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Refuting Myths in the Debate about the Public Debt in Mozambique

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In the previous issues of IDeIAS in this series we located the debate on the public debt and discussed it in detail. This IDeIAS, the third in the series, discusses the myths which have emerged in the public debate on this theme.

The false question of the sustainability of the public debt

In the last ten years, the concept of debt sustainability (the capacity of the economy to pay the debt service without putting at risk essential goals such as economic growth and social development) was the instrument most used to rebuff criticisms and warnings about the trends and dynamics of the exponential growth of the public debt. The concept is based on a series of ratios, namely the ratio of current value of the debt stock to exports (150%), to GDP (40%) and to government revenue (250%), and the ratio of the debt service to exports (20%) and to government revenue (30%). The debt is regarded as sustainable as long as it is within these limits.

This argument may be false for various reasons. First, the structure of the economy may make these ratios inadequate as indicators of the real capacity of the economy to service the debt. In the Mozambican case, economic porosity means that between 6% and 10% of GDP is lost every year through licit and illicit transfers of capital, which implies that the GDP significantly overvalues the wealth available to the country. The use as a denominator of Gross National Product (GNP), which is the GDP net of transfers abroad, instead of the GDP, might better reflect the real capacity to honour the debt. Export revenues belong to the exporting companies, but the economic porosity and weaknesses of domestic linkages prevent the economy from absorbing them. A ratio that measures the debt against the current account balance, that adjusts the trade balances by the transfers of income of the exporting companies, would be a better indicator of sustainability.

Secondly, sustainability is politically defined. On the one hand, it refers to the political capacity to impose austerity in other expenditure in order to pay the debt and guarantee the returns agreed with the creditors. On the other hand, it reflects political choices about the priorities of the economy – in the Mozambican case, it is a choice between prioritising satisfaction of the creditors and speculators in accordance with their expectations, reproducing the current patterns of the production and distribution of income, or prioritising the reduction of economic porosity, increasing social absorption of the surplus, and the broadening, diversification and articulation of the productive activities and employment , transforming the pattern of the production and distribution of income.

Third, debt sustainability in the medium and long term has to do with future expectations about the economy. In the Mozambican case, these expectations were generated within a speculative economic bubble, partially maintained and nourished by the capacity for indebtedness. The debt resulted from economic choices, but it also fed the expectations which made it possible to reproduce these choices during some times, making the economy addicted to debt. The exhaustion of the capacity for indebtedness, together with economic shocks to which the economy has become particularly vulnerable, because of the continual narrowing of its productive base, made the bubble unstable, and caused its explosion (debt crisis) and implosion (retraction of investment, slowdown in growth and unemployment).

Finally, the debt has other, fundamental macro-economic impacts, in addition to its fiscal implications. In the Mozambican case, in addition to affecting the amount of public resources available to finance broader economic and social policies, the debt increased the cost of capital, and made the domestic financial system more speculative and inaccessible for small and medium businesses. It helped feed the speculative bubble and favoured the dominion of the extractive core of the economy. Thus, even if the level of indebtedness remains within the technical limits of sustainability, the broader impact of the debt may make the economy, and its model of accumulation, unsustainable.

Is this moment atypical in the Mozambican economy?

In his address to the nation, the Prime Minister said that the Mozambican economy is going through an atypical moment, after several years of solid economic growth. From the context of the speech, one would think that the explosion and implosion of the economic bubble, or the economic crisis, are uncharacteristic moments in the trends and dynamics of the economy in recent years. However, in the same speech, the PM indicated some of the fundamental causes of the crisis, namely: excess of consumption over production, since, if the mega-projects are excluded, the economy imports four times more than it exports; and the fall in international prices of raw materials, which dominate Mozambique's exports; as well as the rupture in sources of financing such as the BRICS and foreign aid.

But in 1992, the year in which the 16 year war ended, the rate of coverage of imports by exports, excluding mega-projects, was about 30%, much the same rate as in 2014. This problem was identified a decade and a half ago and has been discussed on countless occasions. It is neither new nor atypical.

