between the colonial environment and the liberal internationalization environment of the economy in the 1990s – transition without rupture that keeps alive the concentrating and social exclusion-generating structures. Thus, the patterns of poverty identified in the late colonial period changed little during industrialization. The production system changed, but the triple economic drain persisted, above all, as a result of the permanence and minimal mutation of monopolistic structures.

The increase in urban poverty in Latin America as a result of industrialization continued to be a reflection of an economic system that inherited the main economic characteristics of a colonial system of protection of surplus labour, whereby poverty accompanies the respective economic cycles. So when industrialization comes and workers are needed in big cities, poverty turns out to be mainly an urban and no longer a rural problem.

In Asia, the colonial standard of rural poverty is perpetuated. Here, unlike in Latin America, the economic cycles – as a result of the liberal and non-interventionist conception both of the commercial colonizer (big companies from the Indies), as well as its successor (the state colonizer of the nineteenth century, whose typical example was the English *raj* in India) – typically leave the outcast abandoned to their fate in the camps. Thus, the result is the concentrated and catastrophic pattern of rural poverty in these countries in the twentieth century.

The maintenance of social structures influenced by the power of economic structures also ensured (and this movement of reciprocal causality is typical in history) the perpetuation and strengthening of the economic power structures. Thus, the stage was set for the deepest and most dangerous transformations that global capitalism would suffer from the 1990s. This is what will be seen below.

6. Internationalization of economic relations and the internationalization of monopolies

1. INTERNATIONALIZATION OF ECONOMIC RELATIONS AND ITS EFFECTS

From the 1990s, economic relations quickly began to take on completely different contours.

As seen in the previous chapter, the industrialization of Latin American and Asian countries did not change the domestic economic structure of these societies. This led, in both regions (and sometimes for different reasons), to industrialization processes that maintained or even increased external dependence. An eloquent example of this was the growth policy based on import substitution in Latin America – see Chapter 5, section 1.c.

No wonder, therefore, that, together with economic growth, the external debt of these countries from 1950 to 1970 increased dramatically. Macroeconomic interdependence between these systems and the developed world, rather than decreasing, expanded greatly.

The consequences did not wait. Having triggered the Great American inflationary crisis of the 1970s, the macroeconomic response adopted had important effects on developing economies. The increase in interest rates charged since 1979 by the American Fed made debt service payment (interests) for most of the developing countries of the Southern Hemisphere unbearable.[1]

[1] For a description of the effects of the Volcker doctrine – applied by the Federal Reserve (Fed) from August 1979 – in regard to Asian and Latin

The immediate consequence was the reduction or near elimination of growth capacity in these countries, which means that in the 1980s a period of zero or negative growth was verified in the regions analysed. In the medium term, however, the result was even more drastic. States, battered and exhausted by debt service, had to direct their economic efforts to exports to increase their reserves in dollars.

Although these phenomena help explain, they are not the sole cause of the great economic opening that occurred in these countries from the 1990s. Just as in prior stages, the internal structures of these regions, rooted since the colonial era, ensured continued economic dependence. The crisis, thus, became unbearable even when the model of import substitution or industrial growth based on large industrial and non-industrial diversification produced its macroeconomic effects. The economic strangulation produced by industrial concentration and the absence of relevant domestic demand and diverse and creative manufacturing facilities contributed greatly to the inflationary spiral of most of these countries.

The solution found, in view of the inability or unwillingness to effect change in internal economic structures, was the total opening of the economies. This process, at the time, facilitated exports of commodities and created a flow of industrial products in the domestic market, needed to lower inflationary pressures created by concentrated economic structures. It happens that, as will be seen below, the dominant economic interests involved in the internationalization process were far from aligning with those of developing countries.

But not only developing countries felt the effects of the market and economic internationalization process that gained strength in the 1990s. Actually, internationalization processes through commerce were not a new phenomenon. Since antiquity there have always been moments of stronger flow of commerce between regions and countries. What was new was that the present globalization process, far from being just a commercial or economic phenomenon, was also a social one (and political one, although this is an aspect not to be dealt with in this book). What actually

American countries, see J. Frieden, *Global capitalism – its fall and its rise in the twentieth century*, New York, Norton & Company, 2006, p. 372 et seq.

happened and will be dealt with more thoroughly in the next sections is that once the opening of the markets of ex-colonies gained strength, the triple draining process was in a sense 'exported' to the whole world. Now conducted by big multinational enterprise, their plants started quickly to move to the Southern Hemisphere, to countries such as ex-colonies where the draining of the workforce was easier and more profitable. At the same time, the great number of people that were already and continued to be excluded from the economic process began to migrate in bigger numbers to developed economies. Therefore, unemployment because of international capital and enterprise flows and increasing flows of immigrants turned out to be an important source of social problems in the developed world.

But not only social structures spread. Through the gain of power by private multinational enterprises, concentrated economic structures improved their power worldwide. The drainage process spread to the whole world. Therefore monopolies and underdevelopment from the colonial past turned out to be a global problem to the point that it seems difficult to differentiate now developed and underdeveloped countries, not so much because some of the latter developed but mainly because underdevelopment (with always fewer exemptions) seems to be increasingly a global problem (at least if it is measured by social indicators, as it should).

2. THE TRIPLE DRAIN IN ITS CONTEMPORARY VERSION – A GLOBAL PHENOMENON

Time in history is a clarifier and purifier of concepts. Today, there is no doubt about the interests involved in colonial exploitation. As discussed in Chapter 4, we no longer discuss the pressing need arising from colonial capitalism to seek new products and raw materials, nor do we discuss the need felt in the industrial era to seek markets for manufactured products.

Although discussions on the economic effects of internationalization of the economy are cherished, it also seems increasingly clear, twenty years after its establishment as a trend, that economic internationalization responds to a pressing need to expand the boundaries of capitalism.

Thus, there is no overall internationalization (or globalization) that can be properly understood without an understanding of the progression of monopolistic structures and markets. In fact, the history of late capitalism demonstrates that from the point of view of the companies involved in the production of goods and services, geographical progression in markets is a natural need. Profits tend to decrease over time in the regions of largest industrial and technological development, under great competition between companies. One must then seek new markets where competition is not so intense and monopoly profits can be obtained.

But that is not all. The fierce search for new markets is justified also by an attempt to reduce production costs. Production in countries with reduced cost of labour represents an attractive constant and is largely responsible for the growing movement towards relocation of industrial units by large multinational companies to less developed countries in the Southern Hemisphere. As will be seen below, this trend is a relevant cause for the expansion in the unemployment rate in developed countries.

This natural trend for regional expansion finds evidence in the history of evolution of the concentration among large corporations in the twentieth century, firstly within the Northern Hemisphere. It is possible to reconstruct the historical reasons of successive waves of mergers and acquisitions between companies precisely because of the need to seek new geographic markets. Thus, for example in the USA, the first wave of mergers and acquisitions between 1897 and 1904 meets the need for expansion of basic industries of the time, leaving their local and regional markets and gaining share in the domestic market. Then, from the 1920s, waves of mergers and acquisitions between American and British companies followed in succession, corresponding to a different need for geographical expansion – increasingly transnational – of different types of industry (and evidently also arising from the need to gain production scale).[2]

[2] See for the description and numeric figures of this relationship between mergers and acquisitions and geographic expansion of large companies B. Milward, *Globalization? Internationalization and monopoly capitalism*, Cheltenham, Edward Elgar, 2003, p. 42 et seq. (item 'The history of mergers and take overs').

The internationalization movements and progressive monopolization of the interconnected economic system have consequences on the economic shape of both developed countries and underdeveloped countries. These consequences are not at all negligible and are largely responsible for the increasingly severe cyclical crises involving the international economy.

