the economic laws do not work this way. Economic laws are a marvelous invention, they clear us all of guilt, the Vatican would not have invented a better solution. On the other hand, good initiatives must be allowed to make money, so that they can renew the economic cycle and be compensated. But overall excess of wealth in some hands also constitutes an ethical problem, because it only partly relies on effective contribution, and most of all because it is transformed into a political power that changes the rules of the game and tends to perpetuate advantages and to accentuate inequality. Excess of wealth, just as excess of poverty, is pathological for any society. We shall come back to this in the last chapter of this essay.

In the economic dimension itself, it is considered appropriate that people be paid according to their contribution to society, thus rewarding the best efforts and stimulating them. The heart of our drama is that some persons or social groups produce little and appropriate a great deal. In general some people get much more, not because they produce much more, but because they find themselves in a strategic position where they can take much more. Balancing the situation and eventually fixing the mechanisms of access to wealth is at the core of macroeconomic policies.

The basic distinction is that an economic agent may get rich generating new wealth or get rich by appropriating wealth generated by third parties. In our *O que é capital?* (What is capital?) we used this image: if a person invests and builds several houses, but for some reason goes broke, we will say he lost money. But the practical results will be the existence of new houses where concrete people will be able to live, and social wealth increases. But when we buy dollars foreseeing that they will gain in market value against other currencies, and the dollar indeed gains value, the money we earned corresponds to a reduced purchasing capacity of who sold them: it is a transfer of purchasing capacity from one person to another, society did not gain or lose anything. Financial middlemen, for instance, insist on defining speculative activities as “investment”, when it is only a financial

¹⁴⁰ *The Economist* used to generously call the involved corporations “investors”. After the 2008 debacle, they hesitated to call them by their technical function, which is speculation, and invented a wonderful expression “speculative investors”. *The Economist*, November 15, 2008, p. 89 – See our *The Economic Crisis with no Mysteries*, <http://bit.ly/b7jde>

transaction. Technically, investment is that which intends to increase society's production capacity.¹⁴¹

That is to say, in micro-economic terms, the person who made money buying dollars at the right time became richer. He will be able to buy real goods and services, without having had to produce them or contributing to their production. Wealth of the country, however, did not increase by one cent, so his consumption is equivalent to less consumption by others. The purpose of macroeconomics is to allocate resources in the most intelligent possible way, if possible to those economic actors that contribute to improve the well-being of the population as a whole.

Speculative gains do take lots of space in magazines, but should not impress economists. They mainly constitute disruptive activities. Brazil suffered during a long time speculative profits based on high inflation rates, and after the 1993 stabilization of prices the same groups switched to financial profits based on high interest rates: both processes added wealth to minorities, expanded a class of financial intermediaries, but the economy earned nothing. On the contrary, building a pyramid of intermediaries, all of them collecting intermediation fees and interest, tends to deprive productive activities of necessary funding.

There is little mystery in the process, once we understand that financial mechanisms essentially constitute income transfers between groups of interest. The basic macro-variables, such as interest rates, inflation rates, exchange rates, the structure of the tax burden and the distribution of public money through the budget, the public debt structure – all these elements finally mean more or less money in the hands of different economic agents. According to which agents wield more power in the process, some activities will be stimulated, others hampered. The outcome will be a corresponding composition of investment, production, income, consumption and jobs.

Our aim here is not to present a theory of these policies, but to explain the need for transparency in the ties between macroeconomic decisions and the interests of concrete economic agents that profit from them. The essential in macroeconomic policy is that, ultimately, it deals with instruments for distribution of the social product. That is to say, its abstract study may interest builders of models, but these seldom help us understanding reality and certainly do not give us the instruments to transform it. In general, the use of models essentially helps managers give an impression of profound technical complexity, and objective decision making, where in fact the bottom line consists in finding the model that will justify favoring chosen economic agents. The interests remain in the shadows, which contributes little to democracy.

¹⁴¹ In Portuguese we distinguish “investimento” from “aplicação financeira”, such as in “dinheiro investido” and “dinheiro aplicado”. But financial intermediaries in Brazil do their best to present everything as “investimento”. Since in English there is only one word, productive investment and speculation get lumped together, and the confusion is complete, which certainly is useful for speculators.

The frantic reshuffling of private and public money during the 2008 financial crisis actually made this quite transparent. Huge financial fortunes were made without the corresponding production of goods and services. The gap was filled with public money. In turn, this generated a public deficit, which in turn led to a very righteous movement based on the concept of austerity, which basically means transferring the huge public deficit into millions of small private deficits, such as the pensions of retirees. And when these protest, we throw different versions of tea parties, painting the money grabbing process in patriotic colours. Macroeconomic models...

Insufficient understanding of the political dimension of the macroeconomic process generates confusion. We are sold the vision of a non-political space with technical decisions based on economic theory, seriously referring to the autonomy of central banks, which camouflages the dynamics that really exist, based essentially on corporate pressures. Thus, decisions of an economic nature are taken for political reasons and according to power wielded by people we never voted for, without the corresponding mechanisms of democratic decision, or even information on what is happening. Since this sphere is essential for the overall economic regulation process, political democracy becomes rather meaningless.¹⁴²

A very concrete example is inflation. Celso Furtado innovated by shifting the focus of the issue. Instead of drafting ample theories about the dynamics of prices, he simply asked *who gets the benefits*, the famous *cui bono*? Thereupon he found that those who have fixed incomes, such as employees and retirees, or even the small enterprises which do not have the clout to influence prices, see their revenues shrinking as prices rise. But corporations which face higher prices of their inputs, for example, immediately transfer the burden to the consumer by raising their own selling prices. They do not have to strike or protest in the streets and wait months for a raise. They have variable yields, they are price-makers. Not too much at a time, of course, and having a look at the competition, or eventually having lunch with the competition. They are always ahead of the tide of prices. The practical outcome is that inflation constitutes a transfer of income from the poor to the rich.

By studying who profits from the process, one can usually also see who causes it. The era of hyperinflation Brazil underwent during decades is a scandalous process of income concentration in the hands of the wealthiest. Even productive firms, not only bankers, understood at the time that making money with money was not only more profitable, but also created a certain glamour of being the smart guy, one who literally makes money with other people's efforts. In the board meetings, the finance men got to lead decisions.

This basic orientation, the *cui bono*, constitutes an essential approach. In general, what they tell us today is that the purpose is common good through economic stability. It is a

¹⁴² The Oscar winning documentary *Inside Job*, 2011, gives an excellent description on how the 2008 crisis mechanism worked, showing the links between the financial interests and the macroeconomic decision process in the US

powerful argument for so many people insecure about their economic future. A stable process where economic results will regularly go to the same pockets, makes us, of course, wary about what kind of stability it is: stability for whom? And of course, after the recent crisis, it became very clear who will deserve stability, and who will have austerity. We can do a similar exercise with interest rates.

The period of interest rate explosion in Brazil, from 1994 to 2002, was a phase curiously labeled as “stable”. It begins with a public debt of some 150 billion reais and ends with a public debt of more than 800 billion. That is, something happened to 650 billion reais, a radical increase of the public debt. It is public debt, not just the government’s, which means it falls on every one of us. Where did this money go?

At that time the basic Central Bank interest rates, which is what our tax money pays private banks for keeping our money, ranged from 20% to 30%, having even reached 45%. These are not the interest rates practiced in the market of private financial middlemen (particularly in the select cartel of large banks) but interest paid by the government *to* financial middlemen. Since the interest rates that banks pay mere mortal owners of private savings are very low, the process of earning money by banks becomes explicit: they take our savings, paying us, for instance, 10% a year, and invest this money in government papers at 20% or more. The government has to pay these interest rates to the banks, making use of the taxes or increasing indebtedness. Both things were done: with an increase of taxes, astronomic interest rates were paid to the financial middlemen and large investors, and as there was no possibility to pay all the interest, what remained unpaid was added to the stock-of-debt.

The financial profit had to come from government, therefore from taxes, which we paid. The bankers thus created a system whereby we paid them to have our money. At the moment Lula’s government takes over, banks typically paid their clients under 10% on their deposits, and the government paid them 24,5% on the same money as they bought into the public debt papers. Clear and neat. Unfortunately, the system became so popular with the rentiers, that Lula had no choice, before getting elected, but to sign the famous June 2002 declaration that he would “respect contracts”, and thus be “market friendly”. In 2010, the overall public debt reached 1.5 trillion reais, roughly 900 billion dollars. We are paying around 4% of GDP in interest, on a growing debt. This money goes to speculation, not to build schools or railroads. Now this is some economic model.

Since taxes levied on us were not sufficient to cover at the same time the public administration, the different services provided and the debt service, an increase in the tax burden was inevitable. It went from 25% in 1994 to 37 in 2002, an increase of 12 percentage points. This represents, in the final stage, a yearly bill in the order of 240 billion reais. Of this amount, 160 billion reais represent the money that taxpayers paid the government to allow for payment of interest rates to bankers and large financial investors on *our* savings. What they used to gain with inflation, they now began to gain with interest

rates, but the money went to the same persons. The mechanism is nicely called “the market” in Brazil. And the Finance Minister was congratulated for maintenance of the stability. To look at the *cui bono*, in whose profit, is an essential focus and should continue to be an essential element of how economic science looks at macroeconomics. More important still, it should contribute in making society aware of who takes over what share of the social product.

Debt is not necessarily bad. If the additional money raised was invested, for instance, in updating technology of the small and medium enterprises and ensuring broad-band access in schools, or in promoting family agriculture, we would have a major impact in terms of economic growth, thereby generating more resources than the debt created. That is how any person who wants to open an enterprise reasons, and rightly so. He borrows money and returns it with the additional income generated by the enterprise.

In the case of our public debt, however, there was no increase in investments by the public sector, and the general investment rates stagnated. Neither did employees’ salaries increase. Therefore a large share of resources transferred under the form of taxes was not appropriated by the government. That is to say the major part of the debt served as enrichment without a productive counterpart. In other words, financial middlemen and rentiers were strengthened and productive investment stagnated. This in turn explains the absence of economic growth. Furthermore production of goods and services was negatively stimulated, since many enterprise managers decided to invest in government papers, well remunerated and less risky, instead of investing in productive processes.¹⁴³

As for the tax burden, the situation of the various social actors is different. Employees have their tax deducted from their salary, and the employer is interested in declaring every penny of the salaries, to reduce his own taxes. An increase of the tax burden thus had a direct impact on employees, who saw their participation in the country’s revenues, and therefore consumption, fall from 45 to 37% during the period. Financial middlemen, on the other hand, pay very little taxes. Thus, the increase of the tax burden ultimately results in a transfer, via government, of workers’ money to bankers and rentiers.

Here we are talking of a 650 billion increase of the debt in the 1994-2002 period and of transfers of more than 100 billion reais per year in most recent years – therefore, of a radical and profoundly regressive shift of the macroeconomic policy. Financial middlemen, who previously made tons of money with inflation began to earn money in this new way. Income concentration in the country is not only a problem we inherited from the past: it is an extremely modern dynamic. Inequality is being rebuilt at every instant.

In parallel, there was an intensifying process of privatizations involving more than 100 billion reais. Money coming in did not serve to reduce the debt, and not even to increase

¹⁴³ Rubens Ricúpero, when at UNCTAD, showed how a similar mechanism operates on the international level. See *Trade and Development Report 1998*, from UNCTAD

public investments, which stagnated. Where did this money go? It was, to a large extent, appropriated by those who made financial applications, expanding the power of rentiers and financial middlemen. We are not mentioning here that privatizations represented in general fabulous deals for those who acquired public goods at low prices. We are referring to the fact that in addition to generating a debt of additional 650 billion reais, of having paid loads of money in the form of interest while taxes and debt increased, the State was decapitalized in its stock of assets. Some stability.

Thus a mass of the country's public and private resources was directed towards the area of financial intermediation, hindering productive processes and setting a gigantic financial trap for the incoming government.

How was this suspicious deal sold to the country? This is a very interesting process and shows the articulation of the economy with overall politics. The country was surfacing from traumatic inflation rates. With the end of hyperinflation in 1993, people were immensely relieved. Any anti-inflation argument would be accepted. The high interest rate was elected the hero in the fight against inflation. The argument shows how old-fashioned arguments – even though perfectly orthodox in economic theory – can be used for new situations, which in scientific terms is a fraud, but works quite well political terms.

What are the real relations between interest rates and inflation? Amir Khair shows today, without any difficulty, that in the era of globalization, with the opening of markets to competition (the Chinese in particular) there is no longer a threat for the “dragon” of inflation to come back, even though it arises threateningly in all the magazines and TV news. Moreover, as the exchange appreciates the Real, making imports cheaper, there is no way for enterprises to raise prices on the internal market without exposure to imports. Thus, in the globalization era, things have changed: we do not need high interest rates to curb inflation, because international competition plays a decisive role.

Another reason, presented by Paul Singer, shows that the very high cost of private interest rates (stimulated by the high official interest rate) tends to increase the production cost and therefore favors inflation instead of controlling it.

A third significant mechanism results from the globalization of the financial speculation system: at the time of hyper-inflation, it was unviable for Brazilian financial middlemen to participate in the globalized system of financial speculation since the currency fluctuated daily, and the Brazilian money was not convertible. Low inflation was required for the participation of financial middlemen (Brazilian or transnational) in the worldwide financial casino. Financial middlemen have thus become interested in the stability of prices, and stopped feeding inflation. High inflation is no longer a threat, but presenting high interest rates as a necessary sacrifice to protect the people from inflation still works.¹⁴⁴

¹⁴⁴ A fact curiously unnoticed in Brazil is that in 1993 there were around 40 countries with comparable inflation, such as Israel, Argentina, Nicaragua and others. Hyperinflation fell in all these countries during the

The outcome is that this impressive transfer of savings of the population to the financial sector is presented as an initiative with the highest of purposes. The resulting poor growth would be presented as the bitter price we pay for stability. The process is considered legal, although the Brazilian constitution defines the formation of cartels as a crime against the economy. In Brazil apparently it is legal for financial groups to organize in the form of a cartel and appropriate themselves of public policies of financial regulation. Until 2010, the Brazilian Central Bank was headed by a former private banking institution manager. It is called “autonomy” of the Central Bank.

