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# **The State at the service of the market economy**

**Jacques Fontanel**

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The globalization of the market economy has considerably transformed the importance of the role of the State in national life. The pillars of capitalism are private property, self-interest, competition, the establishment of market mechanisms and freedom of choice in consumption, production and investment, as well as the limited economic role of government. International organisations regulate markets, but they are mainly at the behest of liberalism, heterogeneous state power and international companies. The economic weight and influence of private organisations is increasing in the new digital economy, competition between national economies and beggar-thy-neighbour policies are still the order of the day. In this context, the eradication of poverty is not an objective and inequalities are considered necessary for the growth of GDP, a concept that is often misleading about the real productions of nations. However, society cannot continue to assess the status of individuals simply by reference to their "objective" utility (what are they used for?) or their income (the rich and the poor). In the context of a socially sustainable economy, today's globalisation is leading to growing inequalities and undoubtedly to revolts and violence by frustrated classes that could jeopardise world peace. States and international organisations must fight against global warming, pollution, famine, excessive poverty and the shameless destruction of natural heritage. Multinational companies, addicted to eternal greed, will never engage in this necessary process for the future of humanity. Coercive measures must then be taken and probably the unilateral application of self-interest in modern societies must be challenged.

La mondialisation de l'économie de marché a considérablement transformé l'importance du rôle de l'État dans la vie nationale. Les piliers du capitalisme sont la propriété privée, l'intérêt personnel, la concurrence, la mise en place de mécanismes de marché et la liberté de choix en matière de consommation, de production et d'investissement, ainsi que le rôle économique limité des pouvoirs publics. Les organisations internationales régulent les marchés, mais elles sont principalement aux ordres du libéralisme, du pouvoir étatique hétérogène et des entreprises internationales. Le poids économique et l'influence des organisations privées augmentent dans la nouvelle économie numérique, la concurrence entre les économies nationales et la politique du chacun pour soi sont toujours à l'ordre du jour. Dans ce contexte, l'éradication de la pauvreté n'est pas un objectif et les inégalités sont jugées nécessaires à la croissance du PIB, un concept pourtant souvent trompeur sur les productions réelles des Nations. Cependant, la société ne peut pas continuer à évaluer le statut des individus simplement en référence à leur utilité "objective" (à quoi servent-ils ?) ou à leurs revenus (les riches et les pauvres). Dans le contexte d'une économie socialement soutenable, la globalisation d'aujourd'hui conduit à des inégalités croissantes et sans doute à des révoltes et violences des classes frustrées susceptibles de remettre en cause la paix dans le monde. Les États et les organisations internationales doivent lutter contre le réchauffement climatique, la pollution, la famine, la pauvreté excessive et la destruction éhontée du patrimoine naturel. Les entreprises

multinationales, shootées à la cupidité éternelle, n'engageront jamais ce processus nécessaire pour l'avenir de l'humanité. Il convient alors d'engager des mesures coercitives et sans doute de remettre en cause l'application unilatérale de l'intérêt personnel dans les sociétés modernes.

Mots clés : State, market economy, inequality, domination effects, globalization, poverty, concurrence

Etat, marché, inégalités, effets de domination, globalisation, pauvreté, concurrence,

Liberals remain convinced (or pretend to be) that, in 'normalized' situations, the functioning of the market world automatically leads to a situation of optimal equilibrium of production and a fair distribution of available wealth, with regard to the marginal productivity of each factor of production. However, without referring to the question of the distribution of income between capital, labour or rent, these principles, sometimes referred to as laws, are ideological, statistical and intuitive, supported by a few reflections subject to hypotheses that are only a representation of reality itself. The State is the guarantor of the functioning of the market economy; it gives it the possibility to be exercised on the national territory and, following international agreements, on the whole world economy. Previously, the government's function was to ensure the security of goods and persons, to implement societal and social laws, to represent its citizens in international organisations and to organise the solidarity necessary for peaceful coexistence and solidarity among its citizens. Some have added power, the exercise of force or the redistribution of income<sup>1</sup>. With the commercial globalisation of the economy, international competition has become the practical and daily exercise of economic agents. The State has lost some of its prerogatives and is itself in competition with other States and multinational firms in the expression of its strategic, political and economic choices. The exercise of participatory democracy has become much more difficult to apply, especially with the processes of economic and political integration, which make the responsibilities of States a little more vague, especially in the reserved public domain<sup>2</sup>. Environmental and ecological values are neglected

However, although more or less "unbridled" competition has become the global rule, with a stated desire to reduce state economic interventionism, firms, banks and individuals do not fail, if necessary, to call on public authorities to improve their competitiveness or purchasing power. Citizens legitimately maintain their pressure on the public authorities to reduce precariousness or to improve their income, while governments are sometimes forced to grant significant tax advantages to the headquarters of multinational companies and to respect, by treaty, the conditions for the functioning of the market economy, with few exceptions. On the one hand, in a system of heterogeneous competition, resource-intensive economic entities wish to reduce their taxes, while on the other hand, the "underprivileged" of growth demand increased government support. In this context, States are called upon to intervene to develop infrastructures and national solidarity (such as schools, universities, health care, pensions, etc.), while firms seek to reduce their dependence on

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<sup>1</sup> Barre, R., Fontanel, J. (1989), *Principes de politique économique*. Coll Eco+, PUG, Grenoble. Fontanel, J. (2001), *L'action économique de l'Etat*. Editions L'Harmattan, 2001.

<sup>2</sup> Fontanel, J. and Smith, R., 1991. A European defence union?. *Economic Policy*, 6(13), pp.393-424

public resources, often legally, through tax avoidance and optimisation, and sometimes illegally, through fraud or opportunity tax arrangements.

Moreover, the State is a human construction; one never shakes hands with the State. In democratic countries, every citizen has a share of power, that of voting or of his or her actions undertaken within the framework of legality to change the role of the public service, according to his or her political convictions or political and economic analyses. The problem, however, lies in the forms of inequality of citizens in relation to the decisions of the State. The influence of the media, generally belonging to the wealthiest classes of the population, leads to information whose impartiality can be debated. In this framework, votes can be influenced by the regular provision of information whose neutrality can never be guaranteed, with regard to the choices of their development in the media and their orientation. While in France, financial controls are made to ensure that the investments made from time to time are not both excessive and disproportionate between candidates, the daily information of citizens passes through written or oral newspapers that, for the most part, belong to multimillionaires. The result is a plutocratic colouring to a democracy that is losing its voice in a globalised market system that reinforces the economic and political power of the wealthy.

### **Capitalism, market economy, and globalization: the role of States**

Despite the economic and financial crises that are shaking the world economy, international organisations still consider that the international system set up since 1945 with the GATT, then expanded in 1995 with the universalist creation of the World Trade Organisation, is neither the main guilty nor responsible for the economic crises. For many insufficiently competitive economic areas, the market economy is still judged, like democracy in the political order, to be the least worst of systems.

Historically, free trade stimulated growth. International trade allowed regions to specialise in the production in which they are most efficient, as they benefit from economies of scale through increased production and competition between suppliers. The share of international trade in world gross domestic product has doubled in half a century, but strangely enough it is only very partially achieved on the basis of comparative advantage, as countries often trade with those that have the same economic structures and endowments of factors of production. It is nevertheless true that without international trade, world economic growth would be singularly slowed down, at least in the short term. The "miracles of national development" (from Japan to China to South Korea) have relied on exports to initiate a structurally sustainable development process. Jeffrey Sachs and Andrew Warner studied 117 trade policies over the

20 years at the end of the twentieth century and showed that open economies grew at 3 to 6 times the rate of economically closed countries<sup>3</sup>.

The pillars of capitalism are private property, self-interest, competition, the establishment of market mechanisms, and freedom of choice in consumption, production and investment and the limited economic role of public authorities. In this context, "American liberals", including the National Center for Policy Analysis (NCPA), are calling for the elimination of tariffs and other barriers to entry (such as production or financing subsidies by EximBank, for example), so that American consumers can buy their products cheaper and producers can sell abroad. There are still many barriers that reduce the overall potential for economic development. For example, subsidies destroy innovative initiatives by producers and create price distortions. With the slowdown in new growth (the IMF calls it "mediocre new normal growth"), barriers must continue to be removed and new measures that are detrimental to the development of international trade must be prevented<sup>4</sup>. However, the forces that contribute to the success of capitalism can also lead to its downfall. A hypothesis and two new constraints, partly opposing, were then expressed:

- Firstly, the international political and economic system resulting from the collapse of the Soviet bloc favoured the opening up of world trade, which was analysed as an essential factor of economic progress for all the participating states and as a generalised instrument in the fight against misery and poverty.
- Secondly, the concept of "sustainable" or "durable" development defended by most international organisations recalled that the short-term improvement of everyone's living conditions should not jeopardise the economic development potential of future generations. This analysis indirectly called into question the "balancing" and "innovative" values of the market.
- Finally, the immediate thirst for profit must be controlled by public intervention aimed at avoiding waste, combating climate change, reducing technological hazards and maintaining an acceptable political and economic "order" in the face of violent power struggles, the degradation of ecosystems or the depletion of non-renewable resources. The role of public authorities is not limited to the realm of government (which, moreover, is an expandable concept). However, States do not have the same economic and social conditions to effectively combat the excesses of the market economy, which presupposes negotiating relations between them to define the scope of what is possible in the short and long term.