The first one is felt with particular force in developing and underdeveloped countries. It is an immense and natural trend towards loss of 'economic nationality'. The idea of economic nationality was first proposed by French economists[3] as meaning the set of peculiar characteristics and economic relations between individuals and between them and the state in the economic history of each country and making possible an endogenous development of that country. It is, therefore, a tangle of social and economic relations that makes that economic space distinct, and these characteristics are essential to the preparation of a specific and self-sustainable development project.

There seems little doubt that a direct effect of the processes of economic internationalization is to completely recharacterize this economic nationality. No longer are there peculiar, economic or legal characteristics in the economic process. There should no longer be a distinct development project, but a unique project directly related to insertion in the global market. Nor should there be a separate legal model, but only a model connected to the internationalization of markets. In other words, the direction and control of the development process (or underdevelopment) leaves the national sphere. But that is not all. The direction of this economic process is not transferred to any entity endowed with materiality, but rather the set of diffuse and self-interested forces that make up the international market.[4] The stage is set for the great

[3] The concept, in its incipiency, is proposed by F. Perroux. *Le capitalisme*, Paris, Puf, 1962, p. 125 et seq., and developed in more depth by S. Latouche, *Les dangers du marche planétaire*, Paris Presse de FNSP, 1998, p. 46 et seq.

[4] Some numbers on the participation of multinationals in global economic activity are impressive – in late 2005, sales from branches of multinationals accounted for 10 per cent of the world GDP (compared with 7 per cent in 1990) and three and a half times the level of world exports. See, for this number, C. Chavagneux, *Les acteurs de la mondialisation*, in Les enjeux de la mondialisation, Paris, La Decouverte, 2007, p. 38 et seq.

crises of global financial markets in the second half of the 1990s and the early twenty-first century. Not only that: as developments in the theory of cooperation and game theory show, in social relations, the more distant and impersonal the social and economic relations, the stronger the trend to individualistic, profit-maximizing behaviour will be,[5] stimulating market participants to social deconstructive actions or morally negative ones.[6]

A second major consequence, perhaps even more significant than the first, and arising directly from the migration of multinational enterprises to areas with lower production costs, is the massive international trend towards unemployment and underemployment. In developed countries, unemployment is directly caused by the replacement of labour-intensive for capital-intensive industries and massive reallocation of factories (moving to the developing world's cheaper labour markets). In developing countries, this occurs by the introduction of production technologies that can reduce utilization of manpower. As will be seen below, this is a direct consequence of the monopolistic structure already existing in former colonies and that is reinforced in the internationalization process.

The effect of this structural unemployment is not only social (exclusion), but also economic. Typical of our times is the mismatch between supplies, growing and more sophisticated, and demand, increasingly restrictive and limited (exactly because of the exclusionary movements). This trend – only for some time – can be mitigated by the widespread consumerism encouraged by concentrated structures (see *infra* section 2.a). Increasingly severe financial and economic crises followed by economic stagnation represent a constant threat.

The profound transformation in the functioning of economic activity driven by industrialization spreads, also producing major changes in the economies of the former colonies.

5 Relevant elements for cooperation are small number of participants, mutual dependence and high levels of information. Those elements are less evident the more the size (geographical and number of participants) of the market grows. Not only that. Phenomena such as noise and shadow of the future, which typically prevent cooperation, are also the rule in global markets.

6 For a relevant experiment that tried to show the relationship between market functioning (its size and number of participants) and the moral standards of market participants, see A. Falk and N. Szech, 'Morals and markets' in *Science*, Vol. 340, No. 6133 (10 May 2013), pp. 707–11.

These mutations are no more than a deepening of existing structures already previously concentrated there. The primary export economy concentrated in a few conglomerates then begins to count on the presence of international conglomerates that shift their production.

Their growth is, however, not only in number and size but also sectorial. The traditional social safety net, provided in these countries by the provision of essential public services directly by the state, quickly disappears, being replaced by private (often foreign) providers. It is the consequence of privatization of public service process. In Latin America, this process has characteristics that make it even more harmful. As mentioned above, the debt crisis was largely responsible for the widespread and uncontrolled economic opening of the 1990s. In this context, the big moment of privatization of public services in Latin America in 1990 ends up being transformed into an attempt (in most cases failed) to reduce state budget imbalances.

Privatizations are then idealized and disciplined to ensure the best value for the sale of businesses. This means, in most cases, selling monopolies without creating a legal and regulatory framework to enable the existence of alternatives for users or even without creating major limits to the exercise of the monopoly.[7]

The result is a significant increase in the control of the economic system by monopolistic structures, which have now expanded to socially sensitive activities such as public and social services.

The framework presented in Chapters 4 and 5 of the triple drain in the economy during the colonial era and industrialization period becomes much more sophisticated in the globalization period. Not only that, as seen above, monopoly draining turns out to be a global process applying to both developing and (once) developed countries. The triple draining must therefore be revisited, trying to schematically discuss the effects of the monopolistic structure of

7 This situation is clear internationally in sectors such as telecommunications and the energy sector. In the former, lack of concern and even fatalism in relation to the concentration of economic power has been the one and only concern. In the second, deregulation has been the keynote. In both cases there is total lack of commitment to limiting or restricting the existence of structures of concentrated economic power.

economic activity on the three traditional objects of drainage of monopolistic resources: the consumer market, the labour market and other economic sectors. In all three cases, the analysis now is applicable to both developed and underdeveloped countries.

a. Technological Monopolies, Control of Information and Consumerism

One of the most important transformations with the greatest effects on operation of the economic system occurs precisely in consumer markets all around the world.

The typically neoclassical market idea of market domination from the control of the supply of products – that is, the definition of economic concentration due to the domination of all possible substitute products for one producer – does not apply well to an economy with highly sophisticated technology. Thus, much more important than the control of information is the control of supply.

In fact, if the information is controlled, there is no need to control the supply. After all, information is a prerequisite for choice and not vice versa. Hence, this is why a new and important form of monopolistic structure, typical of the late twentieth century, seeks to control information.

Information is, in fact, a relatively easy element to capture and use. Its natural dispersal in the economic system tends to be used by agents asymmetrically. When able to restrict the choices of consumers, these agents capture information. The structure of resulting asymmetric distribution ensures tremendous power to holders of the information.

This power manifests itself in various ways, not just through scarcity. In fact, as demonstrated by Akerloft,[8] in the case of lack of information, scarcity can be so extreme to the point of leading to the demise of the market. Consequently, it is very important to study the structures able to capture and concentrate information, as they present a unique risk to consumer choice.

8 'The market for lemons: quality uncertainty and the market mechanism' in *Quarterly Journal of Economics*, op cit., Vol. 84 (1970), p. 488 et seq.

A good example of 'modern monopolistic structure' based on the concentration of information is in vertically integrated conglomerates. In the 1990s these structures were, in most legal systems, easy to create, given the immense disregard with which the antitrust theory treated this type of structure. In fact, one of the major shortcomings of current antitrust analysis is in vertical mergers. There are no defined criteria to determine which ones should be subject to control (as neoclassical criteria for market definition are all directed towards measuring horizontal power). Regarding the criteria for sanction, the view still dominates (also from direct inspiration in liberal Chicago) that only vertical mergers that have horizontal effect can be punished.

What this analysis fails to realize is that the true effect of vertical mergers is not, at least not directly, on supply, demand or relative scarcity, but on the degree of information. The so-called transaction costs actually generate an informational result that should not be disregarded. Frictions between economic agents in the same supply chain result in disclosure of important information to consumers. The secondary effect of the elimination of transaction costs is the restriction to information on numerous sensitive factors for the competitive sphere, such as relative scarcity, equilibrium, product quality, cost structure, and so on.