Furthermore, the media was a powerful ally in this process. The workings are really not very complex, if one wants to understand the mechanism. But during the Cardoso administration this era was presented as an era “of economic-financial stability”, an argument daily hammered in the news.

The case here is not to speak ill of one administration, particularly since the following government was caught in the trap and could do little to change it, except gradually reducing the official interest rate to prevent the process of exploding. Important for us is to understand how the interest rate, the public debt, inflation, exchange rates, investment and economic growth are articulated. We have to study how these macro-variables reinforce one another in the economic process, and how the political forces and the media information strengthen the imbalance.

This implies we need to study macroeconomic policies not by means of complex economic models on how a mysterious personage conveniently called “the market” might react, but by studying how the income of each one of the economic agents – the beneficiaries – evolve in the period. This will explain how the macro-variables were altered as a function of these interests.

In economics there are no miracles. The dramatic enrichment of financial middlemen of the country had equally dramatic costs in other areas. As it is enrichment by transfer, no wealth was generated. What happened is called sterilization of savings.

To say that the economy is doing well or badly entails knowing who is doing well and who is doing badly in the economy. And if those who are doing better have power with the media in general, the overall impression is that “things” are going well. Over time, however, the gaps tend to show. For instance, who is going to pay this debt?

1993-1994 years, as can be seen in the IMF financial statistics or in commentaries of *The Economist*: “Many countries rightly complain that no matter how low their inflation drops, the Fund always wants to lower it more. The Fund’s bias probably made sense in 1992, when 44 countries had inflation rates over 40%, but it makes far less sense today when only a couple of countries still have very high inflation.” – *The Economist*, July 24th 2004, p. 65; the fact that hyperinflation was defeated in dozens of countries simultaneously clearly indicates that in Brazil there was also not a miracle. Financial globalization cannot live with currencies that change their value daily and would therefore not be convertible.

The necessary measures are not very mysterious: we have to reduce the official interest rate, tax speculative gains, increase the earnings from salaries (particularly the minimum salary), open credit lines to the productive sectors through official banks and so forth. The government does have the power to reduce the strength of the private banking cartel by restoring competition through reduced interest rates in the official banks.

New theories? There is no need for complex theories or new models in this area. Moreover, econometric games with big numbers essentially amount to what Galbraith called the economists' "small frauds", giving the impression of deep technical considerations where what we have is simply a set of justifications for the resource appropriation by certain economic agents. The system mirrors relationships of power much more than economic rationality. And when faced by the complexity of calculations, the deprived groups imagine that there is a profound rationality where, in general, there is cynical appropriation. In reality, what we need is not new theories concerning what Celso Furtado qualifies as "the means", but simply a honest analysis and transparency concerning the advantages and disadvantages of the different stakeholders, presenting in an organized way the participation of the diverse economic agents in the social product. In this sense, the methodological reorientation consists essentially in presenting the accounts correctly. It is essentially a problem of honesty and transparency, and obviously of political and corporate power, not one of economic theory.

Generally speaking, as this is essentially an issue of who takes what part of the product of society as a whole, to make this accounting transparent is vital for the democratic process to makes sense. Here it is probably where economic democracy and political democracy become one.

16 – Theory of world Economics

For many, globalization is an old story, but this ignores the extent of recent transformations. The revolution in knowledge technology, in the machine of advancing knowledge itself, is boundless. This entails structural transformations with implications that we are only beginning to understand. Beyond planetary connectivity of the internet – everybody in instantaneous contact with everybody – the productive processes are becoming incomparably denser in knowledge and information, leading to a convergence of the means and the ends. Thus, the power of the large corporation becomes at the same time global and capillary, with a strong worldwide political presence and the possibility to supply, for instance, mini-bottles of Coca-Cola to the poor in the remotest corners of India, having access to the last little coin. Generating a global economy is not merely going beyond national boundaries: it is a transformation of the time and space framework of the economic activities as a whole, weakening national governments, strengthening the potential of local economy, (particularly the so-called non-tradeables), opening the way for

new solutions in a network of civil society organizations. What we sum up as globalization constitutes in reality a dramatic simplification of the complex redesigning of territorial and time functions taking place.¹⁴⁵

We are flooded by theories on globalization. But here too it is from the study of concrete megatrends that relatively clearer, albeit still fragmented, images arise. Financial domination, for instance, as we saw above, constitutes an important referential. Equally important is the shift of a significant part of economic activities towards what we have called the knowledge economy and, in a broader sense, the dominance of “intangibles” in the productive process. Culture also started playing a key-role in the world-scale economy, with the shaping of the planetary dimension of the entertainment industry, rapidly tending towards global pasteurization on the cultural level as well as on the level of consumption habits. These shifts are furthermore going to define another international division of labor, a new “unequal specialization” at the world level.

The dramatic expansion of planetary connectivity generated a new global economic, political, and media power that are the large corporations. This power, in turn, is generating environmental impacts – directly through overexploitation of resources and generation of unsustainable consumption models, and indirectly through the inequalities created – where for the first time, inertia of the dynamics created by far surpasses the rhythm and capacity of course corrections. Things are getting out of hand, huge engines enable the economy to suck up produced or natural riches, but very little has changed in regulation capacity. We have created a powerful truck with very little control power, not to speak of brakes. Sometimes, on a steep slope, only running faster keeps us from falling.

In this process, time is not on our side. A series of planetary changes, such as global warming or the rupture of food chains in the oceans advance at such a pace that when we become aware of the irreversibility, the point of no return will have passed. Tipping point theories are popping up in various sectors. The moment of political comprehension of the gravity, which is when governments and other social actors succeed in abandoning passivity, will be well beyond the time horizon for corrective action.

Just listing a few megatrends makes us aware of the extent of transformations, the prodigious “shrinking” of our small planet. It is a new world that emerges, not built as a positive project of what we want for society, but as the outcome of uncontrolled and separate dynamics. The concept of globalization, a gigantic blanket that aims to encompass the cluster of transformations, is too general for the understanding we need of what is happening.

¹⁴⁵ We are not going into detail here about the reordering of spaces of economic development, which we presented in *Desafios da Globalização (Challenges of Globalization)*, Ed., Vozes, Petrópolis, 1998; see also our *Da Globalização ao Poder Local: a nova hierarquia dos espaços, (From Globalization to Local Power: a new hierarchy of spaces)* 1995 at <http://dowbor.org>, under “artigos online.”

An interesting way to approach a problem that is too widespread and differentiated for a synthetic presentation is, instead of trying some kind of *Theory of Everything* in the economic and social transformations, to try to identify the contradictions that surface.

When we talk about the amazing acceleration of history, for example, we forget that half of the world population still lives on family agriculture, that about a third still cook with wood stoves, that hundreds of millions people still survive from traditional coastal fishing. Globalization is not a uniform process, much to the contrary. It generates a deep chasm between a minority of countries – and their network of transnational corporations – that change at an increasing pace, speeding up to the rhythm of new technologies, and an immense mass of global population deprived of the traditional forms of subsistence but that has no access to the means needed to participate in the new dynamics. Coastal populations of the planet no longer find fish in the seas, or much less, neither do they have access to jobs or to the revenues of the millionaire predatory fishing industry. Populations of the rural African world saw their traditional survival conditions destroyed by monoculture, deforestation and the violence of modern wars, and cluster in cities where the past no longer protects them and the present does not embrace them.

To imagine, in this ever shrinking planet and with the demographic tendencies that we know, that the rich countries will be able to live comfortably in a kind of closed planetary condominium, preventing attacks on the American global dominance system, building walls in Israel and in Mexico, repressing revolts in France, taking down illegal immigrants on the borders, supporting dictators in the Arab world, forbidding access to new technologies and occasionally bringing the G-8 or the G-20 together to pardon some debts, is part of today's blatant blindness.¹⁴⁶

Another contradiction arises in the tension between the pace of new technologies and the incomparably slower pace of cultural and institutional change. Should human beings be cloned or not? Is electronic surveillance of employees in enterprises legitimate? Should genetic engineering, which is becoming generalized, be controlled (assuming we have the power to do so)? Is the sale of information about our DNA by hospitals or laboratories acceptable? In fact, generalization of knowledge of fine chemistry, biology and physics made it possible to produce in any backyard – or little more than that – drugs that destroy millions, while their control continues to function in the old fashioned way. Russia and the United States are flooding the planet with arms to then sell measures against terrorism.¹⁴⁷

¹⁴⁶ An IMF publication on the demographic trends of the planet forecasts an average increase of 76 million people per year – roughly Egypt – 95% of whom will be born in poor regions. IMF, *Finance and Development*, September 2006. We should probably reach 9 billion in 2050.

¹⁴⁷ In the period between 2000 and 2004 Russia was responsible for a 32% of the export of weapons (selling off old stocks), the United States for 31%, France 8%, England 5%; together they were responsible for three fourths of the exports declared. China represented only 2%. The *Report on Human Development 2005*, which carries these numbers (p. 293, Table 23), includes an alert to the large volume of unregistered exports. The illegal economy constitutes an immense sector, poorly studied, which easily maneuvers in the uncontrolled

The issue is central and involves particularly the environmental destruction of the planet since the technological capacity to extract riches is radically expanding – think of industrial fishing with the aid of the positioning system (GPS) – while our control systems remain in prehistory and are opposed as a breach of economic freedom.

A similar tension arises from the different impacts of new technologies on jobs, and when we talk about jobs we are talking about social insertion, about the rights to access social policies and, increasingly so, about basic family survival. In the framework of what the United Nations has qualified as *jobless growth*, unemployment emerges no longer from absence of growth but from growth itself. For the more advanced countries, technological advance shifts jobs, for instance, from the production lines to design, management, advocacy, accounting, marketing activities – the so-called intangibles – partially balancing the process. In the developing countries and in the world in general, the dynamics are reversed, because not only people have little access to the limited segment of state of the art jobs generated by new and well safeguarded technologies, but also the local enterprises suffer from a flood of global products generated with a great deal of technology and little labor, which substitute local production. The production process of Nike in the United States is very informative in this sense: a few sophisticated jobs in the US, precarious jobs in Indonesia and an invasion of imported products that generate unemployment in the shoe industry in the city of Franca, Brazil to cite an example.

The cumulative impact of these trends generates another very widespread tension, indeed rather well studied on the planet: the distance between the rich and poor. The major manifestation is, of course, that while the capacity for wealth extraction and income by large corporations expands very quickly with the new technologies, the few instruments for income redistribution and social policies find themselves dismantled. We have very powerful worldwide corporations to extract income but we do not have a worldwide government to redistribute it.¹⁴⁸

Asymmetry of technological breakthroughs in the world, negatively affecting much of the globe's population, the disrhythmia between corporate progress and development of the corresponding regulatory mechanisms, the deeply unequal impact on jobs, generating a new

global space. Pseudo-legality also flourishes: Japan and Iceland kill whales on the pretext of studying them for their protection. There has never been so much whale-studying.

¹⁴⁸ Corporate profits have been attributed to the efficiency of their management, which has generated a positive image. The study of the sources of corporate profit constitute another area of expanding research. The extraction of a barrel of oil in Saudi Arabia costs \$2 and companies sell it for \$100. It is not efficient management that is the key here, but political and military muscle. The profits of large institutions with financial speculation are directly linked to the control of technological processes and the ease offered by fiscal off-shores. Hammering world population with the idea of luxury brands allows many corporations to sell products tens of times the cost of production. Other activities generate profit by taking advantage of the fragility of legal systems. In the absence of global governance, global corporations set sail practically without control. For those who do not understand the mechanism, the tendency is to think that those who earn a lot of money must be good. *The Corporation* gives us a well-organized and sobering image. Wikileaks information on the behavior of Shell in Nigeria is another. The mess created in the Middle East to control oil is a tragedy.

hierarchy between state of the art jobs, precarious jobs, informal and illegal activities – these three megatrends converge to the growing inequality between countries as well as between rich and poor in each country, with few exceptions. The United States, with inequality back to pre-1929 levels, is going downhill as well.

An excellent balance sheet is found in *The Inequality Predicament* prepared by the UN Department of Economic and Social Affairs ten years after the Copenhagen World Summit. The presentation goes far beyond the concept of poverty, comprehensively embracing “Non-economic indicators of inequality”.

On the economic inequality level, the result is that “analyses of the standards of inequality suggest that income and consumption inequality between countries have remained relatively stable during the last 50 years”, which in itself is impressive, given the immense strides in the technical means available in this period. There was an improvement in the situation of the poorest part of the population. “First, the largest share of better income distribution in the world may be explained by the rapid economic growth of China and, to a lesser degree, of India, with much of the change reflecting gains of the poorest segments of society at the expenses of average income groups in both countries. Second, participation of the wealthiest 10% of world population increased from 51.6% to 53.4% of total global income. Third, when we exclude China and India from the analysis, data shows an increase of the income inequality due to the effects of greater income disparities among poor countries with an adverse distributive effect of the faster population growth in the poorest countries. As for the income gap between richer countries and poorer, it widened in recent decades.”¹⁴⁹

On the level of internal economic inequality of countries, data of the World Income Inequality Database (WIID) show that internal income inequality of countries decreased during the 1950, 1960 and 1970 decades in the majority of developed and developing economies, as well as those of central planning. Since the eighties, however, this decline slackened or stabilized and within many countries inequality is rising again. Growth of economic inequality is also increasing in developed countries: “A study of the evolution of economic inequality in nine countries of the OECD confirmed in general that significant shift is taking place in the income distribution in all the countries analyzed, with the possible exception of Canada”.¹⁵⁰

Latin America continues to be well represented: “One characteristic that distinguishes the pattern of internal inequality in Latin America from other regions is the participation of

¹⁴⁹ UN – Department of Economic and Social Affairs – *The Inequality Predicament: report on the world social situation 2005* - United Nations, New York, 2005, p. 44 – The supporting Table shows that in the period between 1960-1962 to 2000-2002, per capita GDP of the 20 wealthiest countries increased from \$11,417 to \$32,339 (dollar as of 1995), while the equivalent average for the 20 poorest countries rose from \$212 to \$267. (Table III.2, p. 45).

