

# Our Global Mess: an overview from Brazil<sup>1</sup>

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In case you haven't noticed, our challenges are ridiculously simple. We are destroying this only planet we have, for the benefit of the happy few, and the resources to do something about it are lingering in tax havens and other speculative drains. It is not only about climate change and the dramas it is generating – not everyone has read Wallace-Wells' *The Uninhabitable Earth*, I imagine – but the general pollution of fresh water, the forests being taken down, the soil being sterilized by monoculture, excessive tilling and chemistry, the destruction of biodiversity (we have lost 52% of vertebrates between 1970 and 2010), the disparition of bees and insects in general, the drama of overfishing, the antibiotics in our food and the appearance of resistant bacteria, plastics absolutely everywhere, and so forth – all this stimulates our imagination.

When my father was born – I am speaking of my father, not ancient history – in 1900, we were 1.5 billion humans. Since then we have reached 7.7 billion, and are growing by 80 million a year. We actually are quite good at some things. But if we put together this population boom with the fact that the common ambition in our lives is to buy more stuff, it is obvious that we are rapidly heading for a wall. There is no soft landing ahead, it is a question of inertia. As a brilliant American scholar had it, imagining we can indefinitely expand our consumption in a limited planet can only be imagined by an idiot, or an economist. So far for the planet.

Coming to the happy few, the *Crédit Suisse* has been generous with figures on inequality, and Oxfam with spreading the word in simple figures. The elephant in the room, obviously, is the fact that 1% of the richest families have more wealth than the next 99%. And 26 families have more than the 3.8 billion in the bottom half of our world society, as was presented in Davos. They must be hugely productive, for we could not imagine they earned all these fortunes without deserving them. You might have read *Unjust Deserts: how the rich are taking our common Inheritance*, by Gar Alperovitz and Lew Daly. Very stimulating.

And to save you the task of facing the 720 pages of Thomas Piketty's study on the Capital in our century, I come to the basic fact: putting your money in financial papers paid roughly between 7% and 9% in the last decades, while production of goods and services, as calculated in world GDP figures, shows a progress of only between 2% and 2.5%. You will not be surprised that capital is going to where it can earn a lot with little effort, rather than the opposite. And kindly consider this: a billionaire locating his billion in papers that pay a mere 5% a year is earning 137 thousand dollars a day. And next day, he will be earning interest on a billion plus 137 thousand and so on. In finance, it is called 'snow-ball effect'. And the fellow doesn't need to produce anything, just call the hedge fund or the people in Panama now and then, to hear how things are going. Well, this is a free and democratic world, and anyone can participate, unless of course they do not have the money to begin with, which is quite unfortunate, literally. We are speaking, of course, of the huge majority.

So, these are our dramas: the environment challenge, and the social challenge. We must cease destroying our natural world, and we must organize social and economic inclusion of the billions left behind. We do know what we should be doing. The Sustainable Development Goals

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<sup>1</sup> This paper has originally been written in Economese. I thank my non-economist colleagues for bringing me down to earth.

(SDGs) organized this very neatly in 17 goals and 169 objectives. The New York and Paris summits in 2015 were a success, and generated enthusiasm, until the third summit, in Addis Ababa, tried to find the corresponding financial resources. You guessed it, it was a fiasco. But Paris did manage to approve the decision to generate 100 billion dollars a year to face the environmental drama. I remember my first reaction was that it was quite a commitment.

But then I compared it with the tax havens figures. In 2012, according to the Tax Justice Network, we had between 21 and 32 trillion dollars thus tucked away. The Economist rounded it down to 20 trillion, but this does not change my argument here: 20 trillion is 200 times as much as the 100 billion so ambitiously proclaimed as a goal in Paris. Tax havens money basically consists in tax evasion, money laundering, corruption and speculation. The commitment to raise 100 billion needed the participation of heads of state of the whole world, with laudable objectives. Putting 200 times as much in tax havens needed just the banking backrooms generously called "tax optimization departments". Just next to the Compliance departments. This is all a joke. And a bad one. We know what we have to do to reduce the environment disaster, we know what we have to do to reduce inequality, we know where the money is, and we hardly do anything about it. I call it the modern Bermuda triangle, and the term is quite appropriate here.

Our main challenge is not discovering what to do, or what we should be doing, but generating the decision process, or power architecture, which would allow us to get the reins back into our hands. I imagine the Titanic spotting the iceberg. Should we avoid it on the left or on the right? Should we wake the captain? Reverse, or accelerate to gain maneuverability? Let us discuss the matter. Add in politicians and a lot of lawyers, speaking different languages, and promoting conflicting interests, and you have our world decision making process. We are not only in an environmental, social and financial mess, we are in a decision-making cacophony. We not only have the problems, but we lack the instruments to face them. That is the real question.