In addition to this structure, there is another structural type, particularly in new technology markets (Internet, telephony, and so on). These are so-called technological monopolies. Just like vertical integrations, they permit, in many cases, high concentration of information.

These monopolies are based on the ownership and enhancement of technology that enables the creation of a network. Through it and from the increasing returns of scale (typical of network industries), the utility of the service to the consumer increases (not decreases, as normal in other sectors) with scale gains. Since such structures invest in the creation of technologies that ensure network incompatibility with other systems or other networks, the choice of any alternative by the consumer becomes virtually impossible. As it is not possible to use an alternative product to the dominant network, the consumer never generally has sufficient information on different possible choices. This is an effective tactic for limiting information, widely used internationally, especially by the software industry in recent decades.[9]

[9] The performance of *Microsoft* illustrates the situation. The practice of creating technical incompatibilities between its products and competing operating systems is an example. The logic that underlies the practice is that in the absence of a guarantee that *software* applications will work with both Microsoft operating systems and those of other producers, consumers prefer to use the *software* compatible with the most widely used operating system, because the more the work produced can be shared, the more useful it will be. Imagine someone with a text editor compatible with Word: such an application would have very little use these days. In July 1994, the United States Justice Department decided to bring a class action to curb *CPU license* and curb the practice, a then growing practice by Microsoft to require computer makers to acquire along with their operating systems other operating systems or other applications that they produce. In July 1995, the Court ruled in favour of the Department of Justice. The creation of incompatibilities was repeated in the interest of the company for the Internet, which had to be dominated to ensure that its product did not become commonplace, becoming one more among a variety of operating systems of the same value. It engendered then a robust predatory strategy against Netscape Navigator. First, it began offering a zero price along with Windows 95 for its browser, Internet Explorer. At the same time, it developed new Windows 98 software. There is some consensus among industry experts that Windows 98 brought no or almost no innovation or significant technological improvement compared with Windows 95. It brought, however, a very important change from a competitive point of view. Now, the access software is an integral part of the operating system and cannot be physically or technically split up. It is also impossible to use the Navigator. The views raised by the start of the event, especially those favourable to Microsoft, have been supported by neoclassical theories regarding matched sale, imagining that in this case there is an illegal connection between Internet Explorer and Windows 98 (see, in this case, G. Priest, 'A case built on wild speculation, dubious theories', in *Wall Street Journal*, 19 May 1998, p.A22). This is not what happens. There is strong circumstantial evidence of predatory action of systems. Microsoft incurred substantial expense to develop software that is in no way innovative to the consumer (Windows 98), having to sell it, therefore, at the same price or even below the price of the previous version (Windows 95) – all this just to ensure the elimination of the competitor from the market. And this has actually occurred. With more than 70 per cent market share in 1995, Navigator dropped below 40 per cent, with Internet Explorer reaching 60 per cent of the market. Predation of systems is evident. The direct and indirect externalities of the Microsoft operating system ensure success in eliminating competitors from the market and, consequently, induce the presumption of unlawful intent. In September, the Lower Court of the First Instance of the European Commission confirmed the 2003 decision that ordered Microsoft, among others, to offer necessary information so that competing operating systems could fully interact with Windows desktops and servers. Additionally, in January, the European Commission initiated two formal investigations to determine abuse of dominant position by Microsoft, including the claim that the company illegally binds Internet Explorer to the Windows operating system product (official data available at http://europa.eu/rapid7pressReleasesAction.do?reference=MEMO/08/19&format=HTML&aged=0&langua ge=EN&guiLanguage=en).

We note, therefore, a double negative effect of the monopoly: limitation of information and technology investment aimed at creating incompatibilities[10] and not for improvement of utility.[11]

It is not difficult to conclude that the effect of control of information can only be the targeting of consumer tastes. This direction has an important influence on the current façade of consumerism.

In fact, strictly speaking, consumerism is not an exclusive product of the present time. It has been nurtured since the introduction of scientific rationalism. As Marcuse demonstrates in his important analysis of the effects of scientific rationality and technological process on the human perception of reality, the production process becomes the effective engine of reasoning and action.[12] Action and personal thought surrender to the logic and rationality of the production process. In this transfer, the production process ends up also taking on the role of moral agent.

The happy and peaceful consciousness (happy consciousness) is absolutely absolved by the deification of the production process and the relative need for the goods that originate from it. This is exactly where consumerism arises. The uncritical mental participation in the process, which hinders consciousness, instinctively requires the deification of its products. Consumerism is therefore absolutely linked to rational and technological ideas of the Industrial Revolution.

[10] The current reality of technological monopolies, whose largest investment is in creating incompatibilities and barriers to competitors and not the improvement of utility to the consumer, seems to be an element of challenge to the Schumpeterian theory of the virtuous relationship between monopoly and technological development. Nowadays, monopoly and defensive technology seem to be the rule (see note 7 to this chapter and Chapter 2, note 10).

[11] See Chapter 2, note 11.

[12] See H. Marcuse, *One dimensional man – studies in the ideologies of advanced industrial societies*, Boston, Beacon Press, 1964, p. 78 et seq.

With the process of concentration of information and internationalization of the late twentieth century, it takes on new and deeper forms. The idea of exclusion due to non-possession of goods gains force. To achieve happy consciousness, the one-dimensional man (to use the highly appropriate expression of Marcuse) must necessarily feel part of the rational and technological production process. In the presence of technological innovations – each presented as revolutionary and destructive of ancient technologies – the individual, without information or alternatives able to give him a minimum of critical consciousness, eventually feels compelled to consume as a minimum connection requirement (non-exclusion) of the process.

The idea of consumption as inclusion and rational necessity then introduces an important novelty. It has a significant initial impact on maintaining the level of demand and the creation of productive stimulus, especially for more sophisticated goods targeted to the portion of the population included in the production process. But the negative effects also do not wait.

On one hand, overconsumption helps to create, especially in developing economies, a pattern of growth based on consumer goods. The growth of needs (driven largely, of course, by the control of existing information by large conglomerates) concurrently with the lack of an industrial structure and diversified services (see Chapter 5) leads to the fact that most factors are focused on production of consumer goods, or more precisely on that portion of consumer goods that satisfy the existing and potential demand needs (which, as will be seen below, is far from the whole population). A non-producing[13] and consuming standard

[13] As the producing economy should be understood as geared towards the production of goods of production. The nomenclature used is that employed by L. Sklair to define production standards in world economies. While the author identifies in developed economies a producer-consumerist standard of production, one sees in most developing economies a non-producer, consumerist standard. The author identifies among the causes of this global trend towards consumerism the global concentration of media and advertising agencies, leading to the creation of a standard of international consumption – see L. Sklair, *Globalization – capitalism and its alternatives*, 3rd ed., Oxford, Oxford University Press, 2002, p. 164 et seq.

of economic activity is thus created. This pattern perpetuates, on the one hand, external dependence on foreign capital goods and, on the other hand, prevents the creation of a diversified domestic industrial park.

But there is another, more worrying, effect. The creation of desires and consumerism as a rule of consciousness leads to growing patterns of luxury consumption. The environment, an increasingly scarce resource, begins to suffer the consequences of the fierce and unnecessary consumption patterns of modern society.