¹⁵⁰ Idem, p. 48.

10% of the wealthiest families in the total income.”... “The largest gap is in Brazil where per capita income of the wealthiest 10% of the population is 32 times that of the poorest 40%. Lower levels of income inequality may be found in Uruguay and Costa Rica where the respective per capita incomes of the wealthiest 10% are 8.8 and 12.6 times higher than that of the poorest 40%”.¹⁵¹ An excellent study published by ECLAC (Economic Commission for Latin America and the Caribe) in 2010 presents the overall drama and the key policies being adopted. This is applied economics at its best.¹⁵²

Wherever progress was found, it was thanks to programs combating poverty, rather than market mechanism: “At global level a considerable progress was made for poverty reduction during the last two decades, mostly as the outcome of highly focused anti-poverty programs and policies...” “Progress made in China and India contributed substantially to a positive image at global level. As these two countries represent 38% of the world population, the rapid expansion of their economies led to significantly decrease the number of people living in absolute poverty in the world; from 1990 and 2000 this decreased from 1.2 billion to 1.1 billion. In China, those living on less than 2 dollars a day dropped from 88% to 47% between 1981 and 2001, and the number of people living with less than 1 dollar a day dropped from 634 million to 212 million. In India, those who live with less than 2 dollars a day dropped from 90% to 80% and the number of those who live in extreme poverty went from 382 million to 359 million”. The main positive impact therefore is clearly due to China.¹⁵³

Here, our main interest, more than the figures and their respective tragedies, is that they clearly portray the need for organized, affirmative interventions to face poverty. Since today inequality is the main problem – together with destruction of the environment – economics has to concentrate more widespread efforts in the understanding of active policies to fight poverty. Fighting poverty, not the poor; building bridges, not walls – would be a nice change.

A second point is that it is not sufficient to look at the economic mechanisms since inequality constitutes a much broader process. “Perhaps much more important than the increasing levels of poverty is the emergence and entrenchment of new patterns of poverty in many countries. Noteworthy changes include a growing tendency towards rotation of people in and out of poverty, an increase of urban poverty and stagnation of rural poverty as well as an increase in the number of informal workers among the urban poor and a majority of unemployed poor...Of all inequalities within and among nations, the impossibility of a growing part of the world population that seeks jobs to succeed in finding them has perhaps the most profound implications.”¹⁵⁴

¹⁵¹ Idem, p. 49-50

¹⁵² CEPAL – *La hora de la igualdad* – Santiago, 2010 (full text online)

¹⁵³ Idem, p. 51

¹⁵⁴ idem, p. 54-55

The above data refer to income distribution. The WIDER (*World Institute for Development Economics Research*), of the United Nations University points to another catastrophic trend, the concentration of accumulated wealth. In fact, the two methodologies are linked, since the higher income of the wealthier permits the accumulation of more houses, land, luxury items and financial papers, while the poor use their little money to buy food or shoes. Thus, accumulated wealth (“net worth: the value of physical and financial assets less debts” which is equivalent to what the report defines as “a comprehensive concept of household wealth”), tends to further polarize society and therefore leads to form gigantic fortunes that have little connection with the contribution these people or households have given to the production of social wealth.¹⁵⁵

Accumulated household wealth is estimated at 125 trillions dollars for the year 2000, equivalent to 144 thousand dollars per person in the US, 181 thousand in Japan, 1,100 dollars in India, 1,400 in Indonesia. This appropriation of wealth outlines geo-economics of the “Alphaville-Alphavella” (Scarsdale-Shantytown) type. Regional distribution of asset holdings shows a heavily concentrated wealth in North America, Europe and Asian countries with a high income that together represent almost 90% of global wealth. Although North America has only 5% of the adult world population, it has 34% of household wealth.

It is natural that accumulation of wealth inside the countries follows the same trend, since the wealthier families tend to accumulate more. The countries’ internal gap, therefore, deepens. “The share of the wealthier 10% ranges from 40% in China to 70% and more in the United States and some other countries”...“Our results show that in the year 2000, the top decile of wealth owned 85% of the world wealth. The 2% of wealthiest adults of the world held more than half of the globe’s wealth and the 1% of wealthiest had more than 40% of the entire household wealth. The lower half of the adult world population had merely 1% of the global wealth. The Gini value for global wealth was estimated at 0,89, the same Gini value would be achieved if 100 dollars were distributed among 100 persons so that one person would receive 90 dollars and the remaining 99 persons, 10 cents each.

Curiously, when talking about income distribution, about taxes on fortunes, about taxes on inheritance, the media speaks about populism and demagoguery. Daily hammering by opinion manipulation institutes made taxes a bad word, and profiteering a symbol of efficiency. Not

¹⁵⁵ James Davies, Susana Sandström, Anthony Shorrocks, and Edward N. Wolff - *The Global Distribution of Household Wealth* - 2006, II – www.Wider.unu.edu/bewsletter/newsletter Normal people have no idea of what a billion means. A simple example presented by Susan George, helps: a billion invested in papers that yield 5% a year – nothing fancy – means the billionaire grows richer by 137 thousand dollars a day. Since even a billionaire can only absorb a given amount of Saint Émillion wine and caviar, his money factory will grow by the day, to much more than 137 thousand. This is supposed to stimulate production and jobs, and according to serious-looking economists, is essential to freedom.

to see the growing threats with the current dynamics is to be dangerously blind. And not seeing who the big press and similar institutions belong to is to be doubly blind.¹⁵⁶

Not only we must approach social dynamics with a broader view, we also have to give central importance again to the organization of participative decision processes: the agenda of *decent work* aims to face innumerable challenges that arise from globalization, including loss of jobs, unfair distribution of benefits and the disruption that is caused in the life of so many people. A response to such challenges demands participation of stakeholders at all levels”.¹⁵⁷

The biggest challenge continues quite close to what Samir Amin already presented decades ago: the economy is globalized while the regulation instruments continue to be national. The international regulatory institutions such as the UN, IMF and others, are still instruments conceived to face problems between nations – we have nothing resembling a world government. Formation of blocks is a palliative on the road to a wider construction. The United States clearly presented themselves as candidates to “world regulator” but for one nation to order the others around is clearly not the solution. Since 2008 they have become a little more modest.

An interesting line of alternatives arises in the set of initiatives by the World Social Forum. It is the first planetary endeavor to build a system for planet protection and reorganization of development directions, and involves tens of thousands of civil society organizations with growing – although still fragile – presence in the decisions of their respective countries and international organizations. What has appeared in the press in general is the annual event, and greatly distorted, but the truth is that an extremely agile interactive network of rights protection, of denouncing media manipulation, of environmental information – the list is endless – is being fashioned, generating a new space for global articulation.

On another level, there is research on the construction of an interactive planetary network in the most varied areas: today, any average hospital has agreements of physicians exchange, universities are creating networks of scientific cooperation – the São Paulo Pontifical Catholic University (PUC) in one year undertook 1,600 actions of international cooperation – cities are forming networks that permit exchange of management innovations and so on. Thus, even if our attention in the area of world economics continues to concentrate on G20 meetings, foreign affairs ministries, international trade, transnational corporations and multilateral organizations, modern connectivity is generating an extremely

¹⁵⁶ An excellent study by James Hogan, *Climate Cover-up: the Crusade to Deny Global Warming*, Vancouver, 2009, shows how public opinion on key issues such as climate change, but also tobacco, arms, pharmaceuticals, health reform and others is built. His area is public relations, he knows the institutions and how they work.

¹⁵⁷ *The Inequality Predicament*, p. 58 – The Report has no doubts about the need for organized political intervention: “The global market operates with advantages for the wealthiest countries, the poorest countries have less opportunity to benefit from globalization and are more vulnerable to their risks and mistakes.” (p. 43)

dense global economic fabric of micro international networking originated in millions of institutions.

An analysis of this evolution is presented in the book “*Re-imagining Political Community*” that follows the line of the political theory of cosmopolitan democracy.¹⁵⁸ First of all, we have the major issue of absence of international and democratic decision mechanisms: “Even if democracy has achieved significant results in the process of State governance, it is still not applied to management of relations between States regarding regional and global issues”. The problem of global governance emerges as a central issue: “Today, the international community desperately seeks to reach a new global political balance. For some, the ideal would be a world order where some hundreds of large enterprises would dictate the rules intended to advocate their own interests to a panel of strong and powerful States. The balance of power has shifted in favor of capital, in relation to national governments as well as national labor movements. Therefore, the autonomy of democratically elected governments has been increasingly restricted by sources of economic power that are not representative or elected”. The authors quote a statement by the head of Coca-Cola on this “shift of power”: “To state it candidly, I believe that this shift will lead to a future where, by far, enterprises will be the more influential institution.” It is the corporation assuming its role of dominant political power.¹⁵⁹

The authors set their hope on the potential of connectivity of the immense diversity of existing institutions: “Issues set forth by the rapidly increasing complex interconnections and inter-relations of States and societies and by evident intersection of national and international forces and processes, continue largely unexplored” and the question is “up to what point may the state-nation continue in the center of democratic reasoning”.

This view points to democratic processes built from the base of society: Since the needs and desires of the population are more effectively expressed by organized action, the organizational explosion of our time is no less important than the demographic explosion. Proliferation of organizations penetrates all levels of human activity – from the neighborhood organizations, community groups, regional networks, national States and transnational regimes up to international systems”.

Thus appears another philosophy for the arrangement of institutions: “In order to acquire the legitimacy and support they need to endure, successful mechanisms of governance are more likely to evolve out of bottom-up than top-down processes. As such, as mechanisms that manage to evoke the consent of the governed, they are self-organizing systems, steering arrangements that develop through the shared need of groups and the presence of

¹⁵⁸ The study was organized by Daniele Archibugi, David Held and Martin Köhler – *Re-imagining Political Community: Studies in Cosmopolitan Democracy*, Stanford University Press, California 1998. The citations are essentially taken from the contributions of David Held and James Rosenau.

¹⁵⁹ Idem, p. 18 and 42

developments that conduce to the generation and acceptance of shared instruments of control”. The authors consider that this dynamic requires organized support.¹⁶⁰

The theoretical agenda of world economics thus leads us to the issue of planetary democratic governance, by drawing up pro-active institutional design, and facing the main megatrends which are the environmental crisis and inequality, strongly interconnected. The key elements of the globalization process – financialization of the economy, hierarquization of work, corporate power, concentration of global control of information and others – must be worked over in this line of reconstruction of the critical lines of survival. The weakening capacity of the UN, especially at this stage of growing global threats, and when we vitally need democratic decision processes, is simply fearsome.

With globalization of the economy without the corresponding globalization of the democratic decision mechanisms, an immense portion of economic activities escapes any control. The expansion of civil society organizations that act in planetary space and seek to articulate the social interests. and the *ad hoc* G20 meetings according to the last bubble, only in part compensate the institutional vacuum created.

17 – The paradigm of collaboration

The most important seismic shift in economic theory refers to the gradual exhaustion of competition as the main instrument of economic regulation. The simplistic approach of economic mechanisms and human motivation has brought mainstream economics to its present irrelevance.

The inherited view is that if we all do our best to achieve the maximum of personal advantages in the economic race things will, as a whole, progress much faster. Combining Adam Smith’s view on the sum of individual advantages, Jeremy Bentham’s and Stuart Mills’ on utilitarianism and Charles Darwin’s on survival of the fittest, we have created a kind of war of all against all. This is what the Americans call the *global rat race*, which is reaching exhaustion as a regulatory mechanism and which is, furthermore, leading us to increasingly dangerous planetary deadlocks.

What appears with increased strength is that if we are to survive, we are doomed to develop intelligent ways of coordination between the various economic, social, environmental and cultural goals, and therefore intelligent ways of collaboration between the various actors who participate in the social construction of these goals. The seismic shift consists in a new balance between the paradigms of competition and collaboration.

Hazel Henderson tells how she “entered” the field of economics. In New York, apartment buildings were equipped with small incinerators. It solved individual problems but the outcome was dirty clothes on all the clothe lines, dirty children in the park where black soot

¹⁶⁰ - p. 33

deposited, respiratory diseases etc. When she protested to the authorities, she was told that incinerators generated jobs, boosting the economy. Hazel was baffled: to build with great effort useless and noxious things is good because it boosts the economy? And the effort of mothers that wash clothes and the effect on children is not a cost because it is not easy to account? It was not the economic machine that ended with the incinerators but a movement of mothers organized to defend their interests.

Hazel became an economist, gradually reaching the standpoint that today she presents in her book *Building a Win-Win World*, around the now popular concept of win-win.¹⁶¹ The basic idea is simple and illustrated by the popular image of two donkeys tied together, pulling in opposite directions for each to reach his haystack, and that discover the obvious: they eat together the first one and then together the second. According to Hazel, “The networks of today’s information era, function better based upon principles where all win (win-win), but are still ruled by the paradigm of global economic war”.

“Building a ‘Win-Win World’ explores the scenario and maps the collision between the paradigm of economic growth, externally focused and technologically triggered, that culminated in a globally unsustainable economic war and the ascension of global popular concerns in the emerging paradigm and in the movement in favor of sustainable human development. A systemic change of the paradigm of maximizing global economic competition and growth of the gross domestic product towards a paradigm of more cooperative sustainable development – which in earlier times would have demanded hundreds of years – is at least possible in the interdependent global system and in the current rapid evolution.”¹⁶²

There is a dimension that goes beyond ethics in the process: collaboration to create new or merely useful things is one of the most important sources of pleasure. Furthermore, the modern concept of leadership evolved from the notion of a boss giving orders to that of a coordinator that organizes the collaborative processes. A team that finished a job well done has a very strong feeling of fulfillment.¹⁶³

The world, of course, is not a bed of roses, and tends to favor the stupid cunning of he who sees in the collaborative processes an opportunity to increase his own advantages: collaboration, for these people, means making others collaborate for their own profit. The standpoint of struggle for survival of the fittest is unquestionably generalized. It permeates the school with their struggles to rank first or for the best grade; competition for survival

¹⁶¹ Hazel Henderson – *Building a Win-Win World*, Berrett-Kohler, New York, 1997

¹⁶² Henderson, *ibid.*, pps. 19, 24.