Let me take the Venezuelan example. According to your stomach acids, the so-called gut-feeling, you are either apalled at the Maduro policies, or indignant at one more oil-grabbing American initiative. There is a quite a bit of both, of course, but take a few steps back. Why did Chavez show up in the first place? The Venezuelan elite never moved a finger to invest in their country's economy or in their population's welfare. They lived comfortably off the oil export royalties. And 'comfortably' here is an understatement, of course. Their political support was in the US, not in Venezuela. As population grew, and consciousness spread, governance deteriorated. The prosperity bubble burst, Chavez took over, and started using the oil resources to fund cooperatives, technology and so forth.

But in Latin America you cannot just put the elites aside, the more so if you have huge oil reserves and strategic American interests next door. The elites fought back, as they do in Brazil, in Argentina and other countries. In a way, you cannot govern with them, because they serve themselves so largely, and you cannot govern without them, because they have strong teeth to cling to their privileges. Thus, the basic issue is not whom we like most, whatever the sophisticated political arguments we invent to ease our gut feelings. The issue is that you cannot govern a country with abismal inequality. The poor of the world are not a mass of uninformed individuals anymore, and they get mad at the obvious absurdity of not having how to feed their children, or of not having access to decent health facilities, or to proper education and so forth. The masses are not a docile sleepy dormant pool anymore. They are mad and vote for anyone who promises to hit at the system, who presents himself as an out of politics

politician. And the rich are powerful and connected enough to make sure that any attempt at economic democracy is routed. It is a stalemate.

This planet has become too small, and the rich and poor too close to each other, and the information too leaky for us to imagine we can keep this unequal world in peace. You who are reading this paper, and probably have a university degree, please remember that any dark kid in Soweto or in the Rocinha favela in Rio has the same intelligence as you have, but not only has no opportunities, but is conscious of being deprived of them. This doesn't work. Not with billions trying to have a decent life, while idiots in Wall Street show exilerated enthusiasm in chanting "Greed is Good". They also have university degrees, and squander money precisely like idiots should. This is space-ship earth, and promoting success as the capacity to rip-off riches, instead of promoting activities that contribute to our common interests, leads to a dead end. You cannot have a working democracy and free societies if you do not have basic inclusive policies and sustainable development.

Inequality is an evident ethical scandal. It is a scandal from the point of view of the poor of the world, because having 850 million going hungry, 2.1 billion difficult access to safe drinking water, 4.5 billion with no access to sanitation, not to speak of the roughly 20 thousand children who die every day from hunger and connected causes, is simply sickening. We produce 85 trillion dollars of goods and services a year in the world, which is equivalent to 3,500 dollars a month per four-member family. This may look ridiculous for the Kerdashians, but 59% of world population, 4.3 billion people, live on less than 5 dollars a day. They are not responsible for their destitution. On the other side of the ethical coin, is the fact that most of the huge fortunes are not earned by contributing to the world prosperity, but basically through financial accumulation of wealth. There is no justice here. Parasite capitalism, Bauman calls it. Extractive capitalism, according to Marjorie Kelly.

It is also a political and social absurdity. We have highlighted the Venezuelan example, but the *gilets jaunes* in France belong to the same basic logic. Being poor in a rich country is devastating. In the US, basic workers' income has scarcely budged in two decades, and they voted not against Clinton, but against the system, and for someone who yelled they had the right to be pissed. Brexit promised the Brits they would "take back control", whatever that means. The Poles were promised they would have Law and Justice. The Hungarians were promised protection from the barbarian hordes coming from poor and conflicted countries. So many muslim populations were promised the rule of God, and who would argue that it would be worse than the rule of their corrupt elites? Duterte mobilized masses with his promise to kill the drug traffickers responsible for their woes, the Thailand generals are promising order, we can even have elected dictatorships. The list can go on. The common denominator is that instead of responding to the needs of their populations, the elites mobilize them against whatever enemy is more visible. Scapegoats, rather than the lack of economic and social policies, are presented as the culprits. In Brazil we have even reinvented communists. In politics, it seems that navigating on hate and fears is much more productive than fighting for the necessary policies.

Last but not least, maintaining and reproducing inequality is economically stupid. Ex-President Lula generated a host of inter-ministerial social and economic inclusion policies, which expanded consumption capacity at the bottom of the social pyramid. Tens of millions had for the first time three meals a day. Twenty million formal jobs were created. The destruction of the Amazon forest fell from 28 to 4 thousand square kilometers a year, still a scandal but a revolution by Brazilian terms. (It is back to 10 thousand in 2109, with Bolsonaro). Life

expectancy soared, child mortality fell radically. And behold, concentrating the economy on the well-being of families, rather than of banks, actually worked. The effectively productive companies thrived, demand was expanding. It did not provoke inflation, because companies had been working much below their capacity. Producers do not need ideological discourses on “free markets”, they need demand for their products and cheap credit for their investments.