Today, economic globalisation is not really questioned by economists, it is still perceived by most state entities as a market process favourable to economic development and the fight against poverty. However, without

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<sup>3</sup> Sachs, J.D., Warner, A. (1995), Economic Reform and the Process of Global Integration, [http://www.brookings.edu/~media/Projects/BPEA/19951/1995a\\_bpea\\_sachs\\_warner\\_aslund\\_fischer.PDF](http://www.brookings.edu/~media/Projects/BPEA/19951/1995a_bpea_sachs_warner_aslund_fischer.PDF)

<sup>4</sup> Dadush, U. (2015), The Truth About Trade, Carnegie Endowment for International Peace/Foreign Affairs – Article - November 18, 2015 <http://carnegieendowment.org/2015/11/18/truth-about-trade>

benchmarks and preventive measures, the economic growth that it produces is neither sustainable nor favourable to improving the standard of living of the poorest<sup>5</sup>. Moreover, this is not its objective. Behind the adjective "sustainable", some interesting values are expressed, moreover than that of "sustainable" development, which reduces the scope of the actions undertaken by the public authorities to the reduction of the excesses to which the egoism of land ownership and capitalism's founding egoism leads. Strong national growth can reserve its benefits for the fewest number, within the framework of human constraints that are hardly favourable to the development of workers. Widespread competition produces considerable stress in all strata of the population, stress from which only those with comfortable incomes based on their assets (and even then!) escape. Similarly, certain values do not have instant defenders in a society where only corporate profit is valued. Thus, ecology, the environment, health, education, security but also, more generally, human development can only be respected by the will of States or groups of States, defenders (sometimes!) of the collective interests expressed.

Human life has many dimensions, such as the availability of food, the protection of public and private health, education, but also the expression of moral, religious, ethical, aesthetic and artistic values in a peaceful (or pacified) environment of participatory democracy and collective and individual freedoms. These latter values cannot be synthesised or represented by the economy and are therefore largely underestimated. The question of respect for each person's right to have the basic goods for daily survival and the establishment of more solidarity-based economic and social rights still remain random objectives with regard to the notion of economic efficiency in a world of claimed egoism. However, excessive and unjustified inequalities are at the very heart of misery with regard to available production. The defence of capitalist growth at all costs leads the public authorities to support certain private interests, when it is not these same private interests that directly influence the public authorities by ordering and imposing laws that are favourable to them.

Today, the process of globalisation has changed the balance of power. The "haves" have the means of communication to enhance their actions and continue to justify their wealth at irrational levels of inequality. By supporting the process of opening borders, they have freed themselves from state controls, and they even manage to put states in competition with each other through their tax attractiveness or the application of laws that favour their privileges. Yet this reign without sufficient control by public authorities is a factor of poverty, because the general greed based philosophically on an inadequate exegesis of the "invisible hand" defined by Adam Smith leads to the constitution of numerous economic heritages that are close to the famous latifundias that have

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<sup>5</sup> Fontanel, J. (2005), *La globalisation « en analyse »*. Géoéconomie et stratégie des acteurs. La Librairie des Humanités, L'Harmattan, Paris.

ruined Latin America. If inequalities between states are intense, they are also increasing between citizens of developed countries, particularly in the United States, causing a new rise in the areas of poverty.

The role of states in national economies is indisputable. It makes no sense to oppose the reign of the market or that of the State, because the two entities must complement each other and work together. The question that is being asked concerns above all the place of each. First of all, the state<sup>6</sup> sets the rules that allow the market to function, such as the extent of property rights (between *usus*, *fructus* and *abusus*, three notions proposed by Roman law), freedom of enterprise or rules relating to inheritance. Secondly, economic policy is justified by the malfunctioning of markets. Thus, for example, without antitrust laws, competition could disappear, as the strongest company may seek to eliminate all its competitors in order to consolidate a *de facto* monopoly situation. Finally, there is a need for many public goods, such as justice, police, the army or education. The extent of these goods is debatable (should the absence of payment be maintained at the entrance of Universities without any counterpart from the beneficiary?), but it is the type of society proposed by the State that defines the extent of the market. There are also international public goods resulting from negotiations between States that only the public authorities can enforce within the national territory. The market economy system only works because the state determines and controls its contours and scope, notably by defining trade and financial rules and ensuring the internal and external security of their operation<sup>7</sup>.

### **International organisations to the orders of liberalism**

For the World Trade Organisation (WTO), the International Monetary Fund (IMF) and the United Nations, competition and the market are factors of economic progress, freedom and peace. Basically, the demand for open borders, liberalism and the expansion of international trade as essential factors for economic development capable of fighting poverty and promoting peace is the main idea behind the actions and regulations of these international organisations<sup>8</sup>. Philosophically, this idea gives respect and protection of individual initiatives a decisive place that justifies the material and security conditions of the winners of the market, the place of all economic and social competition. On the basis of the principle of primacy (superiority of international law over national law for member countries), the rules governing the functioning of the market area, established by these international bodies, grant the State only a subsidiary role, even if certain exceptions (in terms of

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<sup>6</sup> Fontanel, J. (2001), *L'action économique de l'Etat*, Coll. Pour Comprendre, L'Harmattan, Paris.

<sup>7</sup> Smith, R., & Fontanel, J. (2010). *International security. Politics, Policy, Prospects* Fontanel, J. (2016) *La sécurité économique et sociétale : pour une conceptualisation humaniste multidimensionnelle*, PSEI, Politique de Sécurité Européenne et Internationale, n° 3. <http://revel.unice.fr/psei/>

<sup>8</sup> Fontanel, J. (1995), *Organisations économiques internationales*, Masson, Paris. Fontanel, J. (2014), *Le commerce international est-il un facteur de paix ? Politique étrangère*, janvier 2014.



agriculture, national security, the expression of sovereign public goods, regional or continental integration areas in particular) highlight power relations between States that favour developed countries<sup>9</sup>.

The accepted hypotheses concerning the capacity of liberalism to develop a balanced economic optimum have never been realistic with regard to the concrete behaviour of economic actors. However, in economics, scientific and empirical knowledge does not always carry much weight with regard to the importance of the interests (especially patrimonial and financial) at stake. While the rise of emerging countries seems to attest to the capacity of economic globalisation to spread the production of wealth to new territories, "bad development" has not been eradicated and is now spreading to certain formerly developed regions. The reappearance of shantytowns in Europe, but also the growing fear and existence of "poor housing", precariousness and poverty are proof of this.

UNCTAD, once a protestant organisation, is today voiceless, having abandoned the principles supported by the "Group of 77" concerning the organisation of a "New International Economic Order"<sup>10</sup>. Yet it has repeatedly recognised that openness to international trade is not a necessary and sufficient condition for reducing poverty in the least developed countries (LDCs) and that "proactive" action is needed, which implies, a contrario, that the market alone is not capable of combating poverty and lack of economic development. The European Parliament called on the WTO to take into account the special needs of developing countries and LDCs by initiating targeted differential treatment procedures. It recalled, "fair, free and balanced trade can be a tool for growth and contribute to the fight against poverty"<sup>11</sup>. However, Europe is a main supporter of WTO practices, which it is also trying to broaden within each Member State. The results of the actions of the major international economic organisations do not always appear to be effective in the fight against poverty in developing countries<sup>12</sup>..

Similarly, the UNDP (United Nations Development Programme) defends certain rules considered fundamental for the improvement of the human condition, notably ethics (the fight against human rights violations), equity (national and international reduction of inequalities), integration (rejection of

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<sup>9</sup> UNCTAD has called for the establishment of a Generalized System of Preferences (GSP), allowing some benefits to be given to the poorest countries, the LDCs, but there is considerable reluctance to implement it. Fontanel, J. (1995) *Organisations économiques internationales*, Masson, Paris.

