# The economy, the narrative, and the whip

Exploitation Revisited

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*Inequality is first and foremost a social, historical, and political construction*
Thomas Piketty[1]

*Economics is a form of brain-damage. It is simply politics in disguise.*
Hazel Henderson[2]

The appropriation of the social product by minorities has been at the center of the organization of different societies in different eras. The starting point is the existence of social surplus. When a society's productivity increases beyond the basic needed for families to survive, elites emerge, claiming, with more or less questionable arguments, the right to have more than others, thus appropriating the products of third parties.

In the mode of production based on slavery, elites appropriated what the slaves produced, an appropriation based on force and explained as legitimate ownership of human individuals. When Lincoln obtained the necessary support to end slavery, in the 19th century, the slave owners rather than the slaves were compensated for the loss of 'property.' There have always been explanations, what we now call narratives, to justify the absurd: they were blacks, savages, deprived of a soul, or had been captured in 'just wars.' Most importantly, and regardless of the narrative, they were supposed to continue generating surplus, thus bearing the costs of the slave owners' luxuries and financing the repression of numerous uprisings. This unjust yet stable mode of production lasted centuries. The ownership of human beings was even regulated by laws and sanctioned by religions. *La raison du plus fort...*

In the feudal system, the elites appropriated the land, the base of any economy before machines. For many reasons, but primarily because the feudal lords had weapons and fortifications, disputes between them led to the delimitation of feuds. The populations living on these lands were not the aristocrats' property, but should nonetheless abide by complex systems of obligations that constrained them from leaving the feud. The men were serfs and lived in servitude. The surplus production was appropriated by the 'lords' during the Middle Ages and most of the Renaissance period – in Russia, up until 1917. Rural workers were forced to hand over a large portion of their production to the aristocrats, a wealth that allowed the noblemen to own castles, live in luxury, and pay for the troops that guaranteed the maintenance of the system.

[1] Thomas Piketty, Histoire de l'égalité, 2021, p. 20 (*L'inégalité est avant tout une construction sociale, historique et politique.*)
[2] Henderson, Hazel - The Politics of the Solar Age" (1981,1988) – See also https://dowbor.org/2021/07/sixty-minutes-with-kate-raworth-and-hazel-henderson.html

This was also a time of numerous rebellions and repressions. The surplus was further used to maintain convents. They belonged to a religion that, starting in the $4^{th}$ century, made an alliance with the powerful and justified the system as being the will of God. Laws to ensure the system's coherence – the rules of the game, so to speak – included in Europe for instance the *jus primae noctis*, which gave aristocrats the right to appropriate a peasant woman's wedding night. The powerful are fond of legality, provided they are the ones to make the laws. Inquisition and other repressive systems were also available to handle any opposition.

In any case, this was yet another mode of production: it also lasted centuries, was defined by an economic base (the land), social relations of production (servitude), and forms of extracting the surplus through different types of impositions. Rules, for the most part respected, organized the ensemble. The appropriation of surplus was based on laws, justified by the blue blood of the aristocracy, sanctioned by the church's narratives, and reinforced by military repression. Someone had to pay for the Versailles and Vienna balls after all. Witold Kula, a Polish historian, discussed the feudal system as Marx did the capitalist system; it was a system, a mode of production.

However historically distant the slave and feudal systems may now seem, it is important to bear in mind that slavery existed in Brazil until the late 19th century and in the United States until the Civil War; that halfway into the last century, colonized populations across the world were still being exploited; and that the apartheid system has barely just ended in South Africa and endures in Palestine. Neither the United States nor Brazil have yet succeeded in absorbing and overcoming the oppression and inequality inherited from slavery, and Africa is still painstakingly reconstructing itself. The past is not so far away. It is not even fully past. In many nations, dramatic inequality shows to what extent it is still structurally decisive.

The capitalist mode of production presented a new level of legitimacy. At the base of transformations were the scientific advances, the energy revolution, the increase in productivity and, therefore, the possibility of generating a sustained cycle of social wealth increase. The *Liberté, Egalité, Fraternité* of the French Revolution echoed across the world. During the Enlightenment, the search for values in society caused cracks in obscurantism. The number of women burned as witches decreased ("thou shall not suffer a witch to live", instructs the Bible, Exodus 22:18), the view that wealth was the legitimate fruit of effort and the concept of merit as a virtue began to form. The narrative evolved. The worker gained the freedom to request a job and be exploited through it. The Industrial Revolution achieved a higher level of productivity: prosperity increased, but not for everyone. There was progress, for sure. But the mechanism of exploitation endured, despite having evolved. Narratives changed, repression modernized itself. The more direct forms of exploitation and violence, in particular, moved to the South.

In *A Formação do Terceiro Mundo*, I studied how capitalism reached a global scale. During its industrialization, Great Britain, a thoroughly capitalist system, benefited from the reproduction of slavery in the United States and other countries that provided it with raw materials. The capitalism of the British Empire did not hesitate to take advantage of slavery, forced labor and massacres across the world. Today, we watch impressed as England apologizes for what it did in India and many other countries, France for the violence inflicted in African countries, and the United States for what they did in Iran. In a few years, they will be apologizing for Afghanistan as well. Let's remember that Belgium was responsible for millions of deaths in Congo, a process documented in the study *King Leopold's Ghost*. The prosperity of the now prosperous countries is not solely the result of the capitalist system's productivity and rationality. The *fraternité* has clear boundaries. Many have still not realized the primitive subsystems from which the so-called capitalist liberalism benefited. Brazil was one to contribute significantly.

In general terms, the capitalist system of the rich countries was based on connections with the pre-capitalist systems of colonized or dependent countries. In a classic study, Samir Amin rightly named this system the 'accumulation of capital on a global scale.' Beyond the exploitation of workers in the central countries, this dimension of accumulation opened the way for the appropriation of surplus through direct colonial exploitation or unequal global exchanges. This process was supported by the narrative that civilization was being brought to primitive peoples and, of course, by military force. Religion, too, frequently served as a civilizing balm. This was barely yesterday – my years at the university were contemporary to the struggles of the colonies for liberation. Today we have independent countries that can freely decide by whom they will be exploited, whether systems of debt or unequal exchange, or both. Exploitation takes new forms, narratives are updated, and military control becomes more sophisticated. But we are always serving elites.

**Fragile balance: producing for whom?**

This brief retrospective helps us remember that slavery, servitude, colonialism, apartheid – all forms of barbarism now considered outrageous – are barely behind us and still permeate our everyday lives. Just look at the skin color of people in Brazilian slums or American poor neighborhoods and prisons. The different forms of organization of the developing countries are also significant. First, they remain largely specialized in primary products, hindering modernization. Furthermore, exporters only need the workforce for production and not consumption: these countries' elites send their products to foreign markets and consume many imported goods. Their workers' spending power is not relevant. Here we are in the 21st century and, in Brazil, reprimarization is leading back to the all too familiar disdain for the population's spending capacity.

The poverty rates among workers in the so-called developing countries are alarming, despite the highly advanced technologies. This is because increasing the spending power of the poorest segments of society is not relevant to this form of capital accumulation since the cycle of accumulation completes itself abroad. Technology thus advances with little impact on social relations, leading to continued inequality. This is the social legacy of the North-South relationship. If interested in the mechanism, the reader may refer to my *Formation of Capitalism in Brazil*. The essential idea, which I had the opportunity to discuss with both Samir Amin and Caio Prado Junior, is that the cycle of reproduction of capital in poor countries completes itself abroad, and unequal exchanges and indebtedness ensure the rest. Technological modernity comfortably coexists with largely pre-historical forms of exploitation.

In the industrialized countries of the West, which form approximately 15% of the world population, the conflict between exploiting more and ensuring the population's spending power posed significant problems. The dominant capitalist world had to go through the 1929 crisis to realize that production alone was not enough; consumption was necessary to close the cycle of capital accumulation. Exporting to poorer countries in exchange for raw materials was insufficient. Roosevelt's New Deal was essentially a means of increasing, through the State, the spending power of the population in general. Sherwood, who wrote Roosevelt's speeches, described the program in detail in the brilliant book *Roosevelt and Hopkins*. Hopkins played a key role in the implementation of the New Deal.

In the 1860s, beyond freeing the slaves, the American Civil War broke the colonial cycle of the exchange of cotton for British imports. New relations were established between the country's industrial Northeast and raw-material-producing South, interiorizing the cycle of reproduction of capital. But it was the New Deal that included a significant part of the American population in prosperity. The initially State-funded consumption by the poor population created a demand that led to a subsequent recovery in production. This in turn led to an increase in employment, generating even more demand and finally a more balanced cycle of capital accumulation.

With the contributions of Keynes showing the need to ensure aggregate demand, the successful impact of the New Deal, and Henry Ford's good sense in affirming that decent wages were necessary for his cars to sell, a new perspective came about: the Welfare State. Workers no longer had only their chains to lose. For once, and particularly during the 30 'glorious' years after the war, astonishing dynamics were seen in the rich countries: a balance between production capacity and social demand, corporate dynamics and public investments. In political terms, this was the time of social democracy.

