Growth, capital accumulation and economic porosity in Mozambique: social losses, private gains

http://explore.tandfonline.com/uploads/files/transcripts/ROAPE_2014_prize_announcement.pdf

https://www.researchgate.net/publication/273340949_Growth_capital_accumulation_and_economic_porosity_in_Mozambique_social_losses_private_gains?ev=prf_pub

Carlos Nuno Castel-Branco
Research Director at IESE, Maputo (www.iese.ac.mz)
Associate Professor, Eduardo Mondlane University, Maputo
carlos.castelbranco@gmail.com

Discussant:
Professor Francisco Louçã (ISEG)

LISBON SCHOOL OF ECONOMICS & MANAGEMENT
UNIVERSIDADE DE LISBOA

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Outline of the presentation

- Defining economic porosity
- Magnitude of economic porosity in Mozambique and its economic, structural impacts
- Economic porosity as a mechanism in primitive accumulation of private capital in Mozambique
- Economic porosity and the feeding of expectations – the bubble economy
- Economic porosity and the role of social austerity
- The end?

Defining Economic Porosity

- Inefficiency in retaining uncommitted surplus that could be utilised for the reproduction of the economy as a whole

- Three types and a half of economic porosity

  - Type I: outflows of surplus from the domestic to the world economy, that would favour foreign capital. Most of type I porosity may be captured, *ceteris paribus,* by the difference between GDP and GNP (if GDP > GNP, economic porosity > 0)

  - Type II: transfers of surplus and income from public to private (domestic and foreign) capital, particularly frequent and intense in times of crisis and initial (primitive) stages of capital accumulation (reigniting or igniting processes of private capital accumulation). We can, also, describe this process as one of **expropriation of the state** for private gain. Type II porosity may not be fully captured by GDP > GNP, as part of the social loss through porosity becomes a private gain in profits, interest and rents accruing to domestic capitalists, and so more information is required about structural conditions (fiscal and monetary, patterns of investment and resource allocation, ability or inability of the state to pursue broader social and economic policies as economic surplus expands, etc.)

  - Type III: social austerity to compensate for Types I and II, which means **generalized social expropriation** of surplus for igniting or reigniting capitalist accumulation.

Defining Economic Porosity

- Four major impacts of economic porosity
  - Difficulty in mobilizing resources for broad-based social and economic development, even when surplus is expanding, leading to dynamics of uneven capitalist development (in and between firms, regions and countries)
  - Subordination of public policy and economic and social opportunities and options to dominant market interests (those that are being favoured or financed by economic porosity), leading to narrow based development, growth and economic transformation (depending on the specific historical characteristics and contexts of the processes of porosity, adjustment and accumulation, this may lead to economic bubbles and/or recession of some sort, and/or social unrest)
  - Further concentration (larger economic units) and centralisation (fewer economic units) of capital, which restructure capital around dominant market interests and consolidate their dominance over markets and public policy – depending on specific historical conditions, these may result in expansion or contraction or other significant structural changes in industrial capacities, or, simply, in a more speculative economy in which interest bearing (or fictitious) capital dominates over real capital (in which case, economic expansion goes hand in hand with the inability to generate jobs and provide generalised improvements in productivity and in living conditions for the society as a whole).
  - Emergence or restructuring of capitalist groups, depending on specific historical conditions and stages of capitalist accumulation – for example, emergence and/or consolidation of financial oligarchies – which, naturally, have an impact on restructuring of labour relations and distribution of income through the economy, and expansion of commoditization into new areas.

Defining Economic Porosity

- Hence, it is fundamental to understand the social and economic dynamics of porosity as these may not be simple technical flaws in the system of accounts or some known form of multinational extraction of wealth at a cost for the domestic economy that results from tax incentives, illicit capital flight, low rates of reinvestment of private capital and so on, as implications of and policy responses to economic porosity depend on such dynamics.

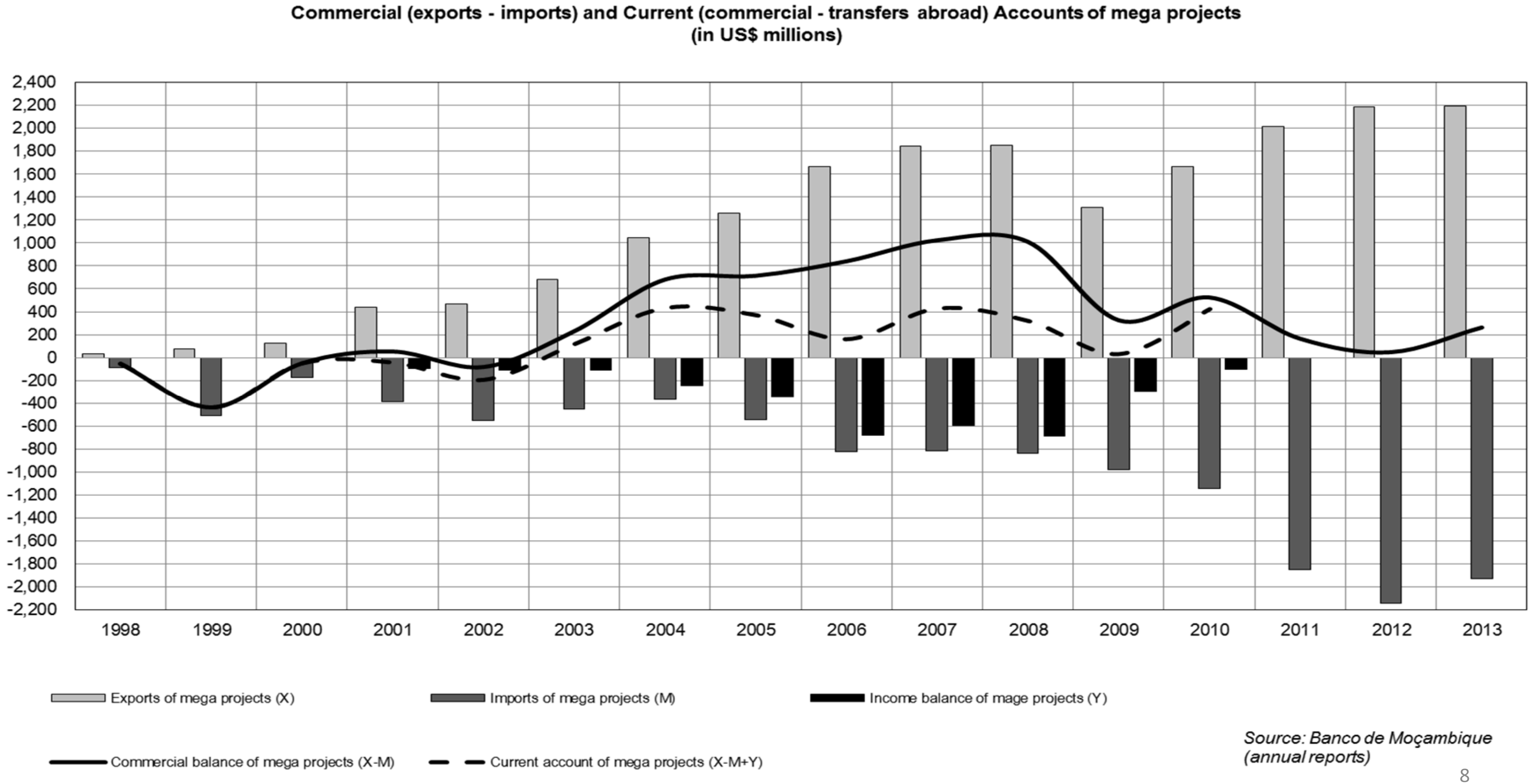
Magnitude of economic porosity – taxes on mega projects (social contribution of 2 mega projects as % of their total sales)