Between 1992 and 2014, exports were being concentrated in the mineral-energy complex (72% of total exports) and in four agricultural products in primary or semi-processed state (timber, sugar, bananas and tobacco, accounting for 18% of total exports). Thus, the impact of the fluctuations in the prices of raw materials and other primary products, the main exports of Mozambique, is due not only to the scale and volatility of these fluctuations but, above all, to the excessive exposure and vulnerability in which the Mozambican economy finds itself, due to its excessive specialisation, as a development option, on an extractive core (the mineral-energy complex and primary and semi-primary commodities for export). This narrowing of the productive, fiscal, commercial and employment base began to worsen three decades ago and speeded up over the past decade. Furthermore, in the decade from 2005 to 2014 imports grew very rapidly because of the acceleration of investment in mega-projects, the import of military equipment and luxury durable goods, and the extreme dependence of production and consumption on imports. These problems, which have been publicly discussed for a decade and a half, are an organic part of the economic model and, taken together, they explain the low rate of coverage of imports by exports in the economy, So they are not new, and not atypical.

The crisis of the BRICs has affected the availability and ease of financing the economy with commercial credits, as the PM said. However, the Mozambican economy had already absorbed more debt than it could support – and so went into a debt crisis – and had used the debt space to finance projects that are interesting for the national oligarchies and for international corporations, but inadequate for diversifying, broadening, and coordinating the productive, commercial, fiscal and employment base. But even if the BRICs could continue to finance the expansion of the national economy, it would not be able to contract debts at the same scale, rhythm and structure, and would merely generate a greater economic bubble.

The speculative bubble, that we began speaking about five years ago, exploded and imploded because the margin for indebtedness ran out (leading to the explosion), the credibility of the economy fell due to the high risk and serious irregularities in managing the debt and the budget, and the capacity to mobilise resources in the international financial system and in the emerging economies reduced drastically (leading to the implosion). The roots of the speculative bubble and of its crisis are structural and long term, and so the structural problems mentioned by the PM, such as the rate of coverage of imports and the structure of exports, are not atypical. On the contrary, they are all classically typical and representative of the dynamics of the extractive, tapered and porous economy, and have been discussed in Mozambique since the beginning of this century. The solution to the current crisis requires a rigorous analysis of long term trends and a good understanding of how these trends generated the economic bubble, but also how they made it implode and explode.

Does the crisis result from an excess of consumption over production?

In his statement, the PM said that the debt crisis is, to a large extent, determined by the excess of consumption over production, by the fact that imports, excluding the mega-projects, are four times greater than exports. This argument leads to two types of public policy measures: those aimed at containing the money supply in order to combat inflation and reduce the fiscal deficit, and those tending to promote exports of the same type (semi-processed primary products for volatile international markets).

However, in the same speech, the PM said that 60% of the debt was to build large scale infrastructures, associated with mega-projects, and a sixth of the debt consists of guarantees for private debt illegally issued by the previous government. Thus more than 75% of the debt went on financing the private accumulation of capital and not on the consumption of citizens or of the State. If there is an excess of consumption, who is consuming too much? It is not the economy as a whole, nor is it ordinary citizens or the State. It is specific social groups, the national oligarchies and the international corporations, who are doing so, in response to the patterns of production and distribution of the Mozambican economy. Hence the debt does not result from excessive consumption by all citizens and by the State, but from the expropriation of the State, by means of indebtedness, to finance national and international oligarchies. The volume of imports is determined by this economic pattern, in the same way that the volatility of export revenue is.

If we understand the crisis as an excess of consumption over production, we will tend to guide the policy debate in favour of social austerity and of increased production within the dominant extractive and tapered productive patterns, thus planting the seeds of the next crisis. If we understand the crisis as the result of a rupture in the system of production, appropriation, distribution and use of wealth, the focus of the policy debate will be placed on the transformation of the mode of reproduction and accumulation of capital, which could assist in emerging from crisis with a more solid economy, better able to face and to resist the next crises of global capitalism. If the bulk of the debt was generated by investment in infrastructures which do not serve the economy as a whole, then austerity should be aimed at this type of "consumption", reviewing, restructuring and re-allocating public investment in order to prioritise diversification, broadening and coordination of the productive, commercial, fiscal and employment base.

Are the IMF and the donors the problem of the Mozambican economy?

Some national analysts and politicians have focused their criticism on the decision of the International Monetary Fund (IMF) and the donors to suspend loans to Mozambique until the debt situation is clarified and renegotiated. As might be expected, these voices and questions were not raised when, three months previously, the IMF helped finance, at the government's request, the stabilisation of the national currency, which lasted a very short time (a very expensive strategy for very little benefit). Furthermore, the debt crisis, the illegal debts, the simultaneous explosion and implosion of the economic bubble are real, structural problems, which were not created by the IMF and which, with or without the IMF, would have to be solved otherwise the Mozambican economy would risk going into prolonged collapse. So our number one problem is the economic crisis created by the development options of the country, and not the way in which the IMF and other donors have reacted to this crisis. .