Let's remember, once more, that in an economy that exports primary goods and imports manufactured ones, the market is foreign, and increasing employment levels and wages are not priorities. Angola exports oil and imports consumer goods for the elites. In Latin America, when an attempt is made to democratize the economy, dictatorships resurface. We may have democracy as long as we don't use it: the result is a formal political democracy – the elections – without economic democracy. The pandemic has only made the economic, political, and social fracture more evident. In Brazil, now one of the world's largest exporters of agricultural products, 19 million people face hunger and 116 million experience food insecurity. And it is the 21st century. We have reached a new type of techno-colonialism, with highly advanced technology and increased volumes of extraction. With a few exceptions like China and some Asian tigers, the global fracture of capitalism is becoming technologically more advanced but socially more severe.[3]

## State, companies and civil society

As Mariana Mazzucato reminds us in her excellent *The Entrepreneurial State*, the glorious post-war year's dynamics resulted from the active participation of public

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[3] The World Inequality Database – WID – 2022 Report shows that rising inequality is bringing us back to the beginnings of the 20th Century - https://wir2022.wid.world/executive-summary/

initiatives. On the one hand, the State established progressive taxation, creating a reasonable social balance through a set of redistributive policies. On the other hand, the State carried out a series of policies: expanded free and universal access to healthcare, education, security, basic infrastructure, among others. Families thus gained access to goods and services of collective consumption, which improved their well-being. Furthermore, expanding transportation, energy, telecommunication, water, and basic sanitation infrastructures boosted economic productivity. Such investments significantly benefit the private sector. Public research systems, which can afford to carry out what we call fundamental research, have brought about major scientific innovations, from DNA to microprocessors, the internet, and so many other technological transformations. Even our mobile touchscreens result from public research, although they come to us as Samsung or Apple. The State was not the problem; it was a vital part of the solution. We are presently groping to build it back.

Civil society organizations, both unions and non-governmental organizations, make the system more balanced. We could perhaps call this social architecture: the decision-making process is balanced by the organized convergence of different interests. This is a largely underestimated yet essential dimension of the general political balance. Sectors that became enormous such as healthcare, education, security, among other social policies, cannot be placed on a supermarket shelf. These services require capillarity; they must reach every child, every person in every street, in a unique, personalized manner. This is only possible with decentralized, participative management. The organization of society at the local level is essential for the system to work. The average Swedish person participates in 4 non-governmental organizations, follows the local school activities, and is aware of environmental policies and the city budget. Kroeber, in his excellent *China's Economy,* notes that China is even more decentralized than Sweden. Democracy reduced to voting is a fragile construction.

Despite the inequalities and difficulties faced by developing countries, this is a dynamic model of capital accumulation, with a reasonable balance between State, companies, and civil society. It is an image that still comes to mind when we talk about capitalism and the capitalist mode of production. But the dominant capitalism has changed and pays little heed to our images of the past. Examining the ongoing transformations, we can see that capitalism during the social democratic phase exploited workers but, to do so, had at least to guarantee their jobs: this is the condition and limitation of surplus extraction in exchange for low wages. With technology-driven increases in production, in order to sell, it was necessary to limit exploitation, ensure decent wages and social policies, and generate jobs.

In this model of accumulation, therefore, there was a limit to the appropriation of the social surplus by the elites. This is due to the form of surplus generation, based on salary exploitation, and the need for high aggregate demand to be able to sell. It seems fitting to remember, also, that a mighty bear im the East tended to make capitalists more flexible in political terms. All this would change, leading to a radical transformation at the core of the capitalist mode of production, in the mechanism of capital accumulation, in the form of generating and appropriating the social surplus.

The 'Glorious Thirty' years of the post-war period were a success. They lasted precisely 30 years, their effects limited to what are now the developed countries. The capitalists appropriated the glories of the success, declaring the free market, private property, and free enterprise as the definitive solutions for humanity. *There is No Alternative* (*TINA*), said Margaret Thatcher. *Government is not the solution, government is the problem*, echoed Ronald Reagan. Milton Friedman brought an academic touch with the phony *The Business of Business is Business,* and Wall Street speculators took to repeating at every closing of the stock market their *Greed is Good.* Economists developed numerous models based on a simplification where there is no society, only individuals, and individuals can be simplified to enhancers of individual advantages, becoming thus predictable. Political economics became 'economics,' a science, '*ciência econômica*' as we call it in Brazil. Neoliberalism was born. Robert Reich summarizes it: "The economy turned from making things to making financial instruments. Product entrepreneurs were replaced by financial entrepreneurs."[4] Capitalism currently dwells on memories of a past that worked but is the past nonetheless, borrowed legitimacy. Presently, as Hazel Henderson has it, it is "politics in disguise."

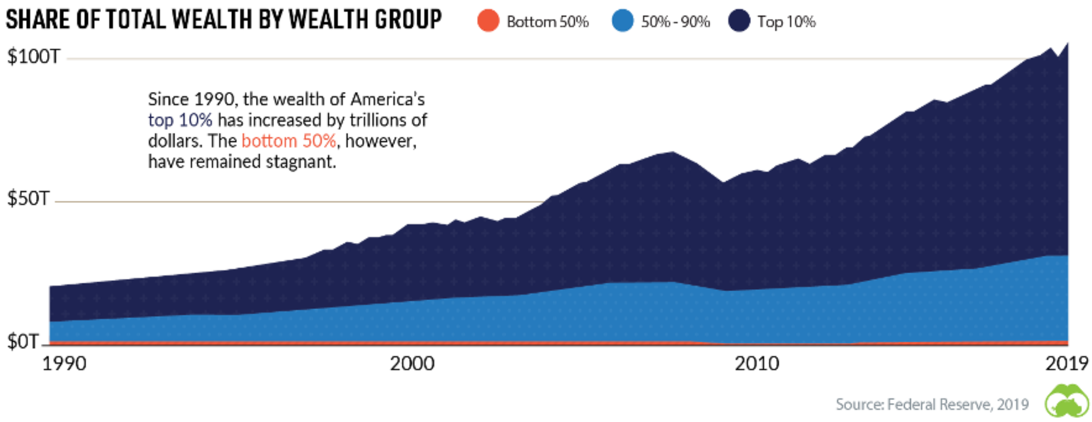
**Financial capitalism**

The phase of reasonably balanced capitalism in the rich countries starting in 1930 with the New Deal in the United States and spreading out in the post-war period characterized the Welfare State. This phase ended in the late 1970s with the fast-paced evolution into what is now known as neoliberalism. What interests us here is the change at the core of the system, that is, in the mechanism of appropriation of the social surplus. In the precedent phase, to gain wealth, the capitalist had at least to be productive, generate jobs, and even pay taxes, which made society wealthier as a whole. In the phase that begins in the late 1970s, the capitalist realizes that financial mechanisms can guarantee wealth increase with much less effort and not so many constraints. The last forty years of capitalism were characterized by a radical increase in inequality, with fortunes skyrocketing at the top and sluggish overall growth despite the technological advances. The contrast between these structural changes is meaningful. Technological advances, which potentially increase productivity, should lead to accelerated growth and a general increase in prosperity.

The graph below shows the evolution of access to wealth in the United States. The 1980s, as we know, was considered a 'lost decade,' but the dominant capitalism was turning towards new forms of accumulation centered on financial capitalism. In a darker tone, we can see the extraordinary wealth accumulation by the 10% richest; in a lighter tone, the evolution of the 50% to 90% that approximately make up the middle class; and the minuscule and stagnant line at the base of the graph shows the economic paralysis of the 50% poorest. The graph shows 30 years of radically unequal accumulation that contrast with the post-war period dynamics. It is no wonder that the poorer segments of the North-American society, excluded from the process during the last decades under both

[4]Robert Reich -*The System: who rigged it, how we fix it* – Alfred A. Knopf, New York, 2020 – p.31

democratic and republican administrations, have more recently adhered to the politics of hatred, the anti-politics.




Source: https://www.visualcapitalist.com/5-undeniable-long-term-trends-shaping-societys-future/

The contrast between the slow pace of the economies and the accelerated growth of fortunes during the pandemic leaves no room for doubt that the model of accumulation has become dysfunctional. Thomas Piketty brings data from the World Inequality Database (WID): "The good times have rolled especially fast for those at the very top in the US, with annual income booming by 205% since 1980 for the top 1%, and by 636% for the top 0.001%."[5] The figures are absolutely disproportionate, with no relation with the rhythm of expansion of the goods and services production, of only a few percentage points. This is wealth increase at a much faster rate than what the exploitation of labor made possible in the scope of traditional surplus. Piketty makes this clear in the same text: "The growing importance of income derived from capital – and the growing concentration of wealth – have been key drivers of inequality. The rich are getting older, and a growing chunk of their income comes from passive capital ownership rather than active work."

Piketty refers to income "from passive capital ownership rather than active work." This is entirely different from the profit made through the expanded reproduction of capital, in companies that produce goods and services and generate more than what they cost, particularly by exploiting the workforce. We are now talking about 'income from passive capital,' financial resources invested in financial products, yielding interest and dividends without the corresponding productive input. In the cycle of reproduction of capital we are familiar with, money generates productive processes that generate more money. To the new class of capitalists, the classic cycle's production stage has become superfluous. David Harvey rightly affirms that this is wealth and not capital, since these resources are not mobilized and expanded in the process of capital accumulation. 'Passive capital' is not capital but 'fictitious capital,' as Marx called it.

[5] Guardian, December 14, 2017 – Thomas Piketty et al., launching the World Inequality Report - https://www.theguardian.com/inequality/2017/dec/14/inequality-is-not-inevitable-but-the-us-experiment-is-a-recipe-for-divergence

Only financial mechanisms could ensure this exponential growth in wealth at the top with no corresponding productive base. Inequality.org shows, for example, that in 2020 the accumulated wealth of the poorest half of the American population was $1.1 trillion, while 719 billionaires held $4.56 trillion, more than four times as much. That's 719 people. The number of billionaires in the world in 2020 went from 660 to 2,750. The 20 wealthiest individuals in the world hold more wealth than the entire bottom half of humanity.[6] Let's remember that the effective annual growth of goods and services production in the world is of the order of 2.5%. If we take China out, it is even lower.