	Total	Direct Taxes		Royalties		Corporate Social Responsibility %	Surface taxes %
		IRPC %	IRPS %	Cash %	In kind %		
Kenmare	5%	0,3%	3%	1%	0%	1%	0,1%
Sasol	5%	0,003%	0,3%	1,5%	2,5%	1%	0%
Total	5%	0,07%	1%	1%	2%	1%	0,02%

Magnitude of economic porosity – taxes on mega projects [ratio of government revenue from corporate tax (IRPC) to personal income tax (IRPS), with and without tax incentives on mega projects – base 100 index]

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
IRPC/IRPS with ncentives	88	60	55	50	40	42	53	67	91	96	96	114
IRPC/IRPS without incentives	na	na	na	na	43	107	127	149	173	149	135	128

Magnitude of economic porosity – taxes on mega projects



Source: Banco de Moçambique (annual reports)

Magnitude of economic porosity – taxes on mega projects

- Losses from tax incentives between 2003-2013: approximately US$ 2 billion from 3 companies only (Mozal, Kenmare and Sazol), for which we have more systematic data.

- Taxes on capital gains from transactions between multinationals of concessions of Mozambican natural resources:

  - Loss of approximately US$ 1.6 billion over the period 2009-2013, prior to taxation being introduced

  - Capital gains tax has become the single most important source of direct tax revenue. The Tax Authority reports that they are monitoring, for tax purposes, 15 such cases – this shows that it can be done, but also shows the extent of negotiation between multinationals with minerals-energy concessions

Magnitude of economic porosity – taxes on mega projects

- Can contracts be renegotiated?
  - Would investment taken place with better contracts? Yes, because of corporate strategy (location advantages) and magnitude of the projects. Empirical studies shows the extent of redundancy of tax incentives. Would investment move away with renegotiation of contracts? No, because of the above plus magnitude of sunk costs.
  - Would the government loose face? There are bigger problems facing multinationals in Mozambique. Negotiations can be tough and not yield all desirable results, particularly during a world crisis in markets/prices for some of the commodities involved, but there is no losing face particularly if they may be part of the solution to other structural problems of the economy that also affect multinationals. The government has renegotiated contracts before and is renegotiating some now. So, why not the fiscal component of contracts with mega projects?
  - Should the government spend its political capital on such negotiations when forecasts point to huge revenue accruing from gas, oil and coal in the future? Such forecasts also show that such potential, future revenue will not be available for another decade or more, and that the actual revenue available is difficult to predict because of fluctuations in world market prices and because so much of future income has already been spent in the guaranteeing of current public spending in infrastructures. Hence, it is unwise not to mobilise fiscal resources now and to rely on such a distant future. As we know, in the long run we are all dead.

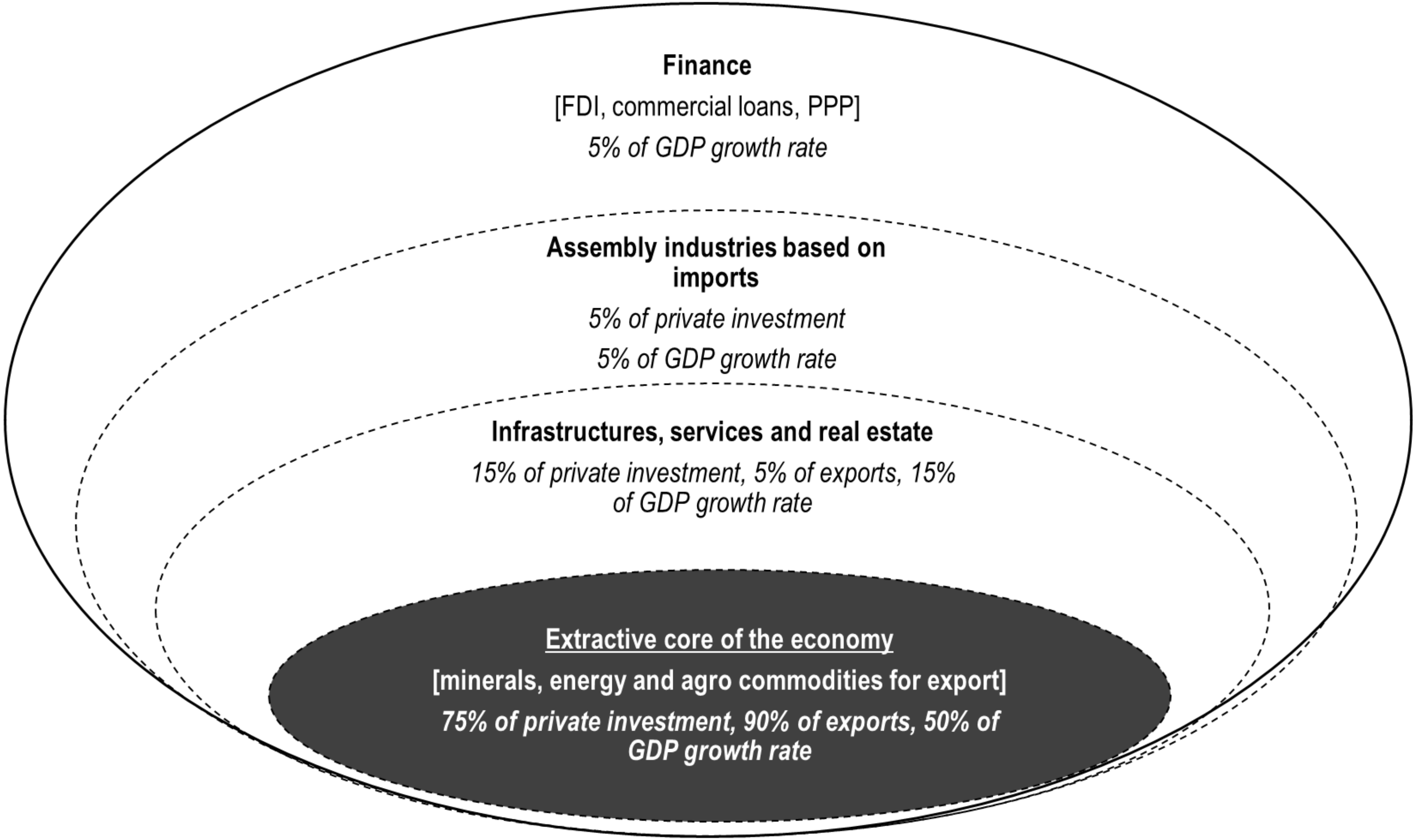
Magnitude of economic porosity – various