This is the phenomenon of hyper-consumption, a characteristic of modern societies. Consumption, freed from the requirement of class consumption, typical of societies in the 1950s and 1960s, becomes an act typical of individual satisfaction. As such, it is more susceptible to domination and influence. The idea of personal satisfaction and satisfaction of personal tastes isolates the individual. Satisfaction or personal dissatisfaction requires consumption. The identification of the products available, their quality and effective necessity are determined in a sphere (the monopoly of production) completely foreign to the individual and over which he has no information. The individual, socially more autonomous from the end of the twentieth century and early twenty-first century, is at the same time an individual subject to new forms of bondage, in particular bondage to the mercantile world to satisfy his needs, including psychological ones.[14]

This individual, isolated and hyper-consumerist, is easy prey for market determinism, for taste and moods created by the information-concentrating markets. Thus, modern monopolies, as is common in history, both nourish themselves and ensure the existence of a hyper-consumption society. The succession of superfluous tastes and products constantly modified without gaining any apparent utility is a guarantee of continuity of the economic system based on technological monopolies (concentrators of information),

[14] The phrase is from Giles Lipovetsky, *Le Bonheur paradoxal – essai sur la société d'hyperconsommation*, Paris, Gallimard, 2006. In this work, the author examines the effects of hyper-consumption society on the psychological and even social characteristics of contemporary individual behaviour.

at the same time at which it is a by-product of the functioning of technological monopolies.

There is finally another consequence of the current monopoly-consumerist system in force. The control of information by producers ends up creating an almost inseparable production system unlikely to change the forms of production. This has become particularly evident recently when dealing with issues relating to the environment. The problem clearly is not resolved by taking into account exclusively the effects of industrial production on the environment. The consumption of goods – imagine the use of vehicles for example – is an important risk to the environment.

This means that solutions that seek to influence exclusively environmental issues arising during the production phase have a real reduced effect in comparison with the dimensions of the problem. Specifically, just offering market incentives – such as the market for carbon credits – shall have limited effects. It is extremely difficult if not impossible to have complete calculation of all greenhouse gas emissions generated by an industry from the manufacturing process, until final consumption of its goods. Imagine a large automotive industry. If the effect on the environment of all goods (cars in circulation of that industry at that moment), no matter how clean is its production process, its emissions percentage will be huge. Once calculating the value of the emission in the entire chain until the consumption driven by it, the emission from this industry will be huge. So instead of selling carbon credits, perhaps it should purchase them. The unified production process by the monopoly-consumerist system therefore makes access to information absolutely scarce, especially for goods endowed with social externalities such as the environment.

Not only man, but also the economic system, becomes one-dimensional – and rigid. Controls on it start to depend more and more on the readiness to implement structural changes in the economic structures. Market incentives or soft market regulation are clearly not sufficient tools in such an economic reality.

Two typical example structures of modern times, able to concentrate information, should cause concern: vertically integrated structures and structures in which the legal rules themselves ensure the concentration of information. Patents, mainly the ones on essential goods, are a good example of dangers and risks presented by structures that concentrate information. At the same time, if dealt

with in a critical way, they allow us to discover the utility of structural measures to deal with current economic phenomena.

Thus, specific structural concerns are justified with patents. Obviously, the more sensitive the areas affected, the more important these concerns will be. In these areas, the negative consequences of limited information and access to assets (derived from the monopoly provided by the patent) are more sensitive. Then, the imposition of structural limits on patents will thus have greater justification.[15]

b. Monopoly, Unemployment and Social Exclusion on a Global Scale

The main structural effect on labour markets of increasingly monopolized global economic activity markets is a general trend towards structural unemployment. Sometimes hidden by specific growth periods which allow short or regional employment growth, structural unemployment, and the social exclusion that comes with it, is the modern substitute of slavery or low salaries as the instrument of draining in labour markets. Its effects are socially as harmful as slavery or the abusively low salaries of the early Industrial Revolution.

As seen above, the trend to search for regions with cheaper labour, an unavoidable consequence of the internationalization process, leads to rising unemployment rates in developed countries. Moreover, in developed countries, the advancement of technological sophistication of production methods leads to an upward trend in the natural rate of unemployment.

On the other hand, it creates a direct difficulty for less trained workers because, by increasing the costs of training, it causes a trend towards shifting the natural unemployment curve. This means that the change from economic crisis situations to situations of prosperity will mean increased employment, less than proportional,

[15] For a discussion about the possibilities and forms of structural intervention on vertical integrated conglomerates and patents, see C. Salomão Filho, *A legal theory of economic power – implications for social and economic development*, op cit., p. 75 et seq.

however, to the rate of economic growth. The long-term result will be increasing structural unemployment.[16]

This trend is not offset by a significant reduction in unemployment in developing and underdeveloped countries, for several reasons.

Firstly, the countries that today make most investment and industrial transfer are exactly those that have a larger contingent of manpower reserve available. Countries such as China and India account for much of the attraction of investments and industries, precisely because they have a rural population and massive surplus labour. The capital-intensive technology of most companies that move there has capacity to attract infinitely less labour than the supply of local labour (indeed, this is exactly the reason why the cost of labour is so low in these locations).

But there is yet another reason for the effect to be small or even negative. Another typical and specific trend of modern monopoly is that productivity gains are primarily obtained by reducing the employed workforce, replaced by capital goods of high technological value.

In the colonial era and the Industrial Revolution, the monopolist gains in the labour market occurred from reductions in real wages. Technological evolution changes this situation radically, making the dispute with unions for wages unnecessary. Cost reduction ends up being achieved primarily through gains in productivity based on the replacement of labour by machines. Workers required to operate such machines are more qualified, which is why a huge trend is

[16] The much discussed notion of structural unemployment. It was more consistently defended by E. Phelps, who lists several causes for growth over time in the natural rate of unemployment, and among them especially the technological factor explained above. As a policy to combat this cause of structural unemployment, he cites the reduction in the interest rate, which reduces the cost of training qualified employees. He identifies an unavoidable trend towards expansion of unemployment among unskilled employees (exactly the situation that exists in less developed countries) – see in this respect E. Phelps and G. Zoega, 'Natural rate theory and OECD unemployment', in *The Economic Journal*, Vol. 108, No. 448 (1998), p. 782 et seq. (esp. p. 785 et seq.); see for a more detailed exposition also E. Phelps, *Structural slumps: the modern equilibrium theory of unemployment*, Cambridge, Harvard University Press, 1994.

identified to increase unemployment among least skilled workers in all countries.[17]

Famous productive efficiency gains obtained with concentrations between undertakings (monopolization of markets) are nothing more than the corresponding decrease in spending on labour. The greater the market dominance, the greater the scale, and therefore the greater the possibility of replacing large amounts of labour with production in scale, made by high technology machines, operated by a smaller number of skilled workers.[18]

The absence of any social logic in this strategy is quite evident. Its long-term effect is structural unemployment, with growing armies of excluded or underemployed. Periods of economic growth are not sufficient to compensate for periods of stagnation in terms of unemployment. It is a slow trend to the structural rise in unemployment. Social and economic crises tend to succeed, both in developing and (once) developed countries.

c. Monopoly, Privatization and Concentration

In the description of industrial and colonial periods we observed that one of the effects of monopolies on economies of colonies and former colonies was a strong inter-sectorial drain. The importance of economic activity of the monopolies and the fact that the income generated by them did not create internal multiplier effects (by being directed largely abroad and very poorly distributed internally) created a huge barrier to the development of any sector other than dynamic (and monopolized) export sectors.

The internationalization of economies of former colonies obviously transforms this framework. The strong influx of foreign capital brings investment to various needy sectors of dynamism at that time.

As also seen, however, as the same internationalization derives from and coincides with the exhaustion of the capacity for external

[17] See for analysis of the framework in OECD countries, E. Phelps and G. Zoega, 'Natural rate theory and OECD unemployment', op cit., pp. 782 and 791.

[18] The same phenomenon of increased natural rate of unemployment due to the technological factor is found throughout the production chain, which is why one cannot imagine replacement of jobs in consumer goods sectors for more jobs in the capital goods sectors.

and internal financing of the developing countries (former colonies), much of that investment ends up being directed towards control of activities previously carried out by the state, privatized from the last decade of the twentieth century.[19] Moreover, precisely as a result of the goal of meeting the need for internal and external payment of government debts, it seeks to make the sale of these state enterprises at the best possible price. As a result, regulatory frameworks created do not bother to eliminate the monopoly power of many of these large state enterprises and often do not even bother to restrict its effects.

