Nyerere Resource Centre - COSTECH

Debt, global financialization and the periphery: comparing and contrasting Mozambique and Greece

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OUTLINE OF THE LECTURE

- Public debt and private accumulation of IBC – global data
- Financialization and Greece – Debt as business
- Mozambique: partial financialization in a process of narrow and speculative accumulation
- Bibliography

Public Debt and Private Accumulation of IBC – Global

- Illustrative data

  - Rescue packages for the 20 largest banks that collapsed under the current crisis exceeds US$ 14 trillion (this is 40 times the size of the Greek public debt and 1000 times the size of the Mozambican public debt)

  - The 4 largest of these 20 banks had a total debt of US$ 7.7 trillion. 11 of these 20 banks had debts larger than that of Greece and the smallest of these bank had a debt more than 10 times larger than Mozambique's GDP.

  - Tax havens, approximately US$ 7 trillion.

  - Between 2010 and 2015, the British government alone awarded approximately £500 billion in tax incentives to large corporations and, in the same period, cut social spending by £150 billion

Public Debt and Private Accumulation of Capital – Global

- More than half of debt portfolio of the banks was made of mortgages and securitisation associated with expanding bubbles in the economy, and investment in expansion of productive capacity was a decreasing share of it.
- Public debt – absorption of private debt plus the revenue side of it as illustrated by tax havens and fiscal incentives.
- The cost of social (or public) absorption of private debt + (fiscal incentives + tax havens + fiscal evasion): cuts in essential social spending and infrastructure investment, and the creation of the inability of the state to pursue broader economic and social policies, which undermines the economic and social process of reproduction and accumulation of capital.

Financialization and Greece – Debt as business

- At its highest, the Greek total debt was estimated at around US$ 360 billion (this is 22 times the size of Mozambique's GDP). In line with global trends, real state bubbles and securitization formed the bulk of the debt portfolio, and the combination of tax havens, fiscal evasion and fiscal incentives created a significant part of the fiscal fragility of the state.
- However, between 2011 and 2015, there were fundamental structural changes: Public sector exposure to the debt grew from 27% to 77% while, in the same period, the exposure of the private sector and of the households to the debt fell from 43% and 30% to 5% and 18% respectively. This means that the public absorbed more than half of the private sector and household debt.

Financialization and Greece – Debt as business

- In addition, the rescue packages, which enabled banks to capitalise on the Greek debt, contributed to trap the Greek economy into the vicious cycle of debt.
  - The absorption of the private debt by the public combined with the European rescue packages for the Greek public debt, quadrupled the weight of the Greek debt owed to the Euro Zone.
  - About 90% of the lending to Greece was spent on debt repayments, meaning that it did not support accumulation of real capital (only fictitious).
  - Furthermore, finance from the Euro bank was delivered to Greece through commercial banks, with spreads of about 5 to 6 percentage points, meaning that commercial banks' returns on financial operations made with European tax payers money were about 300% to 400%.
- The demands on Greece, to respond to the crisis, were massive privatization and severe social austerity, both of which supported accumulation of fictitious capital and undermined social and economic reproduction of labour and real capital. Greece had become a slave of the banking system.

Financialization and Greece – Debt as business

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- In summary: (i) the state rescued the banks and, in doing so, absorbed private debt (private sector and households); (ii) in order to pay for the debt, the state committed to massive, cheap privatisation of key infrastructural, economic and cultural assets, which the rescued banks bought or financed; (iii) furthermore, Greece's public debt was refinanced through commercial banks in ways that aggravated the Greece's inability to sustain social and economic reproduction of labour and real capital, while providing those banks with huge returns on IBC. The underlying, systemic and dynamic structures of the crisis were mostly untouched, the financial system capitalised on the crisis and the costs were socialized mostly through systematic destruction of livelihoods, real capacity and sovereignty.

Financialization and Greece – Debt as business

- The Syriza movement:
  - Broad left with a combination of intellectual articulation and mass movements
  - Anti-austerity and political articulation of interests of the vast working classes
  - Became the alternative to fascism and of alternatives of Trump/Brexit nature
  - Confronted the bureaucrats of the fictitious Europe and financial capitalism – support from mass movements in Greece and all over the world and reputable individuals, but could not get support in the spheres of power. Surrendered.