- Licit and illicit capital flight – approximately equivalent to annual GDP growth rate
    - Licit: 3%-4% of GDP, annually, mostly associated with tax incentives and imports of investment associated services;
    - Illicit: 3%-5% of GDP, annually, mostly related to transfer pricing and undervaluation of export revenue involving multinationals
- Physical assets (no precise financial data available)
    - Public infrastructures allocated to private concessions (railways and ports)
    - Land concessions that are not taxed or taxed at very low rates (0.40 cents of a USD for large, commercial projects, half of which have not been taxed)
    - Large minerals-energy concessions (different world experts of minerals-energy projects have said tat Mozambican concessions to multinationals are too large), at low cost, which are then traded amongst multinationals
    - Concessions of land, infrastructures and minerals-energy deposits to Mozambicans that are immediately traded with multinationals

Magnitude of economic porosity – various

- Public guarantees for private debt (the most famous being US$ 850 million for EMATUM and € 750 million for Portuguese shares of HCB) and other public private partnerships.
- Reinvestment:
    - Multinationals: 3%-5% of their profits
    - Where does private investment (foreign and domestic) go?
    - How much of approved private investment is actually implemented?

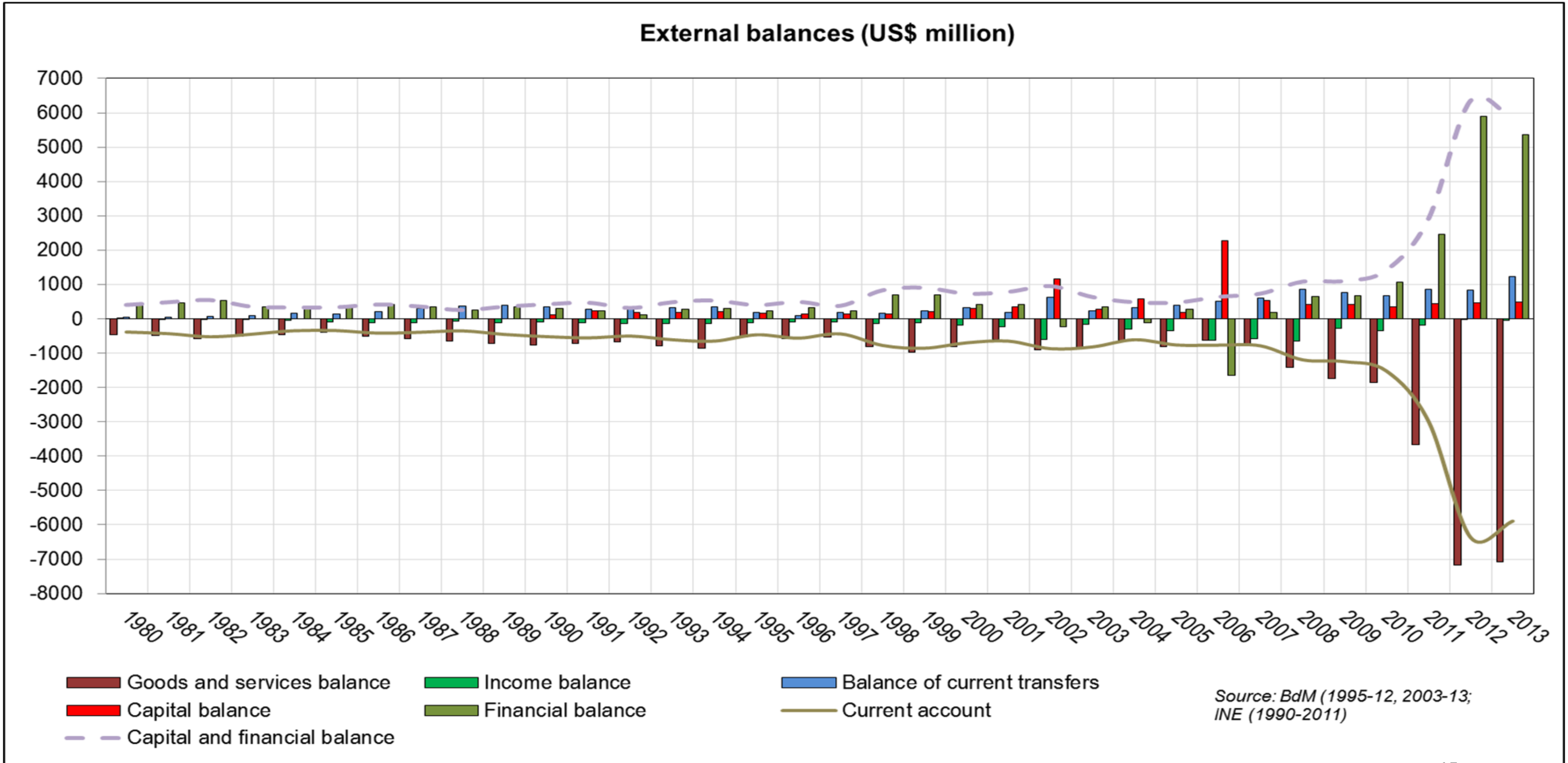
Magnitude of economic porosity – allocation and reproduction of surplus



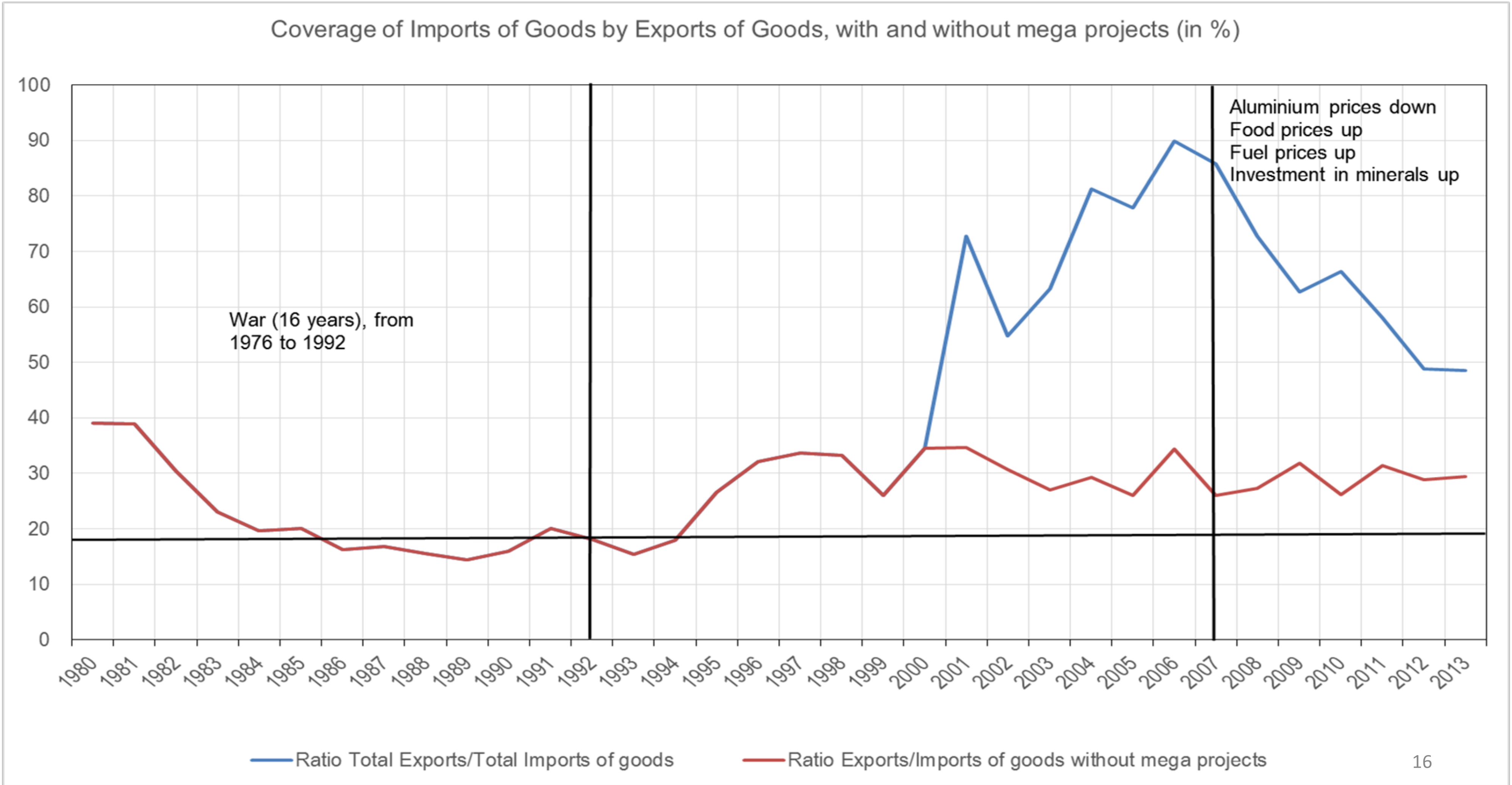
Magnitude of economic porosity – allocation and reproduction of surplus

