Capital accumulation, public debt & social policy: debunking 'paradoxes' of the Mozambican 'miracle'

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Outline of the presentation

- ‘Paradoxes’ of the Mozambican economic ‘miracle’ and why they are, apparently, ‘paradoxes’
- Debates about the ‘paradoxes’:
  - The “many narratives” problem
  - Proof of the apparent ‘paradoxes’
  - Social system of accumulation as a single, unified, historically specific narrative
- Debunking the economic ‘paradoxes’ in Mozambique – capital accumulation, public debt and social policy
  - Historical specificity of Mozambique’s process of capital accumulation
  - Dynamics of capital accumulation and the role of the state
  - The role of debt and the bubble economy
  - Austerity and commoditization of public services
- Conclusions

‘Paradoxes’ of the Mozambican economic ‘miracle’

Factors that may induce/shape change

- Fast real GDP annual growth rates over two decades (average of 7.2% p.y. for the whole period; 7.8% p.y. for the last decade; population growth at about 2.2% p.y per year)
- Relatively constant Gini coefficient (inequality in distribution of nominal income), at 0.42
- Relatively low inflation measured by the CPI, at about 8% (last decade and a half)
- Mozambique has become one of top three recipients of inflows of foreign private capital in Sub-Saharan Africa (more than US$ 5 billion in 2013; approximately US$ 18 billion in the last decade)

‘Paradoxes’

- Poverty head count index (poverty line of about 50 cents of a US$)
  - 1996-2003: from 69% to 54%
  - 2003-2010: 54% (additional two million poor). No evidence of any significant reduction since (waiting for new census)
- Per capita food production for the domestic market fell by 9% over the last decade (yields per hectare fell by 37%) – food inflation exceeds CPI inflation by 4 percentage points (> 50% difference), leading to an anti-riot exchange rate policy
- Narrowness of the production/trade basis
- Employment stuck in low productivity dynamics
- Meteoric increase in public, commercial debt (domestic and external debt growing 4 times and 25%, respectively, faster than GDP)
- Deterioration of public services and growing commoditization of delivery

‘Paradoxes’ of the Mozambican economic ‘miracle’

- Compared to 1986 (GDP had fallen by half since 1981, inflation had reached 160% per year, exports covered less than 25% of imports and Mozambique had been considered the poorest country in the world, by UN definitions) these data certainly look like the signs of an economic ‘miracle’, but…
- …, the economy seems to have not developed (or even lost) capacity to undergo profound and broad based structural change (output, labour, income distribution and poverty reduction and raising living standards for all), or, worse still, it has created structures and dynamics of accumulation that are preventing that type of change from happening. The question, obviously, is why it is so, if it is so.

Debates about the ‘paradoxes’ – the “many narratives” problem

- Not enough good governance and too much corruption – what does that mean, for what purpose, and how can it be explained within the model?
- Not enough agriculture – why is this a problem (Employment? Food? What?), which agriculture and for what purpose, and how does it articulate with the economy as a whole?
- The part of the glass that matters [the half that is full (optimists, that argue that the ‘fundamentals’ – monetarist macroeconomic indicators – are right)? The half that is empty (pessimists, who argue that not enough has been done)?]
    - Is the glass just one half too big?
    - Do we only need more and bigger of the same?
    - And if both halves are organically related and/or entangled in such a way that they are not two different halves?

Debates about the ‘paradoxes’ – the “many narratives” problem

- Straight rejection of the existence of ‘paradoxes’ – debt is still within the limits of fiscal sustainability, some people got richer, persistence of poverty or narrowness of economic basis blamed on ‘the poor’, workers and small entrepreneurs (culture, attitude,…). So, we may have to check whether the ‘paradoxes’ actually exist.

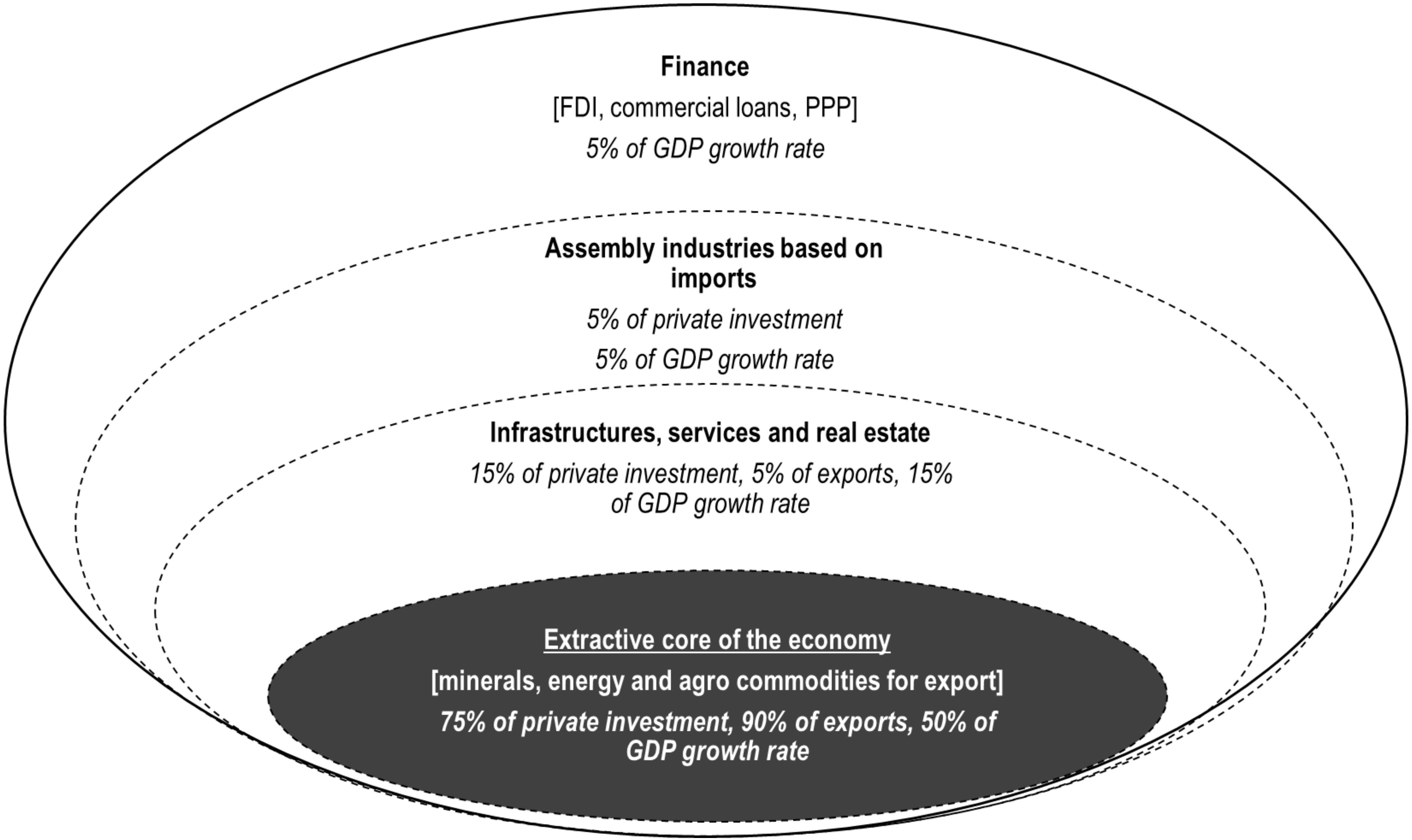
Debates about the ‘paradoxes’ – ‘proof’ of their existence

Poverty elasticity to real GDP growth

		1996/97-2002/03	2003/04 - 2009/10	1996/97 - 2009/10
Cumulative GDP growth (%)		55	66	156
Cumulative poverty reduction (HC) (%)		-15,3	0,6	-14,7
Average annual real GDP growth (%)		6,5	7,8	7,2
Average annual real per capita real GDP growth (%)		4,2	5,5	4,9
Taxa média anual de redução da pobreza (%) [7]		-2	0.1	-1
People under the poverty line (%)	Beginning of period	69,4	54,1	69,4
	End of period	54,1	54,7	54,7
Gini coefficient		0,41	0,42	0,42
Poverty elasticity to GDP growth		-0,31	0,013	-0,14
CPI(food) – CPI(non-food)		1,6	3,8	2,7

Fonte: DNEAP, 2010; GdM, 2010; INE, 1995-2011; Wuyts, 2011a.