Financialization and Greece – Debt as business

- Demonstration/evidence that:

  - Financialization is a form of dictatorship that works against the working classes and even against the social and economic reproduction of real capital and real wealth, no matter how "liberal", "democratic" and "efficient" it may be argued to be;

  - Left wing political alternatives are viable within democratic contexts and may be the future of expanded direct democracy and the only alternative to fascism, and the way to transform resistenace into alternative and strategic, systemic social, political and economic transformation;

  - At the end of the day, international institutions, within the current capitalist framework, are part and parcel of fictitious accumulation and fictitious democracy;

  - A new world is necessary and possible, but only when rigorous and systemic political articulation of working class interests, mass movements and progressive internationalism are combined in structuring class struggle strategies and dynamics;

  - The global, social and political cost of the Greek tragedy may be fascism in the form of Trump, Brexit or others, not only in Europe. That has become a key struggle of our times – opposing neo-liberalism and the wave of fascist nationalism, whose tip we may have just started to observe.

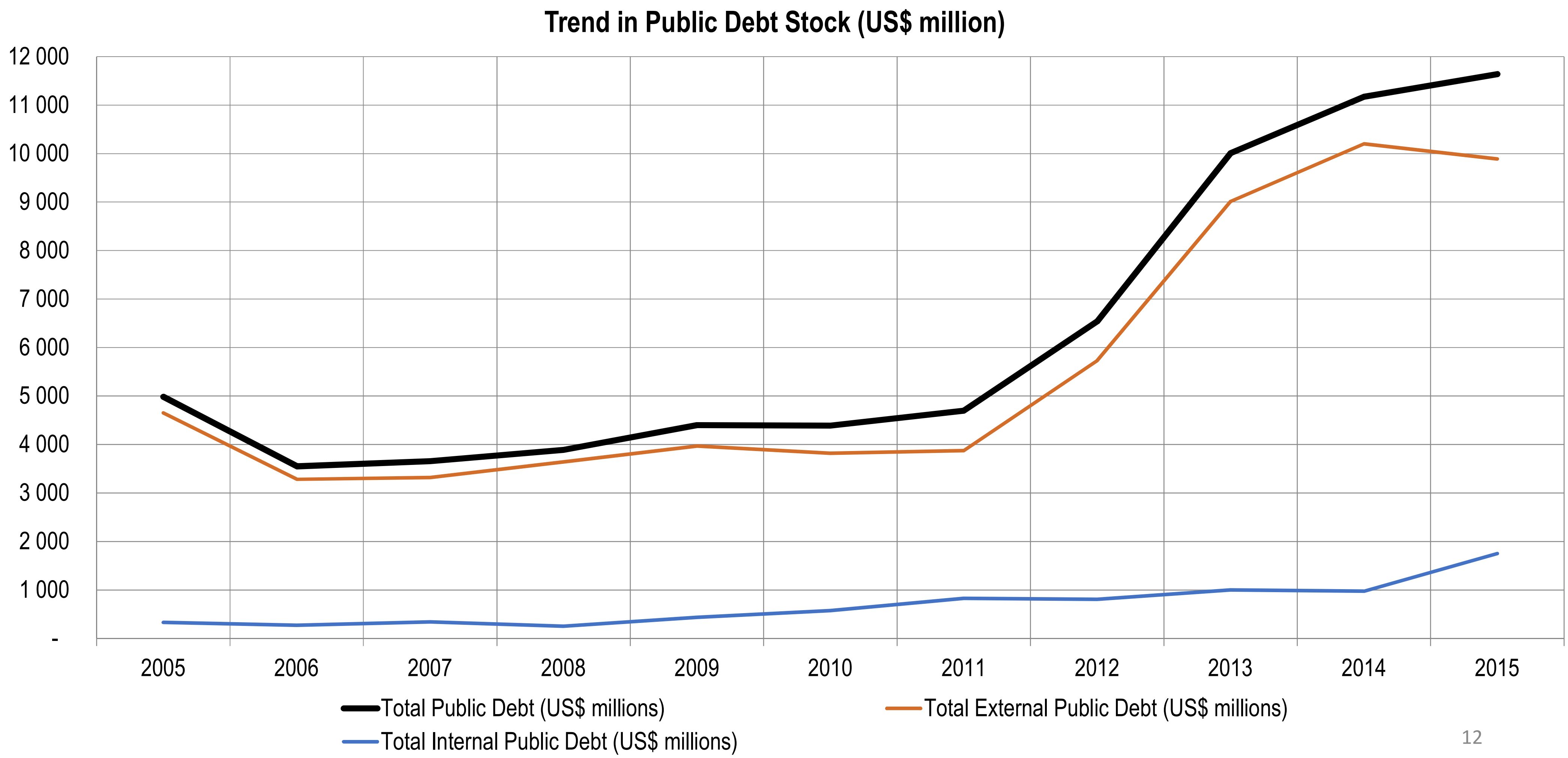
Mozambique: partial financialization

in a process of narrow and speculative accumulation

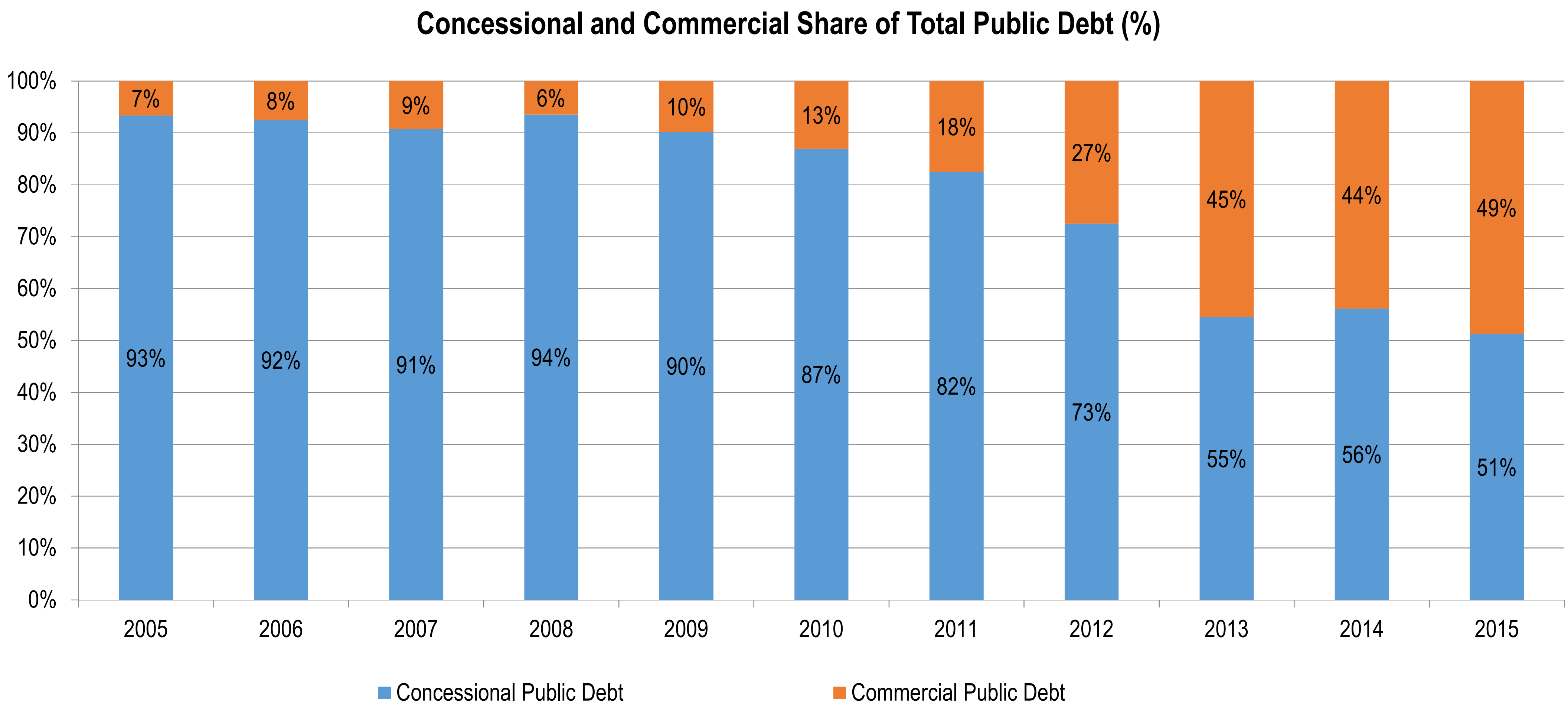
Mozambique: partial financialization in a process of narrow and speculative accumulation