	Industry	Forests	Mineral Resources	Energy	Transports & Comunications	Turism	Total Mega Projects
Private investment approved for mega projects (1990-2012) (CPI data base)							
In millions of US$	8.440	5.035	2.735	1.900	1.070	970	20.150
In % of total mega projects	42%	25%	14%	9%	5%	5%	100%
In % of total private investment	24%	14%	8%	5%	3%	3%	58%
Private investment implemented in mega projects (1990-2012)							
In millions of US$	2.340	0	1.535	0	1,070	0	4.945
In % of the value apporved for the sector	28%	0	56%	0	100%	0	25%
In % of the total value of mega projects implemented	47%	0	31%	0	22%	0	100%
In % of total value of mega projects approved	12%	0	8%	0	5%	0	25%

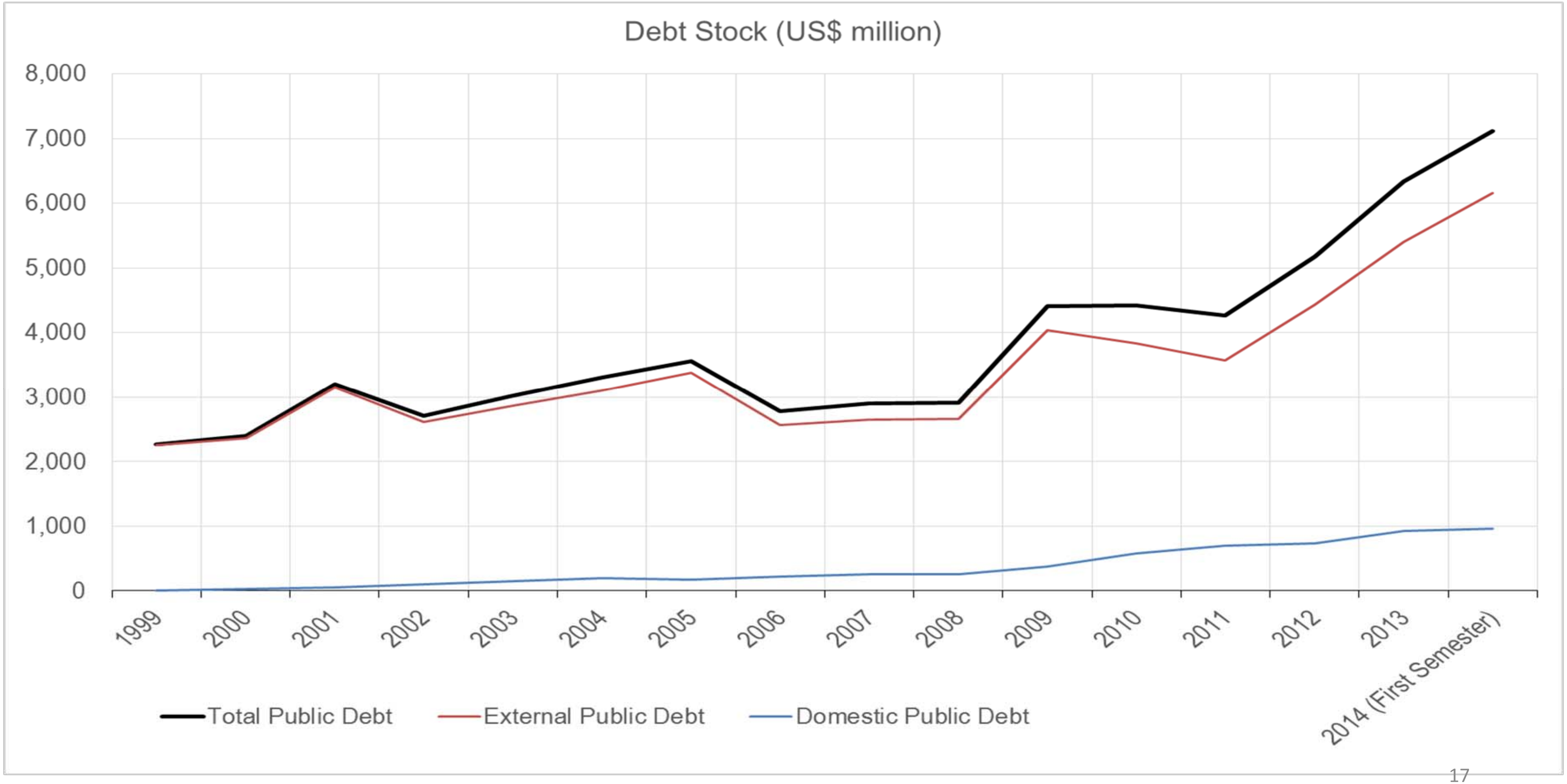
Magnitude of economic porosity – public debt