The appropriation of the social surplus by the unproductive minorities existed, as we have seen, in different periods and different forms of social organization but returns now at an unprecedented scale. The novelty is not in the exploitation of society by the unproductive but in the fact that the process has reached dimensions that transform society as a whole. When entrepreneurs find that they can profit more from investing in financial products or extracting dividends on shares they negotiate than from investing in production, the very basis of wealth accumulation has changed. We are no longer in the capitalism of fortunes earned with merit, in the sense that they generated more products and economic growth. What we are now seeing is unproductive rent accumulation.

Oren Cass, executive director of the conservative think tank American Compass, refers to companies that adopt this system as 'Eroders,' meaning they generate an erosion of the production system itself. "An Eroder is a strange type of firm that seems to harvest its own organs for its shareholders' short-term benefit. While not all firms fit these categories, the vast majority do, accounting for 90% of market capitalization over the past half century."[7] This erosion, according to Cass, "poses a major threat to America's future prosperity." Brazil is not the only one undergoing deindustrialization.

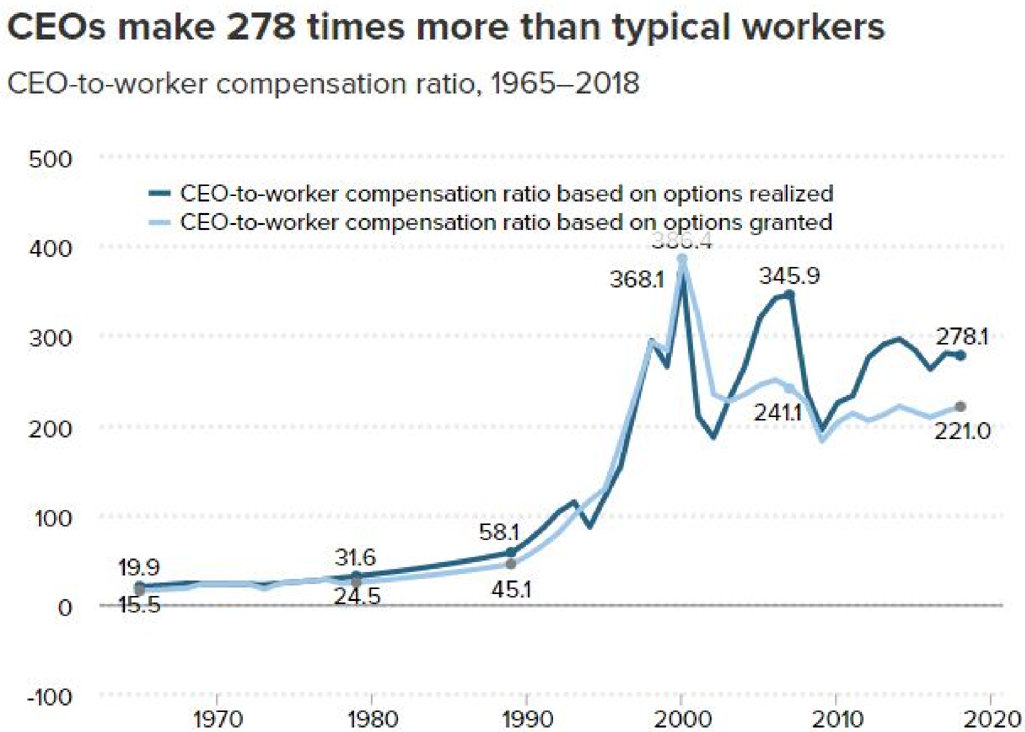
"The problem," writes Oren Cass, "arises when the financial sector stops serving the real economy and instead the real economy serves the financial sector… The assets in the real economy become merely the medium that the financial sector uses to conduct a variety of non-investment activities for its own profit... Companies that don't invest in themselves are hindering their own productivity, which means lower wages for their workers. Massive shareholder payouts overwhelmingly benefit the rich, who own most of the money in the stock market."[8]

The idea of the Eroder, the capitalist who drains their own company's productive capacity, is very similar to Michael Hudson's concept of a parasite that kills its own host: "These dynamics are different from those of industrial capitalism, and indeed undercut the industrial economy by diverting income from it to pay the financial sector and its

[6]Inequality.org – April 19, 2021 –https://inequality.org/facts/wealth-inequality/
[7] Oren Cass, *The corporate erosion of capitalism.* https://americancompass.org/essays/the-corporate-erosion-of-capitalism/
[8]Oren Cass - Washington Post, April 2, 2021 - https://www.washingtonpost.com/business/2021/04/02/wall-streets-fixation-quick-profits-wreaking-havoc-real-economy-report-says/?utm_campaign=wp_post_most&utm_medium=email&utm_source=newsletter&wpisrc=nl_most&carta-url=https%3A%2F%2Fs2.washingtonpost.com%2Fcar-ln-tr%2F31937e5%2F60673e869d2fda1e56de9123%2F597717059bbc0f6826c041ab%2F46%2F68%2F60673e869d2fda1e56de9123

rentier clients."[9] In Brazil, the case of Samarco, which preferred paying dividends to shareholders and bonuses to executives rather than improving their dam, is an emblematic example. Since executive compensation is directly connected to the dividends paid to shareholders, shareholders and executives support each other to maximize the extractive dynamics. Part of the Samarco shareholders are in Brazil while others can be anywhere in the world, buying shares from the so-called 'markets' – their relation to local problems and the company is even more distant. The result is a loss to the company itself in terms of its productive capacity and an increase in financial wealth, which in this case ceases to be capital to become wealth. Modern rentiers like to call themselves capitalists, or investors, but they are closer to the Merchant of Venice than to the Captain of Industry of the 19th and 20th centuries.

The changes in decision-making guidelines in productive companies are central. The convergence of interests between shareholders, who receive high dividends, and corporate executives leads to soaring levels of executive compensation at the expense of workers but also of companies' productive investment capacity. In the graph below, we see that while in the 1970s executive compensation in the United States was approximately 20 times the average employee compensation, it became 278.1 times higher in the most recent period.[10]




Marjorie Kelly and Ted Howard call this system an extractive economy: "Ours is an economy 'Of the 1%, by the 1%, for the 1%,' as economist Joseph Stiglitz put it. At its

[9]Michael Hudson, March 2021 – https://michael-hudson.com/2021/01/the-rentier-resurgence-and-takeover-finance-capitalism-vs-industrial-capitalism/
https://outraspalavras.net/crise-civilizatoria/ocidente-diz-adeus-ao-capitalismo-industrial/
[10]Lawrence Mishel and Julia Wolfe- Economic Policy Institute – Executive pay - August 14, 2019 – CEO compensation has grown 940% since 1978 - Typical worker compensation has risen only 12% during that time - https://www.epi.org/publication/ceo-compensation-2018/

core, it has what we, the coauthors, call *capital bias*, a favoritism toward finance and wealth-holders that is woven invisibly throughout the system. We might call it an *extractive economy,* for it's designed to enable a financial elite to extract maximum gain for themselves, everywhere on the globe, heedless of damage created for workers, communities, and the environment."[11] These are not investors in the traditional productive sense. In the authors' terms, they are 'speculative investors,' who "holding shares for minutes enjoy the rights of owners."

Michael Hudson focuses precisely on the production standstill, especially in the industrial sector: "Marx and many of his less radical contemporary reformers saw the historical role of industrial capitalism as being to clear away the legacy of feudalism – the landlords, bankers and monopolists extracting economic rent without producing real value. But that reform movement failed. Today, the Finance, Insurance and Real Estate (FIRE) sector has regained control of government, creating neo-rentier economies."

"The aim of this post-industrial finance capitalism is the opposite of that of industrial capitalism as known to 19th-century economists: It seeks wealth primarily through the extraction of economic rent, not industrial capital formation. Tax favoritism for real estate, privatization of oil and mineral extraction, banking and infrastructure monopolies add to the cost of living and doing business. Labor is being exploited increasingly by bank debt, student debt, credit-card debt, while housing and other prices are inflated on credit, leaving less income to spend on goods and services as economies suffer debt deflation."[12]

This longer quote from Michael Hudson sheds light on one of the key points of the present article: it is one thing to observe explosive inequality, the radical increase in the appropriation of wealth at the top. It is another to realize that this increase in wealth is only to a limited extent the result of productive activities. Rather, it is mostly the consequence of appropriation through financial mechanisms. As cited above, this type of capitalism "seeks wealth primarily through the extraction of economic rent, not industrial capital formation." Is a capitalism that marginally reinvests in the expanded reproduction of capital, diverting the majority of resources to the expansion of unproductive personal fortunes, still the same system?

## Rentism takes over

We are used to calling 'capital' all accumulated value, including houses, factories, stocks, and various kinds of financial securities. But the concept of capitalism is based on its insertion in the process of reproduction of capital, as in the case of a shoe manufacturer who invests capital in the productive cycle, generating jobs, products and taxes: this is 'capital accumulation.' The expanded reproduction of capital generates social wealth, even though it also generates the exploitation of workers. If you own fat bank accounts, stocks, houses, and yachts, you own wealth, not capital. The French aristocrats owned wealth in this way, extracting it from actual producers. The wealth and castles were not

[11] Marjorie Kelly and Ted Howard, *The Making of a Democratic Economy,* B-K, Oakland, 2019, p. 5
[12] Michael Hudson - *O ocidente diz adeus ao capitalismo industrial*, Outras Palavras, 2021 - https://dowbor.org/2021/03/o-ocidente-diz-adeus-ao-capitalismo-industrial.html and http://aepet.org.br/w3/index.php/conteudo-geral/item/5794-ressurgimento-rentista-e-tomada-de-controle-capitalismo-financeiro-vs-capitalismo-industrial-1

capital inserted in the cycle of reproduction of capital; they were a drain, as the French revolutionaries of 1789 well understood.