Debates about the 'paradoxes' – 'proof' of their existence



Debates about the 'paradoxes' – 'proof' of their existence

- Sectors that grew faster than GDP (7.8%) in the last decade): extractive industry (21%), transports and communications (12%), financial services (10%), agriculture and construction (8% each).
- Concentration in industry
    - Disappearance of 10 industrial sectors: iron and steel, equipment (electric and non-electric), ceramic products, glass, petrol products, copra, sisal, tea and mainstream cashew processing industries.
    - Concentration per sector on 4 or fewer products of basic levels of processing: to 70% in three industries (food, beverages and tobacco, textiles, clothing and leather products, and building materials), 80% in two industries (metal engineering, and chemical products), and to 99% in one industry (metallurgic)
    - 85% of industrial output is related to 4 products (aluminium, natural gas, mineral sands and coal), involving 5 firms and employing fewer than 6 thousand workers in the operation stage.

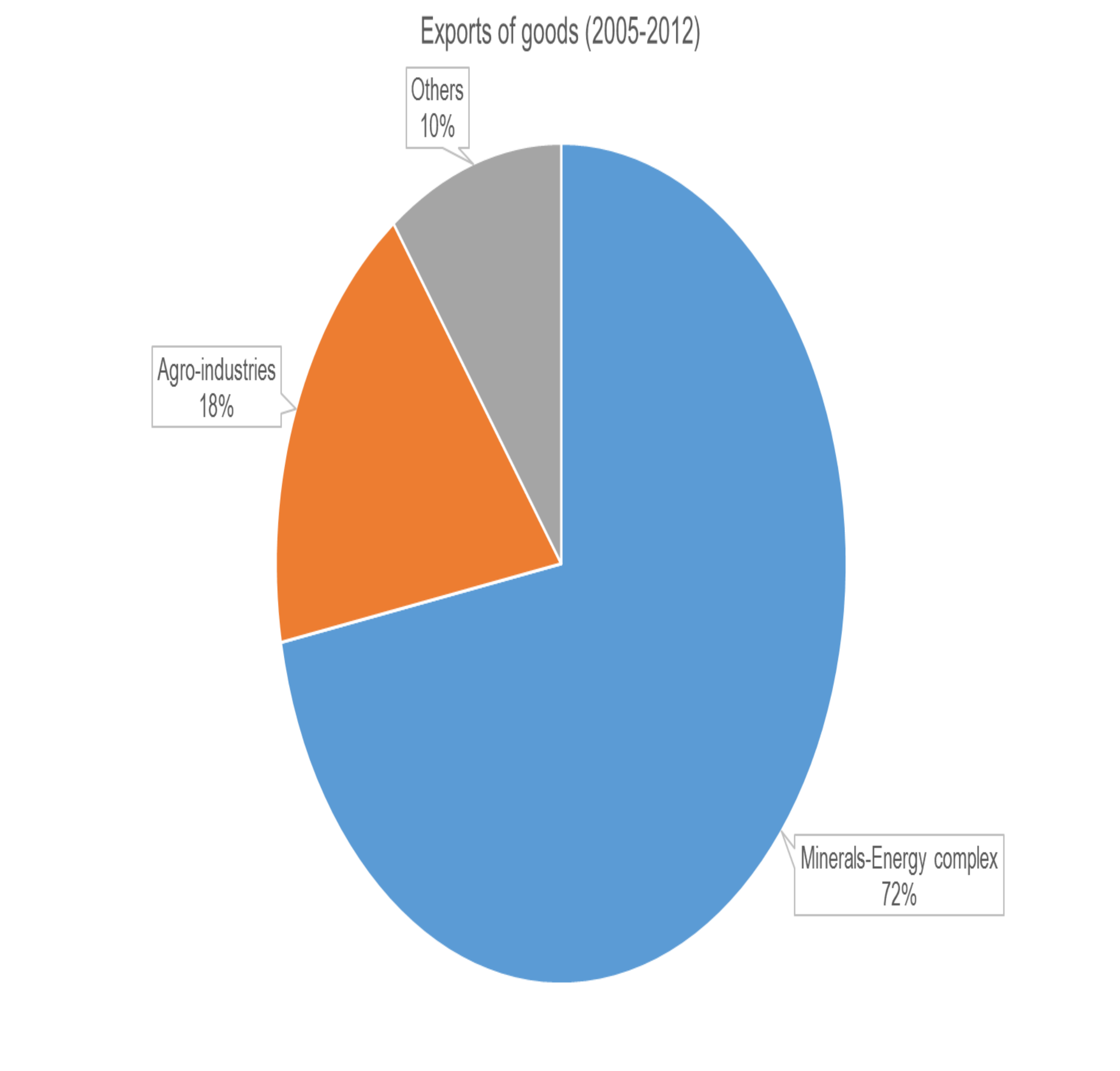
Debates about the 'paradoxes' – 'proof' of their existence

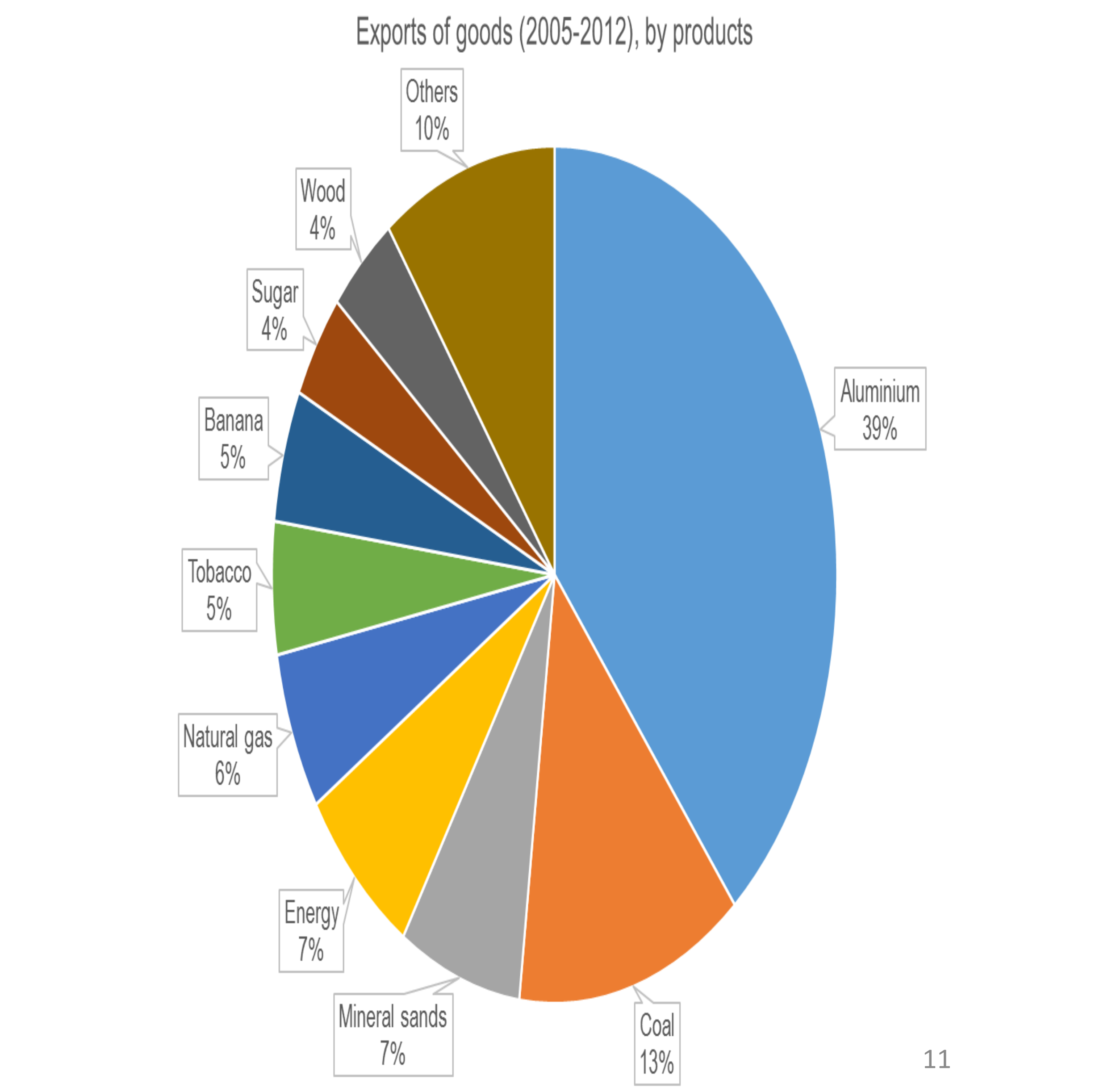
- Concentration in agriculture

  - Growth driven by commodities for export (tobacco, banana, wood and sugar), which received 90% of private investment and 94% of all land made available for agriculture over the last decade.