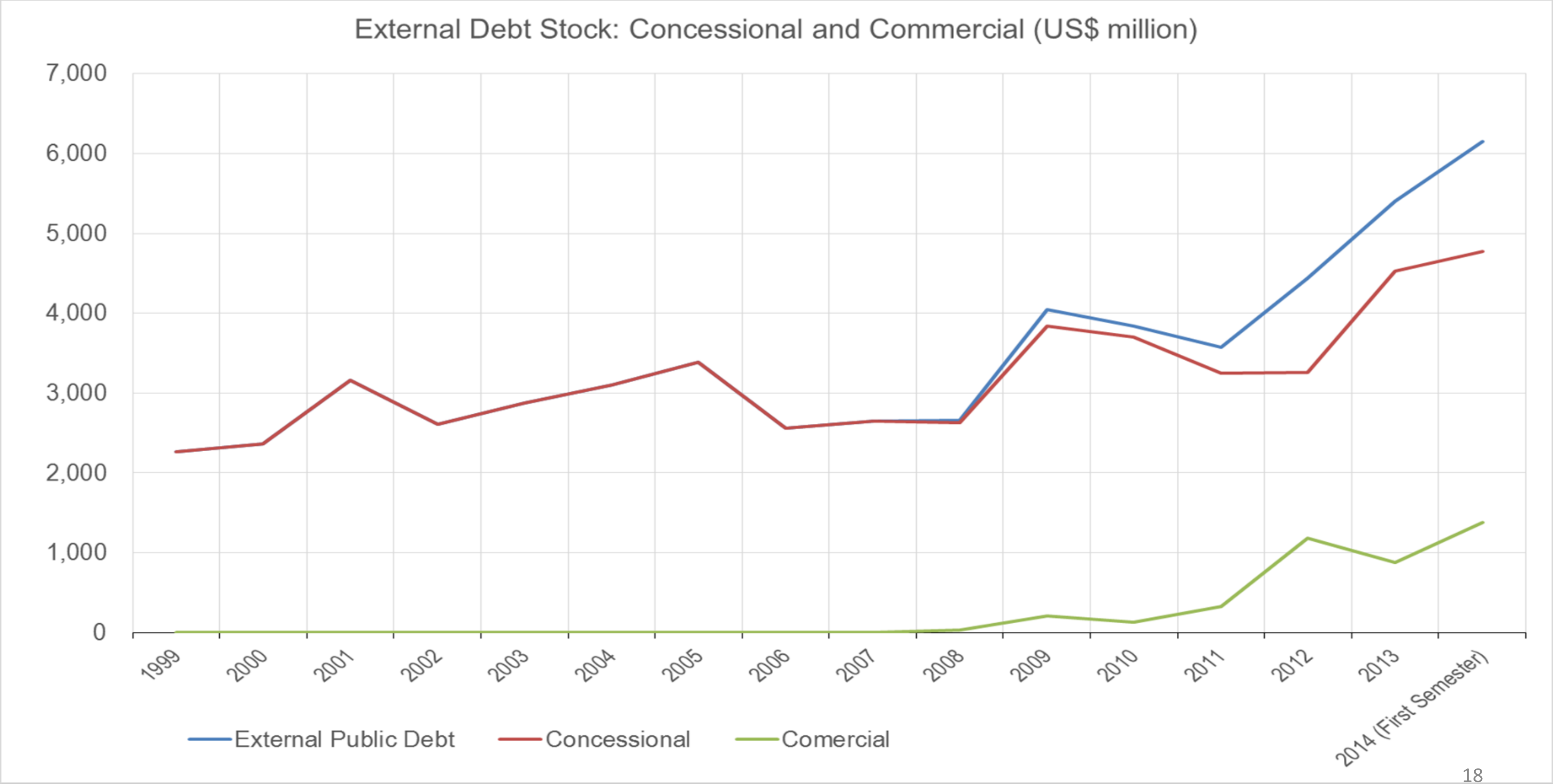
Magnitude of economic porosity – public debt



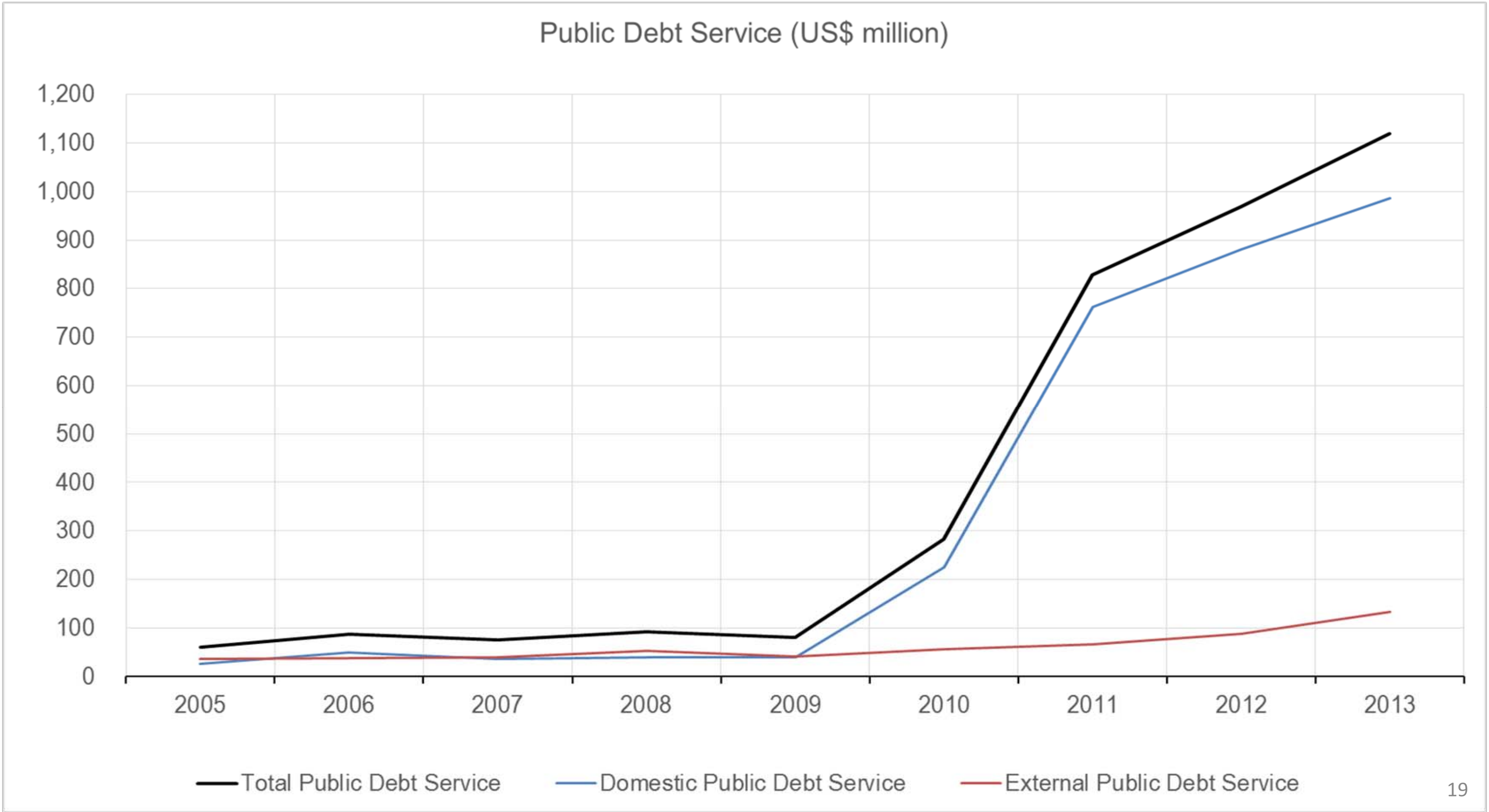
Magnitude of economic porosity – public debt