Joseph Stiglitz refers to rent as unearned income: "The practice of obtaining wealth not through economically valuable activity but by extracting it from others, often through exploitation. For example, a monopoly overcharging for its products (monopoly rents) or pharmaceutical companies that get the Congress to pass a law that allows them to charge very high prices as well as provide the market with fewer goods, services, and effective innovation."[13] This is income obtained without a productive counterpart; it cannot be called capitalism. It involves exploitation, no doubt, but is not the same as a person taking the risk of investing in a productive business, thus increasing their capital and social wealth.

Marx extensively discusses the appropriation that sterilizes capital when he examines, for instance, usury and fictitious capital. In transferring resources to the bank, the productive capitalist distributes the surplus value extracted from the worker. The productive capitalist takes loans, generating profits for the bank, but the loans enable productive investments. In this situation, the bank has a role in fomenting activities. The change is profound when the financial intermediation system becomes mostly parasitic, generating fortunes that barely return to the productive process. The financial system no longer helps the company to develop a productive activity. It is the productive system that works for the benefit of financial accumulation. Nothing beyond what Marx described in terms of mechanism, but now the financial system has become dominant. This leads to a systemic inversion: initially, production is the end activity, and financial intermediation, the means. When the means take over the ends, financial profits increase while production decreases.

Montecino and Epstein, from the Roosevelt Institute, estimate that only 10% of what is extracted from the productive process by the financial system returns to the real economy. Mariana Mazzucato raises the estimate to 15%. In any case, the American saying still works: the tail is wagging the dog. Most of the surplus produced by society goes to non-producers. The mode of production must be defined by the elites' primary form of becoming wealthy; currently, a set of mechanisms of rent extraction instead of productive capital accumulation. Capital accumulation is much more visible now in China, as the country's impressive growth rate demonstrates, than in the 'capitalist' West. China uses the financial system as an engine to stimulate productive activities.

Ellen Brown presents the systemic change very clearly, with America moving from 'mom-and-pop capitalism' to what she called techno-feudalism: "These latter day pharaohs, the planet owners, the richest 5% – allow the rest of us to pay day after day for the right to live on their planet. And as we make them richer, they buy yet more of the planet for themselves, and use their wealth and power to fight amongst themselves over what each possesses – though of course it's actually us who have to fight and die in their wars."[14]

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[13] Joseph Stiglitz – *Rewriting the Rules of the American Economy*, 2015, p. 14 - https://dowbor.org/2015/06/j-stiglitz-rewriting-the-rules-of-the-american-economy-an-agenda-for-shared-prosperity-junho-2015115p.html

[14] Ellen Brown, *How America went from mom-and-pop capitalism to techno-feudalism* – May 2021 - https://scheerpost.com/2021/05/18/how-america-went-from-mom-and-pop-capitalism-to-techno-

Rentism is center stage and we have more than ever 'archaic elites.' Not surprisingly, the current system has been called techno-feudalism by Ellen Brown, neo-feudalism by Joel Kotkin, and parasitic capitalism by Zygmunt Bauman, along with so many other qualifications and cries of indignation, such as Saez and Zucman's *The Triumph of Injustice*. Fundamentally, the concept of capitalism has changed at its very core, altering the process of capital accumulation: the value generation process itself has changed. No wonder the world is stagnant despite all the technology and (largely unproductive) wealth. Financial capital, extractive capital, passive capital, parasitic capital: so many qualifications created in the quest to redefine the system. In reality, capital undoubtedly subsists in productive enterprises, but the system as a whole, the reinvestment logic, obeys the interests of unproductive rentiers. Those speaking of a new type of feudalism are closer to the truth. The grand balls of Versailles and meetings in Vienna of centuries ago bear a close resemblance to the present-day glamour of Davos.

There is nothing unusual in terms of mechanism, and during a pandemic, in fortunes increasing steeply and stock markets soaring while economies are at a standstill or in decline. The simultaneous growth of fortunes and stagnation of production shows that one no longer depends on the other. Octavio Ianni wrote that "politics has moved to a different place." Capital has also moved. The system itself is moving. In the age of factories and factory workers at the center of the economic process, the fight could be for the 'socialization of the means of production.' Today, we need to take back control of the tools that support unproductive rentism: finance, technology, information, communication. The center of the struggle has changed.

Many rightly lament Brazil's deindustrialization. But the problem lies in the system of financialization and intermediation of commodities that generates deindustrialization and at the same time foments reprimarization. Mariana Mazzucato and Robert Skidelsky make this clear: "Left on their own, market economies tend to favor short-term or value-extracting activities – hence the sweeping trends in financialization and de-industrialization witnessed over the past four decades."[15] Capital goes where it yields the most, and it is no longer in production.

An editorial from the Guardian indicates the depth of the transformation: "Hyman Minsky was a pioneer in understanding finance's grip on the US economy – and the consequences for society. In the 1980s, he predicted the rise of "money manager capitalism" and foresaw that institutional investors would become masters of the universe. Today, we are in a world of "money machine manager capitalism", where algorithms control the buying and selling of securities. The pioneer of this approach is the US firm BlackRock, which is the world's largest asset manager and last year became Britain's biggest one too. Humans still set the rules that computers follow. But artificial intelligence is blurring the distinction. Computers run investment portfolios offering cheap "exchange-traded funds" that automatically track indices of shares and bonds. This has been so successful that the

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feudalism/ Portuguese translation in Carta Maior: https://www.cartamaior.com.br/?/Editoria/Economia-Politica/Como-os-EUA-foram-do-capitalismo-familiar-ao-feudalismo-tecnologico/7/50657

[15]Outras Palavras, 05/02/2021 - https://outraspalavras.net/mercadovsdemocracia/economia-do-comum-urgencia-maxima/ Original text in English: https://www.project-syndicate.org/onpoint/new-fiscal-constitution-job-guarantee-by-mariana-mazzucato-and-robert-skidelsky-2020-07

big three – US firms BlackRock, Vanguard and State Street – now manage $19tn in assets, roughly a tenth of the world's quoted securities."[16]

The magnitude here is significant: together, the three groups, BlackRock, Vanguard, and State Street, all of which are little known to the general public, have the equivalent of the United States GDP (21.5 trillion) in assets. BlackRock alone has 9.7 trillion dollars in assets, five times the Brazilian GDP. They produce nothing: they are intermediaries, middlemen. Their business is collecting tolls on productive activities. The worldwide commodities trade, for example, is basically in the hands of these groups. They are the new vectors of appropriation of the social surplus. In the previously cited text, in an attempt to propose solutions, Ellen Brown focuses on intermediation: "Reforming the banking system is another critical tool. Banks operated as a public utility could allocate credit for productive purposes serving the public interest. Other possibilities include enforcement of anti-monopoly legislation and patent law reform." Financial rents, monopoly rents, tolls on knowledge, tolls on communication, and social surveillance, personalized employing algorithms, are some of the dominant axes of appropriation of the social surplus that hinder the capacity for productive investment.[17]

The mode of production based on slavery exploited slaves; the feudal mode of production exploited serfs; the capitalist mode of production exploited factory workers. The current system, in which rent is extracted through control of productive companies (absentee ownership), communications, information and money, can be considered a rentier mode of production, an outcome of the digital revolution. This is much more than 'Industry 4.0.' Unproductive capital participates only marginally in the production process to exploit it. It cannot be classified as the good old capitalism we denounced so much, but which at least was productive, generated jobs, and paid taxes.

In a system based on various forms of rent extraction, the exploitation of workers is no longer the dominant form of social surplus extraction. Such a system is not interested in creating jobs. Technological advances have a role in increasing unemployment simply by replacing workers, but the process is much more pervasive. In this country of 214 million inhabitants, only 33 million have formal jobs in the private sector. Together with 11 million public employees, they total 44 million, only 42% of the labor force of 105 million people. To put it in scale, there are 40 million people in the informal sector who, according to the IBGE, earn half the income of formal workers. The term 'individual entrepreneur' certainly gives the underutilization of the labor force a more decent appearance, but we see with uberization and irresponsible outsourcing what this can mean.

A further 15 million people are simply unemployed. Together with the informal sector's 40 million, they amount to 53 million unemployed or underutilized people, half the labor force. We must also consider the immense population of discouraged workers who have given up looking for a job and people classified as employed but who only work a few

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[16]Guardian, *Editorial* - March 21, 2021 -https://www.theguardian.com/commentisfree/2021/mar/21/the-guardian-view-on-finance-failures-manmade-errors-amplified-by-machines

[17]We developed a discussion on possible actions in *O capitalismo se Desloca,* Ed.Sesc. 2020, also published in English as *Beyond Capitalism,* Cambridge Scholars, 2021 - https://dowbor.org/2020/05/debate-livro-novo-o-capitalismo-se-desloca-novas-arquiteturas-sociais-ladislau-dowbor-e-antonio-martins-edicoes-sesc-26-05-16h.html; for the concept of surveillance society, see L. Dowbor (org.), *A Sociedade Vigiada*, Autonomia Literária, São Paulo, 2020

hours. Altogether we are talking about a mass of 60 million adults of working age. In a country where there is so much to do, the underutilization of the labor force is shocking but goes together with the process of technological substitution.