The result of this process is the transfer of various activities carried on under public monopoly for private monopoly systems. Again, here the process does not occur only in developing countries but also in the (once) developed world. The regulatory schemes erected to regulate the activities for the reasons set forth above are insufficient to transform the monopolist rationale: monopolies are reinforced, with little room for alternatives and the price of services begins a strong and continuous upward climb.

Thus, an important safety net for these economies is deconstructed: the provision of services of relevant social interest by public entities. The process of inter-sectorial monopoly drainage in the contemporary economy becomes substantially more sophisticated. Unlike the colonial era and the period of industrialization, economic activity is diversified, but the dominance of monopolies on the economies of former colonies also spreads to 'new dynamic

[19] This is what happened in Latin America, as exemplified in Brazil, a country that, in the 1990s, opened to international capital through, and especially, privatization. Thereafter, two phenomena occurred, both related to economic concentration. Firstly, the country was influenced by the growing monopolization and oligopolization of markets. Secondly, government authorities, in particular BNDES, began to diligently pursue the concentration of markets and national companies. On the one hand, in regulated industries, they encourage concentration or cooperation between companies (this is what happens, with particular emphasis, on the infrastructure sector subject to the influence of the organ depending on the need for large funding). In sectors not subject to regulation, its role as executing organ of the investment policy of the Federal Government (Art. 23 of Law 4594/64) must be performed primarily by linking the loans to restructuring of sectors, which leads to a greater (and usually quite sharp) level of concentration. The antitrust agencies, on the other hand, revealing their historical weakness, do little or nothing or are not able to do anything against this movement.

sectors'. No wonder, therefore, that the distribution of wealth in these economies remains subject to the concentrator rationality of monopolies. The inter-sectorial concentration inherent to monopolistic functioning of markets is not a result of the drainage of resources between sectors but of the expansion of the market and the dominant monopoly power contained therein to new sectors, especially public services, previously provided by the state.

In these sectors, the centralizing logic is felt mainly through diversification and expansion of the concept of natural monopolies. And it is precisely in the private and concentrated enjoyment of natural monopolies that the process of extending monopoly power to new sectors of the economy produces, from the 1990s, its most deleterious effects.

This movement has a quite apparent theoretical inspiration. This is the Schumpeterian theory of creative destruction or peaceful and virtuous co-existence between monopolies and technological changes (with the latter the cause of the former). As seen above (Chapter 2), in his classic book *Democracy, Socialism and Capitalism*, Schumpeter merges the Marxist idea of historical determinism with the neoclassical idea of market determinism. The result could be no different. The new determinant of the entire capitalist development becomes technological development.[20]

And if this is the case, the monopolization of sectors does not raise concerns, even those existing in sectors with characteristics of natural monopolies. Technological changes should or will be able to erode these defences and therefore the position of monopoly power.

This belief has been demonstrated to not be true. Even in sectors characterized by intense and frequent technological changes, such

[20] In fact, Schumpeter admires the Marxist explanation of the history of capitalism – see J. Schumpeter, 'The *Communist Manifesto* in sociology and economics', in *Journal of Political Economy*, Vol. 57, No. 3 (1949), p. 199 et seq. On the other hand, he then identifies in the second part of his work (as do the neoclassicals) in market forces an important driver of technological progress, which for him is an endogenous variable (that is, defined in the system), see J. Schumpeter, *Capitalism, socialism and democracy*, New York, Harper Perennial, 1976, p. 92 et seq.; see also N. Rosenberg, *Schumpeter and the endogeneity of technology*, London, Routledge, 2000. Hence, the need to identify in the technology, synthesis and product at the same time in history (Marx) and in the market (neoclassical), the driving propeller of economic development.

as the telecommunications industry, the reality has shown an immense capacity of companies with networks to 'dominate' new networks that could challenge them.

What we mean is simple. If it is true that in some sectors, such as telecommunications specifically, technological change enables the creation of new networks without impeding fixed costs, it is also true that the incentive for investment by the holders of the network to control and dominate these possible new networks is great. The incentive to acquire new entrants or hoarding of new licences is huge. Equally frequent is the recourse to so-called technological predation.[21]

This is because through these new networks, competitors are able to obtain increasing returns to scale much more easily than if they tried to compete in networks dominated internally by infrastructure holders. In such cases, from the economic standpoint, the cost curve of the network owner (hypothetical network A) reaches an immeasurably lower level than the entrant who attempts to challenge it. This will never be able to reach him since the costs of the infrastructure owner will always be lower.

Not so, if new technology allows it to create a new network (network B, for example) at competitive costs. Note, however, that this will only be true if network A is not allowed to dominate network B. If it has access to it and can control it, competition will no longer be possible. Even technological innovation will have effects on the level of competition. More than that, the very expansion of consumer choice cannot occur, as it may be preferable to the monopolist of network A to not provide the service allowed by network B.

The reasoning is similar to that developed in the famous discussion in antitrust law between inter- and intra-brand competition, corresponding to competition between brands (inter) and the competition between networks. Traditionally, antitrust doctrine tends to consider more relevant inter-brand competition, precisely because

[21] Technological predation was precisely the unlawful competition identified in the Microsoft case and deemed responsible for maintaining the company's monopolistic position until today – see in this regard W. Page and J. Lopatka, *The Microsoft case – antitrust, high technology and consumer welfare*, Chicago, The University of Chicago Press, 2007.

of its potential to attract the consumer.[22] This observation, although lacking certain qualifications (and intra-brand competition is important and cannot be disregarded),[23] highlights an important point.

It is essential to ensure market structure that encourages the consumer towards highly diverse alternatives. This alternative can mean subjective or objective connection with brand or service standards at cost and accessibility conditions sufficient to constitute a real alternative. Alternatives must not only be formal or potential but be a real possible choice. Only this way will the process of discovery of better alternatives, instrumentalized by competition, actually occur.

What is meant is that a real alternative is composed of several factors that require structural transformations and must be present to ensure consumer choice. In the case of networks industry, this structural shape must be ensured through the effective existence of alternative networks, which has not been the reality in the majority of markets up to now.

3. THE OPERATION OF THE FINANCIAL SYSTEM AND THE NEW DRAINS ON THE GLOBAL MARKETS

It's time to fill a gap, which is to analyse the role of the financial system in the underdevelopment process, going on now, as seen above, on a global scale.

It was intentionally omitted from the previous chapters. The reason is that during the colonial period, the financial sector was in fact an extension of the interests of monopolies (exporters and importers) and so had no relevant autonomous importance for the development process. To understand the reason for this, it is enough to see that at the end of the colonial period and the start of the industrial period in Latin America there is an important distinction between the domestic and foreign financial sector.

[22] See, accordingly, among others H. Hovenkampf, *Federal antitrust policy*, St Paul, West Publishing Co., 1994, p. 428 et seq.

[23] See in this respect C. Salomão Filho, *Direito concorrencial – as condutas*, São Paulo, Malheiros, 2003, p. 349 et seq.

The incipient domestic financial sector was a true extension of monopolistic interests. In countries like Brazil, for example, its origin has to do with the abolition of a monopoly of the slave trade. With the disappearance of the slave trade, capital accumulated by slave trade monopolists was invested in the creation of a bank, such as Banco do Brasil.[24]

The subsequent nationalization of Banco do Brasil itself is a demonstration and a guarantee that the bulk of the domestic banking system at the time could not and should not distance itself from its primary function of financing coffee, then the main monoculture and monopoly structure.