Magnitude of economic porosity – public debt



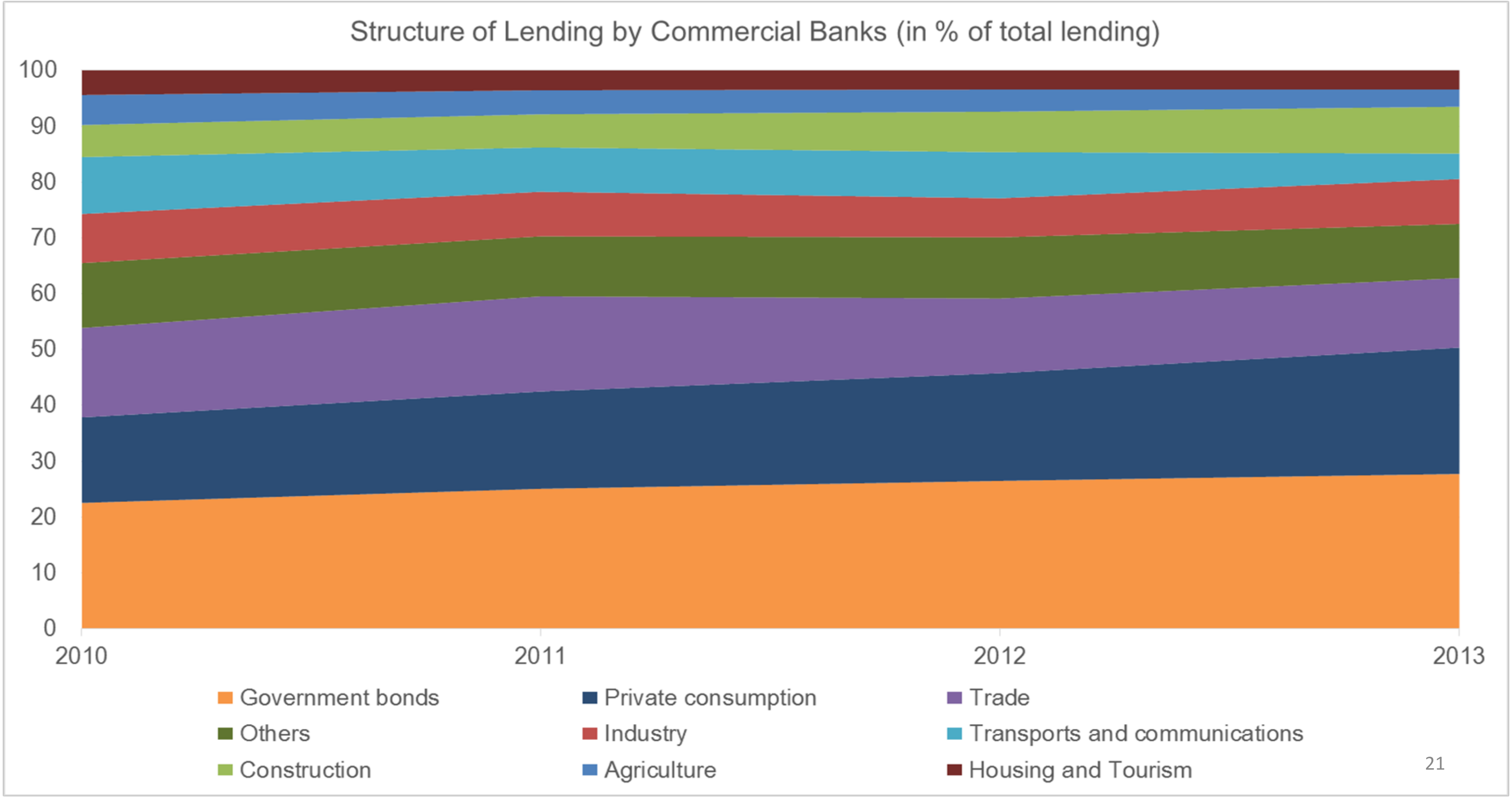
Magnitude of economic porosity – public debt



Magnitude of economic porosity – public debt debate in Mozambique

- Fiscal sustainability as the sole indicator
  - The debt space created by two decades of SAP because of stringent limits, imposed by the IMF, on commercial debt. Hence, external debt is mostly concessional. Opportunity for attraction of large capital
  - Focus on utilisation of debt space – it exist, lets get indebted to the limit of fiscal sustainability. Focus on the amount of capital rather than on its uses
  - Questions about indicators of fiscal sustainability – they do not take into account the effects of economic porosity. IMF starts to be very concerned with this.
- Structural impact of debt irrespectively of its fiscal sustainability:
  - The financial systems is more speculative and less involved in diversified production
  - The currency is unstable
  - Capital is expensive
  - Patterns of economic narrowness, concentration and centralisation tend to consolidate themselves
  - Negative effect on expectations may overshadow the role of debt in keeping expectations high (will the bubble grow and explode or shrink and implode?)

Magnitude of economic porosity – debt and the financial system



Economic Porosity as a mechanism of primitive accumulation of capital in Mozambique

- Long standing debate on economic porosity in Mozambique: initially focused on taxation of mega projects of the minerals-energy complex, evolving, in recent years, to incorporate other forms of porosity such as public private partnerships, financing of large private interests through public debt, and so on.

- Question: why does this persist despite increasing public outcry and systematic demonstration of negative effects to the economy as a whole? Porosity may be partially created and maintained by weak institutions and capabilities, but it may also be a central component in the tripartite relationship between the state and multinational and domestic financial oligarchies. Porosity is not only an absolute loss of income to economies abroad, but it may also be part of the process of social expropriation (including the expropriation of the state) for the benefit of developing a national capitalist class – hence, a social loss for private gain.

- We are not concerned with value judgements *per se,* but with understanding the dynamics of accumulation that emerge and the challenges they pose for broad based development, structural change and poverty reduction. Hence, we are going to explore how things can make sense together, within the circuit and accumulation of capital.