¹⁶³ The previously cited text by Frey and Stutzer develops this subject: “People have a tendency to feel happy not only as a result of but also by their own process...Scitovsky proposed that ‘the difference between liking and not liking work could be more important than the difference in economic satisfaction generated by the disparities in our income.’ People could also feel more satisfaction by acting correctly and being honest, independent of the results...Thus utility is reaped from the decision-making process itself, over and above the outcome generated.” – *Happiness and Economics*, op. cit., p. 153

seen in the college acceptance test, it is on every TV show. The idea is to “win” over the others, even if the battle is futile and results poor for all.

David Korten brings a fresh view to this, in his book *The Post-Corporate World*. Korten begins by showing the limitations of the biological vision of the world as solely a place of competition for the survival of the species: in fact, the bird that eats the fruit spreads the seed, the root that is born needs microorganisms to assimilate the nitrogen and so on. That is to say, the collaborative dimension is clearly dominant in the process and assures that life on the planet will develop in a systemic way. Competition, which is real, is not to be “put away”: it is a matter of understanding the larger collaborative dimension.

From Korten’s standpoint, the market, within very precise conditions, may fashion an environment of systemic collaboration, but that is not what happens in the real economy. “Markets form a remarkable human institution to aggregate the choices of many individuals to achieve an efficient and fair allocation of productive resources for the purpose of meeting human needs. However, its function relies on the presence of many critical conditions. Acknowledging the power of the market’s ideal, capitalism puts on a rhetoric of the market. But it seeks only its own growth and thus its institutions endeavor to systematically destroy the market’s healthy functions. They eliminate the regulations that protect human and environmental interests, removing economic boundaries to place themselves out of the State’s reach, they deny consumers access to essential information, seeking to monopolize beneficial technologies, and use mergers, acquisitions, strategic alliances and other anticompetitive practices to undermine the market’s ability for self-organization”.¹⁶⁴

The truth is that the economy is changing, in general, faster than our ability to organize it. Today, activities have become much broader, complex and interactive, so the economies of cooperation, materialized in the social capital, are increasingly important. In large enterprises generally this need has been understood, leading to a decreased hierarchical pyramid, to organization in teams and so on. After the eighties, understanding of the need for collaboration was disseminated, not only *within* the enterprise, but among enterprises, creating openings for concepts such as “alliance capitalism”, “collaborative clusters” between enterprises, managed market and so forth.

At the enterprise level, the book that marked a theoretical shift is *Alliance Capitalism* by Michael Gerlach, who analyses the truly existing forms of inter-enterprise collaboration, especially in Japan, and suggests that “economic theory can and must face limitations of atomized and anonymous markets, to explain institutional forms that developed in modern economies to overcome these limitations. Particularly interesting has been the role of long-term contracts and corporate organization as alternatives to competitive markets. Capitalist markets and enterprises are, thus, no longer seen as isolated entities that follow their own

¹⁶⁴ David Korten – *The Post-Corporate World* – Berrett-Koehler, San Francisco, 1999, p. 62.

logic, but as complex, institutional clusters included in the legal order of society and in the basic rules by which the actors operate.”¹⁶⁵

In the “Third Italy” an understanding was formulated that, in addition to the collaborative process between enterprises, it is important to stimulate collaboration with public initiatives and the third sector. This tends to generate economies that are external to the enterprises but internal to a region, making everyone's work more productive. The book by Carlo Trigilia, *Sviluppo Locale* quoted above, is a good example of this understanding of the territory as a space for the building of collaborative clusters. Robert Putnam's study on social capital in Italy have opened a rich vein.

This trend has been reinforced by the structural change in the composition of factors of production, namely the central role of knowledge in producing value. As we have seen above, shared knowledge does not reduce its stock, on the contrary, it multiplies. Thus the process of wealth creation, in this aspect, tends to rely more on sharing and collaboration, rather than locking production in a jungle of patents and prohibitions. Open collaborative environments, as seen for example in the case of Linux, Wikipedia, or health services as in the Pastoral da Criança (Pastoral of the Child). *Wikinomics*, by Don Tapscott and Anthony Williams bring innumerable examples of how enterprises discover the advantages.

A neat illustration comes from the robot industry, where competing corporations, tired of writing software for robot movements that had already been created by a competitor, decided to join on an open operating system and open their attainments. The result is that instead of devoting a great part of their efforts on reinventing the wheel, all are working on new fields, and the systemic productivity was increased. Campbell MacGregor – Robots to get their own operating system. The war based on “this is mine” is counterproductive when dealing with knowledge, but subsists because our lawyers and managers keep their heads in the safer 20th century hard goods economy.¹⁶⁶

Another dynamic that enhances collaboration is connectivity: it is so easy to collaborate even among distant agents that the medieval idea of the lone standing and self-sufficient castle becomes increasingly ridiculous, just as the limited vision of the enterprise with its “captain” entrepreneur, fighting against all, locking up secrets, becomes increasingly restricted. In this sense, the inter-university collaboration networks are showing more intelligent and modern ways, though the bulk of the academic world also tends to protect itself in towers.

¹⁶⁵ Michael L. Gerlach – *Alliance Capitalism* – University of California Press, Berkeley, 1992, p. 39 – Gerlach observed that the exchanges properly based on the anonymous market space “in practice become rare and limited to a relatively straight path of routine transactions” (p. 41); also see the work of James E. Austin, *The Collaboration Challenge*, published by Drucker Foundation, as well as the view of the institution by Douglass C. North, *Institutions, Institutional Change and Economic Performance*, Cambridge University Press, 1990

¹⁶⁶ Intellectual property discussions usually move our guts rather our brains, and the ideological responses do not help. Rather than just taking sides, we must move towards setting up new rules, for it is a new game. Maximizing regulations and corporate control is counterproductive.

A third dynamic is related to our basic form of demographic organization, the city, with its rural surroundings. We are no longer scattered rural populations and even the rural spaces belong to a “rurban” modernization process, as researchers from Unicamp have defined it. In this sense, as we saw, each city with its surroundings constitutes a unit of economic accumulation, which as a system will be more or less productive depending on how it manages to become organized in a collaborative and coherent space within its territory and region.

Finally, a fourth dynamic that we also saw above is linked to the shift of inter-sectorial composition of economic activities, ever more focused on social policies such as health, education, culture, information, leisure and others. These activities, more than industrial production, involve intense collaborative processes, are not adequately governed by profit, and vitally depend on the formation of social capital and participatory decision processes. The resistance to more modern forms of management is natural. Years ago, there were major struggles against mandatory vaccination of children, in the name of individual freedom to decide according to preferences. Obviously, vaccinating only part of the population does not eradicate any disease.

These four megatrends towards knowledge economy, connectivity, urbanization, and social services as the major economic sphere of activities, lead us to a new approach to the whole process of social reproduction. The old practices that favor competition, secrecy, the closed clubs, lawyering at every corner, sniffing out possible pirates at every corner of the internet, are simply the application of an outmoded economic ideology that does not fit the new realities. In other words, the paradigm of collaboration not only constitutes an ethical approach more rooted in the values of people who want to enjoy a decent life, work intelligently and usefully, instead of having to “kill a lion each day” – but also shows us the way to economic common sense in terms of results for society as a whole.

Going back to the beginning, to what Celso Furtado called “social productivity”, collaboration has become a key approach to meet simple goals for rational allocation of resources centered on improving the social quality of life.

We are not dreaming of a cute and nice little world here. Collaboration can generate quite different results. The large pharmaceutical corporations have collaborative arrangements between them allowing massive profits by restricting free access to the manufacture of drugs, which in turn permits them to rise prices. Bankers in Brazil collaborate intensely to maintain a system of credit restrictions, high interest and expensive fees, to drain much of the wealth generated by society, without needing to contribute to produce it. The large media groups collaborate with the large enterprises that buy advertising and adjust the content of information to suit entrepreneurial interests. There is no shortage of examples of inside groups acting in favor of such minority interests.

Putnam presents the argument issue in his already mentioned *Bowling Alone*, reminding us that the Ku Klux Klan is an organization of civil society, but whose goal is to *exclude* a segment of society, instead of *including*, in a balanced manner, diverse interests. This is not collaboration; it is corporativism at its worst. In other words, the construction of collaborative processes required by a modern economy has to face the various types of bulwarks that consist of cartels, trusts and other clubs of the rich that unbalance development. There is no escaping the active pursuit for more democratic, decentralized and participative economic processes.

David Korten, after describing the mess generated by multinationals in his *When Corporations Rule the World*, shifted his attention to the potential of local development, where the different stakeholders can meet and build collaborative systems. “To resolve the crisis depends on the mobilization of civil society to retrieve the power that corporations and global financial markets have usurped. Our greatest hope for the future relies on appropriate economics locally managed that are predominantly supported by local resources to answer the needs of local life of its members in ways that maintain a balance with the land. Such a shift in institutional structures and priorities may open the way for the elimination of scarcity and extreme inequality of human experiences, implementing a true democratic citizenship and liberating a potential for individual and collective growth and creativity no yet fulfilled.”¹⁶⁷

There are no simple solutions in this area, but the paradigm of collaboration unquestionably opens a renewed outlook. Markets are necessary, but are functional in restricted areas of activities, such as small enterprises. Going beyond our ideological clashes between those who claim all power to the state, and the free market fundamentalists, we must understand that the modern complex society must rely on a variety of management systems, among which democratic public planning, local participatory management, inter-entrepreneurial articulation and *also*, traditional market mechanisms where they are still functional. New mechanisms are clearly necessary, for example, to bring some order to the mess created by the global financial speculation system, and the chaos of commodity prices. Thus, if we go beyond the idea that *a new world is possible*, we have to show that *a new management is possible*. Clearly, the solutions are to be found in flexible articulations of different management systems, based on their functionality rather than rusted ideologies. What we are facing is not free market versus state control, but a messy corporate control over the state, and an overall loss of governance.¹⁶⁸

Our simplified intuitions – those unexplained but powerful arguments that lurk somewhere deep down in our guts, but which we like to present as brainy – suggest that politics is not functional, and that market economy, setting the same rules of the game for all economic

¹⁶⁷ - Korten, op. cit. p. 7

¹⁶⁸ - The argument for different management solutions and decision-making processes in the new complex society can be found in our *A Reprodução Social*, vol. II (full text online at <http://dowbor.org>)

agents, continues to be the best regulatory mechanism. The truth is that politics itself is changing, evolving towards a participatory democracy, while market mechanisms survive in increasingly limited areas of traditional economics, replaced by ruthless corporate power wars in politics and the world economy. Economic democracy is a necessary complement that may streamline politics as well as economics.

18– Economics of civil society organizations

The paradigm of collaboration has materialized especially in civil society organizations, in the so-called "third sector", an area that encompasses a set of behaviors that are not defined by traditional paradigms of the quest for profit or state authority.

Weakness of the conceptual definitions in this area begins with the name "civil society". We shall not address this debate, because the huge diversity of activities under this label defies precise definition. Suffice it to say that we refer to civil society organizations, NGOs, community organizations and so on. Indeed, we continue to define the entire area by "non", whether in the UN terminology (non-governmental) or in the American terminology (non-profit, therefore not entrepreneurial), or yet in the concept of "third sector" (i.e. neither State nor enterprise). Until these various areas of activity that are emerging with vigor gain a clearer format, they shall be defined according to the entities that we understand in a fairly clear manner – the State and the enterprise – even if only by exclusion.

For economists, this area is a nuisance. The State has a logic defined by the administrative public law. Its product is accounted for by how much it costs. Enterprises have another logic, however just as clear, that is to make money, they are governed by commercial law, and their contribution is appraised by the added value. The Third Sector perturbs this logic. Actions spring from the spontaneous movement of a group of people concerned with a social problem that has no apparent solutions in either the State or the enterprise, who become organized to find an answer, and usually tend to put pressure both on the State and the corporations.

This area has a very fragile legal definition: it relies on a legislation pertaining to nonprofit associations, in some cases in Brazil takes the form of OSCIPs (Civil Society Organizations of Public Interest), in others it may take the form of a cooperative, or yet of a self-managed enterprise, in line with a new line that has been called the solidary economy.¹⁶⁹ To add up their costs is not always indicative for they rely heavily on volunteering, various forms of donations. To assess their product is even more complex: Greenpeace plays an immense role in environmental protection, but since we do not monetize the environment, we would not even know how to set a value on what was saved. Nobody counts the contribution of the Pastoral of the Child to the GDP, and nevertheless, if we add up the days of work that

¹⁶⁹ Paul I. Singer – *Introdução à Economia solidária (Introduction to the Solidary Economy)*- São Paulo, Ed. Perseu Abramo, 2002

families no longer lose, medications they do not have to buy, or hospitalizations avoided, we would have an impressive contribution to systemic productivity in many regions. The human rights organizations play a vital role against the irresponsibility with which governments or corporations violate them, but nobody knows how to account for their contributions.

At the heart of the issue is that non-organized rights do not materialize. The State, as well as the corporation, are structured entities. Civil society can be very large but it is scattered in terms of diverse and diffuse interests. A referendum on the preservation of the Amazon almost certainly would achieve national unanimity, but the punctual and organized interest of a lumber mill or soybean producer prevail, and the forest is destroyed. The very strong but diffuse interest of the population does not lead to a concrete action, unless people interested in a specific issue have someone who will represent them, do the corresponding research, publicize the problems in the media, and make a judicial notification. Thus the possibility of creating entities to help us organize interests that, albeit diffuse are essential, becomes vital for the functioning of society.