On the other hand, external financial flows came from the financial system of industrialized countries at the time, in particular England. This was normally intended for large-scale works, especially infrastructure. Such financing most often was linked to acquisition of own goods and technology abroad.[25] This is the case, for example, of railways in this country.

It is easy to realize that such a system of financing helps to guarantee the permanence of monopolistic structures. From an internal point of view, it ensures the concentration of capital in exporting monopolies. The flow of capital from foreign financial institutions does the same by ensuring that new products from the metropoles continue to be imported. Such a financial structure has therefore absolute coherence with the protection of the exporting-focused monopolistic economic system of colonies and former colonies.

The same pattern is repeated in the industrialization period through import substitution in these countries. The state or private internal financial system directs most of its resources to the few

[24] Banco do Brasil was born as a corporation on 2 March 1851, six months after the abolition of the slave trade, initiated by Irineu Evangelista dos Anjos (later Baron of Mauá), largely through the aggregation of capital accumulated by merchants authorized by the Crown to carry out the slave trade – see J. Caldeira, *Mauá – empresário do império*, São Paulo, Companhia das Letras, 1995, p. 224 et seq.

[25] Not coincidentally the same Baron of Mauá founded his next bank with a branch in London and with British partners (Mauá, MacGregor and Cia.). Not by chance, he was not able to survive competition with the English banking house, going bankrupt years after its founding – see in this respect J. Caldeira, *Mauá – empresário do império*, op cit., pp. 417–18 and 515 et seq.

dynamic industries. New projects thus depend on foreign capital, also linked to importation (usually without transfer) of technology.

Up to then, however, the financial system functioned as the guarantor of the triple drain occurring by virtue of the monopolist system.

It is only after the 1980s and 1990s that the financial system picture changed (from the point of view of their economic effect), starting to act as a standalone element to drain the wealth of former colonies and other countries on a global scale.

It is not difficult to understand why. As seen previously (Chapter 5, section 1.c), the process of replacing imports failed in Latin American countries largely because of the presence of monopolistic structures, which focused inversions and prevented industrial diversification. This ultimately caused the process to generate more and not less external dependence. Externally to the consequences are the various crises of external indebtedness from the early 1980s. Domestically, endemic inflationary processes appeared in these economies.

It is precisely this combination of external and internal factors that led to excessive growth in importance of the financial system in these countries and their influence on the process of development (or underdevelopment).

Internationally, the major financial institutions, leading lenders in developing countries, ended up joining together with the support of international financial institutions, influencing the economic policies of developing countries. Internally, the effect was even more perverse. There was a real process of financialization of the economy, with the emergence of a new and harmful form of economic drain.

These are transfers of income between those who are part and those are not part of the financial system. This also occurs here in three different ways. The first, more diffuse, occurs with the presence of inflationary processes. There was clearly a huge income transfer process between users and non-users of the financial system in countries that went through high inflationary processes. The former could protect themselves from inflationary processes, through economic indexing of savings and interest rates. The latter, usually the most impoverished sections of the population, literally unprotected, would transfer income to financial institutions and their users.

Such drainage, even if most visible, was not the longest lasting. With countering the inflationary processes (as seen, precisely through strengthening of the external situation of the dependent and monopolistic structure), the financial drain persists – this time, against financial institutions and users and non-users alike. The process of financialization of the economy leaves as its results the existence of an extremely concentrated and strong financial system, able to impose interest rates and control industries. Beginning in the 1990s, the interest rate became in many economies a major factor in draining resources from productive sectors and consumption sectors for the financial sector. As such, it acted as a powerful factor for concentration of income and even limited economic growth.

The last form of drain is also the most serious one. It derives from the change of economic structure that occurs from the economic financialization in the late twentieth century. The financialization of the economy is nothing more than a consequence of the march of industrial capitalism in the late twentieth century to new frontiers of consumption. As seen above (section 2.a), capitalism in the late twentieth century seeks its expansion primarily in increased consumption. With the initial transforming power of the Industrial Revolution exhausted, capitalist expansion takes place, particularly in the second half of the twentieth century, based on the expansion of consumption standards, and in particular hyper-consumption.

In order for hyper-consumption to be spread in society and become a true economic powerhouse, it must be accessible not only to the economically privileged strata.

It is then easy to see the role being played by the banking system. Credit is a key element for the realization and particularly the spread of hyper-consumption. The debtors may or may not honour their loans (as the recent crisis of sub-prime mortgages demonstrates), but what is most critical is that capitalism finds a new host, that is, a new element on which or from which to perform accumulation.[26]

[26] The relationship between credit and capital accumulation, as elements of a new capitalist parasitism, is exposed by Z. Bauman, *Capitalismo Parasitario*, Roma, Laterza, 2009.

This movement generates a huge dependence of the whole economic system on the financial sector. If credit is the engine of hyper-consumption, societies without credit are doomed to stagnation or economic involution. Consequently, it is necessary to protect the financial system from great crises generated by disproportionate consumption patterns, artificially created in the population. But that is not all. In order to expand its accumulation, the financial system requires new and 'creative tools' for profit-taking. It is, therefore, necessary to extend the financial 'markets' through the creation of new products.

The problem is that these markets are structured not based on technological evolution or improvement of products, but on the sophistication of products able to hide information. Similar to the monopolist technology predation, whose main goal is not to improve technology but to ensure maintenance of the monopoly by creating incompatibilities (see the case and conviction of Microsoft[27]), in the case of the financial system, technological evolution was directed to hide information or create important informational asymmetry. US mortgage derivatives were complex and 'well structured' precisely because they are able to hide information about actual risk.

The issue is that the problem of absolute asymmetry of information does not exist only in these markets. It has played out recently and dramatically in various other 'markets' of global relevance.[28]

International contagion, a commonly used word, if properly analysed, is also a consequence of the same disparity or lack of information. The interconnection of economies via the 'market' is so great that it is impossible to predict or rely on effects that economic disasters in one country may have on other economies. The sudden oscillation was an unpredictable event, information not

[27] See in respect to the Microsoft case, the description and analysis made in *Direito concorrencial*, São Paulo, Malheiros, 2013, p. 490 et seq. and also note 76.

[28] C. Salomão Filho, *Menos Mercado in Folha de São Paulo*, 15 October 2008. See for a more thorough discussion on market existence and failures from an economic-social-legal point of view, C. Salomão Filho, 'Less markets: a critical analysis of market existence and functioning' in U. Mattei and J. Haskell (eds), *Political economy and law: a handbook of contemporary research, theory and practice*, Cheltenham, Edward Elgar, forthcoming 2015.

available at the time of entering into the agreement and whose effects could not be avoided or prevented. The fact that legal regimes around the world may allow compensation or refusal to comply with certain agreements involved on the grounds of *force majeure* does not prevent or hinder market disruption and its economic and social negative effects. Compensatory solutions therefore do not prevent or solve the structural problem created by the existence of these markets.

Indeed, the absence/disparity of information in markets reveals another more serious problem. There is a huge difference between the market as a clearinghouse for a small community or human group (this is the market in its original classical theory) and the market perceived as a global and virtual centre for exchange and organization in the economic system. All presumptions (complete information, dilution of agents) valid for the first are non-existent in the second. Market in the latter sphere serves only as a rhetorical substitute for organization of economic relations based on pure power relations and control of information.

Thus, from a logical point of view, regulating such 'markets' does not present many alternatives. Regulate means simply prohibiting the existence of certain 'markets'. This is the case of many derivatives and even many futures contracts. Economic theory – at least solid economic theory – says that markets where the lack or disparity of information is too large tend to disappear or to nationalize – the crisis of 2008 has shown that in the 'globalized and interconnected market', the disappearance and complete market disruption is not restricted to the problem's origin (the derivatives market), but tends to expand to much of the financial and productive system demanding nationalization or semi-nationalization on a global scale.