<sup>10</sup> Touatam A., Fontanel J. (2015) *La CNUCED, de l'alternative au GATT à la collaboration avec l'OMC*, *Annuaire Français des Relations Internationales*, AFRI, Paris. Fontanel, J., Touatam Antipas. (2002), *La myopie du FMI, Géoeconomie africaine*, Septembre. Fontanel, J., Touatam Antipas (2003), *The nearsightedness of the IMF, African Geopolitics*, n° 9, Winter, 2003.

<sup>11</sup> *Parlement européen/Actualité* (2013), *Commerce international : les députés européens et nationaux demandent à l'OMC de maintenir l'approche multilatérale*.

<http://www.europarl.europa.eu/news/fr/newsroom/content/20131202IPR29562/html/Commerce-international-maintenir-l'approche-multilatérale>

<sup>12</sup> Matteudi, E., Fontanel, J. (2015), *L'action de l'OMC et de la CNUCED favorise-t-elle la réduction de la pauvreté dans le monde ?* *Annuaire Français des Relations Internationales*, Paris, 2015

exclusion and involuntary marginality), security (reduction of systemic insecurity and improvement of respect for collective rules), "sustainability" (environmental conservation) or the eradication of poverty and misery. However, the way the current system works exacerbates identity crises, and progress in the security of individuals and states does not yet seem to be expressed effectively in today's world. In essence, international institutions are engaged in wishful thinking that depends on the vagaries of history, but certainly not on their direct actions.

As early as the end of the 19th century, developed countries satisfied the demand of companies for exclusive rights to their inventions abroad (Berne Convention for literature and art, Paris Convention for industry). WIPO (World Intellectual Property Organization), created in 1967, is a specialised UN agency responsible for organising a world intellectual property system based on cooperation between States, with a view to stimulating creativity and protecting "inventors" and "innovators"<sup>13</sup>. It establishes international rules applicable to all member countries (almost all UN countries), settles disputes, has extensive technical expertise and infrastructure, promotes cooperation programmes and is a world reference source of information. Thus, strict legal rules are in place to prohibit the imitation or counterfeiting or non-market use of patented techniques and products. This is unquestionably a protection for companies capable of innovating and enabling them to benefit financially from their discoveries. There is no doubt that, in this case, balanced competition no longer exists, as developed countries thus have a considerable comparative advantage in terms of their capacity to invest in research and development and their trademark protection system.

Thus, contrary to the ideas they officially defend, the major political and economic powers have developed on the basis of protecting their economies and they still conduct mercantilist policies, modifying, to their benefit, the conditions of fair competition. Thus, in his State of the Union address of 27 January 2000, Bill Clinton stated that: "To realise the full potential of our economy, we must go beyond our borders and shape the revolution that breaks down barriers and establishes new networks among nations and individuals, economies and cultures. We must be at the centre of any global network. We must recognize that we cannot build our future without helping others build theirs" (implying "in our image")<sup>14</sup>. It is then a question of extending international trade to all markets, with new standards (especially cultural and political ones) that are controlled by the great power. Secondly, the international community, under threat of economic or political sanctions, must accept the codes of conduct defined by the dominant economic players (such as anti-corruption laws, health standards or environmental protection). The national interest of the country assuming global leadership prevails over the notion of

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<sup>13</sup> Fontanel, J. (1981, 1995), *Organisations économiques internationales*, Ed. Masson, Paris.

<sup>14</sup> Clinton, B. (2000), <http://www.whitehouse.gov/WH/SOTU00/sotu-text.html>., Discours sur l'Etat de la Nation.

international public good. Finally, the promotion of democracy and peace is only allowed within the narrow framework of economic liberalisation.

In order to maintain its leadership, the United States has initiated direct negotiation procedures with the states of the Pacific and Atlantic areas<sup>15</sup>. It is within this framework that the five-year Trans Pacific Partnership Agreement (TPP) signed in October 2015 defined the details of the world's largest free trade area project. Twelve countries were involved: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam. Many of the provisions had remained secret, raising some concerns about possible favours to multinational companies in the interests of consumers. The agreement was intended both to encourage China to adopt these new trade, investment and commercial law rules and to expand markets for agricultural products. China is often seen as a stowaway in international trade, even though it dominates several sectors. Between the results of the negotiations for China's entry into the World Trade Organisation in 2001 and its action in 2017, the gap remains wide and not always under control. The success of Chinese industry in international competition remains an enigma, how can it win many international markets without respecting the rules that it had committed itself to respecting progressively<sup>16</sup>? This acceptance by all States of a de facto situation bears witness to the demographic and political strength of China, which uses the WTO as a shield to protect its mercantilist policy of innovation. This has resulted in significant advantages being granted, without the counterpart promised and never respected.

Today, Donald Trump has questioned this policy, which benefits above all the large multinationals. A similar behaviour is also observed with regard to the TAFTA concerning Western countries. The question that should be asked fairly quickly is whether the United States will break free from WTO rules and engage in a trade war in order to "reindustrialise" America.

### **Weight and influence of private organisations**

For Clausewitz, two paths lead to victory, armed struggle or control of the resources on which the opposing or enemy side depends. However, he had overlooked the importance of establishing international technological and commercial standards, control of which was an important ingredient for a country's leadership and domination. While the control of raw materials and energy remains an important instrument of the strategies of the great powers, in the modern era armed struggle too rarely produces the desired results in the face of popular resistance.

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<sup>15</sup> Fontanel, J., 2017. Etats-Unis, sanctuaire du capitalisme. Un siècle de leadership américain en questions. PSEI, n 8.

<sup>16</sup> Ezell, S.J., Atkinson, R.D. (2015), False Promises : The Gap Between China's WTO Commitments and Practices, Information Technology & Innovation Foundation, 1 September, 2015-false-promises-china.pdf

International rules are sometimes confusing. It is difficult to measure the weight of the policies of impoverishment (beggar-thy-neighbour) of its neighbours initiated by a sometimes-friendly country. International companies are not always aware of the risks inherent in globalised activities and international rules that sometimes do not recognise agreed local customs. For example, it is sometimes difficult to determine the line between the payment of a legitimate commission, local customs and corruption. In the United States, the Corrupt Practices Act has led to heavy fines being paid by foreign companies and banks.

Today, Apple and Google, protected by the system of patents constituting de facto monopolies, have a combined stock market value of more than 1300 billion dollars, which is more than the GDP of every European country except Germany, Russia, France, the United Kingdom and Italy, more than that of Spain. After numerous legal proceedings concerning patents, Microsoft and Google (a subsidiary of Alphabet) have decided to work together instead, which cannot fail to cause concern. Despite virtual challenges, which change the form without calling into question the substance, market rules work above all to protect powerful companies, which are ultimately able to make or break governments in the shadows, and to influence the international bodies from which, when necessary, they often draw their management staff.

Business secrecy is not always the subject of meaningful economic analysis, but it is highly relevant to intellectual property interests<sup>17</sup>. The production processes of Coca-Cola or Kentucky Fried Chicken are protected, as are computer algorithms or financial techniques. These secrets are of immense value to large corporations, owners of a real monopoly protected by national and international laws. The US Chamber of Commerce estimates the value of trade secrets at \$5 trillion. Official bodies support its protection<sup>18</sup>. In other words, in the market system there are monopolies that are legally recognised, supported and protected. It is true that sustainable oligopolies are often mentioned, but with the notion of protected trademarks it is more a question of an oligopolistic monopoly than a monopolistic oligopoly situation.

Faced with this type of criticism that poverty is not only material, John Rawls explained that "poor development" is often the result of a political culture of oppression, corrupt practices and inadequate institutions based on specific religious and philosophical traditions<sup>19</sup>. He considered that economic inequalities are then morally acceptable, as they are the result of historical

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<sup>17</sup> Senate Judiciary Committee (2015), Protecting Trade Secrets: The Impact of Trade Secret Theft on American Competitiveness and Potential Solutions to Remedy This Harm— Hearing - December 2, 2015 <http://www.judiciary.senate.gov/meetings/protecting-trade-secrets-the-impact-of-trade-secret-theft-on-american-competitiveness-and-potential-solutions-to-remedy-this-harm>

<sup>18</sup> U.S. Senate (2015), Hearing on protecting Trade Secrets : The impact of Trade secret theft on American Competitiveness and Potential Solutions to Remedy this Harm, United States Committee on the Judiciary, December 2. <https://www.judiciary.senate.gov/imo/media/doc/12-02-15%20Pooley%20Testimony.pdf>

<sup>19</sup> Rawls, J. (1997), A Theory of Justice, Harvard University Press, Harvard.

choices freely made by each people. This "minimalist" conception obviously neglects the history of peoples, such as slavery, colonialism, genocide, power relations and oppression, the absence of education or simply the expression of a culture at the antipodes of materialism. As a result, the moral responsibility for extreme poverty limits the action of developed countries to a simple "duty to assist".