The political contribution of such institutions has been criticized. An enterprise that develops an activity that will create jobs, even while generating significant environmental destruction, believes that it has no accounts to render. Who elected the environmentalist association that decided to protest? Indeed, the strength of civil society organization is that their sole strength comes from the social support it generates. Its projection does not depend on financial strength or threat of a fine, but on the respect it deserves. In this sense it is a profoundly democratic instrument, an essential complement to the traditional mechanisms of social management

Lester Salamon from the John Hopkins University faced the arduous task of systematizing data on the nonprofit sector, conducting an international research which is the basic study that orients us today. The first point to be made is the relative weight of these activities that many still view as marginal: in developed countries it accounts for 7% of the workforce, and if we add voluntary work it reaches 10%. It is equivalent to the total industrial workforce in the United States, for example, that now employs less than 10% of the workers. In Latin America, the sector is still weak, representing respectively 2.2% and 3%. In Brazil, the corresponding figures are 2.2% and 2.5%.¹⁷⁰

For many, the activities of civil society simply exempt the State from its obligations, to others it is a "band-aid" for corporate excesses. Therefore, its economic "non place" also represents a political "non place". These simplifications are related, in fact, to the fact that we still project our ideological war of the 20th Century on the new processes: on the one hand we cling to the State's commitments, without thinking about their feasibility, on the

¹⁷⁰ Lester Salamon et al., *Global Civil Society: dimensions of the nonprofit sector*, p. 387 and ff., data for 1995 – the chapter about Brazil, led by Leilah Landim, is particularly interesting.

other, as in Milton Friedman's view, this is a diversion of money that should go into the pockets of corporate executives and shareholders. As a matter of fact, the sources of income of civil society organizations in Brazil are around 15.5% from the public sector, 10.7% from corporate philanthropy and 73.8% from their own resources, derived from payments for services provided.¹⁷¹

The productive contribution of CSOs is underestimated because their contributions are largely in the area of non-monetary economics, and therefore is part of the distortion that occurs in the measurement of results. When we broadly address quality of life and not only GDP growth, impacts are immediately visible. Returning to examples given above, the Pastoral of the Child is able to raise a limited amount of resources, but if we estimate the concrete results for the children and their families, including monetary expenses avoided, the impact is very large; the pressure of a community for a clean river is reflected in leisure, disease reduction, and expressive savings because preventive actions are much cheaper than the cost of remediation.

In developed countries, the extent of community activities is far more encompassing, as we have seen, and the State's participation is also much greater. As an order of magnitude, the public sector contributes 40% of the funding of CSOs, and payment for services rendered is 50%, private contribution is roughly the same as in Brazil, about 10% of the total, therefore very marginal. A strong public sector participation in funding CSOs in developed countries is directly related to evidence of exceptional systemic productivity that these organizations accomplish.

In the example seen above of financial intermediation CSO's, the fact that these organizations are rooted in communities and controlled by them, makes the use of these resources much more rational and in tune with local needs. In many cases, when a community raises funds for an initiative considered important, the State contributes with a counterpart, since it knows that when a community decides to take money from its own pocket, the initiative is really necessary. The outcome is that public money thus employed becomes much more productive in terms of practical results for the community.

One of the important points in this area of economics is the frequent difficulty to assess results. A cultural program to support young people may seem a waste of money. How does one assess improvement of social capital, feelings of self-esteem or avoided costs? Along the line we saw in Chapter 3, when measuring a territory's systemic productivity, we may assess results. Essentially, today it is understood that quantitative measurements are not sufficient. The idea that concrete results are the ones that can be measured and translated into numbers is simply foolish. Mixing quantitative and qualitative assessments ensures a more realistic standpoint. Many technicians eager to put numbers on their reports to render account, for example, of a cultural initiative, could simply ask people of the community if

¹⁷¹ Idem, p. 404 and 405

they are satisfied. Satisfaction of the community is the best measurement of the correct use of resources, not requiring complex calculations of profitability.

To achieve a high productivity of society initiatives the most practical way is to develop social information systems for the community itself. Hazel Henderson provides an interesting rationale starting from a familiar example: the traffic jam. We can let the invisible hand solve the problem, i.e., let each one do what he thinks best. The result will probably be a second large traffic jam according to the most obvious solutions for traffic alternatives. Or we can close streets and direct traffic by means of police authority. Or, we can let the alternatives open, but ensure that there is good information on the radio about all the traffic in each region. This last option leaves the initiative up to the citizen, but ensures that he can make the best choice, well informed, and not blindly.

The first option creates chaos, and represents quite faithfully the liberal system, where each seeks to maximize benefits without being adequately informed about the initiatives of others. For example, it generates a herd behavior in the financial area, where a variation in the rumors makes all speculators run in the same direction, exacerbating the imbalances from which they are trying to protect themselves. The second, central planning, generates an order where the diversity of interests of the protagonists is not taken into account and where the citizen loses initiative. It generates bureaucratic systems as we saw in Eastern Europe, with a lot of order and little initiative.

The third system has the advantage that the informed citizen will know how to take initiatives that match his specific interest with the systemic logic of the process. In other words, appropriate and well-disseminated information is both an instrument of citizenship and of rationality of development. Modern societies are too complex to be ruled by a authoritarian super-power. And the technological tools we manage are too powerful to afford to maintain an “anything goes” culture: in the use of energy or water conservation or in ways of cultivating a field. Every public institution, private enterprise or civil society organization must have an overall view of what is taking place.

The role of planning must obviously be restored in this process. In the above example of traffic jams, the whole problem would have been avoided if transportation infrastructure had been planned, and adequate public transportation stimulated. And having plans and democratically discussed long term visions for a city, for example, is much more democratic than decisions negotiated by constructors behind closed doors, and the “faits accomplis” we have been accustomed to face. What we have now is neither free market, nor participatory planning, and cities reduced to immobility by an excess of means of mobility.

In Brazil we can count on our fingers the municipalities that have a reasonably reliable management information system. In traditional areas of production, such as shoes or bread, price still represents an important element of rationalization. A producer of very expensive

tennis shoes will have trouble selling them, and therefore will have to adjust. In much more diffuse areas related to systemic productivity of a territory, such as inequality, crime, environment and the like, organized information becomes the regulatory instrument that price represents in the traditional sectors. In the huge sectors that are emerging such as education, health, culture and the like, we face a similar situation. Environment impacts obey still less to pricing signals. The striking fact here is that we do not have territorialized and integrated information to orient social action in the territory or to evaluate systemic productivity.

There is no intention here to summarize the wide range of initiatives opening along the line of the social and knowledge areas of the economy, whose dimensions are yet to be understood, and that clearly obey regulatory mechanisms different from both the traditional State as well as of private enterprise. And if we look at civil society organizations, that is where they thrive.

If we associate the expansion of these activities with the structural dynamics that underpin the paradigm of collaboration seen above – urbanization and expansion of collective consumption; information technology and social connectivity; expansion of social policies that promote decentralized and participatory management; the increasing knowledge content of the production processes; the huge predicament of environment issues – we tend to view in a new way the dimension of community based management, civil society organizations and the overall role of partnerships and alliances to build a better quality of life in every city and surroundings. Between the bureaucracy of the centralized state and truculence of corporate interests, there is room for intelligent life.

In a study of hundreds of successful local development practices in Brazil, we found that the vast majority involve not only organized civil society but also partnerships between these sectors and the traditional public and private sectors. In other words, civil society organizations are a powerful social articulator serving as ballast of common sense and rationality for a much wider range of activities. When you associate people to the initiatives, their interests tend to be more present.¹⁷²

When we look at the experiences of social organization that are clearly successful, from very poor Kerala to very rich Sweden or Canada, the common denominator is organized and demanding civil society forcing the State to account for the use of resources, and creating an environment where private enterprises are obliged to respect social and environmental interests of the region where they are located. Organizations of civil society in this sense are increasingly essential. The top down economy, which is how central government and corporations tend to work, won't be responsive to people's interests unless these interests get organized. Bottom-up is not the alternative, it is the necessary complement for balanced development.

¹⁷² See in particular the FGV-SP *Gestão Pública e Cidadania* research program, headed by Peter Spink

In terms of economic democracy, participation is crucial. It is much easier to manipulate individuals, even if they are millions, than organized social interests. As the mechanisms of market competition are replaced by oligopolies, cartels and the like with global power – a large part of the leading economies worldwide today are enterprises, not countries, with boards no one elected – the organized expression of society's interests is becoming essential to the functioning of the economy itself.

19 – Ethics in economics

The ethical basis of the competition era is simple: whoever wins deserves to win, as long as he has complied with the rules of the game. Ethics in the era of competition would be contained in the actual production process: he who wins the competition is naturally entitled to the benefit, and this advantage would be legitimate, a right of the winner. The sum of individual advantages would give the maximum of social advantage. Two radical simplifications in that have come to dominate our world of ideas. The problem is that the big winners have become strong enough to change the rules, strengthening themselves even further. It is no longer a legitimate game, when the strongest also impose the rules.

If who wins automatically deserves what he won, the ethical issue of the final result is circumvented. But if in a game the house always wins, there is something wrong with the cards. And when we look at the outcome of the economic game, where the planet is literally plundered, and always for the benefit of the same, something is really wrong. Economics get rid of the ethical issue by separating economic processes from results. If 25 million die from AIDS, and cannot afford the drug, it is their problem, why don't they become organized to get rich and pay for the "cocktail" of drugs? Four million children die every year because they lack access to clean water? Well, the rules of the game are that the fittest win. Today, 435 families add up to a fortune greater than the income of 3,5 billion people, the poorest half of the world population. Are they smarter? Do they deserve it? Did they produce what they now control?

The significance of the discreet fraud that the bank of Sweden committed when it decided to assign the Nobel name to its awards is that the real Nobel is associated with science, with discovery of laws, of "truths." This makes economics seem to be objective in the fullest meaning, according to hard mechanisms such as the laws of chemistry or physics. The next step, of course, is that any barbarity can be justified because it does not depend on anyone's lack of ethics; it is a law. And economists are now introducing themselves as scientists who understand the laws, priests who see clearly where others feel confused. If several priests have a contradictory interpretation, it does not matter: it just goes to show how deep and complex the subject is.

The truth is that there is nothing complex about a child who dies of hunger, or lack of clean water. We have the knowledge, resources and organizational capacity to remedy it in a

short time, but this would infringe on the rules of the game, because in the view of the winners, the losers have to take care of themselves, work their way up the way the rich did. The fact that we have some 4 billion lost at the bottom of the pyramid, those who the World Bank concedes they have no access to “the benefits of globalization”, does not seem to move the top fortunes to any concern. Moreover, any help may lead the poor to idleness, which the rich find revolting.

Economists are not scientists researching the laws of nature; they are people who study mechanisms based on social practices that are established because of the different economic agents’ political power. The economy operates according to certain rules of the game, but the rules are agreed upon in terms of unequal power. There is no economic law that justifies that primary teachers in public schools earn what they earn in Brazil, or that financial middlemen in a given historical moment are filling their pockets to the same extent that they hamper the economy. The only law that works here is the law of the jungle. And as economic activities escape any democratic decision-making, the gulf grows deeper.

No “laws” in economics? Of course, there are things that elementary common sense teaches, and that should be taught and respected. If there is a higher income in the poor segments of the population, there will be greater demand for basic goods. If a person is very poor, he will not have access to education, therefore will not get a good job, and will remain poor, with the exception of the few percent that by some outstanding skills or opportunity will be able to rise in life, and will be the subject of media reports to show that all you have to do is work hard. If there is a poor harvest of rice, there will be less rice on the market, enabling middlemen to raise prices because the interplay of supply and demand exists, and furthermore, existed long before capitalism in any Eastern market.

Studying such interaction, identifying correlations, is interesting, but there is nothing very new to “discover” in these processes. Stiglitz won the “Nobel” in economics because he showed that economic agents have unequal access to information, which is true, but is not exactly a discovery. Lawyers also study in depth the legal complexities, they understand things that common mortals do not, reach opposite conclusions according to interests of those who pay them, but no one invented a Nobel Prize for lawyers, even if some reach a degree of subtlety in the interpretation of the law that they should deserve one.

The entanglement of contradictory explanations found in economics is more the outcome of diverse interests, than of the complexity of the phenomena themselves. The union of bank employees in Brazil explains mechanisms adopted by banks to generalize exorbitant interest rates in the country, and gives sound numbers. The economist from Febraban – the Brazilian bankers’ federation – replies with an impressive list of difficulties in providing credit, using precisely the reverse reasoning, also presented as objective economic analysis, and sums the argument up stating it is the fault of the heavy taxes the government burdens them with. The government wishes to keep the unspoken pact between bankers, the Central

Bank and the Ministry of Finance, because he needs the votes in Congress, and so explains that all this is really to protect the Brazilian population from a new inflationary surge.¹⁷³

On the scientific side, Paul Singer, a decent economist, shows that with this level of interest rates production processes become more expensive and therefore these rates, instead of reducing inflation, stimulate it. Amir Khair shows that in this era of open economics, and with products from China at our doors, the threat of inflation cannot be brandished. The banking employees' union continues to complain, the banks claim that their solid profits show that the money of our deposits is in able hands, the government is satisfied with the votes. Quite a few economists claim that this is a scandal, but they are not on the side where the money is, which is supposed to mean they are not good economists. Good economists are at S&P and similar institutions, giving out AAAs to bankrupt institutions. And swimming in bonuses. Where do the economic laws come in? Well, the laws...

What is really relevant here is that the way the game is played the planet's resources are squandered, and an immense majority of the population is excluded from decent jobs and a dignified life, and that both gulfs are growing deeper. And a new factor is becoming crucial, namely that the poor in the world, be it in the Arab world, in Latin America or elsewhere, are becoming wiser as to their rights, to the lost possibilities for their children, to the cynicism of the whole game.