Economic Porosity as a mechanism of primitive accumulation of capital in Mozambique

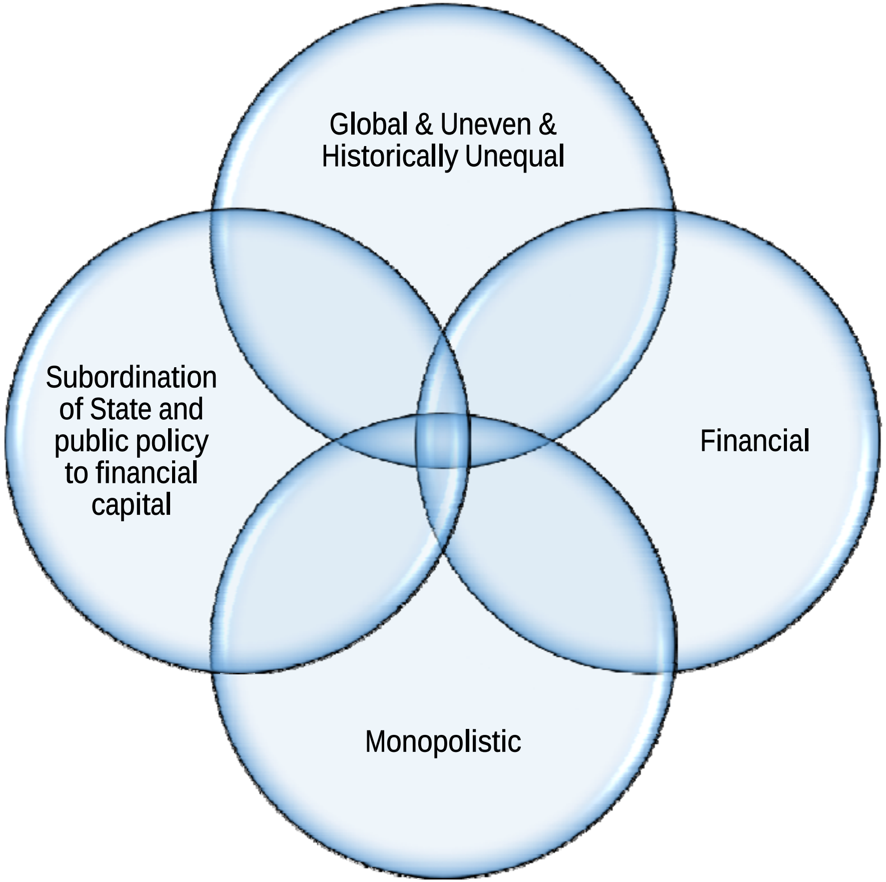
- Formation of national capitalist classes under specific historical conditions:
    - Monopolistic (multinational, market dominance, alliance between resources/production/finance), global (global chains) and financial capitalism (fictitious capital).
    - Expansion and globalization of monopolistic 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

Economic Porosity as a mechanism of primitive accumulation of capital in Mozambique

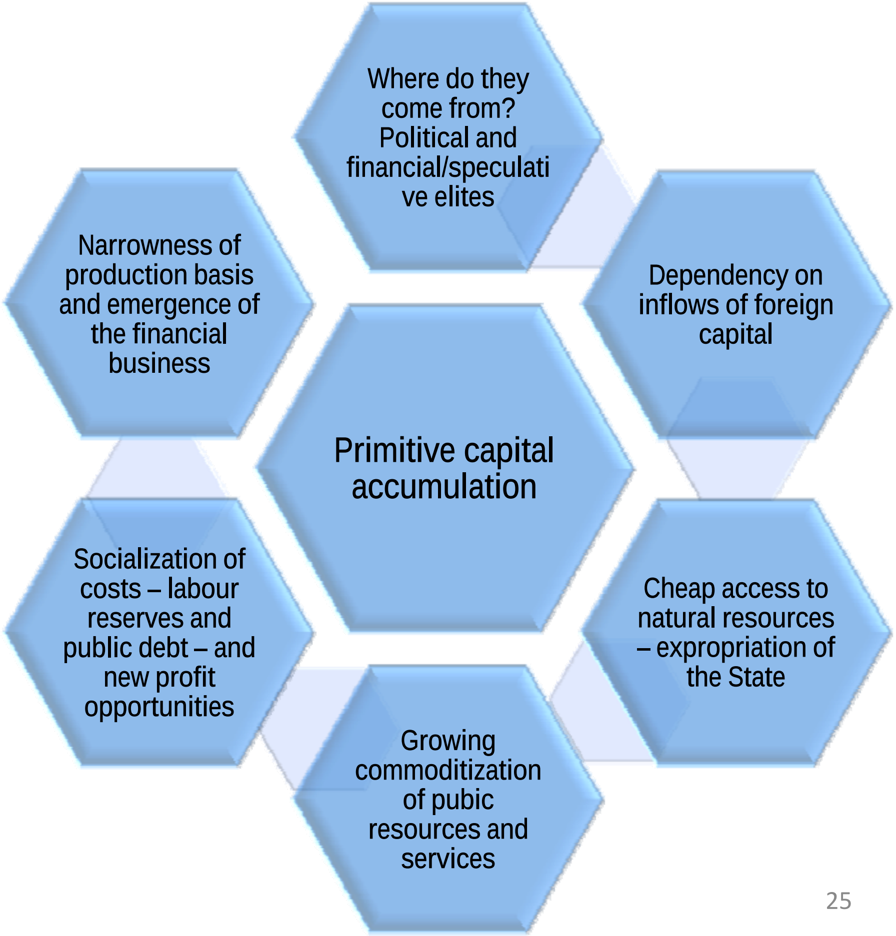
- Formation of national capitalist classes under specific historical conditions (Conti.):
  - Structures of accumulation in place made in colonialism – how to change them to promote national capitalism? What type of national capitalism is possible? The debate over “dependent capitalism” and national 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.

Economic Porosity as a mechanism of primitive accumulation of capital in Mozambique

Contemporary Capitalism



Historical specificity of Mozambique



Economic Porosity as a mechanism of primitive accumulation of capital in Mozambique

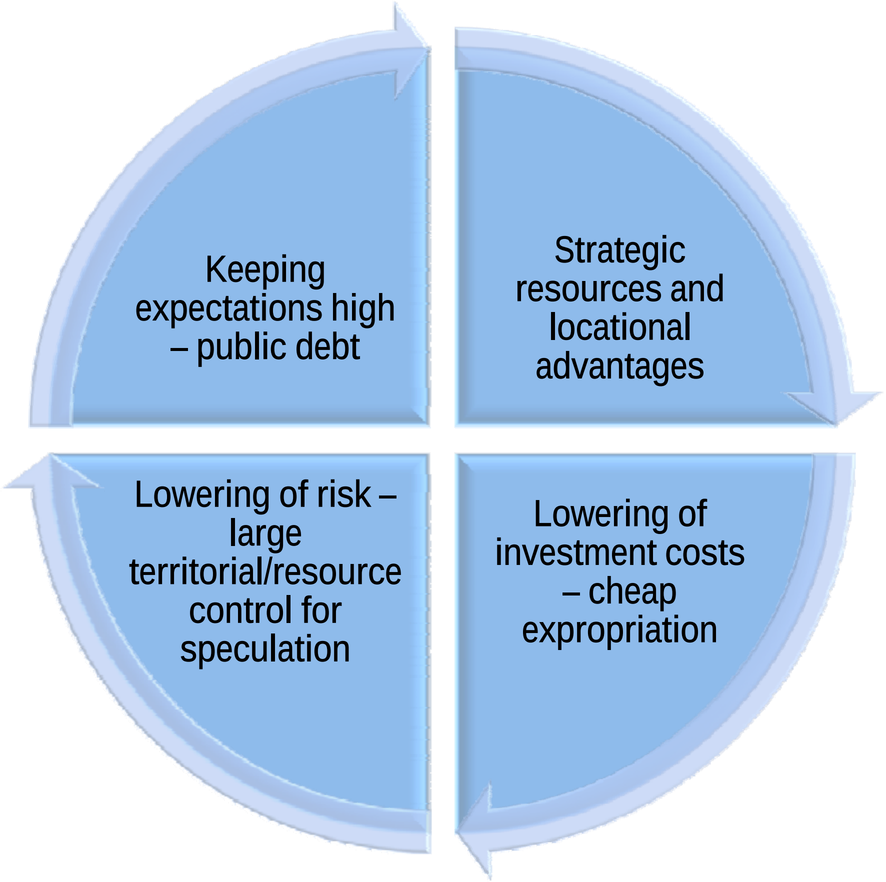
- Guebuza's speech of 1986 – the capitalist manifesto in Mozambique
  - Revisiting the debate on "dependent capitalism": The danger of imperialism and the need for a class of guarantors of sovereignty – patriotic capitalists created at full speed
  - Where would they come from? Political elites, *aparatchiks* 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