In reality, a system focused on the appropriation of social surplus through unproductive rent-seeking requires less and less labor force for exploitation. Even street vendors at beaches and parks have card machines and pay a toll to the banks with each transaction. The proletariat of before is increasingly being referred to as the 'precariat.' The fact that the financial drain is largely independent of increased production and employment affects the labor force directly. The trend is global. In North Africa, for example, more than 70% of the working population is in the informal sector.

The new system is incomparably more destructive, generates inequality on a qualitatively superior scale, and is irresponsible in terms of its economic, social, and environmental impacts. Essentially, it has lost its function of reproduction and expansion of productive capital, what Marx called the expanded reproduction of capital. Factories will not disappear with the ongoing digital revolution, just as agriculture did not disappear with the industrial revolution. But the structuring axis of the system, the form of appropriation of social surplus, is changing. Expanding production, employment, and spending power to sell products now has a secondary role.

## A few examples of unproductive wealth generation

Below, we briefly outline the various mechanisms that enable what Gar Alperovitz and Lew Daly call 'unjust deserts.'[18]

- **Generalized indebtedness**

When indebtedness exceeds debt repayment capacity, either because of high interest rates or because of the volume of debt (and bankers know perfectly well the client's situation, whether they are a family, a company, or the State), a permanent process of transfer of resources arises. This is the so-called debt service. It produces, for example, the situation where retired people are still paying off student loans. These are former students who spent their lives transferring part of their salaries to bankers, after having believed that the diploma would bring great earnings, with banks actively advertising so. In Brazil, the household debt-to-income ratio was 18% in 2003 and reached 45% in 2012, with stratospheric interest rates. The financing of small and medium-sized companies followed suit, leading to financial strangulation. A broad survey on private debt (households and companies) in late 2016 showed the volume of resources extracted from the real economy by the banks: 1 trillion *Reals* in one year, equivalent at the time to 16% of the GDP. Adding 6% interest on public debt, this amounts to one fifth of the GDP transformed into unproductive financial profits.

On December 18, 2016, the headlines of the newspaper *O Estado de São Paulo* read: "Credit crisis takes R$ 1 trillion from the economy and worsens recession." We presented

[18] Gar Alperovitz e Lew Daily – *Unjust Deserts: how the rich are taking our common inheritance* – In Portuguese: *Apropriação indébita* - Ed. Senac, São Paulo, 2010 - https://dowbor.org/2010/06/apropriacao-indebita-gar-alperovitz-e-lew-daly-ed-senac-sao-paulo-2010.html

a detailed analysis of this data in *The Age of Unproductive Capital* for the Brazilian case. However, the generalized indebtedness of households, businesses, and states is a global problem with domestic and international dimensions. A large part of the world population works to pay financial intermediaries. People forget that the money they borrow either belongs to society itself or has simply been issued by banks in the form of magnetic signals – virtual money today. These banks charge interest on money that costs them nothing. These are intermediary activities, a net cost to society that can only be justified if the contribution to capital accumulation is greater than the extraction.

If an individual issues money, it is considered a crime since they acquire spending power without contributing to production. Banks now issue money. To put it in scale, money printed by governments currently represents 3% of the liquidity. The other 97% are just information on computers, virtual money, issued by banks. When a bank charges us for money that it did not have to pay for, the shareholders gain spending power without having to contribute to production. Let's remember that Lehman Brothers went bankrupt when it had issued 27 times more money in the form of loans than it had in cash. It only took a few companies withdrawing their money for the bank to collapse, but the shareholders received their dividends. In the 2008 crisis, the banks received trillions in bailouts. This was public money, money that could have been used for infrastructure and social policies.

The majority of the population has little choice, particularly when social policies are privatized. According to Eric Toussaint, "Private banks and other private bodies have put great energy into developing policy of lending to ordinary people who turn to borrowing because their incomes are insufficient to pay for higher education or health care. In the U.S., student debt has reached over $1.7 trillion, with $165 billion worth of student loans in default, while a large part of mortgages are subjected to abusive conditions."[19] To appropriate the social surplus, the bank does not need to generate employment nor even productive credit anymore: employed or not, in Brazil, 62 million adults are deep in debt, of which 25% declared personal bankruptcy. With the pandemic, families and businesses in critical situations have become even more indebted, with no way to escape loan sharks. Varoufakis shows how extortion works at the international level, in the case of Greece.[20]

- **Dividend extraction**

The logic is similar to that of indebtedness. People who buy stock consider that they are financing a business and thereby favoring entrepreneurial activities. But when the shareholder remuneration (the dividends) is close to the surplus generated by the company, the latter loses reinvestment capacity. The mechanism allows us to understand, for example, the economic dynamics in Brazil and in other countries where the economy is not growing while the stock market is booming, generating more income for

[19] Truthout, June 15, 2021 – To address increasing inequality and global poverty, we must cancel debt - https://truthout.org/articles/to-address-increasing-inequality-and-global-poverty-we-must-cancel-debt/?eType=EmailBlastContent&eId=443ee98d-6108-47e5-9f0d-735853178254

[20] The film by Kostas Gavras, Adults in the Room (Jogo do Poder, in Brazil) has the advantage of showing how the political power and financial system are interconnected, showing in detail the mechanisms of exploitation through debt.

shareholders.[21] The Mariana tragedy, in which Samarco preferred to increase shareholder dividends and consequently executive bonuses rather than invest in dam safety, is characteristic.

Financial investment is not an investment in the sense that building a road, factory, or school is, or performing any activity that generates an increase in the accumulated capital of society. It is, precisely, financial investment, despite banks calling all speculative activity 'investment.' Likewise, rent generated by skillfully handling financial paper is not the same as profit generated from a productive process that in turn generates fixed capital, products, employment, and taxes. Marjorie Kelly, in a book published in 2003, makes the new mechanism clear: "In the system design of aristocratic capitalism, CEOs are hired by shareholders and directed by boards to focus on a single goal: maximizing shareholder returns. Executives are paid well only if they achieve that end…There is outrage today about the illegitimacy of CEO gains. But nowhere will you find outrage about the illegitimacy of shareholders gains, for that is the sun around which the system revolves. To question this is to question the divine right of capital."

Kelly explains that this type of resource appropriation is equivalent to the unjust appropriation of the feudal lords: "Stockholders claim wealth they do little to create much as nobles claimed privilege they did not earn…Rather than capitalizing companies, the stock market has been decapitalizing them. Stockholders for decades have been an immense cash drain on corporations. They are the deadest of deadwood. It's inaccurate even to speak of stockholders as *investors,* for more truthfully they are *extractors*. When we buy stock we are not contributing capital: we are buying the right to extract wealth."[22] To put it in scale, let's remember that 85% of financial investments are in the hands of the 10% richest. It is a generalized toll on productive processes.

- **Demand monopoly: the power of platforms**

Money, as we saw, is today represented by magnetic signals. Virtual money allows appropriating fragments of virtually all economic activities through financial tolls. In Brazil, while in the past the money went directly from the customer's pocket to the vendor's cash register, with credit card payments the bank today drains approximately 5% of the purchase value, without producing anything. In the 'debit' modality, the drain is about 2.5%. With tens of millions of daily credit or debit card transactions, the volume becomes quite high. Dieese calculates that with these and other fees, not counting interest, banks can pay one and a half times their payroll. In another technological era, it would have been impossible to insert small drains into so many scattered transactions, but with digital currency it is just a matter of inserting the instructions in the computer to drain

[21]For Brazil, see the article by Paulo Kliass, *A Bolsa vai bem e o povo vai mal* – Carta Maior, June 9, 2021 - https://www.cartamaior.com.br/?/Editoria/Economia-Politica/A-bolsa-vai-bem-e-o-povo-vai-mal/7/50775

[22] Marjorie Kelly – *The Divine right of Capital* – Berrett-Kohler Publishers, San Francisco, 2003, pages xiii, 29 and 35; in a letter published by the Business Round Table in 2019, 181 major American corporations declared their intention to go beyond shareholders' interests, and to take social as well as environmental issues into consideration, on the ESG line. For the while, these are good intentions. - https://dowbor.org/2019/10/ladislau-dowbor-a-economia-desgovernada-novos-paradigmas-14-de-outubro-de-2019.html

small amounts from tens of millions of people: Enter. This micro-drainage affects everyone without generating economic activity or jobs.

A similar drain falls on international transfers from people to their families. Millions of people work in the United States or Europe and regularly send money to their home countries. These are small sums sent by ordinary people. The intermediaries charge approximately 7% for each transfer, while simply sending magnetic signals on the computer costs them cents per transfer – yet another toll that amounts to an instruction to a computer.

In the growing platform economy, where individual businesses once dominated, micro-drainage has become dramatically widespread. We no longer buy services: we gain access rights. Jeremy Rifkin has written an excellent book about this transformation called *The Age of Access*. We pay monthly fees to access movies on Netflix, for instance. We are constantly offered services with low monthly prices, even a few months free initially. The fact is that these micro-drains add up. Canceling subscriptions is bureaucratically annoying, and so hundreds of millions of people see their bank accounts drained little by little, whether they use the services or not.

The BBC is paid for, at cost price. The British pay for the service, which is public, and have good programming without advertising, in what has been called 'the best television media of the world.' On commercial TV, broadcast TV is 'free of charge,' but the payment is actually just indirect. The advertisements that interrupt the programs have costs to the companies advertising their products. These costs are in the price of the products that they sell and we buy. In any case, the money comes out of our pockets, even if indirectly. And we have to face the commercial breaks for which we pay.