  - Per capita food production for the domestic market, which received 10% of private investment and 6% of the land made available to agriculture, declined by 9% and yields per ha fell by one third, over the last decade. This also means that labour in food production for the domestic market increased substantially, despite the decline in productivity and yields, and that wage labour opportunities (jobs, length of contract, period of contract and wages) deteriorated, thus reducing inflows of finance for household production. Combined, increase in labour and reduction in financial flows at particular times of the season may have also reduced labour productivity substantially.

Debates about the 'paradoxes' – 'proof' of their existence





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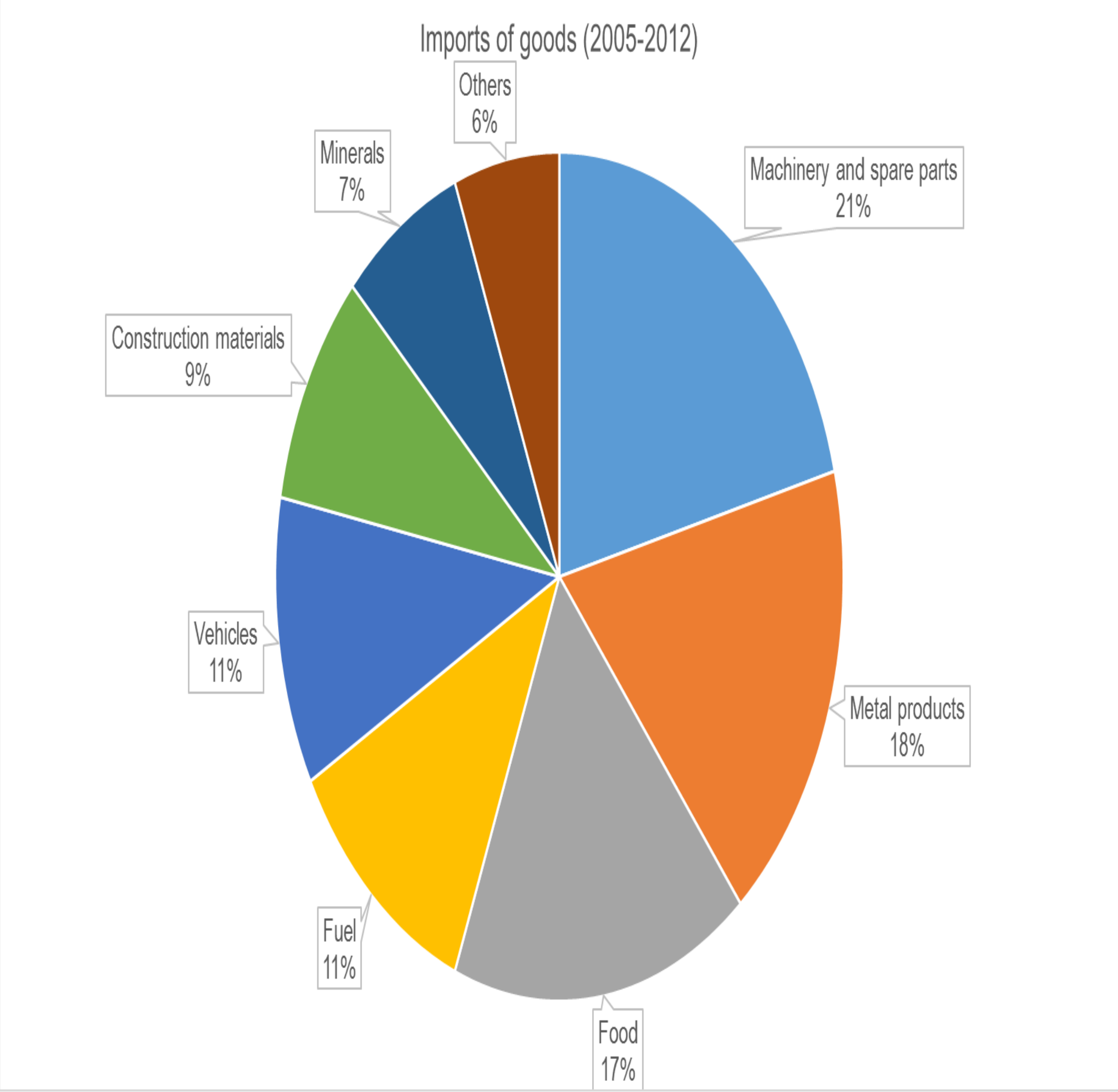