For advocates of the pure functioning of the market, individual interest is innate in human behaviour and ultimately produces the best possible collective situation when all freedoms are respected, particularly in the economic and systemic order. However, by spill over or progressive fallout, this system, by some miracle (Adam Smith's "invisible hand"), incidentally makes other sections of the population benefit from the increase in wealth thus produced. Poverty reduction is not the objective, but it is the consequence of action based on innovation by an investor to improve living conditions first. However, every new innovation is also a cause of destruction, with negative effects on the standard of living of people who are dependent on structures that are both old and less and less productive of added value. In this case, while State intervention to protect the "economic" victims should not be claimed, the fight against poverty is therefore not the principal goal, and even deemed ineffective, because it reduces the propensity to act of those capable of innovation, most of whom are driven by the desire to earn more and more money, in a world of socially valued greed.

Within this framework, state protections cannot exist to prevent competition. However, large companies have succeeded in obtaining legal rules that condemn, under certain conditions, the imitation of products that would not have been subject to financial compensation. Thus, patents are protected within the framework of a claimed monopoly. The State intervenes to protect an innovation in the name of individual interest. On the other hand, it cannot theoretically intervene to help the victims of economic change, as it would then be defending particular interests deemed particularly unfit for the development of innovations. The only constraint that exists in a democracy is political, votes for public governance. The establishment of a welfare state has made it possible to refine the perception of the logic of competition as an expression of the best economic situation for the community. However, it remains fragile and is regularly challenged by the dominant powers. The leaders of monopolies organised under the aegis of a well-functioning market also dominate the means of communication and social networks, and they therefore promote the idea that their particular interests are always in line with the collective interest.

Today, the current mode of production poses serious structural problems that need to be prevented. Robots and machines can help to eliminate scarcity, but monopoly situations created from scratch through the application of complacent laws lead to excessive privatisation of the value added thus produced. The technological revolution, in its most systematic and completed

form, is likely to have a considerable impact on the lives of workers, with a strong destruction of old jobs and little creation of new ones<sup>20</sup>. Unchecked, it leads inexorably, *ceteris paribus*, to mass unemployment, especially for workers with low mobility, inadequate skills and insufficient training bases. In 2017, the US digital economy will produce 0.5% of available jobs. Many older industries use these technologies, which drastically reduce the potential for job creation. While in 2013 Facebook had just over 7,000 employees, compared to 430,000 for IBM, in 2017 there are 17,000 employees in Facebook, but just over 100,000 at IBM. Specialised companies recruit little. They require little initial investment and non-specialised work is only demanded in small quantities.

New methods of computer programming will aggravate social inequalities, as algorithms or robots destroy jobs, usually occupied by the middle class. Admittedly, artificial intelligence is unable (for the moment?) to describe human intelligence precisely, it does not simulate it, and it rather uses models and statistical algorithms on the basis of massive data processed almost instantaneously. She helps men in their work; she is an efficient assistant capable of providing precise information on the basis of questions well asked by the worker. Moravec's paradox reminds us that certain actions that are simple for us are complicated to implement by artificial intelligence, such as walking, climbing stairs or manipulating objects. In fact, it is difficult for artificial intelligence to carry out actions that are simplistic for humans, to deal with exceptional circumstances or to define an ethic, but it can also help decision-making by, for example, formulating precise diagnoses in a very large number of cases of disease in the light of the symptoms revealed, and to provide medicines taking into account all the contraindications relating to the various components of the therapy. Nevertheless, men who would then lose their jobs, without compensation if there was no social system that allowed them to retrain and financial support, managed repetitive work.

Automation gives new power to the holders of capital. The number of jobs will stagnate and then be reduced, to the point where two parallel economies will be formed. One will have substantial means and will live in a specific market economy, based on luxury products unaffordable for the vast majority of people. It will be closed in on the level of consumption, but will eventually use the reduced number of people capable of running the robots which will give them a financial weight that will be little controversial by the employees already satisfied to obtain a satisfactory salary in the face of a "reserve army" of unemployed people in psychological, economic and social escheat. The other will be part of a modest economy, situated almost at the level of the subsistence minimum, as the great British classics predicted with the emergence, at the end of capitalism, of a stationary state. This development is

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<sup>20</sup> Berger, T., & Frey, C. B. (2015). Industrial renewal in the 21st century: evidence from US cities. *Regional Studies*, 1-10.

dangerous, as it increases inequality, unemployment and even future deflation due to reduced consumer demand. Massive redistribution will have to take place in post-industrial societies if riots and political revolutions are to be avoided.

Since 1990, despite the financial crises and the rise of precariousness, international organisations have continued to encourage economic globalisation, considering that the problems encountered in many States will necessarily find a long-term solution, yet neglecting Keynes' opinion that "in the long run we will all be dead". The happiness claimed by Francis Fukuyama with his "end of history" has not yet appeared, however, and the recurring crises are beginning to worry citizens and even states. The "Trade, not aid" principle dear to Washington has not worked for developing countries. Precariousness has taken hold in many developed countries. States claim liberalism on an almost "scientific" basis of market efficiency. However, for both patents and labour, the rules of this liberalism are not respected. Thus, the "digital" recruitment of job offers (on the basis of auctions, favourable to the "lowest bidder", with equal employee skills) is legally contested, whereas the bases of neo-classical theory are based on pure competition, and therefore on a universe of perfect information, which auctions represent at best, in fine. Export growth and the liberalization of national economies have not been associated with significant poverty reduction, but rather with deindustrialization when countries were exposed to international competition. Poverty eradication is not the immediate objective of global institutions. The facts are stubborn, but the interests of the strongest are always put first.

### **The management of companies in question**

Management practices are heterogeneous, as they depend on the training, social environment and ambitions of the entrepreneur. However, the trade union struggle has made it possible to draw up protective rules for employees, through the legalisation of a minimum income, the introduction of classification grids, the definition of maximum weekly working hours, requirements concerning safety conditions and legal practices for exercising social relations. The most modern companies have embarked on a freer, contract-based strategy, rejecting the single system of "top-down" and giving way to individualised management acts, which concern pay as well as working hours and conditions. Finally, research institutes or "start-ups" have formal rules established by peers. It is a constant exchange between the main protagonists, based on supposedly shared work values. Competition is expressed as much in terms of the potential for personal development within the institution as in the pay slip. These management modalities are not always "pure", but they give an orientation that is accentuated or nuanced by knowledge of management sciences.

Learning how to manage is essential. It aims in particular to define the conditions of production, sales and financial management of the firm. Most of the processes are written in the genes of industrial economics. They imply

hierarchical obedience to work, an activity more or less precise according to the degree of responsibility (often fixed by a job sheet), well-calibrated working hours (sometimes nationally), remuneration discussed personally or negotiated collectively, standardised accounting calculations, a management with responsibilities to be defined between the head of the company and the shareholders. In fact, individuals enter into already structured companies, which they must understand and respect, rarely to be defined themselves, except in SMEs and especially in certain forms of "start-up".

The function of management sciences is to define the best possible organisations with a view to maximum profit for the entity, which implies producing and selling better than competitors towards a market segment more or less open geographically or in terms of ranges and specialised products<sup>21</sup>. They aim to improve the overall productivity of the firm, taking into account social laws (women's and children's work, night work, the right to unionize or strike, limitation of working hours, minimum wage, social insurance, etc.). On this basis, it is a question of organising work in a scientific manner (Taylorism, for example) with a view to improving everyone's performance, on the one hand, and on the other hand, to highlight the gaps between the prescribed work and the work actually carried out. Management rules are generally not fully applied, because the organization of work involves the appearance of imponderables that alter the expected results. The culture and values of each person involved in the production and sales process are particular, they have an important influence on the process of social life in the enterprise, the pleasure or dislike of work, the solidarity sought between all members or their competition. "Ultimately, it is common for employees to be more familiar with the working tools at their disposal than company managers to know how to use them effectively in order to improve performance. The gap between the "expected" and the "real" has increased with the computerisation of companies, particularly because strict control of operations limits employees' professional autonomy and develops stress that is not conducive to productivity. Moreover, the Internet or computers have not particularly improved productivity. In fact, these tools are sometimes counterproductive, when they prevent workers from reacting in accordance with their knowledge and intuition, especially when they have to content themselves with developing their activities on the basis of patterns that they cannot manage to appropriate.