In terms of access to communication services, access to the internet, a cell phone plan, and decent TV channels are the basic needs today. The packages we can choose from are in the hands of just a few companies, which charge what they want because these are essential services and because they are an oligopoly. Once again, it is not something we buy, but a monthly fee that we pay to have 'access,' to be connected. The costs are absurd if compared to the prices charged: it is simple signal retransmission. No wonder Mexican Carlos Slim has a fortune as substantial as Bill Gates. He is a communication middleman. In Brazil, he controls Claro.

The largest fortunes of the world are no longer based on productive activities but on the intermediation of money and communication. At first glance, Facebook, for example, is free of charge. Its massive earnings come from advertising, which is paid for by companies that include advertising costs in their production costs, just as in the case of broadcast TV. In the end, the money comes out of our pockets. We have no choice here either: it is a 'demand monopoly,' that is, we are forced to use what others use, which leads to a situation where the company profits from billions of people paying the costs incorporated in the products they buy. The immense fortunes that arise from the uberization of the economy are partly the result of this technical ability to put drains on so many of the things we pay for. The money flows to the global headquarters of the big groups of the world, these toll platforms. The greatest fortunes in existence are part of a system that makes it possible for the big groups to suck up fragments of what a simple delivery man earns with his motorcycle or bicycle.

In fact, for the most part, toll capitalism requires no effort on the part of the collector. The money is deducted from bank accounts, salaries, or charged within the product price, or even disguised as seemingly modest fees. Enormous fortunes thus arise from simple intermediation. It is not inevitable. For instance, an essential service that we use daily, the WorldWideWeb, the www used in any communication, generates no cost and is run by a global non-profit consortium. It is on this cost-free network that the commercial services that drain our accounts are located. WWW creator Tim Berners-Lee refused to charge intermediation fees, saying it simply did not make sense: communication is a public utility.[23]

- **Privatizations and appropriation of natural resources**

The narrative that the minimal state is the best has given modern fortunes a way of appropriating wealth without having to invest, inheriting at low cost a capital built by the public sector with public resources. The appropriation of minerals is particularly representative. These natural products of the nation are exported raw, yielding immense fortunes for shareholders. Since 1993, the World Bank has proposed to account for oil extraction, for example, as decapitalization of the country and not as GDP growth.

Petrobras is a case in point. Negotiations during the first decade of the millennium resulted in important legislation: since the oil belongs to the nation, the profits from its sale should finance national development. The profits would be 'shared' and not property surrendered. With privatization, the reserves will provide dividends to shareholders in Brazil and the rest of the world, resulting in unproductive rentism and the image of progress due to GDP growth.

The privatization of Eletrobrás follows the same path. Brazil is a huge producer of hydroelectric power and, with the taxes of the population, constructed major infrastructure, both in generation and transmission, and invested in management capacity. "Estimates calculate that the market value of Eletrobrás is at least R$400 billion and could reach R$1 trillion. And the government wants to hand it over for R$60 billion... Eletrobrás has R$15 billion in cash and, thanks to its good financial indicators, can easily leverage another R$40 billion. It is fully capable of making new investments. Since 2019, it has already distributed in dividends alone R$7.6 billion."[24] Once again, public goods are appropriated with nothing in return. Non-productive financial groups reap disproportional profits from resources generated through public investments and can even increase the prices – a priority for shareholders – and make electricity more expensive for families and companies alike. The price of a kilowatt will be side-by-side with the price of the kitchen gas.

The trend is global, generating more appropriation of social surplus and natural resources by unproductive financial groups. George Monbiot presents this dynamic: "Defunding

[23] Tim Berners-Lee's small book *Weaving the Web* is very instructive for understanding the underutilized potential and the commercial drain. See also Eric S. Raymond, *The Cathedral and the Bazaar* – Cambridge, 2001 - https://dowbor.org/2008/02/the-cathedral-and-the-bazaar-2.html

[24] Miriam Leitão – Brasil 247, June 15, 2021 - https://www.brasil247.com/economia/miriam-leitao-consumidor-vai-pagar-uma-eletrobras-para-o-governo-privatizar-a-eletrobras?amp

departments, disbanding the teams and dismissing the experts they rely on, shutting down research programmes, maligning the civil servants who remain in post, the self-hating state is ripping down the very apparatus of government. At the same time, it is destroying public protections that defend us from disaster…The forces that threaten to destroy our wellbeing are also the same everywhere: primarily the lobbying power of big business and big money, which perceive the administrative state as an impediment to their immediate interests."[25] The private and institutional investors who acquire a state-owned company exploit the workers along the lines of traditional surplus value, but their position allows them to generate monopoly rents that all citizens have to pay.

- **Appropriation of collective consumption goods and services**

In reasonably functioning economies, the well-being of families is largely dependent on free access to collective consumption goods. Approximately 60% of family well-being depends on spending money, with which people can do their grocery shopping, pay rent, and feel more secure and in control of their lives. The other 40% are related to what has been called indirect wage, that is, the access to collective consumption goods. We need security, but people cannot individually buy the police station. We need access to healthcare, not only to treatment but to prevention, in the form of basic sanitation, emissions control, and restrictions on pesticide and antibiotic use in our food. Access to education must be free, public, and universal. Every child needs a chance in life. Unequal access to education blocks the poorest population's enormous potential for economic and social contribution. It is a form of sterilizing possibilities of development. Thomas Piketty rightly confers the same importance to educational inequality as to income and wealth inequality.

In Brazil and elsewhere, rentism arises in the scope of collective consumption when access to such goods is limited, forcing families to turn to private services. This is the case with private health plans, for instance. For those wealthy enough to pay for a tailored service, it is an adequate solution. However, private healthcare leaves out the vast majority of the population. For example, by reducing the resources available for the SUS (the Brazilian Unified Health System), the Expenditure Ceiling Law is forcing people to contract private plans, even if they are at their budget limit. Weakening public education tends to have the same effect, pushing parents to sacrifice themselves to ensure a better future for their children with a more solid knowledge base. The war on federal universities, in turn, forces more and more customers into what has become a diploma industry. A generation of students is coming out of the universities with huge debts, only to find that their dream job is not guaranteed. There is little sense in these dynamics.[26]

Doctors are not the ones running private healthcare, and educators are the ones running schools. Instead, financial groups are. According to data from Forbes magazine on the personal fortunes accumulated in 2019, Carlos Wizard has 3 billion *Reals*: "Wizard

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[25] George Monbiot –*Is this the end of civilization?* – The Guardian, January 24, 2018 - https://www.theguardian.com/commentisfree/2018/jan/24/end-civilisation-take-different-path

[26] On June 20, 2021, the newspaper A Folha de São Paulo presents research showing that 47% of young people between 15 and 29 years would like to leave the country. This perspective of the new generation is catastrophic for the country. Unemployment among young people reached 31% in 2021.

returned to the world of education in 2017, purchasing 35% of Wiser Educação, which controls the WiseUp and NumberOne networks, owned by the also billionaire Flávio Augusto da Silva. In April this year, the group sold a minority stake to Itaú for 200 million through its investment fund Kinea."[27] Are these educators?

It is important to note that this is business, at a time when access to education is more than ever fundamental. Chaim Zaher amassed a fortune of 2.5 billion by selling education brands Dom Bosco, Pueri Domus, Name, and COC to the British company Pearson for 888 million and the higher education network UniSEB to the Estácio group for 615 million. Janguiê Diniz, from the state of Paraíba, is the main shareholder of Ser Educacional. The company went public on Bovespa in 2013, bought the Minas Gerais branch of Univeritas in 2016, and invests in distance education, a large industry with low costs, high profits, and fragile educational results.

In the healthcare sector, the behavior of Paulo Sérgio Barabanti is characteristic: with a fortune of 1.6 billion *Reals*, he sold Intermédica to the US private equity firm Bain Capital, retired from the activity, and lives off the accumulated fortune. To put it in scale, a person who invests 1 billion *Reals* for a modest return of 5% a year is earning 137,000 *Reals* per day of spending money. This is also the case of José Seripieri Filho, who has 1.2 billion *Reals*. He made his fortune with Qualicorp, an administrator of group health plans in Brazil. He passed the business on and lives off the income from shares. It is a generalized behavior: entrepreneurs who started a productive activity sell their company to often foreign financial groups such as Pearson in the education sector or BlackRock in healthcare and live off the income from the shares. The companies, in turn, are used to extract maximum dividends. The 11 billionaires who make their living from exploiting the healthcare sector have amassed a fortune of 56.88 billion *Reals*. The companies that manage these fortunes seek to extract maximum yields. The education of the new generation and family health are two among many sources of rent accumulation. *The business of business is business.*

The reasoning works for numerous sectors. Both the comfort of households and the productivity of businesses depend on paved streets, road networks, and the like. The key here is that much of the infrastructure was built with public resources, allowing companies to profit more without significantly contributing to the costs. A country's systemic productivity and companies' expanded profits largely depend on infrastructure and collective consumption services. Nevertheless, companies will refer their success only to their creativity and the magical power of 'markets.' This dimension is absent from the economic data but present in the analyses of Hazel Henderson, who discusses the need for adjustment in national accounting to include the productive contribution of infrastructure generated by the public sector.

Mariana Mazzucato and Robert Skidelsky denounce the contractionary fiscal policy and recall the role of public policies: "The COVID-19 crisis has made the orthodox model's flaws even more obvious, not least by highlighting the severe deficiency of public goods, from basic health infrastructure to personal protective equipment... Now that COVID-19 has exposed the damage wrought by the previous paradigm, it is time to start mapping

[27] Forbes, *Mais de 200 bilionários brasileiros* – Year VII, N. 71, 2020, p. 98 – See in particular the table on p. 111

out a new era of public investment to reshape our technological, productive, and social landscape... Left on their own, market economies tend to favor short-term or value-extracting activities – hence the sweeping trends in financialization and de-industrialization witnessed over the past four decades."[28] The so-called rentier free-riding happens when corporations use public services for rent extraction.