Over the last five years, despite their growing reservations and doubts about the seriousness and sustainability of the government's economic strategy, the IMF and the international community continued to endorse and praise, publicly, the robustness of the Mozambican economy. Their studies, which pointed to the need to revise the fiscal incentives and the contracts for the large projects, to the dangers presented by the rate of growth of the public debt, particularly its commercial and domestic components, to the need for a sober and cautious attitude in building long term expectations around coal and hydrocarbons, to the dangers of a highly tapered and defectively analysed and planned public investment, were never widely discussed outside government institutions or taken seriously. (Mozambican analysts who took up the same matters and dealt with them in greater depth than the IMF were ostracised and turned into enemies of the motherland.)

As an international guarantor of the global capitalist system, the IMF had some responsibility in the Mozambican crisis at three moments. First, its programme, of two and a half decades of austerity, created a huge space for indebtedness that was never managed properly – the objective was not to spend, instead of learning to spend and manage well. Secondly, up until a year ago, the IMF positively endorsed the Mozambican economy, despite all the signs of great danger which its own studies were revealing, which opened the space for fiscal and financial irresponsibility, both of the government and of the international investment banks. Given the general guarantee from the IMF, the banks became negligent and insatiable concerning the possibilities of making high speculative profits in Mozambique. Combined with the voracity of the government and of the national oligarchical elites for capital, at any cost, the international banking system financed both the economic bubble and its recent explosion and implosion. Third, the suspension of cooperation caused a shock in the system, and this helped accelerate the implosion of the economic bubble. The adjustment and stabilisation programme, which may be on the way, could cause a spiral of impoverishment, centralisation and concentration of capital, dependence and a new crisis (one of the next IDeIAS will return to this matter).

However, what made Mozambique vulnerable, made it a target for the wrath of the IMF and of the donors, and put it in the firing line of the international financial system were the economic options of the previous government, the interests of the oligarchies which it served, and the complicity of the multinational corporations and of the speculative international banking system. The government of that time is certainly also responsible for planning mistakes as blatant as those which built bridges without roads and airports without linkages and synergies, and spent US$ 1.4 billion on security and logistics for projects which do not yet exist (such as the cases of PROÍNDICUS, MAM and the illegal loan for the Ministry of the Interior).

The threat to the economy, to stability, to sovereignty and to national self-esteem does not lie in the fact that the IMF and the other donors finally reacted, but in the economic bubble that was stretched until it exploded and imploded, despite the warnings that were given over the years. It was the greed of the national oligarchies, supported by the government and by international capital, which created the crisis, the instability and the threat to the economic and financial sovereignty of Mozambique.

We need to put the debt question in context, to understand its structure and dynamics and to draw up a restructuring and development strategy that is an alternative to the monetarism of the IMF and to the speculative greed of the banks, of the multinationals and of the national oligarchies, and we need a government that demarcates itself clearly, and in actions, from the financial irresponsibility of the previous executive.

Is a way out of the crisis possible with more of the same?

There are analysts who argue that a way out of the crisis is possible and consistent with re-launching the economy in the same shape – a continual focus on its extractive core (the mineral-energy complex and the primary commodities for export), on future expectations, and on their power to pull the economy along – as long as institutional credibility, financial stabilisation and debt restructuring are guaranteed. Speeches by the President of the Republic and the PM also stress the need to produce more, but without questioning the current economic model. The notion that the current situation is atypical implies that, in general, we are on the right path, with some hiccups on the way. Is this approach correct? In this text we have already shown that it was the current economic model which generated the crisis. If the current productive dynamics are damaging to the economy (narrowing, vulnerability to international shocks, inability to substitute imports and to supply basic goods and services at low cost, etc.), how could producing more in the same ways, without prioritising the transformation of the economy help in finding a way out of the crisis? If financing the national and international oligarchies generated the debt, how will continuing with them solve the crisis?

The tapered and disjointed productive, commercial, fiscal and employment base, together with economic porosity and the mechanisms of the centralisation and concentration of capital, form the essential spices of the economic bubble which has just burst and is in process of implosion. How can more of this model help the recovery of the economy and avoid a new economic bubble?

The next IDeIAS will look at the debate around economic policy and alternative adjustment measures.