However, management sciences continue to build new tools that are ever more efficient and rational. Students trained in the high level universities acquire principles, rules and instruments that they will find it very difficult to question when the time comes. They are often convinced that one solution is better than another, without taking into account the time, geography, social reactions and political events surrounding them. They feel that they understand

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<sup>21</sup> Déry, R., Pezet, A. Sardais, C. (2015), *Le management (manuel et guide de l'étudiant)*, JFD Editions, Montreal.



the trade better than the grassroots, the product being only a means to make a profit. Yet reforms are decided by a limited number of experts and advisers, often without prior discussion with the people who will have to apply these new methods. They are almost permanent, because a tool made in a thesis replaces the one that preceded it. Constantly renewed reforms are often destructive, undermining workers' confidence and creating excessive uncertainty with regard to the expected results, often in excess of the actual results.

Business management applies scientific methods. If all enterprises apply them, there will always be winners and losers, based on the principle of competition. In this context, it is conceivable that certain "skills" are similar to intuitions, the ability to make better informed calculations, to broaden data, but also to the application of economic and financial principles that escape the usual rules of management and which concern the use of patents, the use of the law for purposes that were not foreseen by their drafters, the use of tax havens, the improvement of working conditions and remuneration of employees or even relocation to reduce costs.

### **Inequalities, justified by the value system**

The excessive place that sport, as a media spectacle, thriller and information process, plays in the daily lives of people all over the world is not insignificant. It expresses the advance of the rules of globalisation, with the formation of teams of highly paid mercenaries, who respond to the laws of supply and demand, in a narrow market. Thus, there is no longer any national or local preference, only the laws of competence, results and profit prevail, with salaries so high that company managers feel justified in claiming them for their own account, in view of their supposed talent<sup>22</sup>. Sport is an apprenticeship of capitalism, of the principle "the winner takes all" and of inequalities between men.

The fundamental values of today's global system are mainly economic, material and commercial. The WHO could have become a major health centre available to the whole world, but it must first respect international standards on free trade, industrial property and the values of the commercial world. While competition is required throughout the productive system, the system of patents, trademarks or intellectual property rights installs so many monopolistic types of protection that are contrary to true liberalism. The discovery of a drug capable of curing all people suffering from a disease is only available in a market system

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<sup>22</sup> Fontanel, M, Fontanel, J. (Ed.) (2009), *Géoéconomie des Jeux Olympiques. Le sport au coeur de la politique et de l'économie internationales*, L'Harmattan, Paris. Fontanel, G., Bensahel, L., Fontanel, J. (2009), *Le sport, expression suprême de la mondialisation économique*, in Maxence et Jacques Fontanel (Ed.) (2009), *Géoéconomie du sport. Le sport au coeur de la politique et de l'économie internationales*, L'Harmattan, Paris.. Fontanel, J., Bensahel, L. (2001), *Réflexions sur l'économie du sport*, Colle Economie en Plus. PUG, Grenoble.

that knows how to play on the balance of power in order to get rich<sup>23</sup>. The ISSC, a patients' defence collective, denounces the "exorbitant" margins of laboratories with innovative medicines and calls for a new pricing mechanism. The prices of these drugs are based primarily on their therapeutic value, while the criterion of real cost is not taken into account. Health insurance was not created to produce high, often speculative financial returns<sup>24</sup>. The marketing costs of the pharmaceutical industry are twice as high as the costs of research and development<sup>25</sup>. In this context, it is impossible to say that the system is intended to promote the "well-being" of individuals. Ethics are only very rarely put forward in the decisions of private companies<sup>26</sup>. There are two types of business, those in the real economy that seek to pay decent wages and to determine prices that open up ranges available to all consumers. There is also a "parasitic" economy<sup>27</sup>, which generally uses misery to reduce wages, to escape participation in the financing of public goods or to take advantage of monopoly situations permitted by law (including patents, intellectual and industrial property) to accelerate the "economy of greed and predation".

The never-ending pursuit of the interests of company managers or states leads to excessive pollution, desertification processes or irreversible environmental damage, irrespective of issues concerning climate change, a topic of little weight in terms of profit policy and the importance of maximising personal interests, which is well understood. Without constant controls, companies are often driven by their quest for profit to abuses that affect people's health in the food sector (in particular with pesticides or other products with questionable ingredients), but also to air, water and land pollution with serious implications for populations. For more than a year, Lafarge wanted to keep the Jilabiya cement plant running at all costs, at the cost of certain arrangements with Daech, including the payment of a licence and various taxes. Money has no smell.

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<sup>23</sup> Overnight, Daraprim (Malocide in France), a treatment for toxoplasmosis, a dangerous parasitic infection, especially in patients with a deficient immune system, rose, for no obvious reason, from \$13.50 a tablet to \$750, an increase of more than 5500%. Created 62 years ago, it was bought in August by Turing Pharmaceuticals, a start-up run by a former hedge fund boss, making the cost of treatment prohibitive for hospitals and thousands of patients. For the company, this decision optimised its production..

<sup>24</sup> Solvadi, a drug against hepatitis C, sold by Gilead, an American laboratory, enables 95% of patients to be cured in 12 weeks, at a total cost of 41,000 euros. It takes almost 12 years to develop a drug, It is a risky process because 7% of "innovative" drugs reach the market. Nevertheless, when it is a matter of life and death, the price on the market is always higher because the therapeutic value is privileged. Sciences&Avenir (2016), Innovative drugs: laboratories accused of "exorbitant margins", 21 June.

<sup>25</sup> Ligue contre le cancer (2016), Pétition Change, 7 avril.

<sup>26</sup> Fontanel, J. (2007), Ethique, démocratie et économie mondialisée. Quelle éthique ? in « Questions d'éthique », Collection « Les idées et les théories à l'épreuve des faits », J. Fontanel, (Ed). L'Harmattan, Paris. Fontanel, J. (2007), Ethique, solidarité et économie mondialisée. Quelle éthique ? in « Questions d'éthique », Coll. « Les idées et les théories à l'épreuve des faits », J. Fontanel, (Ed). L'Harmattan, Paris. Fontanel, J. (2007), Questions d'éthique, Coll. « Les idées et les théories à l'épreuve des faits », L'Harmattan, Paris. Fontanel, J. (1994). La conversion économique du secteur militaire. Economica. Paris.

<sup>27</sup> Hanquer, N. (2016), Confronting the Parasite Economy, American Prospect – Article - May 16, <http://prospect.org/article/confronting-parasite-economy>

At the same time, a World Bank report estimates that there will be an additional 100 million people living in extreme poverty by 2030 in Africa and India if no action is taken to limit the impact of global warming. Soaring food prices are expected in regions where food consumption is already very high, above 60% of household income. In India, climate change could push 45 million people below the extreme poverty line due to agricultural shocks and the resulting faster spread of diseases (especially malaria and diarrhoeal diseases). Only international action can resolve this issue. Should individual self-interest always be relied upon as the fundamental basis for economic action?

The Trans-Pacific Partnership Agreement provided interesting information on the future of the Trans-Pacific Agreement between the United States and Europe. The political stakes are likely to be high in view of the oppositions that will undoubtedly arise against this unbridled liberalism, with undoubtedly significant social consequences, concerning farmers, disputes between foreign investors, exchanges of data across borders (thus giving increased power to multinational firms) or worker protection standards. The arbitration mechanism allows MNEs to take states to court when their interests are threatened by a public action. No doubt this provision will meet with a protest movement strong enough to lead to significant political conflict in all member countries. However, the Agreement failed because Donald Trump did not support it.

Inequalities between states are considerable. The United States government has the privilege of the dollar. Virtually all US foreign liabilities are expressed in dollars, while 70% of foreign assets are denominated in other currencies<sup>28</sup>. An exorbitant privilege, a 10% depreciation of the dollar increases the value of foreign assets by 5.9% of GDP from the rest of the world to the United States, while the US trade deficit is equivalent to 5.3% of GDP. The fall in the dollar benefits exports and at the same time increases American assets. The American economic players are today opting for increasingly risky foreign investments, while the USA is acting as an insurer for the rest of the world, borrowing in the short term and lending in the long term, with a significant intermediation margin due to the difference between the return on foreign assets and the cost of their commitments. Today, the US is making fewer bank loans, but more risky but high-yield foreign direct investment or equity investments. The countries' balance sheet resembles that of a venture capital company. This is very dangerous for the whole system, especially in the event of another financial crisis.

The basis of inequality is not only the result of technological change or globalisation. It also stems from the ability of privileged forces to carve out the market rules that suit them. Thus, industrial globalisation and the use of supply chains involving low-income countries have widened national inequalities.

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<sup>28</sup> FMI (2015), H el ene Rey, Agent provocateur 2015, Finances et D veloppement, Juin.