- **Tax evasion**

Rentiers make immense fortunes without contributing to production but also without paying taxes. The economic system as a whole largely depends on accumulated public capital. Wealthy countries have plenty of public capital but so does Brazil, in the form of energy, transport, communication, and sanitation infrastructure, as well as health, education, and security systems, among others that are essential to society as a whole. The surplus value produced by society is vitally dependent on accumulated public capital. This essential aspect of economic productivity is financed with public resources, and paying taxes is a duty for both citizens and companies that use these infrastructures. Good infrastructure reduces production costs, constituting *resource-saving factors* for companies. But big fortunes have enough political influence to avoid paying their fair share.

In the Brazilian case, an absurd law passed in 1995 made distributed profits and dividends tax-exempt. But the case of the world's wealthiest is not much different, as the tax data of the top American billionaires leaked in 2021 revealed. A childishly simple system allows massive tax evasion: in the United States, billionaires keep their fortunes in stocks, real estate, and luxury objects that are only taxed when they are sold. "The U.S. tax system focuses on income, not what is known as unrealized gains from unsold stocks, real estate or other assets…No one among the 25 wealthiest avoided as much tax as Buffett, the grandfatherly centibillionaire. That's perhaps surprising, given his public stance as an advocate of higher taxes for the rich. According to Forbes, his riches rose $24.3 billion between 2014 and 2018. Over those years, the data shows, Buffett reported paying $23.7 million in taxes. That works out to a true tax rate of 0.1%, or less than 10 cents for every $100 he added to his wealth."[29] ProPublica data show that the behavior is widespread, involving the largest fortunes.

Robert Reich, who served as Clinton's Secretary of Labor, shows the relationship between absurd tax evasion – the more they earn, the less they pay – and the appropriation of public decision-making in the United States: "ProPublica's bombshell report on America's super-wealthy paying little or nothing in taxes reveals not only their

-[28]Mariana Mazzucato and Robert Skidelsky – *New fiscal Constitution and job guarantee* – 2020 – Translation into Portuguese:https://outraspalavras.net/mercadovsdemocracia/economia-do-comum-urgencia-maxima/ Original text in English: https://www.project-syndicate.org/onpoint/new-fiscal-constitution-job-guarantee-by-mariana-mazzucato-and-robert-skidelsky-2020-07

[29]ProPublica, June 8, 2021 - The Secret IRS Files: Trove of Never-Before-Seen Records Reveal How the Wealthiest Avoid Income Tax — ProPublica

humongous wealth but also how they've parlayed that wealth into political power to shrink their taxes to almost nothing."[30]

Eric Toussaint, a debt expert, presents the impact of the rich not paying taxes on the growth of public debt: "Public debt continues to explode in volume because governments are borrowing massively in order to avoid taxing the rich to pay for the measures taken to resist the COVID-19 pandemic, and it will not be long before they resume their austerity offensive."[31] Mariana Mazzucato presents the mechanisms that allow corporations to use resources developed in the public sector, charging consumers for what they didn't produce and evading taxes on profits earned.[32]

- **Tax havens**

Tax havens play a key role in why governments are losing control. Microsoft illustrates well the general behavior of large corporations: "An Irish subsidiary of Microsoft made a profit of $315bn (£222bn) last year but paid no corporation tax as it is 'resident' for tax purposes in Bermuda. The profit generated by Microsoft Round Island One is equal to nearly three-quarters of Ireland's gross domestic product – even though the company has no employees. The subsidiary, which collects license fees for the use of copyrighted Microsoft software around the world, recorded an annual profit of $314.7bn in the year to the end of June 2020, according to accounts filed at the Irish Companies Registration Office."[33] Isn't Microsoft an American company?

The Roosevelt Institute also points to the weight of tax havens and the loss of public control over large corporations in the absence of multilateral regulatory instruments: "The legitimacy of multilateral economic institutions depends on whether they produce outcomes that leaders of sovereign, democratic states can embrace. As multinational corporations shift $1.38 trillion out of their home countries and into tax havens like Luxembourg or the Cayman Islands to avoid paying taxes, and companies like Facebook wield disproportionate power in our democracies, multilateral institutions can and should serve as a collective, countervailing power to prevent wealth extraction at the expense of our people…Now is the time to move past a neoliberal order and into a new era of equality and justice. Now is the moment to rewrite the international rules." Felicia Wong from the Roosevelt Institute believes we need a new Bretton Woods and correctly reminds us that the options are ours as a society. They are rules, not imaginary economic 'laws:'

[30] Robert Reich - *When America's richest men pay $0 in income tax, this is wealth supremacy* – Guardian, June 10, 2021 - https://www.theguardian.com/commentisfree/2021/jun/10/when-americas-richest-men-pay-0-in-income-tax-this-is-wealth-supremacy

[31] Truthout – *To address increasing inequality and global poverty, we must cancel debt* – June 15, 2021 - https://truthout.org/articles/to-address-increasing-inequality-and-global-poverty-we-must-cancel-debt/?eType=EmailBlastContent&eId=443ee98d-6108-47e5-9f0d-735853178254

[32] Mariana Mazzucato – *The Entrepreneurial State* – Anthem Press, 2011 - https://dowbor.org/2019/10/mariana-mazzucato-the-entrepreneurial-sate-debunkiong-public-vs-private-sector-myths-anthem-press-new-york-2015.html

[33] Guardian - *Microsoft Irish Subsidiary paid zero corporate tax on 220bn profit last year* – June 3, 2021 - https://www.theguardian.com/world/2021/jun/03/microsoft-irish-subsidiary-paid-zero-corporate-tax-on-220bn-profit-last-year

"Economic outcomes are the product of political institutions, human choices, and rules that structure markets."[34]

After years of hesitation, in 2021, a proposal for a 15% tax on the profits of transnational corporations has finally appeared. Dani Rodrik summarizes it: "The G7 agreement has two planks. First, it proposes a global minimum tax of 15% on the largest corporations. Second, a portion of these corporations' global profits will be clawed back to countries where they do business, regardless of the location of their physical headquarters."[35] With this important G7 decision, additional funding for public policies will be possible and, moreover, international financial flows will be registered. The Economist sees this as a drastic measure to curb the use of tax havens. Meanwhile, the system is thriving, as the Panama Papers, Paradise Papers, and Pandora Papers are showing.[36]

For those who think that evading taxes through tax havens is a marginal process, the Economist gives the basic figures: "A study in 2018 concluded that around 40% of multinationals' overseas profits are artificially shifted to low-tax countries. One official closely involved in the current talks thinks the deal taking shape could 'all but kill the havens'…The share of American multinationals' foreign profits booked in tax havens has risen from 30% two decades ago to about 60% today."[37] That's 60% of profits, doubling in two decades.

We present the data in more detail in the book *The Age of Unproductive Capital*. What interests us here is that these resources are not part of a process of reproduction of capital; it is just money generating money, extractive processes that ensure a radically more intensive appropriation of social surplus by unproductive elites. Let's remember that Marx, in Capital, Volume II, considered this evolution toward the expansion of fictitious capital predictable. What matters to us is that, once it becomes dominant, capable of appropriating even public policies and undermining the capitalist system's crucial productive accumulation of capital, fictitious capital presents structurally different dynamics. In this world of national governments up against global money, financial chaos reigns. It is an unsustainable speculative casino.

## New mechanisms, new challenges

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[34] Felicia Wong – *A Bretton Woods Moment* - Roosevelt Institute, April 28, 2021 - A Bretton Woods Moment: How This Year's G7 Summit Could Rewrite the International Rules (rooseveltinstitute.org)

[35] Dani Rodrik - *The G7 Tax Clampdown and the End of Hyper-Globalization* - Project Syndicate, June 7, 2021 – Possible financial impacts can be found in https://joserobertoafonso.com.br/collecting-the-tax-deficit-of-multinational-companies-barake-et-al/

[36] ICIJ – Pandora Papers – October 2021, https://www.icij.org/investigations/pandora-papers/global-investigation-tax-havens-offshore/?utm_source=ICIJ&utm_campaign=8ce10323e7-20211003_WeeklyEmail&utm_medium=email&utm_term=0_992ecfdbb2-8ce10323e7-82319785

[37] Economist, June 2, 2021 - *Twilight of Tax Havens* - https://www.economist.com/finance-and-economics/2021/06/01/twilight-of-the-tax-haven; Economist, May 15, 2021 - *What would a new system for taxing multinationals look like* - https://www.economist.com/finance-and-economics/2021/05/13/what-could-a-new-system-for-taxing-multinationals-look-like?itm_source=parsely-api

*"It can certainly be said that our technological proficiency far exceeds our moral, social, and political development".*
Oliver Stone and Peter Kuznick[38]

This brief presentation of unproductive forms of appropriation of social surplus can be expanded. For example, marketing has become a huge economic area centered on creating lifestyles and manipulating people individually by using algorithms and commercialized personal information. This contributes to the power of Alphabet, presently valued at more than the GDP of Brazil, or Facebook and a few others. The financial drain hits the pockets of every one of us since the profits are incorporated into the costs of the products we buy. Using Facebook is seemingly free of charge, but the rent hits us all indirectly.[39]

It is equally important to study the financial drain represented by real estate speculation, so well-studied in Brazil by Ermínia Maricatto. Giant fortunes find a haven from taxes by investing in housing. Some expensive parts of London, for example, have been bought out by magnates from different countries, generating rent as values increase.[40] In Canada, for example, Vancouver saw the costs of housing explode with the pressure of Chinese capital invested in real estate. Most properties are vacant, a value reserve just waiting for prices to rise as demographic pressure and speculation grow. The new owners grow richer without generating new capital through speculative appropriation. The purchase of farmland by financial groups also generates scarcity and higher costs for agriculture. Rent-seeking drains productive investment. Some measures are evident: "A land value tax removes financial incentives to hold unused land solely for price appreciation, making more land available for productive uses."[41] But political power is increasingly in the hands of financial interests.