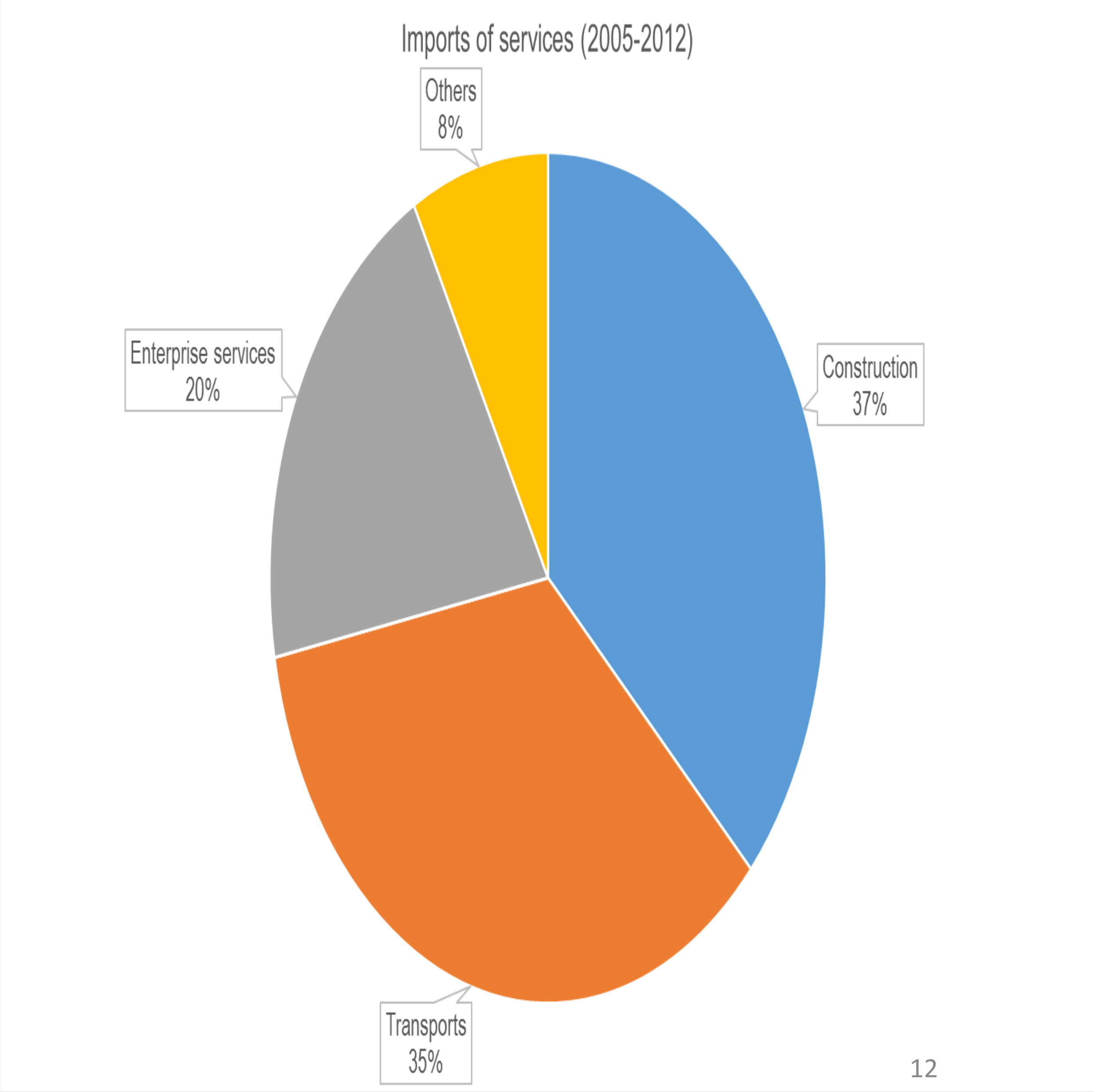

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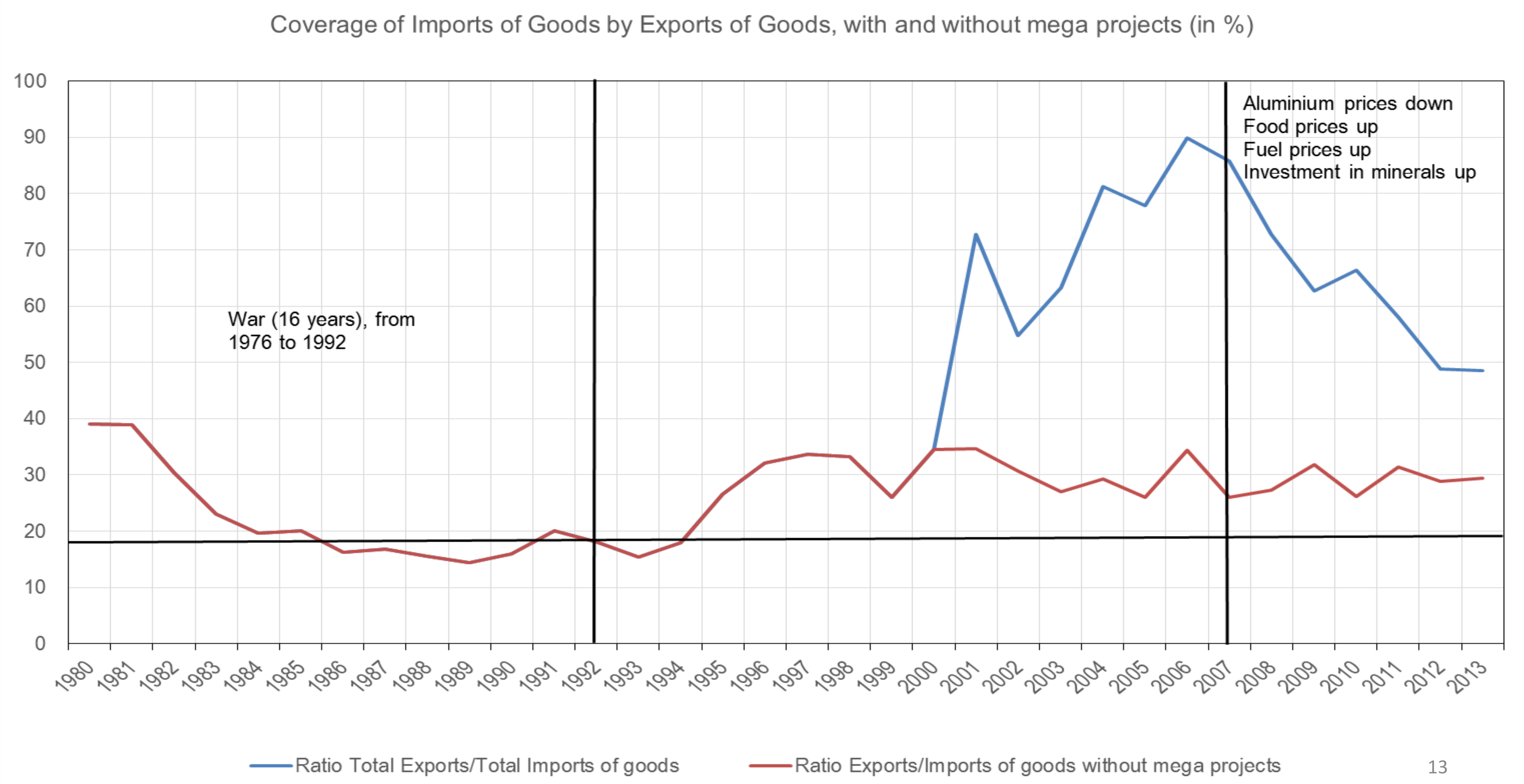

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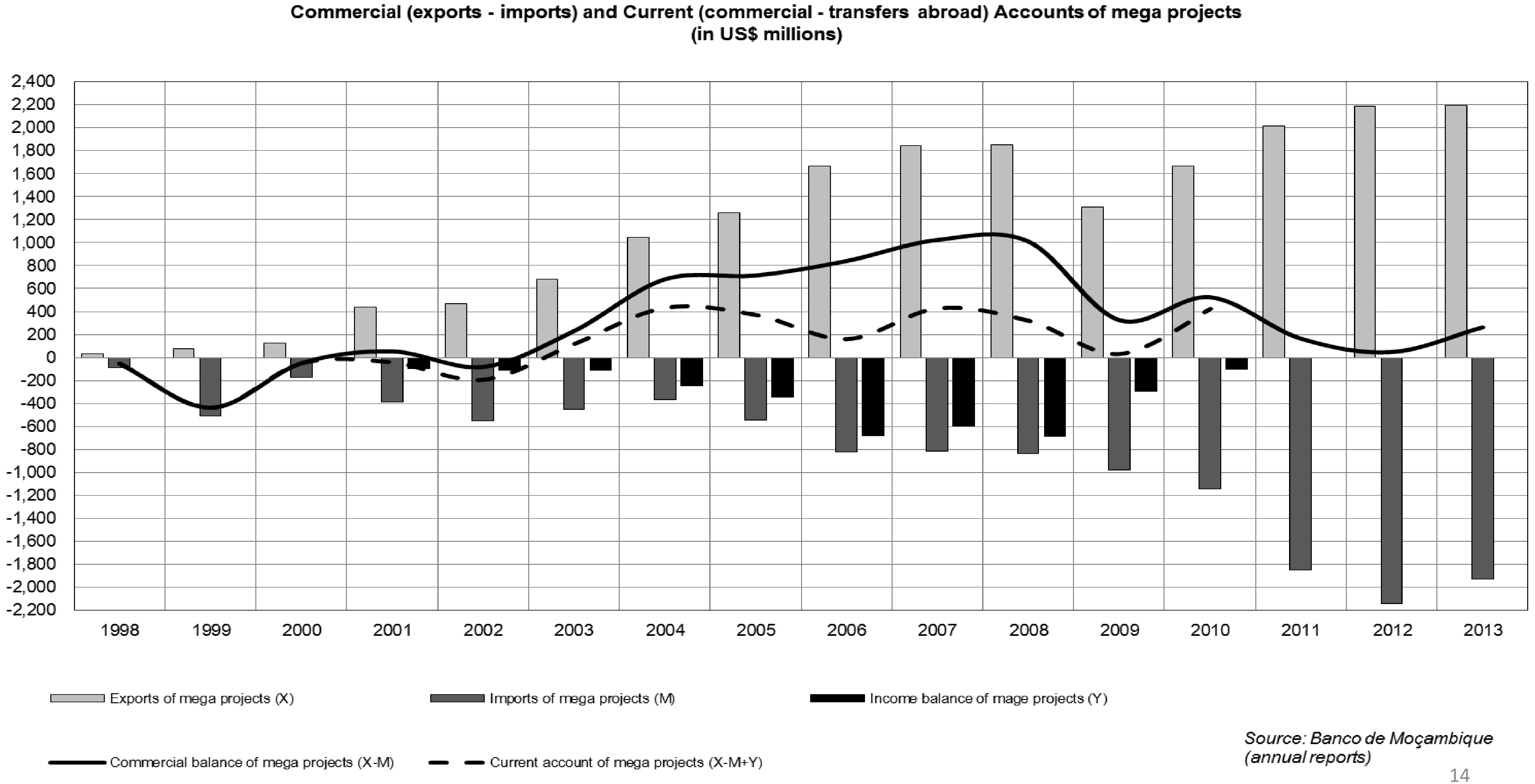

Source: Banco de Moçambique (annual reports)