Similarly, the opening of borders to capital flows inevitably leads to growing inequalities and is rapidly becoming, according to International Monetary Fund economists, a cause of inequity<sup>29</sup>. It is often the source of financial volatility, which then leads to economic crises that first affect economic agents in a precarious situation in terms of income and employment. Economists have often called for this openness, and have even encouraged developing and emerging countries to accept its rules, as in Chile and Argentina. In 1997 South Korea, Thailand and Indonesia experienced a serious economic crisis, with the withdrawal of capital from abroad. The threat of relocation weakens the bargaining power of workers in developed countries, while the more mobile capital benefits from this opportunity<sup>30</sup>. The impact is even stronger when liberalization is accompanied by a financial crisis and in countries with small financial institutions. Capital liberalization can have a positive effect if the country's financial institutions are willing to receive it or if there are countervailing effects<sup>31</sup>. However, "the figures confirm the marked decline in the share of labour income following capital account liberalization"<sup>32</sup>. The effect is stronger in developed countries than in emerging countries. In conclusion, for developed countries, the economic benefits of liberalisation outweigh the economic benefits if it is not followed by a financial crisis, but it still increases internal inequalities.

The question today is to understand why advanced nations have failed to make progress and are living under increasing economic stress? It is true that technology and globalisation are reducing the competitiveness of these economies, due to the cost of labour or machines driven directly by computers. It is necessary for an active government to raise taxes for the wealthy, to invest in the development of schools and universities to make workers more productive and to redistribute to the poor. The state must not reduce its economic action. However, there is a concentration of political power in the entrepreneurial and financial elites, which is capable of influencing the rules of the national and international economy. The discussion on free markets or state action is unsatisfactory. The wealthier classes, with a view to reducing their contribution to the collective effort, fuel the discourse on excessive fiscal pressure.

Today's market is organised in a different way from what it was half a century ago, making it impossible to broaden the distribution of the benefits of prosperity. The idea that everyone is paid according to what they deserve according to the rules of the market is unsatisfactory without also analysing the political and legal institutions that define the market. The question is whether

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<sup>29</sup> Furceri, D., Loungani, P. (2016), L'ouverture, cause d'inéquité, *Finances et Développement*, FMI, Mars. P. 43-46.

<sup>30</sup> Rodrik, D. (1997), *Has Globalization Gone too far ?* Peterson Institute for International Economic Papers, Washington.

<sup>31</sup> Otker-Robe, I., Podpiera, A.M. (2013), *The Social Impact of Financial Crises : Evidence from the Global Financial Crisis*, World Bank Policy Research Working, Paper 6703. Washington.

<sup>32</sup> Furceri, D., Loungani, P. (2016) *Op.Cit*, p. 45.

these are collectively justified. However, the power of groups is ignored in this type of design and there is no point in discussing the proper functioning of the market, which decrees what is normally the responsibility of each individual. While it had risen during the Glorious 30, the median wage of the poorest 90 per cent stagnated for the next 30 years, despite the continuous increase in productivity. Moreover, between 2004 and 2014, median household income in the United States fell by 13%, even as household spending (including housing) increased by 14%<sup>33</sup>. The average American has become less affluent since the advent of software technologies; globalisation and digitisation are destroying many old jobs. Households are increasingly sensitive to "financial vulnerability" when a global economic and financial crisis emerges or even when unforeseen factors within the household have a negative impact (health, investments, debt, etc.)<sup>34</sup>.

In this context, the question arises: Where does human work go? Many professions are under threat, such as accountants, salespeople, secretaries or auditors. Moravec's paradox shows that the physical activities that survive digitisation are those that require good sensorimotor coordination<sup>35</sup>. The computer wins at the game of go, but it does not succeed (yet) in winning a football match. Therefore, men must keep an advantage in creativity. The middle class is adrift, because it deals with administration, control, supervision, fields of activity in which the computer excels. Managers are not yet under threat, intermediate jobs are more so than unskilled job seekers. Capitalism tends to give everything to the winner, this is the "Pavarotti" effect, why buy another album than the best one. The incomes of the other actors are reduced; precariousness develops, despite better levels of education and skills. For the advocates of full liberalism, the market can decide, precisely, such a situation based on meritocracy<sup>36</sup>.

The economic crisis has forced states to take the issue of poverty into account. The social contract is being undermined, young people can no longer find work, and at the same time precariousness is increasing. The middle classes are being dragged down. Technological progress, growing gaps in the talents and skills of individuals, globalisation, banking and financial predation and market deregulation have encouraged this development<sup>37</sup>. In emerging countries, economic growth has reduced poverty. However, inequality has increased, with the exception of Brazil, which has a ratio of 50 to 1, which is the highest of all

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<sup>33</sup> Pew Charitable Trusts (2016), Household Expenditures and Income, The Pew Charitable Trusts Research & Analysis - Issue Brief - March 30, <http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/03/household-expenditures-and-income>

<sup>34</sup> Pew Charitable Trusts (2016), Family Financial Security The Pew Charitable Trusts Research & Analysis, Issue Briefs, January. <http://www.pewtrusts.org/en/research-and-analysis/collections/2015/10/the-role-of-emergency-savings-in-family-financial-security>

<sup>35</sup> Cohen, D. (2015) *Le monde est clos et le désir infini*, Albin Michel, Paris.

<sup>36</sup> Reich, R. (2015), *The Political Roots of Widening Inequality*, The American Prospect Magazine, Spring.

<sup>37</sup> OCDE (2014), *Inégalités et croissance*, Focus, Décembre. OCDE (2015), *Inégalités de revenus et pauvreté*, OCDE, Paris. OCDE (2008), *Croissance et inégalités*, OCDE, <http://www.oecd.org/fr/els/soc/41530189.pdf>

OECD countries. Social protection systems have been enhanced by social policies, but with limited success. The reduced redistributive capacity of taxes and social benefits has not sufficiently closed the gap. The role of social benefits has diminished. The fight against tax evasion is essential, as is the elimination of tax expenditures that benefit the wealthier classes and taxation on forms of property, including asset transfers.

It was often pointed out that the United States was lagging behind other advanced countries on the issue of its social programmes for health and welfare. Taking into account public and private spending, the real level of social spending in the United States is comparable to that of European countries, but with even poorer results. Despite their importance, spending has a very small impact on income inequality and on improving public health. The US government's social policy relies excessively on tax subsidies (e.g. through Foundations) to the detriment of transparency, fiscal sustainability and distributive equity<sup>38</sup>. There seems to be a need for stricter management and monitoring of international capital flows that cross borders at the click of a computer mouse, as they contribute to destabilisation and the outbreak of crises. Speculative flows have not led to risk sharing, but rather to the creation of new risks. Precautionary measures need to be taken, with better regulation and monitoring of the system. States are heavily indebted, systemic risk has become unbearable.

Economic globalisation has benefited the world's great fortunes, but also the middle classes in emerging countries. On the other hand, the middle class of developed countries has been sacrificed. While inequalities within countries are growing, this does not always seem to be the case on a global scale. However, political relations remain within nation states<sup>39</sup>, which makes daily relations between economic actors more difficult. The problem is that these inequalities are now known, and they risk giving rise to numerous social conflicts, revolutions or wars. The freedom of capital, as Adam Smith or Start Mill reminded us in the 19th century, leads inexorably to the absolute greed of those who know how to use it, especially when they poach in packs. The competition between companies is less violent than that between the capital providers and the workers, notably because the chances are then very unequal. Now, the wealthy classes have control over the whole political system, over the press, over information in general. The financial sector today no longer produces fluidity in the system; it has made it more complex to the point of making it unintelligible, and to take advantage of it for personal class purposes with impunity. The global tax on these transactions, first claimed in its time by the Tobin Tax and then, in a different form by Piketty, seems necessary, it would

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<sup>38</sup> Kirkegaard, J.K. (2015), The True Levels of Government and Social Expenditures in Advanced Economies, Peterson Institute - Policy Brief, March 2015 - 19 pages, <http://www.piie.com/publications/pb/pb15-4.pdf>

<sup>39</sup> Milanovic, B. (2016), Global inequality. A New Approach for the Age of Globalization, Harvard University Press, Cambridge, Mass.

allow for better international coordination, notably to solve the climate change issue. Economists cannot constantly claim efficiency (for whom and for what?) without worrying about a more equitable allocation of resources, income and wealth. Similarly, on the basis of their calculations, all questions relating to tax havens are omitted, even though the answers involve a statistical reflection on public finances, but also on the fortunes placed in places that are particularly protective of the economic and financial secrets of the wealthiest<sup>40</sup>.