The discussion is not a semantic one. Far beyond wage exploitation, we must better understand the current mechanisms of appropriation of social surplus: generalized indebtedness, abusive increases in dividends, never-ending patents, tax evasion, tax havens, appropriation of the planet's natural capital, resource micro-drainage through tariffs, fees on international transfers, credit card charges, rent-seeking monopolies, demand monopolies, real estate speculation, selling of personal data, manipulation through individualized advertising, and other mechanisms that we understand even less and are individually unable to oppose. Extremely low wages can lead to strikes,

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[38] Oliver Stone and Peter Kuznick – *The untold history of the United States* – Gallery Books, New York, 2019 – P. 734

[39] Aran Ali - Visual Capitalist – *3 companies now make up 50% of US ad revenues*: Google, Facebook, Amazon – July 18, 2021 - https://www.visualcapitalist.com/3-companies-make-up-50-percent-of-us-ad-revenues/

[40] GFI (Global Financial Integrity) – *Acres of Money Laundering* – August 21, 2021 - https://gfintegrity.org/report/acres-of-money-laundering-why-u-s-real-estate-is-a-kleptocrats-dream/?utm_medium=email&_hsmi=153147175&_hsenc=p2ANqtz-_dQDkw9bsAsfZWejIcFezC6_eVikqqfH6VqfmPlVWO7sNCCzRqzGBiK6QeYxEJOrVCZoBu_Bt9ku9K1AOcqSyAW7dy1g&utm_content=153147175&utm_source=hs_email

[41] Wikipedia – *Real-estate bubble* – September 19, 2021

confrontations, paralysis, and agreements with companies. Will those extorted by debt organize demonstrations in front of a bank branch?

Making pressure for change by demanding better salaries, such as the fight for the US$15 minimum wage in the US, is still essential, but we need a broader view as well. With the pandemic, for example, the exploitative nature of the big pharmaceutical companies became evident, and people began to realize the importance of rethinking the patent system. The almost null payment of taxes by unproductive billionaires shows how important it is to generate an internationally connected tax collection system. The fact that oligopolies block access to scientific knowledge shows the need to expand Creative Commons, Open Access, and other collaborative and free scientific communication mechanisms. The widespread indebtedness of households, businesses, and governments shows the need to ensure, through public and proximity finance, that resources are directed toward sustainable development. The weight of the asset management industry, of companies like BlackRock, and financial asset management in general needs to be drastically reduced: it is not their money, and they are the managers of unproductive capital. The idea is that when the mechanisms of appropriation of social surplus change, so must the direction of pressure for change. The resources that belong to society must serve society again and not the intermediaries. In other times, the struggle was for the socialization of the means of production, the factories. Today, the power over the factories themselves has shifted: the main challenge lies with the unproductive managers who have appropriated the whole system.

A particularly complex challenge is that the intermediaries' drain on the economic resources of society also affects the political basis of transformations. The large communications platforms and the online financial services systems, and even the current primary export system, generate very few jobs. We are in the age of uberization, telemarketing, precarious jobs, and masses of underutilized workers, as we have seen, because the economic toll systems that have come to predominate simply do not need so many workers. "What is new in the world of work in Brazil is precisely the platformization, which throws a shovel of lime on the historical process of flexibilization and precarization of work, now in partnership with financialization, datafication and neoliberal rationality."[42]The social force of transformation that represented formal workers in large companies has diminished in number, has become more fragmented into specialized segments, is often managed at a distance by algorithms, and unions and various forms of representation have become weaker.

In a broader sense, we must face the task of a profound cultural change in society, shifting the main axis of social relations from competition to collaboration. This is not a humanistic dream; in a society where the main factor of production is knowledge, collaborative processes are simply much more productive than competitive ones. Robin Ahnel sums it up: "Campaigns already being waged can begin the transition from the economics of competition and greed to the economics of equitable cooperation."[43] Grohmann presents the numerous initiatives in rescuing the potential of connectivity for collaborative networked management: "Platform cooperatives can be for workers,

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[42]Rafael Grohmann, *Para vencer a distopia da exploração digital* - Outras Palavras, August 23, 2021 - https://outraspalavras.net/trabalhoeprecariado/para-vencer-a-distopia-da-exploracaodigital/
[43]Robin Ahnel (postscript by Noam Chomsky) – *Economic Justice and Democracy: from Competition to Cooperation* – Routledge, New York and London, 2005, p. 254 –Another important work is Paul Mason's book, *Postcapitalism,* Penguin, UK, 2015

consumers, or multilateral, which shows the multiple possibilities of institutional designs for them." These are new fronts of struggle. The technological process will not reverse itself. However, its political meaning must be reversed to serve society and not the platforms themselves.

This transformation has a solid foundation: when the main factor of production is knowledge, online connectivity enables infinite replication without additional costs for producers. In this way, we can generalize access, remunerating only the initial costs of its generation, and multiplying the benefits for millions of users. In China, in the framework of CORE (China Open Resources for Education), an innovator receives a bonus from the institution and the advance is passed on to the entire network of universities and research centers so that no one keeps reinventing the wheel, everyone works on the crest of innovation. A systemically innovative, collaborative environment is generated. Wikipedia, Open Access, Creative Commons, MIT's OCW, and many other experiences presented among other books in *Wikinomics*, point to a much more balanced and productive path.[44]

The process of interactive and collaborative construction of knowledge through networking is also more just. With networks, it is possible to reduce the impact of middlemen who block access to knowledge that could multiply the productivity of others. Gar Alperovitz and Lew Daly present an excellent analysis in the book *Unjust Desserts*, showing, for example, that if it weren't for the advances in transistor and microprocessor technology developed by others, Bill Gates would be in his garage playing with cathode ray tubes. We pay fortunes for products that his company contributed very little to invent, taking advantage of knowledge developed by other institutions and research centers and destroying competitors. Today we are forced to use Word, for example, simply because we have to use what others use. There is no market or competition, only demand monopoly and rent-seeking. How long will we keep paying this toll? Knowledge is a social construction and its return should be for society. The goal is not to control knowledge but to free it from the middle-men.[45]

Global connectivity allows much more horizontal management in networks instead of the giant pyramids of verticalized power. As a result of scientific advances and the development of productive capacity, global wealth has reached a level that today allows everyone to live in a dignified and comfortable way. All we need to make this happen is moderate wealth redistribution and particularly control of the financial drain of unproductive economic agents. In this dog-eat-dog world, *homo homini lupus*, laden with modern technologies of warfare, cyber sabotage, biological manipulation, and surveillance techniques, we are faced with daunting prospects. We are all crew members of the spaceship Earth, but some prefer to be luxury passengers and are destroying the ship.

Exploitation through low wages, the traditional surplus value extracted from workers, is still present. But the appropriation of social surplus has been radically expanded by

[44] Don Tapscott e Anthony Williams– *Wikinomics: how mass collaboration changes everything* – Penguin, US, 2006 (in Portuguese, published by Nova Fronteira in 2007) - https://dowbor.org/2008/03/wikinomics-2.html

[45] Gar Alperovitz e Lew Daly – Apropriação indébita – Senac, São Paulo, 2010 - https://dowbor.org/2010/11/apropriacao-indebita-como-os-ricos-estao-tomando-a-nossa-heranca-comum.html

middlemen of various kinds who take a toll on practically all our activities, whether they contribute productively or not. There is no doubt about the corporate giants' financial, mediatic, and military power and even their ability to control people through individually directed algorithms. Furthermore, it is also a fact that besides being unproductive, they destroy natural resources, the base of our survival, throw us into explosive inequality, and force the mass of the population to resort to humiliating activities to survive in the informal sector. All this while the accumulated wealth, scientific knowledge, and modern technologies make sustainable, balanced development possible for the world.

In particular, there is no economic reason for so much destruction, violence, and suffering. A simple calculation helps: the 88 trillion dollars that represent the world GDP divided by the world population of 7.8 billion people is equivalent to US$3,800 per month per family of four. In Brazil, the equivalent is US$2,800 per month. With what we produce today and a moderate reduction in inequalities, we could assure everyone a dignified and comfortable life and invest in measures to stop destroying the planet. The slow-motion catastrophe we are experiencing is not inevitable. It is not about economic 'laws,' it is about choices. Thomas Piketty makes this clear: "Inequality is first and foremost a social, historical, and political construction. In other words, for the same level of economic or technological development, there are always multiple forms of organizing a property system or a frontiers regime, a social and political system, a fiscal and educational regime. Such choices are political in nature."[46]

As chief economist of the Financial Times Martin Wolf wrote, this system has lost its legitimacy. It is a financial giant but with feet of clay that hold back development. It is up to us to strive for a society that makes sense, with eyes turned to the collaborative potential that is opening up with the digital revolution. Building the future is more promising than trying to fix the past. Human history is laden with dominant minorities who appropriated social surplus and generated successive narratives or fairy tales to justify exploitation. And for those who did not believe in narratives, there was naturally the stick. Mechanisms of exploitation, narratives, and sticks are still thriving. It is time we become civilized.

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[46]Thomas Piketty, *Histoire de l'égalité,* Paris, Seuil, 2021, p. 20