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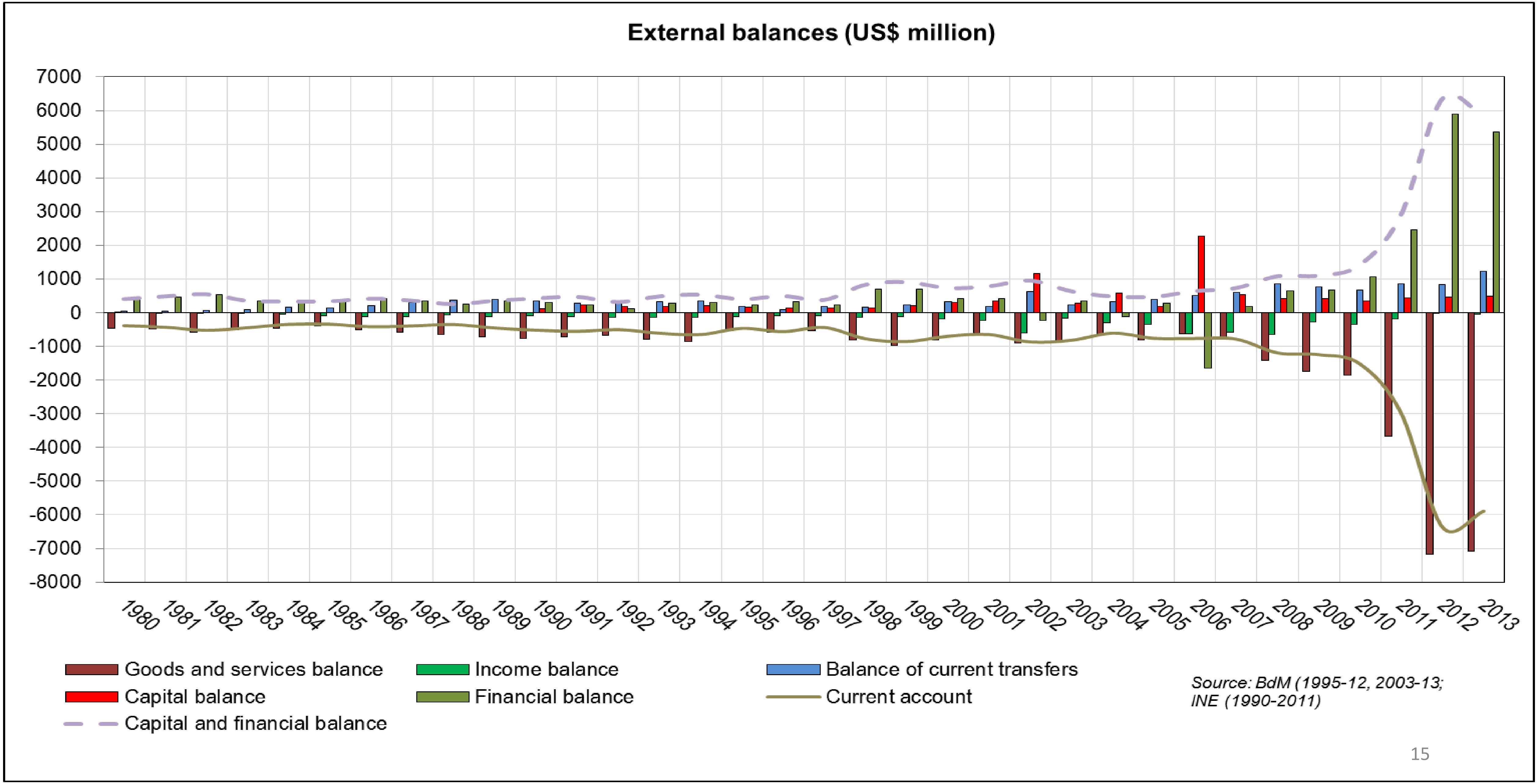

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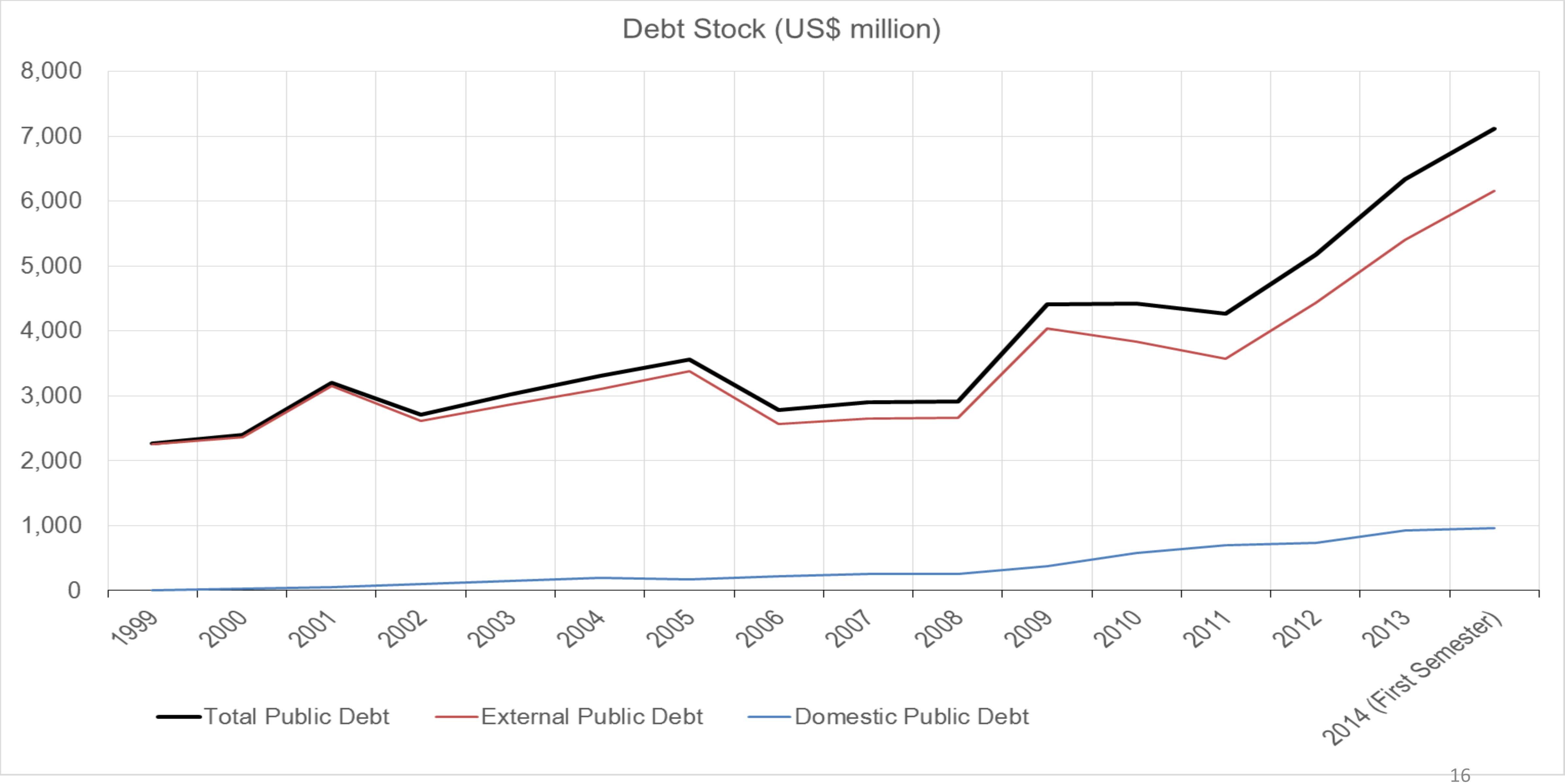

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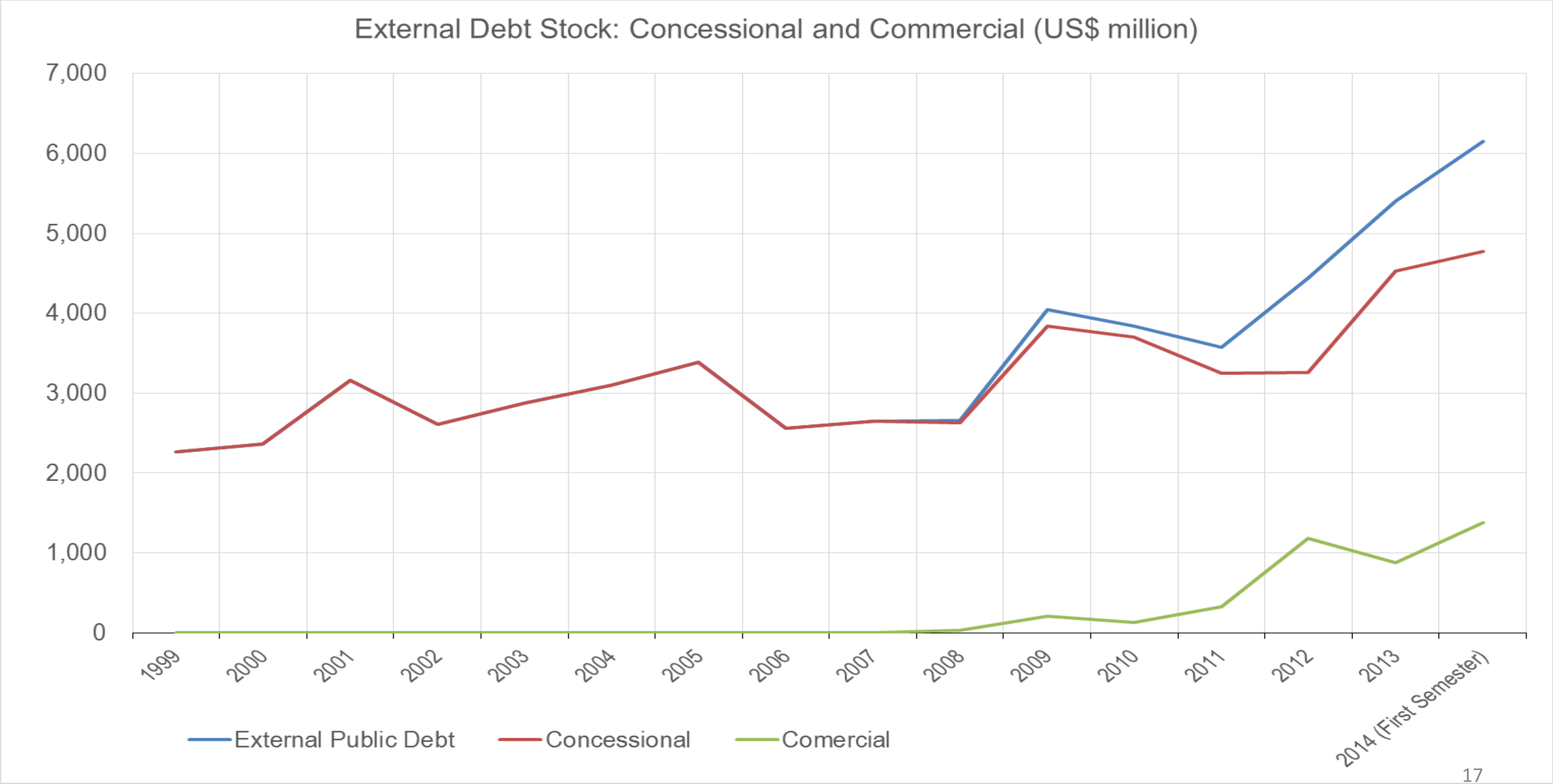