### **Public authorities complicit in inequalities**

For a very long time, therefore, the United States was not the unequal country we know today. At the beginning of the century or in the post-war period, the country was even less unequal than the European states. At the beginning of the 20th century, about 50% of the total income of the United States was held by the wealthiest 10% of Americans, compared to 33% in 1950. It is during the last thirty years, with the Reaganian turn of the 1980s, that the United States entered a much more unequal cycle. Thus, in 2012, the richest 10% of Americans held half of the total income. Admittedly, with China's entry into the global labour market, and the arrival of many low-skilled workers who have pulled down wages in rich countries, globalization does not explain everything. Inequality thrives without strong state action. In the United States, there is a high level of inequality in the education system, with 50% of the poorest Americans being kept out of universities. The average income of parents of students at Harvard is currently the average income of the top 2% of Americans.

In general, inequality is seen as a normal phenomenon, linked to talent, work and success. However, excessive inequality is no longer related to the actual effectiveness of a boss or business leader. They are often unjust (annuities), inefficient (with golden parachutes in case of failure) and with no comparative link with the company's wages. An executive's income does not increase his or her efficiency in the company's results. In a world where greed is a recommended social spring, executives seek to pay themselves "on the beast". The wealthiest individuals' assets are abnormally high. The richest woman in the world inherited Wal-Mart (\$41.7 billion), as did her runner-up Liliane Bettencourt (\$40.1 billion) or Steve Job's wife (\$9 billion). It is possible to see that significant wealth has been created in the digital age. However, the wealth of some individuals is immense, mostly inherited, at least in part, without any involvement in the creation or management of businesses. However, three observations should be noted:

- 1) The great fortunes of the pre-digital period are no longer at the top of the ranking, because inheritances have split the capital. Inheritances are often family

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<sup>40</sup> Fontanel, J. (2016), *Paradis fiscaux, pays « filous »*. La fuite organisée des impôts vers les pays complices, L'Harmattan, Paris..

assets, which are still as important as ever, but at least partially reunited within the framework of joint decisions.

2) With the exception of Facebook, most business creators have abandoned the day-to-day management of their heritage. In the next two decades, it will be the heirs who will run these empires, sharing this heritage. There would a priori remain 20 billion dollars for each of Bill Gates' children, but he has decided to partially disinherit them in favour of his "Living Proof" Foundation, leaving them only 10 million each.

3) The European fortunes have lost not in power, but in income in view of the fall of about 25% of the euro against the dollar.

The richest 0.01% of the United States have more than 10% of the national wealth. This trend can only increase in view of both the size of the return on investment, which exceeds the rate of growth of the economy, and the significant tax reductions that have been granted to the wealthy, particularly since 1980. In this framework, the US government subsidises inequalities on different types of income and on capital gains when selling items of wealth. Clear rules should therefore be established to define adequate income, without expecting it to be more than 50 times the minimum wage. The degree of inequality reached in some cases is not only unfair: it is useless for growth and sometimes even harmful. It leads to short-term risk-taking behaviour in the financial sector, which often leads to decisions that are harmful to the real economy.

Some types of direct or indirect business income are taxed less than others, such as wages. Lower taxes on capital gains and dividends increase the importance of the return on investment or capital. Labour income is taxed at a maximum of 39.6%, but taxes on wages and salaries are also paid. Tax rates on capital gains and dividends are low. Capital gains and dividends are taxed at 23.8%, including a 3.8% investment surtax imposed by the Affordable Care Act (ACA). For some analysts, this is a hidden subsidy for high capital income paid by companies. For others, this subsidy is not a deliberate attempt to favour fortunes. It is based on several arguments:

- Taxes and duties on investments suffer from double taxation, on the one hand the tax on profit at the corporate level and on the other hand the tax that shareholders have to pay on a personal basis (capital gains and dividends). However, this analysis concocted by the tax experts of large companies is clever, but double taxation exists for everyone, with direct and indirect taxes.

- Apparent capital gains are partly due to inflation, not real wealth accumulation. This tax reduction offsets this effect. In this case, it would be preferable to take inflation into account, especially since it also applies to other income such as interest and salaries. In addition, investors can defer their capital gains within the company, without paying tax, until they sell the asset itself.



For the CBO, the 400 largest taxpayers obtained 12% of their capital gains as a result of these reduced tax rates<sup>41</sup>. It costs \$13.5 billion for each of the next 10 years, receiving 68% of these financial benefits for the top 1%, or a total of nearly \$1 trillion over the next 10 years. It's a fertilizer for inequality. It is through this channel that the return on investment is higher than the growth rate of the economy.

For some economists, it is essential to reduce taxes on capital income<sup>42</sup>. They believe that capital gains should not be subject to tax on all capital gains. Because of the tax provisions, investors are reluctant to sell their assets and resort to tax gains (lock-in effect) by limiting the payment of dividends. Dividends were taxed like other income until 2003, but the Bush Administration changed the tax base. While there have been calls to eliminate this benefit, it has also been recommended that the top tax rate be reduced to 28% of income.

Do these reductions benefit the national economy by encouraging savings and investment? This type of analysis is based on unrealistic human behaviour, such as the idea that one can borrow unlimited amounts of money to invest and that investors know exactly how rational their long-term savings decisions are. This is not obvious at all<sup>43</sup>. There is no correlation between a low tax rate on capital gains and economic growth<sup>44</sup>. If investment is favourable to the functioning of a national economy, it is not obvious that this is because of the tax advantage in a globalised economy where domestic savings can finance foreign and overseas investments. The tax provisions are particularly interesting and their unfairness can be seen in the support given to heirs (who only pay the capital gain on the basis of the prices at the time of their inheritance and not the real capital gain of the assets over their lifetime)<sup>45</sup>. This provision increases the concentration of fortunes within dynastic families.

A study published by the Federal Reserve estimates that unrealized capital gains account for 55 per cent of the total value of property worth more than \$100 million<sup>46</sup>. This means that more than half of the wealth accumulated in the wealthiest sectors is not subject to tax. Several commissions have called for an end to this inequality, without success. For the CBO, this situation reduces taxes by \$644 billion over 10 years, 21% of which is a subsidy to the incomes of the richest 1%. As a result of all the advantages thus granted, the CBO estimates the

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<sup>41</sup> CBO (2013), The Distribution of Major Tax Expenditures in the Individual Income Tax System, CBO, [http://www.cbo.gov/sites/default/files/cbofiles/attachments/43768\\_DistributionTaxExpenditures.pdf](http://www.cbo.gov/sites/default/files/cbofiles/attachments/43768_DistributionTaxExpenditures.pdf).

<sup>42</sup> Atkinson, A., Chari, V.V., Kehoe, P.J. (1999), "Taxing Capital Income: A Bad Idea," Federal Reserve Bank of Minneapolis, Quarterly Review 23 (3) (1999): 3–17. <http://www.minneapolisfed.org/research/qr/qr2331.pdf>.

<sup>43</sup> Slemrod, J. (2003), The Truth About Taxes and Economic Growth," *Challenge* 46 (1) (2003): 5–14.

<sup>44</sup> Slemrod, J. (2003), The Truth About Taxes and Economic Growth," *Challenge* 46 (1) (2003): 5–14.

<sup>45</sup> After buying a \$10 share in 1980, it is worth \$50 in 2016 at the time of his death. His heir sells the share for \$55, \$45 more than his father's purchase, but he will only pay taxes on the \$5 in earnings since his death. The \$40 increase in value is not subject to tax. Under these conditions, it is interesting for a family to keep all assets until death. Afterwards, sales are very profitable.

<sup>46</sup> Avery, B.A., Grodzicki, D., Moore, K.B. (2013), Estate vs. Capital Gains Taxation: An Evaluation of Prospective Policies for Taxing Wealth at the Time of Death. Working Paper 28 (Federal Reserve Board, 2013), p. 18, <http://www.federalreserve.gov/pubs/feds/2013/201328/201328pap.pdf>

loss at nearly \$2,000 billion over the period 2014-2023, a sum that would make it possible to balance the federal state budget, excluding interest on the debt, whereas with the status quo the debt will grow faster than that of the GDP from 2018 onwards.

The irrationality for economic growth of these tax cuts is well known, but Congress has not yet succeeded in challenging them<sup>47</sup>. The state is not powerful enough to change the excesses, not least because government advisers come from the same elitist backgrounds as business leaders. LuxLeaks have shown that the largest multinational firms and the highest incomes pay proportionally less tax than SMEs or the middle class. This threatens this social balance, which depends heavily on public policies. Greater tax progressiveness has become necessary in the United States.