Economic Porosity as a mechanism of primitive accumulation of capital in Mozambique

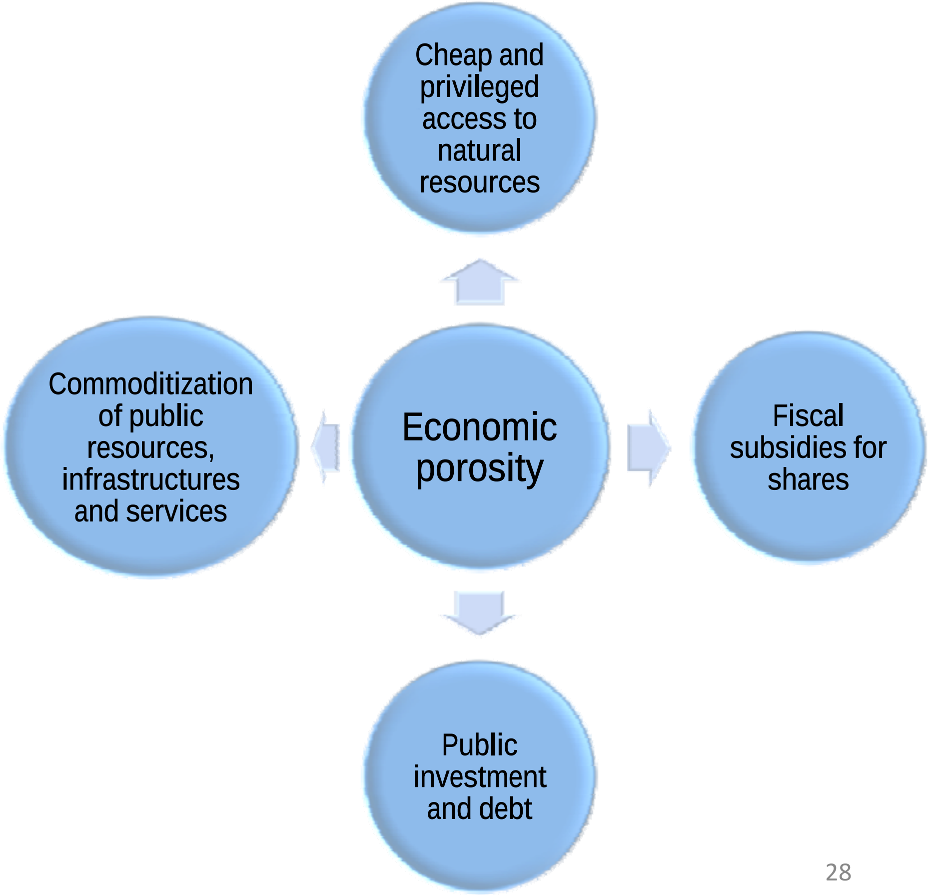
- Three focus of policy:
  - Mobilization of foreign capital
  - Linkages (leakages) to domestic capital – access to state property and the expropriation of the state
  - The labour issue – extraction of absolute surplus value by undercutting subsistence costs paid by capitalists (and the problem of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

Economic Porosity as a mechanism of primitive accumulation of capital in Mozambique

Dependency on foreign private capital



Linkage and leakage to domestic capital



Economic Porosity as a mechanism of primitive accumulation of capital in Mozambique

- 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).

Economic Porosity as a mechanism of primitive accumulation of capital in Mozambique

- 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,

Economic Porosity as a mechanism of primitive accumulation of capital in Mozambique

- 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

Economic Porosity and the feeding of expectations – the role of public debt

- “Mining” the debt space:
  - ‘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.

Economic Porosity and the feeding of expectations – the role of public debt

- 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

Economic Porosity and the feeding of expectations – the role of public debt

- 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 to pay debt, speculative bubble, default leading to severe social austerity and further concentration and centralisation of capital.
- The recent currency crisis and its logic and policy fallacy
  - The failure of the anti-riot exchange rate policy
  - Overshooting and lame policies – panic over social unrest
  - Debt fuelled economic expectations and the bubble exploding

Economic Porosity and the role of social austerity

- 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

The end?

- Economic porosity as a choice of economic policy and practice has never before been under so much pressure created by economic dynamics. The writings of the current crisis were clearly written on the wall for those who bothered to pay attention and read. A combination of aid and massive inflows of private foreign capital helped to disguise some of the symptoms of the crisis, but the trends were clear. Two years ago, economic porosity was seen as an interesting concept and the debate on public debt was marginal. A little more than one year ago, during the campaign for general and presidential elections, all parties refused to discuss the debt issue, because, they said, it did not affect the lives of the people and was only a matter of concern for intellectuals. Fourteen months down the road and the IMF is back to tackle the debt issue and the currency crisis (60% devaluation is less than 6 months).

The end?

- The paradox is that while the bubble is while real life decided to make sure that we all see the problem, large capitalist (domestic and foreign) are not letting go and the economic authorities are terrorized about the prospects of having to do something serious and really important to start addressing the problem. Four years ago, when the current crisis was only a few balck clouds in the distant horizon, the Governor of the central bank called for renegotiation of contracts with the mega projects to reduce the speed of public endebtness and enable diversification of private investment. Today, the same economic authorities are entirely focused on austerity over individual small and medium consumers. There is fear about offending large capital and the markets – largely, the cause of the crisis – and lack of confidence on any policies that differ from mainstream, as mainstream policies may not work and may only benefit large capital in the short run, but they are mainstream, so nobody fault (a sort of herd behaviour – safety found in the group even if we know that we are all wrong).

The end?

- The return of new and old donors may cool down the pressure for change in the short run, and they are back. But we are feeding a systemic disease, that is also a vice, that may explode again very soon.

- So, the crisis may not, *per se,* be a force strong enough and sustained to force change. The questions are how to mobilize the social, political and economic forces for change, and who may they be. The crisis is an opportunity only.

- So, are we at the end of porosity as economic policy and strategy? The model is largely exhausted and real life has shown its limits in a brutal manner, but there isn't yet enough political capacity and political articulation of social and economic pressures into an alterative approach and program.

- There are still three options on the table: keeping things as they are, but mobilising external resources to tackle the short run crisis (time preference, passing a bigger crisis to the future); attempt to save Mozambican capitalism from itself, with some combination of neo-Keynesian approaches (nobody os working of this systematically); and saving Mozambique from capitalism altogether (a lot of energy has been put against this option).

Thank you!