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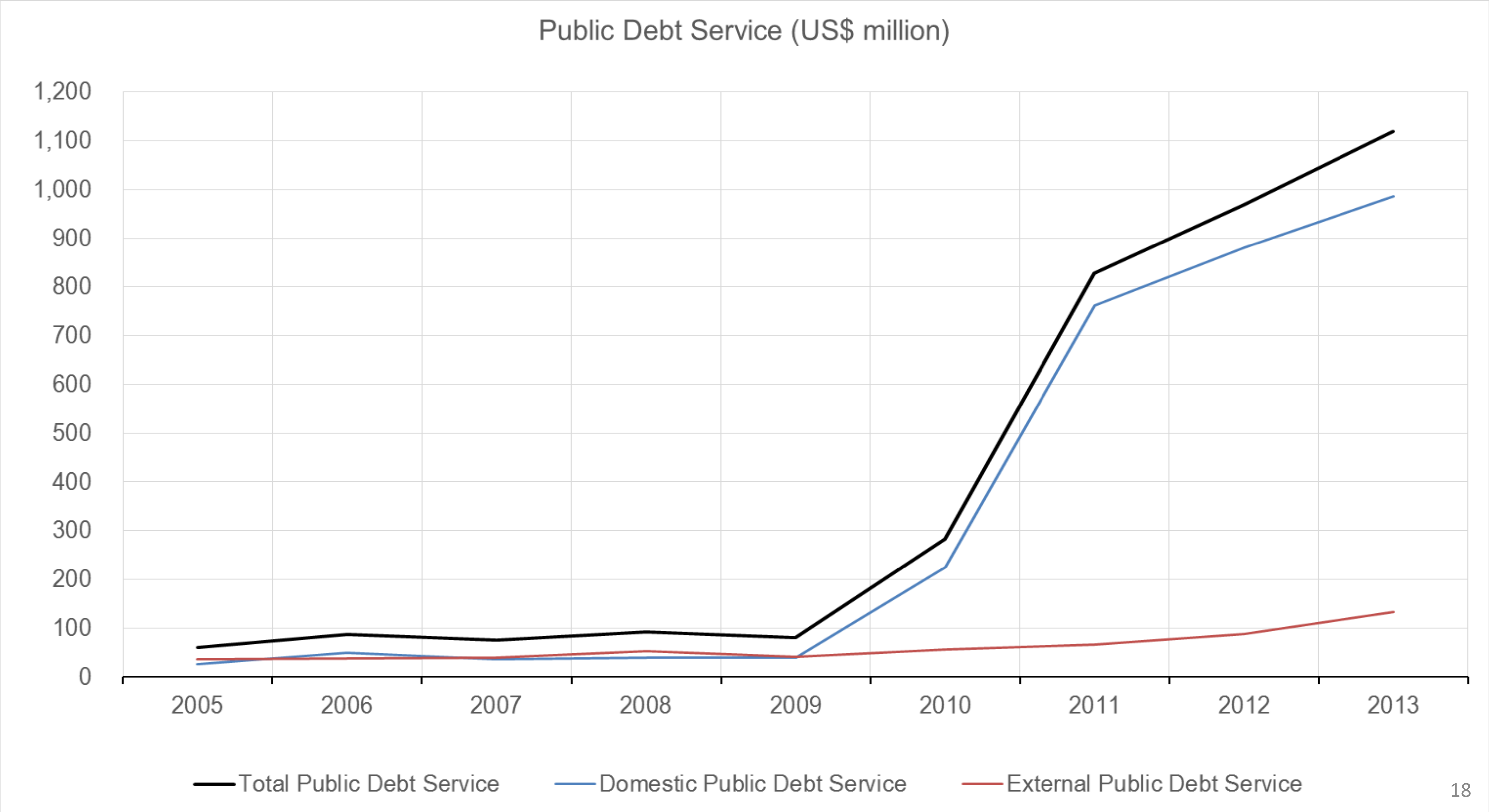

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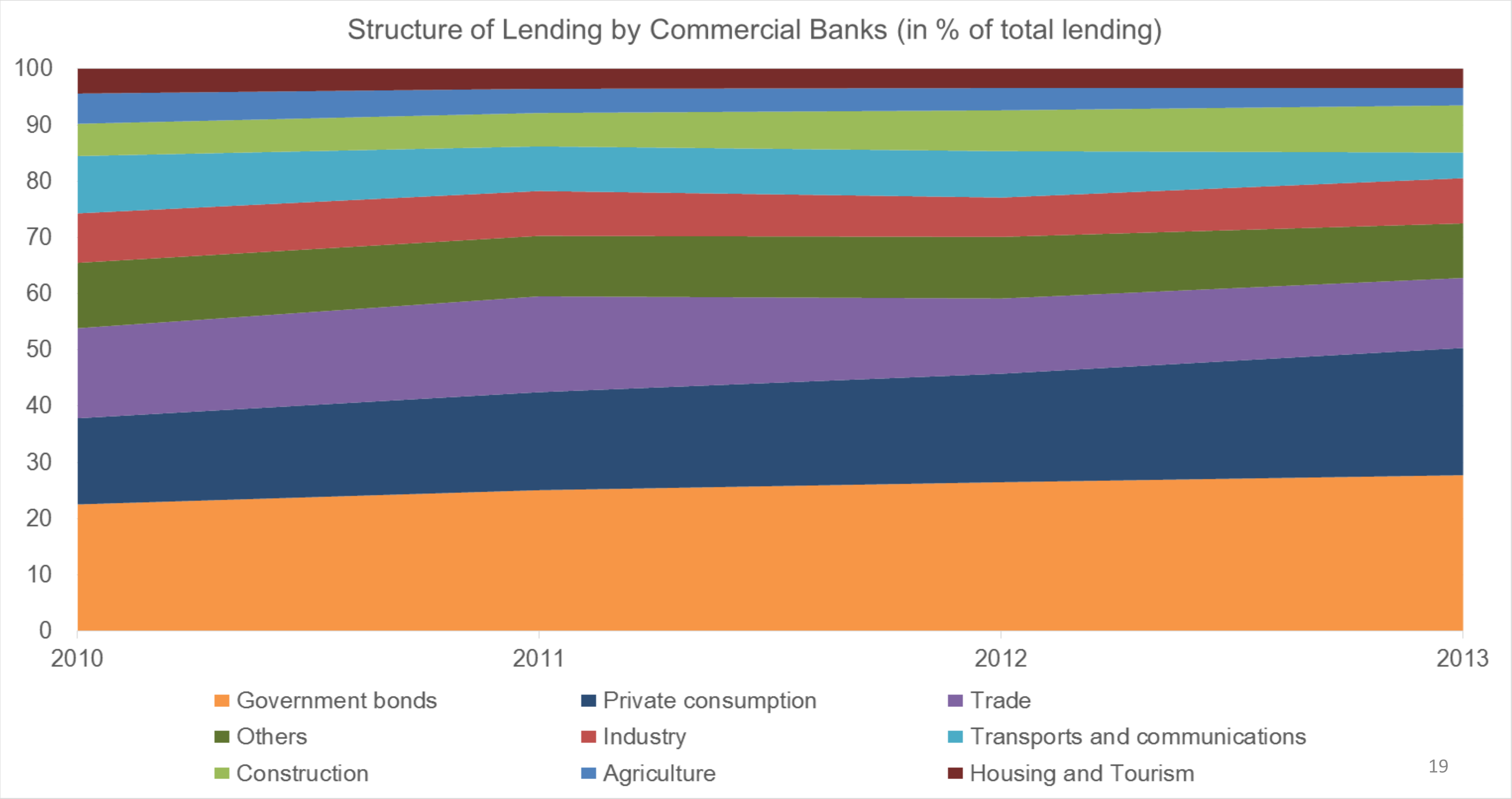