We are going through a stage in which for money, anything goes. Anything indeed, the electronic church, the teacher-student relationship, the family relationship, the lover's relationship and the political relationship. Enterprises that pollute rivers make an economic calculation, just as it is taught in economics: what is the probability of waste thrown into the river being detected, multiplied by the size of the fine; this compared to what it would cost to install a water pre-treatment process, distributed among the products' volume. Usually, it will be good business to throw the waste into the river. The calculation does not account for how many people will get sick, how much nature is destroyed in the rivers, i.e., the end result for society. The calculation is strictly economic; the unit of calculation is the enterprise itself, not the overall process. What happens outside the enterprise is excluded from the calculation, and whoever pays the fine is within the law. And if they want to increase the fine, there are lobbyists to keep the fine at its ridiculous size, or even to repeal the law itself. And if control is expanded, we will hear righteous protests of big government hurting our freedom.

On the theoretical level we always have a Milton Friedman and many followers, explaining that it is not within the legitimate horizon of a corporation's concerns to think about ethics, but if individually, people who comprise the enterprise wish to be charitable, it is their

¹⁷³ Few non-specialists would believe it, but the average consumer credit interest rate in Brazil in February 2011 is 122,46 per cent. See the different rates at <http://www.anefac.com.br/Pages/Page.aspx?tema=8&id=1807>

privilege. To engage a legal entity to worry about the social and environmental, explains the owner of a "Nobel" Prize of Economics, "*is certainly not democratic*".¹⁷⁴

The rationale is not complicated. When a condominium or an enterprise dumps waste into a river, and afterwards the environmental agency has to carry out remediation, costs are far higher, and as everything has a cost, citizens will pay through taxes. It is a stupid solution because it is more expensive for everyone, although for the enterprise that built the condominium it was cheaper. For an advantage to an enterprise of 100, society bears the cost of 500 spread over all taxpayers. Costs distributed among many people are less noticeable. Contractors which will cleanse or desilt the river will also profit, and will support the system. The extra costs generated at various levels will be accounted as GDP growth, giving an impression that we have a higher *level of life* (read GDP per capita). The fact that the *quality of life* has suffered does not enter the calculation.¹⁷⁵

The fact that we consider it normal that ethics is included in the curriculum of medical courses but is marginal in the courses of economics, is astounding. Maybe it avoids discouraging the students, not to mention the teachers. The prevailing theory placed ethics outside the scope of the discussion by means of a radical simplification: if enrichment was reached by illegal methods, that's what justice and the police are for and therefore it is a criminal issue. And if it was achieved by legal methods, it is legitimate, and therefore not an ethical issue.

There is abundant literature on the subject, starting with Adam Smith, going through the utilitarians and reaching the nonsense of *Free to Choose* by Milton Friedman. This entire theoretical framework, however, is based upon premises that no longer exist. The basis was the market mechanism, with free competition, in other words, with no actor sufficiently dominant to "make" the market, with free flow of factors, with transparency of information, with the exchanges taking place openly in the "market". In fair play, results also would be fair. And a regulatory state would ensure that all respect the rules of the game.

We have, of course, some problems with this reasoning. First, because one believes that the rules of the game are written by a legitimate political representation, without interference from economic groups. As in reality representation is established today is by elections where money reigns, the law that the enterprise wants is sanctioned. The fact that the law is biased may be viewed as a non-economic matter, but this points towards another issue: economics tends to limit the ethical view to the economic activity, isolating itself from the effects caused in other areas such as politics. To practice politics in a systemic and

¹⁷⁴ Interview with Milton Friedman in the documentary, *The Corporation*. www.thecorporation.com

¹⁷⁵ When transferring the costs to the State, the company becomes more lucrative and presents this argument as proof of efficiency. The State, which picks up the bill – the externalities – will be presented as "less efficient", since the government costs will have increased. Government bashing has become a favorite sport among those who generate its costs. Mentioning freedom usually adds a touch of ethics to what consists essentially of money grabbing.

organized manner – spending large amounts of money, whose source is included in the price the consumer pays for the product – while at the same time negating responsibility for what is done by the politicians their money elected, is evidently complicated.¹⁷⁶

It must be remembered that enterprises will transfer the money we pay for goods purchased to politicians, in order to twist democracy in their favor. It is a private tax (there is no way to avoid this use of our money under current rules) that provides for the appropriation of politics by economic groups. If we choose public funding of campaigns, expenses will not undergo any change, they will, however, be explicit, and the politicians less dependent on corporations.

On the other hand, productive processes themselves generate various types of social and environmental impacts that cannot be ignored, and are now studied as "externalities", as if there were anything "external" to economic processes. A producer of short-barrel revolvers explains in an interview that it is not him who pulls the trigger. The gun dealers on the planet, who now flood Africa, for example, with millions of sub-machine guns, report that they only sell a product, meet the demand. The cigarette producers explain they only sell cigarettes, and that governments have to worry about health. Philip Morris went so far as to report to the government of the Czech Republic that the sale of cigarettes would reduce their expense on retirements, by shortening the life of the elderly. In other words, we would have a positive externality.

Rhodia and Union Carbide got rid of the highly toxic organochlorides in the Santos lowlands by "selling" the poison to truck owners in the region willing to dump these toxics anywhere, in the Vale dos Pilões among other places: thereby these enterprises considered that by presenting signed receipts they were exempt of responsibility. They were not the direct cause. Economic ethics focuses on lengthening the chain of responsibility, thus diluting it, to reach the ideal today cynically expressed as *plausible deniability*.

Stiglitz was so important because he called attention to another mechanism that completely distorts the rules of the game, which is the inequality on the level of information of various economic agents. How can we know what effect can a drug have on our health, when it is pushed by illegal marketing?¹⁷⁷ This is as true for so many industrial products, the chemicalia in food and cosmetics, financial intermediation, the way our phone bill is calculated, legal fees and and so many others.

¹⁷⁶ Yves Dezalay is seen here occupying an important void by studying the domination of the industry of laws by corporations that today control large groups supplying legal services: *Les Marchands de droit: la restructuration de l'ordre juridique international par les multinationales du droit* (The Merchants of Law: the restructuring of the international legal order by law multinationals) – Fayard, Paris, 1992, a thesis written under the guidance of Pierre Bourdieu. An excellent paper by Hazel Henderson explains the new workings of political campaigns funding: *The Best Congress your Money Can Buy*, 2010, www.ethicalmarkets.com

¹⁷⁷ A simple example is Pfizer's 2.3 billion settlement with the US government over charges of illegal drug marketing, New Scientist, 1 May 2010. Marcia Angell's book, *The truth about the pharmaceutical industry*, is a beautiful description of how much in the dark we are in the face of the health corporate world. In Brazil it is increasingly being called "indústria da doença".

The mere muscle of a large corporation, with its financial resources, law firms, access to the media and the judiciary, radically upsets the balance of power. Thus the mechanisms of "market" become conscious processes of organization of privileges, with political pacts, agreements between enterprises, media control, purchasing scientific papers in universities, control of political parties and segments of the judiciary and so on. The organized power of large corporations is incomparably superior to that of ordinary citizens, or smaller and scattered enterprises. Anyone who has tried to terminate the agreement with a telephone company is aware of his insignificance facing the company.

More important perhaps, is the fact that the prevalent technological processes are increasingly more powerful, and generate a radically new scale of impacts. The fact that we are losing control of regulation mechanisms has increasingly severe consequences. This is the case of the mentioned industrial ocean fishing, the destruction of rainforests and so many others. A curiosity: the movie with the little fish Nemo has created a craze for American children to have a similar pet fish. At other times, there would be no problem; the father would buy some goldfish. Today, with new technologies, companies are catching the poor little fish on an industrial scale in the Pacific, to "supply" the children's market, making Nemo liable to extinction in no time. It was estimated that 73 million sharks were killed in 2005, because Japanese like the fins. Technologies allow us to do things on a scale that generates impressive profits, but also irreversible processes. The sheer scale of intervention facilitated by new technologies breaks the market balancing mechanisms (through competition) and nature's restoration of resources.

This helps us understand why profit as a rationalizing systemic element of economics becomes, accordingly to the case, insufficient, ineffective or counterproductive. What matters, ultimately, is the practical outcome. The chasm between rich and poor is dramatically widening, the seas are being destroyed, we are losing the green ground cover and laying entire regions barren, we are creating global warming and climate chaos. In particular, this system does not know how to distribute, because the power generated in the production process emphasizes the inequality between actors, multiplying privileges, and generating political loss of control. Democratization of the economy is not just a nice idea, it is a vital necessity.

Collaboration economics is based on compacts, and a compact that does not mention results, the process' sustainability and product *distribution*, would be meaningless. And as we introduce distribution when defining the rules of the game – the *for whom* issue – we also introduce the debate on *what* will be produced, as well as the *how we produce* issue, with all the social and environmental impacts. From this standpoint, ethics in the economic process will no longer rely on the law of the strongest and will be governed by the greater systemic interest. This, in turn, by generating a more balanced society and maintaining an environment more favorable to life, will expand our options and result in greater individual freedom. Is this all feasible? Well, it is necessary, and the only difference is whether we

start the corrections now, when the rising water is reaching our belly, or in a decade when it will be reaching our throats.

Each of us, as an individual, parent, teacher, entrepreneur, employee, union member or whatever, must have as a guideline a reasonable balance between our own interests, perfectly legitimate, and the common good. Every simple act in our daily life can be appraised from the point of view of our personal or family (or business) best interest, and from the point of view of the global impact. Introducing the ethics of the common good into our decision making process is a major shift. It means measuring success not only from the point of view of what share of social production we manage to lay hands on, and showing it off, but also looking at the contribution we have made. The problem of the traditional corporation is its difficulty to include the common good in their goals. We might think of creating increasingly stringent laws. But in reality, as the above-mentioned mechanisms worsen, we would be smothered by rules and prohibitions. A culture of ethics, based on the understanding of the natural limitations of a small planet, is not a limitation of freedom, it links to the satisfaction of doing something good, as when we fix something in our home. This *is* our home, and the only one.

We are all looking for improvement, groping, trying to rebuild the bridges between economic activity and ethics. "Bringing values back to economic life is inevitably part of our quest for life after capitalism," says David Korten. "The more deeply the values defined by these rules become assimilated into popular culture as a necessary and accepted benchmark of economic life, the less will be the need for weighty public control."

On this level, advances are beginning. Many enterprises today already have programs of social and environmental responsibility. It is true that many do so more for cosmetic reasons, to have a clean name, than to improve their real social value as an enterprise. But on the whole, the process is advancing because society is beginning to demand results in terms of quality of life, and is becoming more aware, thanks especially to civil society organizations, and a new worldwide set of values that is coming of age.

Amartya Sen has played a primary role, by focusing the discussion on the issue of freedom, which in turn introduces the central problems, which are inequality and environmental destruction, which link with the political issue of active citizenship, the right of every citizen to build his options. As the poverty deepens – and it is not only a question of how poor and how many, but also how deep the indignation permeates society – options also become restricted as do the people's ability to take initiatives on their own life. And the feeling of helplessness generates despair, particularly if we know the resources are there. We must not complain if desperate people react in desperate ways. It is an elementary duty of those who wield economic and political power to make sure the key issues are addressed.

For Sen, it is essential to "promote creation of conditions in which people have real opportunities to judge the kind of life they would like to live. Economic and social factors

such as basic education, elementary healthcare and secure jobs are important not only as such, but for the part they play in providing people with the opportunity to face the world with courage and freedom. These considerations require a broader information base; especially focused on people's ability to choose the life they have reasons to value".¹⁷⁸

This leads Sen to refute the theoretical fraud meant to justify peoples' misery as an inevitable sacrifice on the way to economic efficiency, an argument so familiar for economists of the military dictatorship: "The quality of life can be greatly improved, despite the low income levels, through an appropriate program of social services. The fact that education and healthcare are also productive for economic growth strengthens the argument in favor of stressing the social provisions in these poor economies *without* having to wait to 'get rich' first."¹⁷⁹

In other words, to meet the most pressing needs of the poor releases their ability to choose and their own productive initiative, reconciling ethics and economics. This standpoint acquired a base of empirical knowledge through the *Reports on Human Development*, as seen above, but also paved the way for a wealth of theoretical papers that again take up economic analysis in line with priority of the right to options by the mass of deprived people on this planet.¹⁸⁰

The ethical challenges are multiplying. This relates, for example, to the right of future generations who will suffer with our waste and squandering of nonrenewable resources – these generations are not here to complain – to irresponsible manipulation of life, the surrealism of "intellectual property" (even of our poor *rapadura*!), our right to know the content of the products or the environmental costs and so on.

The key for us here, is to make clear that the rules of the game must change, that ethics in the economy must operate with a broad view of the development process, no longer with punctual results and isolated from consequences. It is no longer a matter of kindness, it is elementary common sense. Over and above the *output* issue, we are concerned with the *outcomes*.

In theoretical terms, the utilitarian paradigm which is the ethical basis of the current economic mainstream should be inverted. From an outlook where the interest of each would result in best possible social acceptance – the sum of egoisms somehow leading to a viable altruism – the changes under way point towards a system where collaborative processes centered on our quality of life and the common good bring about greater potential

¹⁷⁸ Amartya Sen – *Desenvolvimento como Liberdade [Development as Freedom]* – Companhia das Letras, São Paulo, 1999, p. 82

¹⁷⁹ id., *ibid*, p. 66

¹⁸⁰ Cf. for example, in Carlos Lopes, *Cooperação e Desenvolvimento Humano: a agenda emergente para o novo milênio [Cooperation and Human Development: the emerging agenda for the new millenium]*, Unesp, São Paulo, 2005; see also Patrick Viveret, *Reconsiderando a Riqueza [Reconsidering Wealth]*, UNB, Brasília, 2006, and the work of Jean Gadrey mentioned previously.

of individual achievement, a feeling of initiative and freedom of choice. Maximization of individual interests, in this world where individuals are no longer people of flesh and bone but giant legal entities, leads to the crushing of individual choices. We have to start building social and environmental conditions where individual interests can effectively be at the center of the economic decision process.

20 – Economic Democracy

Economic democracy therefore begins with the ethics of outcomes. It does us no good to know that corporate directors are well intentioned, that they contribute to schools in poor areas if, as a whole, the result is deeper inequality and environmental destruction.