Money at the bottom of the pyramid generates demand, which stimulates production, which in turn generates jobs. Unemployment fell to 4.8% in 2010. The World Bank called this 2003-2013 period “The golden decade of Brazil”. No deficit appeared, for stronger demand generated more taxes on consumption, while more economic activity generated more taxes on production, and the reduction of unemployment reduced social support expenditures. The policy was good for the population, good for business, and good for public accounts. Well, not good enough for financial elites, who brought the system down through a thinly disguised coup. They claimed they took over to fix the deficit. It has been five years now, Brazilian GDP is back to the 2010 level and deficit much higher. Lula’s only proven crime is that he was going to win the 2018 election. The Intercept papers exposed the righteous farce. So much for democracy. In other times, we needed generals to topple a government. With the present widespread erosion of democracy, a captain proved up to the task. Well, yes, Cambridge Analytica and industrial scale fake-news helped. We presently have technology-supported elegant necktie dictatorships.

Looking for culprits? When you have a structurally dysfunctional system, you have no individual culprits, the culprit is precisely the system. Are the German managers at Volkswagen bandits, or idiots? Or at the Deutsche Bank? Wells-Fargo? HSBC? British Petroleum? Billiton? Big Pharma? Dupont? Face-book? The common denominator here is quite clear: the effectively working philosophy in the big corporations is not satisfying the customer, but making the most for the financial systems that control them. Joseph Stiglitz has it quite clear: we have to rewrite the rules. Felicia Wong shows there are no divine laws which would prevent corporations from organizing around the triple bottom-line, being economically viable but also environmentally sustainable and socially just, instead on concentrating only on short-term maximization of financial gains. Hazel Henderson even shows we could have Ethical Markets.

There’s the rub, so to speak. The corporate managers (CEOs, CFOs, CMOs etc.) have their salaries and bonuses linked to what the financial investors above them are paid. Thus, the so-called institutional investors, in the financial speculative world, have created a solidarity bond with the managers. Martin Wolf is the chief economist for the Financial Times. He is well-placed to provide the reality shock we all need: “Widely shared increases in real incomes played a vital part in legitimizing capitalism and stabilizing democracy. Today, however, capitalism is finding it far more difficult to generate such improvements in prosperity. On the contrary, the evidence is of growing inequality and slowing productivity growth. This poisonous brew makes democracy intolerant and capitalism illegitimate.”<sup>2</sup>

Let’s face it. The huge world-scale corporations have no-one to respond to, but the amount of resources they control, as well as the financial, technological, and political clout they have gained, make it unrealistic for us to get back on track without their participation. They do make us busy and even happy with our smartphones, but nature and society are breaking

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<sup>2</sup> Martin Wolf - Real World Economics Review - Sept. 8, 2016  
<https://rwer.wordpress.com/2016/09/08/capitalism-vs-democracy/>

down. And nature and society means our world. I am not speaking of distant grand-children, history has accelerated, in case you didn't notice.

What is culture? It is certainly not just enjoying Mozart and gasping at a Picasso. As I see it, it is basically creating rich, balanced and supportive relations with our fellow human beings. We certainly are very good at inventing new technologies, but extremely limited when it comes to getting organized as a civilized society. No fatalism here. Just a few generations ago reducing our fellow men into slavery seemed quite civilized. Having kings and aristocrats with rights over common people based on divine legitimacy seemed natural. Colonialism was brought down only a generation ago. Women in Switzerland gained the right to vote in the sixties. All the leaders who fought against slavery and colonialism, or for women's rights and democratic causes were at their times considered dangerous extremists, or ridiculed as was so much the case with feminists. I do have the impression we are very slowly leaving the dark ages. But with this radically more complex society, where decisions are taken far from communities, and social responsibility is diluted in so many hierarchies, things got deeply messed up. We are rapidly losing control.

We have to face this structural change. Just as deep as the transition from rural to industrial societies, is the present transition to a society where knowledge has become the main factor of production. Industry captains are being controlled by bankers and institutional investors, factories and their machines by the so-called platforms, debt and financial systems are becoming the main mechanism of appropriation of social surplus. And of course, global flows are messing up the national economic and cultural boundaries. National governments are partly helpless, and the general feeling of insecurity is politically very dangerous. Tampering elections has become routine, torture and murder are back – they never left us, but we did not proclaim them as values, as we presently do in Brazil.

And yet, with so much technology and scientific progress, and so much accumulated wealth, we do have a wide horizon of possibilities. First of all, we must reach out to despair: ensuring basic income for everyone is not only cheap, but when money reaches the poor it multiplies, stimulating local and national economies through demand, generating positive returns. Better than building walls. Second, we must expand access to the main production factor, knowledge, through overall open access policies. This also does not generate additional costs, as Jeremy Rifkin has shown so well. Patents, copyrights and other forms of paywalls should be the exception, not the rule. And of course, control of finance will have to be democratized, so that money, presently just bits on computers, is brought back to its basic function, funding what is necessary. Am I dreaming? Certainly not, I am trying to avoid the nightmare. And the changes are too deep, the challenges too dramatic, for us to be content with cosmetics.

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