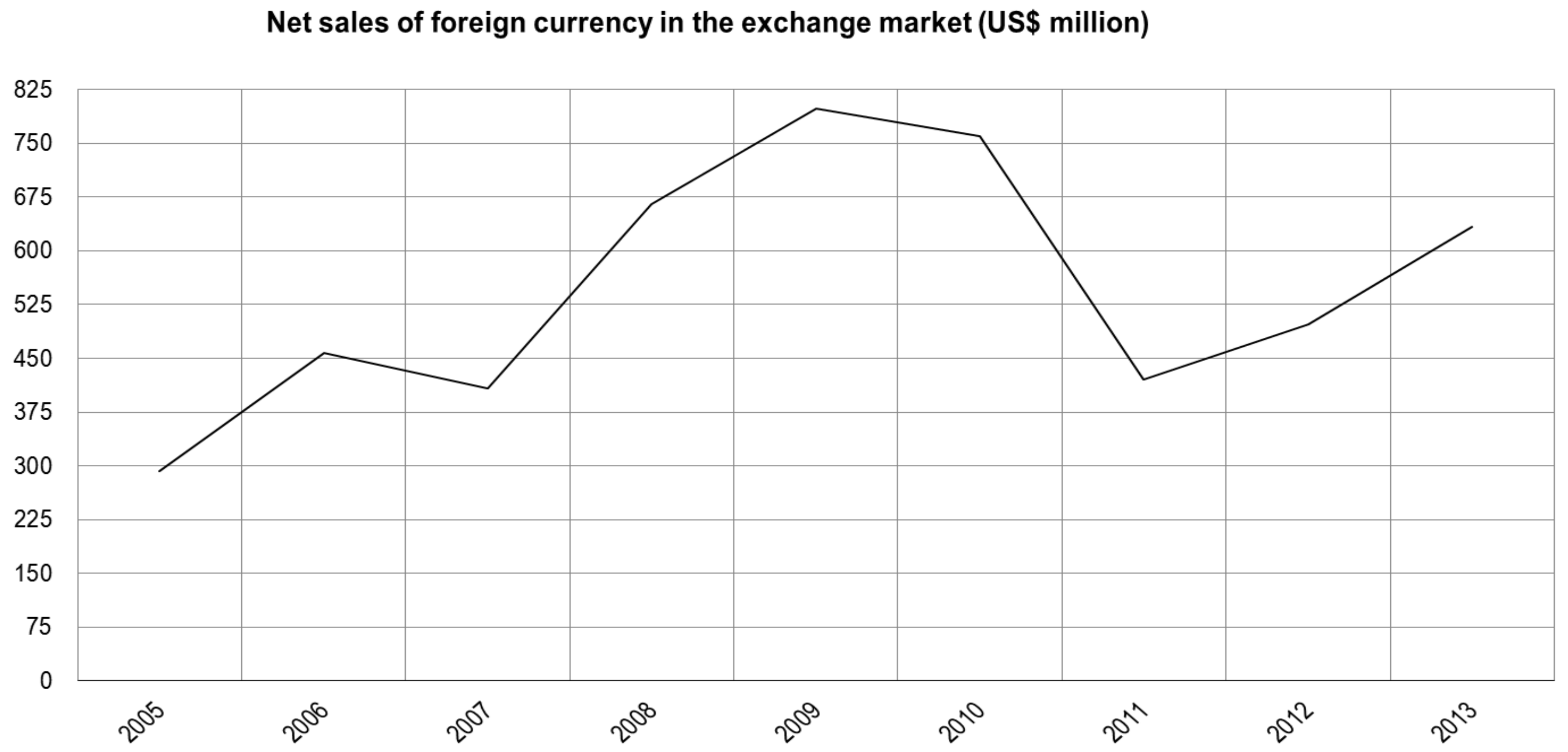

Source: BdM: Série Taxas de Juro (www.bancomoc.mz)

Debates about the 'paradoxes' – social system of accumulation as a single, unified, historically specific narrative

- Social system of accumulation: how the process of production, appropriation, distribution and utilization of surplus value occurs, the relationships that develop between capital and labour, factions of capital, finance capital, and the state, and how they develop and change under specific historical conditions.
- Hence, the different paradoxes, as well as the "factors that may induce/shape change", shall fit in the same narrative of a process of capital accumulation, that is historically specific.
- This means that we are going to explore how things can make sense together, within the circuit and accumulation of capital.
- Capital accumulation: creation of wage labour, generalization of commodity production and expansion of capitalist relations of production through society/economy – penetration, subjugation and transformation.

Debunking economic 'paradoxes' of the Mozambican economic 'miracle' – historical specificity of Mozambique's process of capital accumulation

- Formation of national capitalist classes under specific historical conditions:
  - Monopolistic (multinational, market dominance, alliance between resources/production/finance), global (global chains) and financial capitalism (fictitious capital).
  - Expansion and globalization of monopolistic and financial capital from South Africa
    - Business opportunities/investment
    - Trade
  - Latecomer capitalist classes: type of colonialism and first Republic in Mozambique independent
    - Speculative capital
    - Without a real productive basis
    - And without much money

Debunking economic 'paradoxes' of the Mozambican economic 'miracle' – historical specificity of Mozambique's process of capital accumulation

- Formation of national capitalist classes under specific historical conditions (Conti.):
  - Structures of accumulation in place made in colonialism – how to change them to promote national capitalism? What type of national capitalism is possible? The debate over "dependent capitalism" and national sovereignty
  - State control of resources and productive assets (following defensive and offensive nationalizations after independence)
  - Crisis of accumulation: extraction of absolute surplus value in crisis; the overall crisis of the economy.

Debunking economic 'paradoxes' of the Mozambican economic 'miracle' – dynamics of capital accumulation and the role of the state

- Guebuza's speech of 1986 – the capitalist manifesto in Mozambique
  - Revisiting the debate on "dependent capitalism": The danger of imperialism and the need for a class of guarantors of sovereignty – patriotic capitalists created at full speed
  - Where would they come from? Political elites, *aparatchiks* and top administrators
  - Where would capital come from? Foreign capital: initially, aid and accumulation through direct access to the state budget; later FDI and commercial loans
  - Where would the physical assets come from? State assets are "our"assets
  - Where would skills come from? Foreign capitalists and their executives and engineers, experienced administrators re-trained abroad, new generation trained abroad

Debunking economic 'paradoxes' of the Mozambican economic 'miracle' – dynamics of capital accumulation and the role of the state

- Three focus of policy:
  - Mobilization of foreign capital
  - Linkages (leakages) to domestic capital – access to state property and the expropriation of the state
  - The labour issue – extraction of absolute surplus value by undercutting subsistence costs paid by capitalists (and the problem of sustainability of the system)

Debunking economic 'paradoxes' of the Mozambican economic 'miracle' – dynamics of capital accumulation and the role of the state

- Three waves of state expropriation
  - First wave: Privatization, the implicit subsidy and the first assault on the banking system, without a development strategy (access to commercial capital and specific firms' strategies):
    - Owners without capital, productive assets as commodities for sale, building up of luxury consumption patterns, money that does not become capital (at least successfully), large scale bankruptcy.
    - Aid as a selective source of private finance: the selling of poverty as a "natural resource" – sustaining investment, corruption, fiscal porosity and peace. The problem with aid: competition between private and public interests, uncertainty, checks and balances and neo-liberal conditionality. Source of finance external to the model of accumulation and directly dependent/related on/to poverty. Poverty became a source of unproductive accumulation of wealth.
    - No clear dominant interests to organize accumulation strategy around – too many inconsistencies and discontinuities, too many factions of utopian capitalists, too much struggle and not enough direction
    - The first "revolt" of the political elites (Chissano, the *laissez faire* President goes, and in comes Guebuza, the strategist of national accumulation).