The solution seems, therefore, to be the existence of fewer markets. Discouraging the existence of trade in certain goods or services is not something negative. Historically, periods of high trade flows, mainly of non-essential products (spices, for instance), do not coincide with times of great inventions. Conversely, when this flow cools, the creation of wealth comes to depend on innovation, creation and invention. In economic history, the search

for new markets and mercantilist reasoning has always been synonymous with domination, dependency and poverty, and underdeveloped and developing countries of the colonial past are the great witnesses and victims of this equation.

With the disappearance of derivatives, the delusional futures markets and easy wealth and trade that are derived from and would be derived from them would result in less risk of surprise and lasting misery. Rather, perhaps more incentives for new creations and inventions will arise – perhaps even in areas as lacking for human beings as human health and the environment. Less market, then, means fewer crises and more creation.

This is not what happened. The financial crisis of 2008, rather than allowing the introduction of new and more imposing rules on speculator movements, led to perfunctory changes in laws in some countries (like the USA, for example). Nothing or almost nothing has been done in the area of international financial regulation. The idea of limiting speculative flows, a clear necessity since 2008, was dead on arrival with the capture of government leaders (particularly in North America and Europe, intensely affected by the crisis) by interests of the financial system.

The vicious circle is clear, and inter-sectorial drain for the benefit of the financial system is its most obvious consequence. The huge inversions made in favour of banks as a way to save the world's financial health is not surprising in a system structured as global capitalism. Global, yes, because in a time of economic internationalization, global financial crises have enormous propagation potential. The dependence on credit (and artificial standards of hyper-consumption) creates more dependence on the financial system of the entire world economy.

As will be discussed in the conclusion, such structures (economic-financial), due to their power and influence and their deep roots in contemporary capitalist development, can only be disciplined (if so) by equally profound structural measures.

4. SOCIAL STRUCTURES: POVERTY AND THE ENVIRONMENT – A GLOBAL PROBLEM

As seen in the preceding chapter, economic structures influence social structures and, if not countervailed by law and regulation, determine them. This is why this new triple draining effect of monopolies on a global scale[29] influences and determines the transformation of social structures and social realities on a global scale, bringing together the developed and underdeveloped worlds.

So not only in economic structures, but also at the social level, the contemporary system has relevant peculiarities. The contemporary monopolistic market system presents at least two major distinctive characteristics with regard to its social effects.

a. Poverty and its New Forms

The first relates to poverty. As seen above (section 2.b), the process of monopolist internationalization has serious social consequences for both developed and developing countries. These effects are so severe that it is possible to demonstrate a direct relationship between openness of national economies and state participation in the economy. As Rodrik highlights, by making this relationship (between state participation and openness of the economy) states seem to be trying to create a social safety net to protect their societies from economic and social imbalances caused by the trend towards globalization of economies.[30]

Let's summarize briefly the imbalances of the world economy that we discussed. The main one is the structural trend towards

[29] With the financial market draining seen above, maybe it would be more proper to speak now of a fourth draining effect, coming from financial markets.

[30] See D. Rodrik, 'Why do more open economies have bigger governments?', in *Journal of Political Economy*, Vol. 106, No. 5 (1998), p. 997 et seq. This study is clearly important by demonstrating that even globalization can and must co-exist with important participation of the state in the economy. Note, however, that even the safety net identified by Rodrik in its regressions turns out to be more a protection for domestic firms than for society. That's because what it identifies is basically a relationship between opening of economies and government spending, which in its model indicates the acquisition of propèrty by the state. Thus, these costs often mean the acquisition by the state of products or services from the local private sector. It is doubtful that the social effects of these expenditures serve to offset the economic uncertainties and social risks of internationalization for local populations. The example of the privatization of public services, arguably linked to the internationalization of economies, demonstrates how this increased state presence, if not well planned, may not result in an increase in economic and social protection of the population.

unemployment. Both in developed and developing countries, the processes of internationalization and monopolization intertwine to create conditions conducive to unemployment. In developed countries, the transfer of labour-intensive companies to the Southern Hemisphere allied to free trade, which encourages the production of capital-intensive goods in developed countries, leads to increasing levels of unemployment. The immigration pressures caused by economic hardships of the poorest countries only make this situation worse.

The same is true in developing countries but for different reasons. There, the social effects of monopolies are firstly felt. As seen above (section 2.b), the drain of wealth and resources, existing since the colonial era, transforms and expands with internationalization. On the one hand, there is the entry of large foreign conglomerates concerned in sectors that have national production, with the consequent disappearance of most national groups that existed in those sectors, because the foreign company has, as a rule, an advantage over the national company in technological and financial matters (access to capital). This efficiency advantage, as already discussed, usually translates into less employment of labour, which is why employment in these sectors tends to decrease.

In other sectors, which still do not have local production or where the state withdraws from economic activity, monopolistic foreign structures tend to spread even more. The effect on employment is not positive. The trend towards monopolistic rationalization and the pursuit of efficiency makes it so that initial improvements in the labour market will soon be followed by further rationalization (especially after new concentration movements) and layoffs. Having exhausted the process, the trend is the new transfer of the company to regions with cheaper labour, always to ensure the continued existence of a huge contingent of unemployed or underemployed workers.

These characteristics spread from developing world economies to all economic systems. Monopolization, unemployment, poverty and underdevelopment turn to be the face of global capitalism in the twenty-first century, from the peripheries of Washington or Paris – with the poor being condemned to a growing social apartheid – to the shanty towns in the suburbs of São Paulo or Delhi.

But to talk about poverty without qualifying it is also insufficient – insufficient because poverty also changes, giving rise to new forms of poverty that need to be understood. If not understood, we can continue to try to combat new forms with instruments that are no longer suited for them.

The first finding was already made above. Poverty in the twentieth century is no longer a problem of lack of income or lack of minimum rights for employees. It is basically a problem of exclusion. The natural functioning of the system (structural unemployment, concentration) leads to economic draining and social exclusion.[31] It is therefore natural that new and more intense forms of poverty arise. That involves not only income or labour rights but entitlements and most basic human rights. Not by chance, the main theorist on poverty in the twentieth century, A. Sen, already indicated in the 1980s that poverty is a question of lack of 'entitlements'[32] – a difficult term to translate, but that encompasses,

[31] It is true that the social effects of monopoly draining are to be measured and compared with poverty rates. Wealth concentration data are not therefore a perfect substitute for it but an interesting approximation since it is representative of the draining of wealth in society (although not representative of the draining effect in its real extent). So it is interesting to notice that recent data demonstrate a convergence in the twentieth and twenty-first centuries between wealth accumulation indexes in most parts of the world (especially the once developed one). Not only that, but the data also show that the rate of concentration of wealth clearly surpasses economic growth indexes in almost all countries – see T. Piketty, *Le capital au XXIe siècle*, Paris, Seuil, 2013. Such data just confirm the historical description made above. Economic concentration and monopolistic markets bring with them wealth concentration which is produced naturally and, due to its triple draining effects, is capable of draining the entire economic system of a country or region, producing wealth concentration that cannot be offset by economic growth (and will hardly be since the more economic growth there is, the bigger the rate of concentration of wealth will be due to the multiplying effect of triple draining on wealth concentration). So it is not at all surprising that the same data indicate that periods of less wealth concentration found in developed countries coincide with periods of economic de-concentration through antitrust remedies (in the US) and forced de-concentration (in Europe after the war). It is not only or mainly wars, therefore, that are responsible for de-concentration of wealth but most probably the de-concentration of economic structures that was happening at the same time (and in some regions, as Europe, because of the war).