Democracy is central in the process, since when there are participative forms of decision-making, involving as such different interests, the outcome tends to better balanced. Unrepresented interests do not affect decision-making, which leads to greater problems, as they will be manifested when the losers have reached the threshold of despair. Economic democracy therefore consists in inserting into the decision-making process the various interests, particularly those which are most likely to be harmed. Here too, it is less a matter of kindness than of institutional intelligence. Reaping one-sided advantages looks smart to the winner, but is not intelligent.

In Sweden, foreign workers, although not citizens, are entitled to vote where they are residents. A priori, this seems strange, because they are not citizens of the country. The reason given by the Swedish authorities is interesting: they are the people most likely to have difficulties, and therefore it is particularly important to ensure that their problems surface so they can be addressed. What is required today of political and corporate leaders is to be a little less clever in accumulating benefits for their partners, and a little more intelligent in economic and social terms.

Overall, at the level of institutional solutions, we are clearly moving towards the need for a double enrichment in relation to the traditional centrality of the nation-state: on one hand, a strengthening of planetary governance, because the discrepancy between the globalization of the economy and the fragmented 192 national regulation systems generates a governance vacuum, increasingly dangerous, and certainly not covered by ad hoc G20 meetings; on the other hand, more decision autonomy should be given to local governments, which is where participatory democracy can best be put to work. With modern technology and the planetary connectivity, we can envision the strengthening of a network of interactive cities, thereby reinforcing democracy at the base. Whether these or other paths are to be taken, it

is essential that we study the possible institutional dimensions of the decision-making processes, which urgently need to be more democratic in the economic sphere.¹⁸¹

Economic democracy manifests itself in the quality of inclusion in the production process, in the balanced access to the results, and in access to information that warrants the right to influence choices.

The *inclusion in the productive process* is central, and has been underestimated, insofar as in general only wealth or poverty are evaluated, that is to say access or not to goods and services *resulting* from the production process.

The region of São Joaquim, in the southern state of Santa Catarina, was a poor region, of small producers with no prospects, and with the lowest human development indicators in the state. Like other regions of the country, São Joaquim, and neighboring municipalities, waited for development “to arrive” from the outside as investment by a large enterprise or a government project. In recent years, several residents decided they were not going to wait any longer and chose another way to solve their problems, to face them on their own. They identified the various characteristics of the local climate and found that it was exceptionally favorable for growing fruit. They organized themselves, and with the resources available, formed partnerships with research institutes, implemented cooperatives and opened marketing channels so as not to depend on middlemen, and today it is one of the most rapidly developing regions. They do not depend on a large corporation that can leave the region at anytime: they rely on themselves.

This change in attitudes, that we can be masters of our own economic and social transformation, that one does not wait for development but just goes about it, represents one of the most profound changes occurring in the country. It is a cultural shift from an attitude of critical spectators of a government always inadequate, or from pessimistic passivity. It gives back to the citizen the understanding that he can take destiny in his own hands, as long as there is a local social dynamic that facilitates the process, and an overall favourable economic and political environment, generating synergy among the various efforts.

The ILO has recently evolved to the concept of *decent jobs*. In line with this concept and with studies by Ignacy Sachs, we can envisage that development of a productive initiative cannot be measured only by product output, because the quality of the production process, in terms of satisfaction generated for anyone who participates in the process and the general

¹⁸¹The idea of having to consult, to inform or even worse to listen to others is a hair-raising issue for traditional corporate managers, the so called captains of industry, the lone cowboys. The fact of having little democratic space in the decision-making process within companies and in the different spheres beyond the companies' boundaries is essential, as it generates an authoritarian and excessively hierarchical corporate culture. The consensus building process, so important in the best examples of efficient development such as in Emilia Romagna in Italy or in the Scandinavian countries, generates another culture. On the democratization of corporate management, see the excellent book by Robert A. Dahl, *A Preface to Economic Democracy*, University of California Press, 1985.

outcome, is part of the evaluation. The people of São Joaquim might have been getting more apples per hectare if they had been colonized by some United Fruit, but less quality of life. The enterprise would ensure larger returns for its shareholders in the United States. But is this the target? The fruit growers of São Joaquim proudly receive visitors who come to appreciate their accomplishments, and feel the outcome as a result of their capacity. Is satisfaction with the work, the feeling of ownership of the process, not part of the outcome?

Nowadays, the large corporation behaves increasingly as the State does, as the giant who “gives” jobs or tries to make us feel participants of an elite group because we use its brand. We can no longer ignore that we have a group of mega-corporations whose product is more than that of most countries worldwide and that this economic power has acquired a political dimension so significant that a growing number of people in the world think traditional politics is progressively less relevant, provoking its decline. The fact that political leaders of the most divergent tendencies apply the same economic policy is not the outcome of these leaders’ mediocrity or falsity, but of the fact that politics, as put so well by Otávio Ianni, has “changed place”.¹⁸²

Evolution towards knowledge economics, the expansion of social policies in relation to manufactured goods in the economy and growing urbanization – open new spaces for empowerment of the different stakeholders in every region. The revolt in Cochabamba against the Bechtel corporation which tried to monopolize access to water, shows how deeply skewed can corporate decisions be, taken by intelligent and well trained people, but who were trained to maximize unilateral advantage, not to improve the common good. And well balanced interests pave the best way to reach economic sustainability.

The study by Guy Aznar, *Travailler moins pour travailler tous* (work less so that everyone works) is characteristic in this sense: a division of work in which part of society is on the verge of nervous breakdown from overwork while another part is desperate for work is senseless. Rationalization of the process needs, for example, democratic intervention on the organization of the working day with decisions involving not only the eternal “competitiveness” argument but the *outcome* for the population in terms of social balance, environmental sustainability as well as the prosaic quality of life.

This way of looking at things, that planetary inequality is not solely linked to the reproductive cycle’s distributive segment, but to the poorly balanced inclusion of people in the production processes itself, is essential. It opens space for integrated local development, and stimulates the feeling that our future depends on us, not on remote transnational meetings. That some enterprise, or a distant bureaucracy, does things that are *for our good* is not sufficient. We must give back to people the chance to take care of their own destiny, to be protagonists.

¹⁸² Octavio Ianni – “A política mudou de lugar”[“Politics has changed place”] – chapter by L. Dowbor et al., (Orgs.), *Desafios da Globalização, (Challenges of Globalization)*, Editora Vozes, Petrópolis, 2003

A second line of democratization of economics refers to *balanced access* to the product of our efforts. Our capitalist system, we must face it, may know how to produce, but does not know how to distribute. Since the cycle of reproduction involves both production and distribution, hence consumption of the product, the system is structurally incomplete.

It is now increasingly clear that a person's remuneration relies less on the effort or willingness to work and more on how the person fits into the production process.¹⁸³ The production process is increasingly a social process. The universities that graduate individuals contribute to social productivity as much as the enterprise that will employ them, but wage levels are dramatically unequal. The world has generated corporate circles, where some support the privileges of others, and the outcome is surrealistic, leading, among others, to the numerous complaints about the compensation of executives of large corporations.

In fact, when some people are earning tens of millions dollars a year, their objective is not more access to luxury goods. They seek higher income because money, beyond a certain level, does not improve quality of life but provides more power. And obviously, power is wielded on other people. For some reason, a minimum of social intelligence led us to forsake autocratic forms of political power, and build democracies. Today, this economic power, transformed into political power, is out of control; it is time to think about it.

In this sense, a study by Sam Pizzigati is quite challenging. "The corporate executives of a generation ago could not possibly imagine how fortunate their successors would become. In 1975, Reginald Jones, then CEO of General Electric and regarded as the most talented executive in the nation, took home 500 thousand dollars, a sum that equaled 36 times the income of a typical American family. A quarter of a century later, in 2000, General Electric CEO Jack Welch took 144.5 million dollars, a sum equal to 3,500 times the typical income of a family that year. In 2004, Yahoo CEO Terry Semel cleaned up 235 million in the first 10 months of the year. Such remunerations are calling out for radical revision from the business community, in particular by Richard C. Breeden, former administrator of the SEC (Securities and Exchange Commission), the agency that regulates Wall Street. In 2002, a federal judge appointed Breeden to develop a plan to straighten out WorldCom, the telecommunications giant riddled by scandals. Breeden's plan, later adopted, completely dismantled the structure of generous incentives for executives – a structure, Breeden accused, that encouraged a reckless pursuit of wealth. Breeden's solution was to put a ceiling on total compensation from all sources for executive of MCI, the company that arose from the ashes of WorldCom. Breeden set this at no more than 15 million dollars, quickly adding that the board of MCI would be free to impose a lower figure. In reality,

¹⁸³ In the United States the process was studied in terms of the concepts *What you know* and *Who you know*. In career advancement it has been found that the "who you know" has greatly surpassed the "what you know."

Breeden had established the first “maximum wage” in the contemporary history of the United States.”¹⁸⁴

Technical solutions are differentiated. Franklin Roosevelt, in 1942, had requested a 100% tax on earnings that exceeded 25 thousand dollars, equivalent today to 300 thousand dollars. At the time, he managed to approve a level of 94% above 200 thousand dollars. Since then, the tax paid by the wealthiest has been dropping and now is 17.5% of total income for federal tax. A bill under discussion in the American congress would prohibit tax deductions on executive compensation in excess of 25 times the lowest salary of workers. “Ideas of this kind”, says Pizzigati, “of course never catch on in the United States. We may continue to go downhill to reach a greater inequality in the coming decades. If so, what will life be like in an even more unequal United States? One need only look to Brazil to find the answer.”

An anecdotic dimension of this comment is that Brazil, famous for being the last to abolish slavery in the world, continues with a solid reputation of having a prehistoric ruling class. But the main point is simple: too much wealth, as well as insufficient income, are pathologic conditions in terms of society. The very rich come to dominate politics, and if they wish to be elected they will purchase a seat, but in general they will just buy politicians. Anyway, the outcome is a radical distortion of democracy. Moreover, the very poor are unable to secure representation, to get organized or to become informed, actually becoming marginalized. To call the outcome democracy is pure good will. Fortunately, Lula’s Brazil did start the necessary measures, continued by Dilma, in spite of strong corporate resistance.¹⁸⁵

In practical terms of economic democracy, it is worth working with a ceiling of accumulated personal wealth – we can imagine a figure of 50 million dollars, with which it is assumed that even a demanding capitalist may survive – and with a yearly income ceiling of 15 million dollars as accepted by U.S. courts for MCI. In terms of personal fortune, the wealth tax, as applied in France, associated with the inheritance tax, should gradually provide a minimum of social equilibrium, although, increasingly, large fortunes are moving to the more than 50 fiscal havens scattered over the planet.

In terms of income, the most interesting aspect is the linkage of the minimum income and maximum income, for example by setting that the minimum family income would serve as a reference for the maximum income multiplied by 50. In fact, according to Pizzigati’s data, in developed economies 97% of people with income are included in a limit of 1 to 10. Therefore, the major issue is the owners of large fortunes, the so-called One Percent. In political terms, the calculations disclose that they would be the only ones to lose with a

¹⁸⁴ Sam Pizzigati, “The Rich and the Rest: the growing concentration of wealth” – *The Futurist*, July-August 2005, p. 41 – www.toomuchonline.org

¹⁸⁵ A description of the Lula government economic and social policy can be found at *Brazil: an Agenda for the Decade*, 2010, 32 p., <http://dowbor.org/10agenda%20for%20brazil%20another%20level.doc>

maximum/minimum ratio of this type. However, the great majority would be interested in increasing the minimum, because it would raise the maximum. In the proposal, above the maximum, the tax would be 100%.¹⁸⁶

It is stupid to tie a high remuneration – we're talking about lavish remunerations such as that of Eisner at Walt Disney whose earnings ranged in hundreds of millions, or the fantastic earnings of the financial world speculators – to some kind of miraculous productivity by the super-executive. This is quite ridiculous, and closer to Nietzsche's *übermensch* than to any economic rationale. Tim Berners-Lee invented the Web, our www, one of the key developments of the modern world, and did not charge a cent. Louis Pasteur gave us the vaccine not because he had a surrealistic salary. Progress is primarily linked to what Madalena Freire called “the passion for knowing the world” rather than the actions of superhuman executives.

On this subject, Marjorie Kelly produced a particularly interesting study, entitled “*The divine right of capital*.” Looking at the stock market in the United States, Kelly notes that the image of enterprises being capitalized through the sale of shares is nonsensical because the process is marginal: “Dollars invested reach corporations only when new shares are sold. In 1999 the value of new shares sold in the market was 106 billion dollars, while value of shares traded reached a massive 20.4 trillion. Therefore, of the entire volume of shares negotiated on Wall Street less than 1% reached the enterprises. We can conclude that the market is 1% productive and 99% speculative.” But of course, people profit from the shares, and so there is an outflow of resources: “In other words, when you look at the two decades from 1981 to 2000, there is no net input of money from shareholders, only net outflow. Since 1981 the net outflow for new issuance of stocks was negative by 540 billion”... “The net outflow has been a very real phenomenon – and not a statistical trick. Instead of capitalizing enterprises, the stock market is unfunded. For decades, investors have acted as a huge drain on corporations. They are the deadest of dead weights. Furthermore, to refer to shareholders as *investors* is inexact because in reality they are *extractors*. When one buys stocks one is not contributing with capital, but buying the right to extract wealth.”¹⁸⁷

This reasoning is very interesting because it points to the modern mechanism of wealth extraction: at the base is the great improvement in productivity warranted by the new technologies. However, these gains are not appropriated by workers and society in general, since they become fabulous management salaries and excellent remunerations for shareholders in a collusion of interests in which one protects the enrichment of other. Thus

¹⁸⁶ Assuring a minimum income makes complete ethical sense – some things can't be denied to anyone – and also economic sense, since the excessive costs of poverty by far exceed its prevention. Extensive international literature on the subject may be found in the works of Eduardo Suplicy, for example, in his small but excellent *Renda Básica de Cidadania, (A Citizen's Minimum Income)* L&PM, Porto Alegre, 2006. The important concept of *maximum income* is still moving ahead very slowly.