In Europe, the problem of inequalities also needs to be addressed, particularly that of income, but also the propensity of young people to become unemployed. Faced with this patrimonial capitalism, Thomas Piketty<sup>48</sup> recommends both a common tax for companies in Europe and a global tax on wealth. In France, taxes have been raised far too sharply between 2011 and 2013, with a view to reducing the deficit at a forced march, but this policy has thwarted the forces of growth, increased unemployment and created higher deficits. However, according to the OECD, France has become the world's biggest spender on social protection, with public spending exceeding 31% of GDP. If private spending is added, France is also number one, just ahead of the United States. The bill for public pensions (13% of GDP) is rising, in particular due to ageing and longer life expectancy. In this context, the State is seeking to improve the social situation of its citizens. It is not a question of calling this responsibility into question, but rather of questioning the optimisation of this expenditure with regard to the commitments and management of the funds thus made available.

By insisting on the idea of an excessive tax burden, which is passed on to the population as a whole, the privileged feel legitimate in refuting the demands of taxation, because the public authorities are robbing them. In this situation, they use four methods to reduce their charges to the public sector.

- First, they lobby to reduce marginal tax rates. In the United States, the top income bracket of the richest people was set at 91% until 1964. (83% in the UK and between 60 and 80% in France). In 1986, President Reagan reduced the top tax rate payable by the richest individuals to 28 per cent, basing his decision on the famous Laffer curve. If there is too much tax, economic activity stagnates and the tax collected remains low. By reducing taxes, economic activity

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<sup>47</sup> Stein, H. (2014), How the government subsidizes Wealth Inequality, Center for American Progress, June.  
<https://www.americanprogress.org/issues/tax-reform/report/2014/06/25/92656/how-the-government-subsidizes-wealth-inequality/>

<sup>48</sup> Piketty, T. (2015), En période de récession, augmenter les impôts est catastrophique, [http://www.francetvinfo.fr/economie/impots/impots/thomas-piketty-en-periode-de-recession-augmenter-les-impots-comme-la-fait-hollande-c-est-catastrophique\\_820267.html](http://www.francetvinfo.fr/economie/impots/impots/thomas-piketty-en-periode-de-recession-augmenter-les-impots-comme-la-fait-hollande-c-est-catastrophique_820267.html)

improves and the tax base is broader, and state revenues increase. "Too much tax kills tax.

- The interpretation of the texts is not always readable for the representatives of the people. Within the tax code, companies in the name of international competition demand absconding provisions; they often lead to more or less justified reductions in the taxation of certain beneficiaries, especially those who have the financial capacity to have tax advisers. Tax "niches" cannot be chosen without the intervention of potential beneficiaries with parliamentarians.

- An intervention with the tax authorities can be important, especially when its own representative comes from the same departments as those with which it deals with possible adjustments concerning the nature and amount of the income in question. Tax optimisation often leads to highly technical analyses made possible by the famous "niches", which only competent professionals can identify and validate.

- Tax evasion is a relatively easy solution when secrecy becomes an obligation for banks and when the company has many subsidiaries, especially in countries with low consumption of public resources. If they are caught in the audit trail, they are not regarded as "thieves", but as petty crooks that resist the predation of public finances. It is a little game of "gendarmes and thieves", which has no consequences from a penal point of view and often leads to a simple notice of readjustment. This behaviour of complacency is commonplace, and bears witness to the privileged relationship between the owners and the political and technocratic authorities.

The French are sensitive to their income taxes, but more than half of them do not pay them. As for indirect taxes, they are relatively insensitive to them because they are integrated into their purchasing behaviour. The wealthy classes are then directly concerned, because they pay more than they should in terms of the percentage of their income compared to the rich classes, the famous 1% which dominate the national economies. When too much emphasis is put on the fiscal pressure, and a reaction is expected from the state, it is always the richest that develop their financial power, to the detriment of public services, in abstracto. It is true, however, that blackmailing the relocation of one's income and domicile plays an important role in political choices, but rules and laws at European level could be put in place to prevent private powers from granting undue gains to the detriment of public goods.

### **Indicators and qualitative expressions of poverty**

In spite of the modern means available, the man of the 21st century still suffers from poverty and under-nutrition, the life expectancy of individuals varies with the level of development and conflicts are constantly breaking out in the face of inequality, the general lack of tolerance and the non-respect of human rights.

According to the WHO<sup>49</sup>, today the life expectancy of the world's population is 71.4 years on average (73.8 years for women, 69.1 years for men). It increased by 5 years between 2000 and 2015, thanks to the fight against infant mortality, malaria and AIDS, but also because of improved access to hospital and medical care. Infant mortality (children under 5 years of age) has been dramatically reduced by half between 1990 and 2015, although it still amounts to 6 million deaths per year. Africa has gained 9.4 years to reach the age of 60. However, inequalities still persist. New-borns in 29 high-income countries have an average life expectancy of at least 80 years, compared to less than 60 years for 22 other countries in sub-Saharan Africa. Life expectancy differs dramatically between countries, with a Japanese woman (86.4 years) living on average 37.1 years longer than a person in Sierra Leone and 5.3 years longer than a Swiss man, the most resilient of men. Sierra Leone has more than 100 times fewer health professionals per 10,000 inhabitants than Switzerland (less than 2 for Sierra Leone, compared to 214 for Switzerland). The African and Eastern Mediterranean regions do not yet have universal health coverage, as measured by the Access to 16 Essential Services Index. In addition, health expenditure in these countries is considerable, exceeding 25% of total household expenditure. These heterogeneity figures may be underestimated and more than half of the world's deaths are unrecorded.

For Amartya Sen<sup>50</sup>, more attention needs to be paid to the unequal distribution of fundamental freedoms, 'entitlements' (the rights that each person should enjoy in relation to the state of society) and 'capabilities'<sup>51</sup> of each person. Basically, these so-called "entitlements" are still not sufficiently covered for a large part of the world's population. Similarly, society cannot continue to assess the status of individuals simply by reference to their "objective" utility (what are they used for?), their income (the rich and the poor) or their rights (the noble or the commoner, the faithful in theocratic states and the infidels). Reflection must be directed towards the freedoms and opportunities to be and to fulfil oneself according to what each person wishes to value in his or her life in terms of quality of life. The heterogeneity of individuals must be taken into account, but also the pluralism of conceptions of life in society.

In fact, in order to measure quality of life, it is necessary to perceive the states (beings) and actions (doings) and to define all the functioning of individuals. The relevant functioning starts with the quality of certain states (such as being in good health or having something to eat) and move on to more complex behaviours (such as action in community life, dignity with regard to one's goals, respect for others). The set of potential functions that an individual can achieve constitutes 'capability', the freedom of functioning of an individual.

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<sup>49</sup> OMS (2016), L'espérance de vie a progressé de 5 ans depuis 2000, mais les inégalités sanitaires persistent, OMS, 19 Mai. <http://www.who.int/mediacentre/news/releases/2016/health-inequalities-persist/fr/>

<sup>50</sup> OMS (2016), L'espérance de vie a progressé de 5 ans depuis 2000, mais les inégalités sanitaires persistent, OMS, 19 Mai. <http://www.who.int/mediacentre/news/releases/2016/health-inequalities-persist/fr/>

<sup>51</sup> Sen, A. (1985) *Commodities and Capabilities*, Amsterdam : Elsevier

"Capability is presented as "a set of vectors of functioning, which indicates that an individual is free to lead this or that type of life"<sup>52</sup>. It is therefore not a question of perceiving the individual according to simplistic economic criteria, but of highlighting the real opportunities available to him or her to lead the type of life he or she has chosen. As a result, there is no single list of elements capable of defining the fairness of a society. On the other hand, certain "capabilities" should necessarily be covered, such as the satisfaction of basic needs, the defence of freedom of thought or belief, respect for democratically defined collective rules, but also the protection and security to be afforded to all citizens, whatever their origins, functions and characteristics.

Today's globalisation is leading to growing inequalities and undoubtedly to revolts and violence by frustrated classes that could jeopardise world peace. In the context of a socially sustainable economy<sup>53</sup>, today's globalisation is leading to growing inequalities and undoubtedly to revolts and violence by frustrated classes that could jeopardise world peace. States and international organisations must fight against global warming, pollution, famine, excessive poverty and the shameless destruction of natural heritage. Multinational companies, addicted to eternal greed, will never engage in this necessary process for the future of humanity. the unilateral application of self-interest in modern societies must be challenged and coercive measures must then be taken and probably.

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<sup>52</sup> Sen, A. (1992) Repenser l'inégalité, Paris : Seuil, 2000, p. 66.

<sup>53</sup> Fontanel, J. (1979), Ecologie, économie et plurigestion, Editions Entente. Paris.

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