[32] See A. Sen, *Poverty and famines – an essay on entitlement and deprivation*, New York, Oxford University Press, 1982, chapters 1, 2 and 10.

besides the lack of economic capacity, the absence of respect for basic human rights.

It is therefore possible, depending on the degree of exclusion, to speak about two new forms of poverty, absolute and relative, depending on the degree of exclusion of the group involved.

In the new absolute poverty, the individual lives on the margin of everything – of public services, respect for dignity, work and education. This includes the homeless in big cities, rural populations in situations of abandonment (often indigenous or originating from the land). They live in absolute exclusion and increase in number as a natural consequence of operation of the economic system. For this reason, exclusion demonstrates an enormous resilience, growing even in times of progress in social indicators.[33] The exclusion is absolute exactly because it deprives people of all capacities, condemning excluded people not only to situations of material hardship but also to great difficulty for social (professional placement of homeless people is much harder, for example, than workers who are not on the streets) or personal re-inclusion, constantly being subject to discrimination, when not purely and simply victims of homicide.

Note that in its original conception explored in the book, the term entitlements basically refers to capacity to get food. Indeed, Sen by its origin and the basic concerns of food safety (particularly in south-east Asia) existing at the time (and which continue to exist) in various parts of the globe, focuses its analysis on access to food and capacity (economic capacity, social, legal) – entitlement – to obtain them. This does not mean that the idea of 'entitlements' has to be confined to this capacity. Indeed, it was expanded to other types of capacity and essential rights, including on occasion the formulation of DHI to the UN.

[33] Accordingly, the evolution of the homeless population in the city of São Paulo is quite revealing. As Census RUA 2011 of the City of São Paulo in 1991 shows, the homeless population in São Paulo was 3,852 people (1991: Source São Paulo and IBGE Census). In 2011, the homeless population was 14,458 people (Source: FESP and IBGE Census). So while São Paulo's population grew 16.6 per cent, the homeless population grew 275.8 per cent. These numbers are even more revealing when one notes that in this period the country experienced economic growth and (particularly in the years 2004–11) significant improvement in its social indicators. We note, therefore, that despite the social improvement, new forms of exclusion and poverty develop and progress as a by-product of the operation of the economic system.

Thus, capitalism demonstrates its most extreme effects: for those who are not included in the system and have no capacity for consumption, plain and simple exclusion of everything (even their human dignity) and absolute discrimination. It can be said without much fear of being wrong that the typical class society of the industrial era is replaced in the post-industrial era by a society that is divided into consumers and excluded people. For the latter, in this post-industrial phase of internationalization, exclusion and discrimination is undoubtedly more intense.

But one can speak also of a new form of relative poverty. It is characterized by a growing mass of individuals, usually with income for basic or luxury (not always essential) consumer goods, but who lack access to essential goods and services needed for survival. They have resources to purchase a cell phone and a TV, but suffer, when they do not die, in public health system queues because of lack of medication or proper treatment. They have their leisure time between work hours interrupted or eliminated by the absence of public transport, or live with poor or no infrastructure, in conditions of extreme uncertainty on the outskirts of large cities.

They are, therefore, used by the system to the exact degree of its need. They have income to consume, but do not have their basic human needs met. It is interesting to note that consumption capacity remains precisely for the products and sectors that are useful and necessary to the profitable operation of markets, while shortages occur in the areas of public services, operated nowadays frequently by the private sector (public transportation is an example), but where the perfect operation and full service to consumers would not necessarily be profitable (because of the enormous degree of externalities of each service). Thus, the consumer is preserved, but the human being often discarded.

b. The Environmental Issue

There is, however, still a second social feature of modern economic systems, as serious as the first and that needs to be considered: the effects of the new patterns of economic activity on the environment.

In fact, the same reasons that lead to the internationalization of monopolies also cause the environment to be used in a predatory manner. The search for cost reductions already undertaken by transferring local companies also leads to use of the environment

as a way to reduce costs. Especially for developing countries, the predatory use of the environment turns out to be a major instrument to allow economic growth and participation in international markets.

The predatory use of the environment, as well as the growth of monopolies using productive efficiency as a justification, finds its foundation in neoclassical economics.

The idea of productive efficiency and its close ties to cost reductions is added to the concept of nature as an inexhaustible asset and, therefore, without value.[34] This non-assignment of value and non-recognition of scarcity of natural resources, a basic error of neoclassical models, leads to two other misconceptions of equal gravity.

First, incorrect assessment of the importance of the negative social externalities created by the predatory action on the environment. Possibly because of the belief that through technological evolution it is possible to solve the problems caused to the environment by excessive use of nature (fossil fuels, water, and so on), almost all the existing legal regimes to regulate the production of these externalities are based on compensatory instruments – basically compensation for damages. The same rationale used for analysis of the formation of monopolies is valid here. Recognition of the negative social effects of economic structures should lead to discipline their constitution and operation and not try to compensate monetarily something that is irreversible.

Incidentally, the second mistake of legal and economic theory with regard to the environment is precisely the treatment of irreversibility. Not only is damage as a rule irreversible, but the use of energy itself creates irreversible effects. As highlighted by Latouche,[35] especially severe for regulation of the environment is to disregard the laws of entropy. According to it, the transformation of matter into energy is irreversible. The understanding of irreversibility should lead to a regulatory limit on transformation of matter into energy and to stimulate the use of direct and inexhaustible energy sources, such as solar and wind power. Here again, structural and

[34] The neoclassical economy treats capital and work as scarce goods in its economic models, not including nature among its considerations – see S. Latouche, *Les dangers du marché planétaire*, op cit., p. 69.

[35] See S. Latouche, *Les dangers du marché planétaire*, op cit., p. 70.

preventive rules (and not behavioural or compensatory ones) are the only ones able to avoid an effect that, more than irreversible, may prove catastrophic.

Even more so, modern economic structures allow and encourage the birth of a more dangerous form of economic growth. On the one hand, extreme poverty and exclusion lead to increased and uncontrolled exploitation and environmental destruction. Consider the situation of the Brazilian Amazon rainforest and tropical forests of Africa and Asia, where part of the environmental destruction is caused by the population excluded from the process of economic development and seeking ways to survive. But the destruction is not only done by individuals. Often, the use of surplus impoverished and excluded labour, by national and international economic enterprises, allows the destruction and exploitation of the abundant natural resources in these regions. Efficiency or cost reduction is obtained there from environmental destruction.

The economic structural problem of monopolies and poverty (which, as seen, are closely correlated) then becomes an environmental problem, reaching proportions that endanger the perpetuation of our kind. Legal problems related to the management of increasingly scarce resources, including natural resources previously considered inexhaustible, begin to swell, demanding legal systems that can structurally intervene in the functioning of the economic system.

PART 3

CONCLUSION: THE END OR BEGINNING OF HISTORY?

Should the conclusion of a historical description/analysis attempt to describe the end of the story?

This does not seem reasonable. Ends of stories are always simplistic and normally portray oversimplifications of reality. They are more suited to children's stories than the description of real life.

In the real world, and particularly if the aim is the construction of a transforming theory of reality through the social sciences, it seems more reasonable to conclude a historical description with the beginning of the history, or at least of a new history.

To be able to think of a beginning to a new history, we need to briefly restore the consensus identified in the introduction to economic power (Part 1) and see if is possible to make a counterpoint.

The force of economic structures on the social and political reality in general is undeniable. They historically have been growing, limiting development and institutional improvements. I hope to have demonstrated throughout the historical analysis that these structures are historical, economic and legal constructs – in the past, introduced through the rules of domination of the colonial monopoly, reinforced in the present through the possibilities of domination provided by the globalized economy. Hence two basic characteristics of the colonial world turn out to be widespread