¹⁸⁷ Marjorie Kelly – *The Divine Right of Capital* – Berrett-Koehler, San Francisco, 2001, pgs. 33 and 35

the technological advance, which should allow a dignified and peaceful life for all, ends up concentrated in a few hands, contributing to obscene fortunes.

It is interesting to cross Kelly's reasoning with that of Robert Dahl, mentioned above, about the absolute absence of democracy within the enterprise. The enterprise's internal authoritarianism ensures impressive reproduction of privileges and generates levels of enrichment completely out of proportion to the effective contribution of the personages to economic growth. "If democracy is justified to govern the state, Dahl writes, then it is also justified to govern economic enterprises".¹⁸⁸

At the other end of the spectrum, some 3 billion people live on less than \$ 2 per day. Undernourished children, for want of a small support, such as the "Bolsa Familiar" (family subsidy) current in Brazil, will not be very productive for the rest of their life and burden hospitals. The teenagers lost in the big cities, no school or job, generate huge public security costs, and often die in the process. Who benefits from this? The economic truth is that it is much cheaper to lift people out of poverty, than to be burdened with the consequences. To uphold inequality is one of the biggest blunders of our economic theories. And in terms of quality of life, the huge worldwide losses and suffering are certainly not balanced by any particularly improved quality of life of a billionaire who earns an extra million. This is not a question of anti-rich ideology, but of common sense in the use of our common resources.

The third line of economic democracy is *access to information and knowledge*. This is obviously linked to the existence of a vast mass of the world's poor that lack access to adequate education, the factual information, technological knowledge, to the minimum set of instruments that may constitute what we would call a precarious ladder to go up in life. To ensure economic opportunities is a starting point for any economic democracy. And this is organized by democratizing access.

An excellent text on this approach is still the Declaration of Cocoyoc, 1974: "We call on leaders of public opinion, on educators, on all interested bodies to contribute to an increased public awareness of both the origins and the severity of the critical situation facing mankind today. Each person has the right to understand fully the nature of the system of which he is a part, as a producer, as a consumer, as one among the billions populating the earth. He has a right to know who benefits from the fruits of his work, who benefits from what he buys and sells, and the degree to which he enhances or degrades his planetary inheritance".¹⁸⁹

¹⁸⁸ Robert A. Dahl – *A Preface to Economic Democracy* – University of California Press, Berkeley, 1985

¹⁸⁹ *The Cocoyoc Declaration*, in South Centre, *The South and Sustainable Development Conundrum*, Geneva 2002 - In this regard, see practical proposals in our "Informação para a cidadania e o desenvolvimento sustentável" - <http://dowbor.org> under 'Articles Online.'

The fact is that innumerable forms of exploitation that have developed on the planet today go through financial and monetary mechanisms that are unclear to most of the population, thereby allowing impressive atrocities.

We have seen here proposals along the lines of institutions and the production process, income distribution and access to information and knowledge. Throughout the text we have seen all kinds of proposals that arise, and solutions looming on the horizon. The practical reality is that we have the financial and human resources, the skills and knowledge to remedy in a short time this double drama of inequality and environmental destruction. The arrogance of executives in Davos, smiling symbols of success, unaware of the planetary tragedy that unfolds, is simply regretful. Once again, they remind us of the unconscious brilliant gatherings in the Versailles palace before the French revolution. Brilliant empty headed people, with champagne fizzled brains.

Essentially, the economic mechanisms are insufficient for the necessary balance. In political terms, despite all limitations, our evolution toward something approaching democratic processes was a huge step forward. Economic processes have come to dominate politics without submitting to it. A president of Exxon, with all the political power he had on the U.S. president, calmly stated that to work with energy alternatives is a waste of time. Did someone elect him for this? What characterized the economic rules after the demise of Keynesianism in the 1970s, is simply a global rat race. The time has come to spread the democratic blanket to cover new areas.

Conclusions

In this brief work we dialogued at various moments with the Celso Furtado's search for a "new model" of economic interpretation. Without having been nominated to a Nobel Prize in disguise, during his whole life he defended in a coherent manner the interest of those who need a decent economic integration. It is an outlook that never became trapped by any ideology or "school", which understood economics in the richness of its relations with other areas of knowledge, focused on structural change, and sought in a rather pragmatic way – and theoretically very sound – answers to meet the needs of the country. Ethical soundness, methodological rigor, historical knowledge, focus on central problems, and a healthy disregard for the many different "-isms" that restrict the horizon.

And he also had – an argument we mentioned quite early in this essay – a critical view on the explanatory capacity of the inherited conceptual apparatus. To quote him once more, "we live in one of those times when the inadequacy of the conceptual framework to seize a rapidly changing reality is notorious".¹⁹⁰

¹⁹⁰ Celso Furtado - *O capitalismo global* (Global Capitalism)– Paz e Terra, São Paulo 1998, p. 21

What first comes to mind, when endeavoring to conclude this reasoning, is that economics has to be researched and even taught in a different way. That is to say, instead of isolating economics from other social sciences, seeking “identity”, and slicing up this identity in disciplines, we should work with key-issues and assign to them economic concepts, an historical outlook and the knowledge needed from other scientific areas.

The goal would be, for example, to work in an intelligent and interdisciplinary form over the reasons for such a monumental interest rate in Brazil. This would force us to understand the process of concentration of banks, the political power of financial groups, the mechanisms of public resources transfer to private groups, use and misuse of economic theories, how compound interests function, how the legal framework for credit is organized, how the media presents the issue to the population and so forth. Instead of a certificate in finance, we would have an understanding of how things actually work.

This is but an example. We must start from the problems considered crucial today, and organize scientific knowledge on the needed diagnosis and responses. Economic science must be validated, bringing replies to the key-problems that truly challenge humanity.

This approach is particularly important in economics, because the central difficulty is not to understand the concepts, but to understand how the concepts relate to the problematization and understanding of a reality. Such a reorientation of research would improve motivation of the students – who today face a major difficulty to relate what is taught with the real world – and also of teachers, when delivering them from the comfort of the sectorial handouts and challenging their creativity, in addition to demanding, for instance, joint efforts with researchers from other areas to comprehend the systemic logic of the process under study.¹⁹¹

But even more important, this approach, by explaining in a comprehensive way the decision making process underlying an economic dynamic, would lead to a better understanding of how to make such a process democratic. A simple negative example is the way the issue of interest rates was faced in Brazil, by including in the 1988 Constitution a 12% limit. This is typically a blind move, since it is not according to the Constitution that actions regarding interest rates are taken. Economic democratization must come from the truly existing economic mechanisms.

To approach economics by means of key-problems or structural megatrends should allow us to research and study what really matters. In the above text, we privileged some points that may be considered critical because of their importance for our survival, or the strength of their systemic impact. There are many others, of course. But our effort has been to go beyond the wide-spread tendency people have to concentrate on great ideological

¹⁹¹ A characteristic example is the lack of knowledge on the part of economists regarding legal aspects of the economy, while judges are usually unaware of the economic mechanisms which they are frequently called upon to rule.

arguments, as if the simple belonging to the right or the left would legitimately allow us to remain above the empirical groundwork. And the groundwork, the exercise demanded from us, is to take the key critical trends in modern society, to collect information and analyze reality in its diversified aspects – seldom purely economic – laying bare the mechanisms and the power relations that sustain them.

To turn your back on politics feels comfortable. It's easier to say that economics overlooks the discourse and focuses on practical achievements: the enterprises build factories, provide jobs, finance roads, while politicians discuss. This way, the economy would be nice and progressive, the politics distasteful or corrupt. Simplifications seldom yield good results, yet they satisfy our instincts. Remember, it was the great political movements, regularly branded subversive in the initial stage, which in their times achieved the abolition of slavery, the end of colonialism, the rights of the employee, the political inclusion of women and today continue to struggle against economic inequality, against the destruction of the environment, for rescuing the cultural richness of our lives, against the system of financial speculation, for access by all to basic goods such as water, food, education and health. The democratization of the economy may well become an axis for building a more humane life. To extract oil more quickly, to sell out the Amazon more efficiently, will lead us where?

Today we have all possible economic, technical and organizational means available to ensure a dignified life for all. It is the main challenge that we face. This challenge will not be met without an active participation of the forces that today control economics, mainly large corporations. And corporations will have to get to what Peter Drucker expressed simply: "Business cannot thrive in a sick society."

The objectives are known: they are now presented as the Millennium Goals, previously it was the Earth Charter and Agenda 21 and still before, the New International Economic Order or the excellent Cocoyoc Declaration. When reviewing the texts, we perceive that the themes are always the same, renewed with different names to imprint a new spirit, with some differences in emphasis, but with remarkable coherence.¹⁹²

Overall, these declarations have managed to draw up a political "North", as a result of so many efforts and scientific studies: we need a society that is economically viable, socially just and environmentally sustainable, because we are all children of God and have only one planet. To this so-called triple bottom line, we must add that this has to be reached through democratic decision making. Four pillars are more stable.

Those are goals that must be common to all activities. What we presently have is the political right defending economic results, the left more moved by the social aspects, green parties defending the environment, and everybody speaking in the name of democracy. But

¹⁹² Various excellent texts, including the Cocoyoc Declaration, can be found in the book *The South and the Sustainable Development Conundrum – From Stockholm 1972 to Rio 1992 to Johannesburg 2002 and Beyond* – South Centre, Geneva, 2002 – www.southcentre.org

all stakeholders must be held responsible for the four pillars. In particular, the tragic “trickling down” theory, a way to say that “let’s solve the economic problems, and the rest will come”, must be put aside as the blunder it is.

We are also reaching a reasonable understanding of the social complexity of the modern society. The era of “redeeming classes” is over, or at least overtaken by complex interdependent and interwoven social and economic relations. The issue is not just bashing one sector or another, but a better understanding of how the different interests can be balanced in the pursuit of the overall results. In particular, the public dimension of the state is to be rescued, and civil society brought to adult participation in the decision making process.

As to the economic decision process, it is not going to be either the market *or* state planning, but a combination of different mechanisms that include, in addition to market and state planning, also inter-enterprise coordination, participatory local development schemes, strong involvement of social movements and systems of renewed international compact building. We are too complex a society for simplified ideological credos.

The concept of democracy, in this sense, has become essential. We consider public sector transparency as a natural demand. But what about corporate transparency? We find it a scandal that political leaders have salaries of 20 thousand reais, because it is the money we pay through taxes, our money. But we find it natural that the private sector manager earns 20 million, though his salary is included in the prices we pay for goods, a discrete and implicit tax. Who does this money belong to?

Thus, the objectives, the political basis and decision-making process of economic and social development are slowly shifting. We are building another society, although as an unexpected result of processes that we only understand in part. The challenge of economics, as a science at the service of society, not of dominant economic groups, is to reinvent itself, and to redeem its usefulness.

Overall, the threats looming in the social and environmental levels give us a limited window of time to act. The survival of the fittest culture in the economic world, when we wield technologies that have a planetary impact, and billions of outcasts, is leading us to a grim future. When the successive bubbles turn into a tsunami, there will be the usual saviors in the form of authoritarian regimes. The big dilemma is whether we will regain control by building democratic processes right from the bottom of society, or if the order, the so-called order, will come from above, with all the barbarism that these kinds of solutions represent. There will be no shortage of candidates.

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Back cover

Awareness about global warming, income concentration, destruction of life in our seas, petroleum depletion and other threatening catastrophes can no longer be avoided, we need more efficient forms of economic and social organization. Economic power has become the central element of political decision making and the power of the media also relies on corporations. Under these conditions, to limit democracy to its political expression is becoming increasingly less realistic, rendering us even more skeptical. For politics once again to make sense, we have to evolve to a more democratic concept of the economy itself. This essay presents in a simple way the various theories about economic alternatives in international literature and dialoguing with Celso Furtado's work, shows that there is a new outlook under construction that is worthwhile knowing. We face today, the central issue of governance, of the way we organize ourselves to make society work. On the political level, democracy was a major stride forward, since, at least formally, each person has the right to vote and we are no longer barbarians. Nevertheless, in the economic world we still enforce rules that are by no means democratic.

Flaps

Economic democracy may seem to be a strange concept. We have learned to value political democracy, vital for our freedom. But, when economic power dominates all the areas including politics we must rethink the general balance of the decision making processes that today are called governance. Periodical elections of political representatives are not sufficient when essential decisions about our lives, our values and our future evade the political sphere and are taken by gigantic corporations, over which we do not have the

slightest control. Corporations today manage budgets larger than those of most governments. No one elects their leaders. In the main production chains, a restricted group of enterprises dominate the market, impose prices, and by means of advertising and media control build a positive image of itself. Why should democracy stop at the doors of corporations? Why can't we even get information on how the money of our deposits is used? Why can't even governments ensure disclosure on speculation schemes that play with what would be our pensions?

Economic theories we inherited from the past are really unable to account for what is going on. This essay endeavors, in different alternative lines of thought to identify a broader tendency to regain control by the citizens of the direction of our development. This is not merely an academic exercise. Global warming is at our doors and we perceive that obsessive consumption based upon exploitation of a cheap and finite resource, petroleum, is simply taking us to an impasse. The water squandered and polluted in an irresponsible way, results in the death of 4 million children by contamination every year. Life in the seas is being literally destroyed and this is the largest reserve of life on the planet. Only 2% of the families concentrate half the world's wealth; the poorest 50% of the population have only 1%. Only the oblivious or dishonest are unaware of the spreading adversity.

The solutions take us beyond traditional simplifications. Civil society organizations oblige us to surpass the traditional dichotomy between enterprises and the State. The knowledge society that is emerging has as the main production factor one asset – knowledge – that may be disseminated free and becomes a means for democratization of development. The stock of knowledge is not diminished when we use it. Those are outlooks about an emerging world, at the same time threatened and filled with potential, but above all new and demanding up-to-date approaches of study and interpretation.

About the author

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