Debunking economic 'paradoxes' of the Mozambican economic 'miracle' – dynamics of capital accumulation and the role of the state

- Three waves of state expropriation (Conti.)
  - Second wave: Economic porosity and natural resource expropriation:
    - Private, corporate capital instead of aid – putting together finance, industrial capacity and markets, and making finance endogenous to the model of accumulation (FDI and debt, fiscal porosity, cheap expropriation). Change in focus from "selling poverty" to "selling expectations of profits and wealth." Aid as a complementary factor, compensating for financial expropriation of the state (fiscal porosity, debt, social investment, state capacity)
    - Strategic natural resources to attract attention of large foreign capital and give a chance to domestic capital through links with the state. How to create the profit expectations? Subsidising costs (cheap expropriation, fiscal subsidies, infrastructures, long term investment guaranteed by the state) and lowering long term risks (lowering costs plus large concessions that can be resold to refinance corporations in the short term)
    - Public investment/attention focused on minerals-energy and agro commodities, plus real estate and construction
    - Links (leakages) to domestic capital – large scale expropriation of the state at four levels: fiscal/shares, natural resources, productive assets (for example, infrastructures) and debt (PPP and direct financing of large construction and services plus the interest/rent from managing and negotiating debt)
    - Result in current pattern of production, trade and investment, as well as dynamics of employment,

Debunking economic ‘paradoxes’ of the Mozambican economic ‘miracle’ – dynamics of capital accumulation and the role of the state

- Three waves of state expropriation (Conti.)
    - Third wave: expropriation of expectations, speculative dynamics and a debt crisis, followed by explosion or implosion of bubble economy?
        - Increasing expectations for large financial capital and reducing expectations for the society as a whole: debt and the speculative bubble. More than a discourse, it is real policy.
        - As projections on expected wealth accruing (time lag and size) are adjusted every year, need for more public insurances, thus feeding the debt/speculative dynamics. Hence, need to mobilise capital that is utilised to continue to attract capital by feeding a possible illusion?
        - Evidence of speculation: low level of execution of large investment projects; capital tax (which taxes re-selling of productive assets, which is te same as taxing the transformation of productive assets into financial assets) became the single most important source of tax revenue

Debunking economic 'paradoxes' of the Mozambican economic 'miracle' – dynamics of capital accumulation and the role of the state

- The dilemma of agrarian change – expropriation without transformation and conflicts within the model
  - Conflicting options (and different development paths) to link agriculture in the general pattern of accumulation:
    - The commodity for export approach – casual labour, large concessions or plantations and monoculture, large external markets, volatility. Limited industrialization (semi-processing). Can it survive outside large global chains? What's available for domestic capitalists (contract farming? Outgrower schemes?) Why the agrarian route instead of basic minerals-energy? Once again, the link with the dynamics of foreign capital.
    - The food for domestic markets approach – the opportunity for a labour intensive path sustained by increasing standards of leaving (real incomes of the wage labour) by lowering subsistence costs and raising purchasing power of the wage. Who's going to do this? Why isn't this subsidised? Although it may serve long run interests of capital accumulation as whole, individual capitalists are not particularly motivated by long run interests of capital accumulation as a whole .
    - The social security approach – the fall back point in a dualistic economy where household production is not organically related to capitalist accumulation. However, is the economy dualistic? Household production as a means to extract absolute surplus value from labour, this has generated a two direction dependency: firms' profitability depends on ability to pay below social costs of reproduction of labour (the household provides the food), but the household needs the salary to invest in production and to make that production into food for the household (otherwise, it needs to be sold for money). Land expropriation and limited employment opportunities (type of work, duration of contracts, wage package and timing in the context of the yearly agricultural seasons) affect the ability to keep this scheme going.
  - What's agrarian change? It is what happens while the above issues are not resolved in explicit policy terms. Commodities expand and food for domestic markets contracts.

Debunking economic ‘paradoxes’ of the Mozambican economic ‘miracle’ –the role of debt and implications for finance

- The role of debt and implications for finance and small capital:
  - ‘Mining’ the debt space
    - Debt space created by two decades of austerity under IMF supervision
    - Debt space as a source of capital – attractive for investors for being public or publicly guaranteed, high premium in a high expectation economy, which has a stabilization program with the IMF (expectations of bailout if the worse scenario happens); attractive for the government because it’s finance without political conditionality and there is still space to mine; attractive for domestic private capital because it provides profit opportunities (publicly subsidised investment plus the debt business); attractive for multinationals because it commits large financial institutions to subsidising costs.
    - Debt and aid – replaces aid as direct source of capital accumulation (endogenous to the model and without political conditionality); needs aid for sustainability and to be focused on large capital investment.

Debunking economic 'paradoxes' of the Mozambican economic 'miracle' –the role of debt and implications for finance

- The role of debt and implications for finance and small capital (cont.):
  - It structures the financial systems and its incentives:
    - Single most important target of lending by commercial banks (average of 25% over the last decade), exceeding the sum of total lending to industry, agriculture, transports and communications, construction and housing and tourism; plus, 80% of all transactions in the Mozambican stock exchange.
    - Reduces liquidity in the domestic financial market, raising interest rates, making capital scarce and expensive for domestic firms, exacerbating speculative interest of banks, while not providing a basis for diversified and articulated production.
    - Adds a premium to commercial loans from international financial markets, which may attract more loans, debt and speculative interests but also increases production costs

Debunking economic ‘paradoxes’ of the Mozambican economic ‘miracle’ –the role of debt and implications for finance

- The role of debt and implications for finance and small capital (Conti.):
  - Debt/fiscal *nexus:*
    - Fiscal subsidies to three major multinationals that have been generating profits for at least 6 years (Mozal, Sasol and Kenmare) equal the amount of domestic debt the government sells, on average, every year
    - Increase of debt service (commercial debt plus high interest from domestic debt) cuts available resources for broad based economic and social policy
  - The risk of government preference for commercial debt:
    - Debt vice and vicious circle: need debt to keep expectations of large capital high, have to pay debt, need more debt for that, speculative bubble, default leading to severe social austerity and further concentration and centralisation of capital.

Debunking economic 'paradoxes' of the Mozambican economic 'miracle' –the role of debt and implications for finance

- Further conflicts/tensions within the model: poverty, finance and anti-riot exchange rate policy
  - Food, fuel and public transport riots (2008 and 2010)
  - Social pressure needs to be addressed but…again the problem of the "many narratives" approach:
    - Distorted analysis of the public transport problem – when investment in roads is not the same as a public transport system
    - Anti-riot exchange rate policy to tackle food prices by minimising imported inflation – overvaluing the exchange rate at the cost of foreign reserves is costly, makes capital expensive and scarce in the domestic financial market and affects domestic supply responses in a non positive manner.
    - Short term inflation and exchange rate targets in open conflict with longer term goal of expanding credit to the economy
    - Furthermore, fiscal policies of subsidising large capital are compensated by selling debt through government bonds, which, together with inflation and exchange rate targets, make expansionary monetary policies expensive and inefficient.
  - Hence, dominant interest of large capital, combined with short term monetarist and political pressures, create monetary and fiscal inconsistencies that squeeze opportunities for broader social and economic policies and dynamics to develop and make policies inconsistent with each other and inefficient. At the end, it is short term and large capital that win.

Debunking economic 'paradoxes' of the Mozambican economic 'miracle' – austerity and commoditization of public and social services

- Austerity and commoditization of public and social services:
  - The official speech of the Guebuza era: social welfare as an individual choice
    - Poverty as individual choice/characteristic/incapacity
    - Self-employment and family based social security (questions of viability, realism and sustainability, raised previously, about the dualistic approach in agriculture)
    - Undercutting short term costs for capital as the starting point in social security, obviously leading to piece meal interventions instead of a systemic and universal perspective.
  - Budget priorities:
    - Debt, large capital and security
    - Construction (business opportunity) versus operation of capacity and short to medium term solutions (example of public transport)
  - Commoditization as an opportunity in a world of reduced aid, increased debt and focus on subsidising expansion of capital accumulation:
    - Private-Public Partnerships (PPP) as the new, explicit social strategy of the five year plan
    - Expansion of the profit making activities

Conclusions

- ‘Paradoxes’ are no longer – they can be explained as part of the logic and tensions within a system of accumulation, that has historical specificities.
- Many tensions in this system point to vulnerabilities and crisis of accumulation:
  - Potential for a speculative bubble that might implode, if expectations of capital are not fed, or explode through a debt crisis
  - Exposure and vulnerability to external commodity and financial markets
  - Inconsistencies of fiscal and monetary policy that exacerbate the speculative incentive of financial markets
  - Inability to reproduce the system of absolute surplus value extraction, labour rigidities and the potential for social and political unrest
  - Conflicts between factions of capital – small that cannot grow and large that becomes more speculative
  - Is there any space for further social austerity to adjust and squeeze surplus value out of the working classes?
- Revolution or a state that provides public goods and services to restructure capitalist accumulation?

Thank you!