- The state of the Mozambique debt crisis: fast increase in commercial debt, triggered by a phenomenal increase in both domestic and external debt, with domestic debt leading up to 2010 and external commercial debt dominating afterwards.
- Domestic and external debt fuel each other, as domestic debt is used mostly to mobilize resources to pay for debt or short term capital flow problems.
- Debt became more expensive, short term and difficult to renegotiate.
- Debt embedded, deeply rooted in the structures of accumulation: (i) a narrow pattern of growth fuels debt through investment and expansion, (ii) while a narrow pattern of commodity exports is rigid and vulnerable to market volatility, and (iii) public indebtment is made possible because of the debt space created under two decades of severe IMF led austerity, and is focused on reducing costs and risks for large capital and fuelling expectation of future revenues accruing from the economic bubble (gas/oil revenues and real estate speculation).

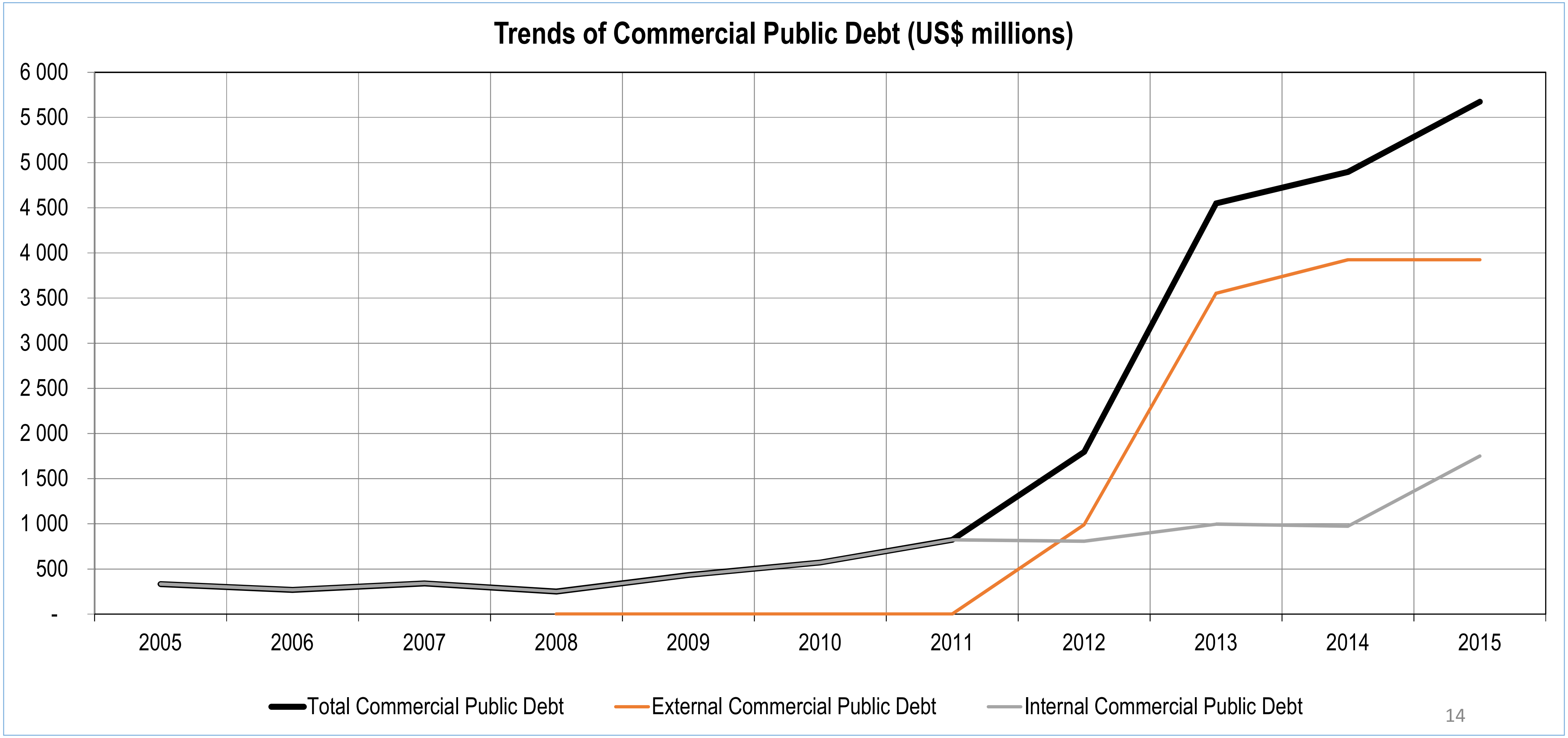
Stock of public debt



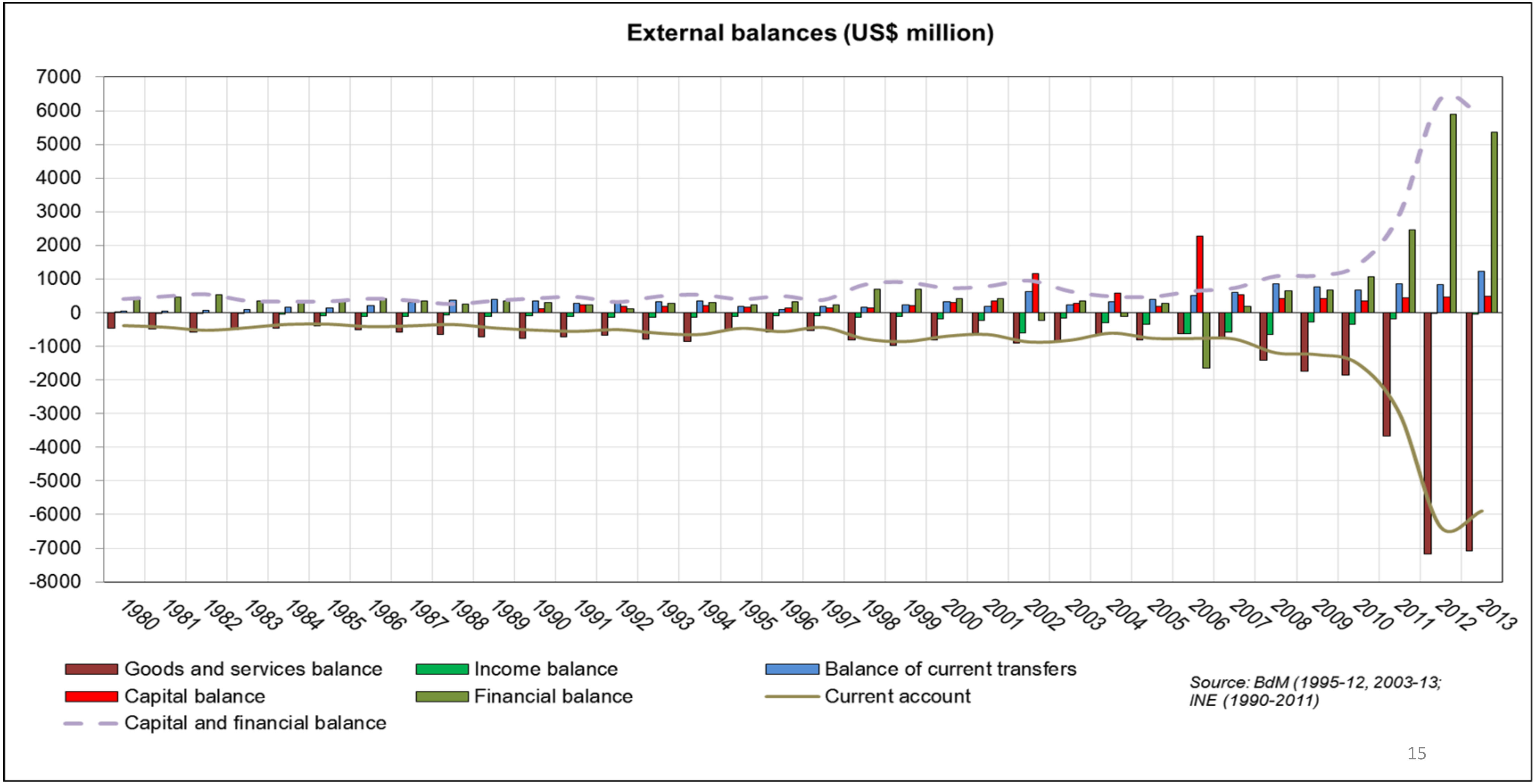
Concessional and commercial debt



Dynamics of commercial debt



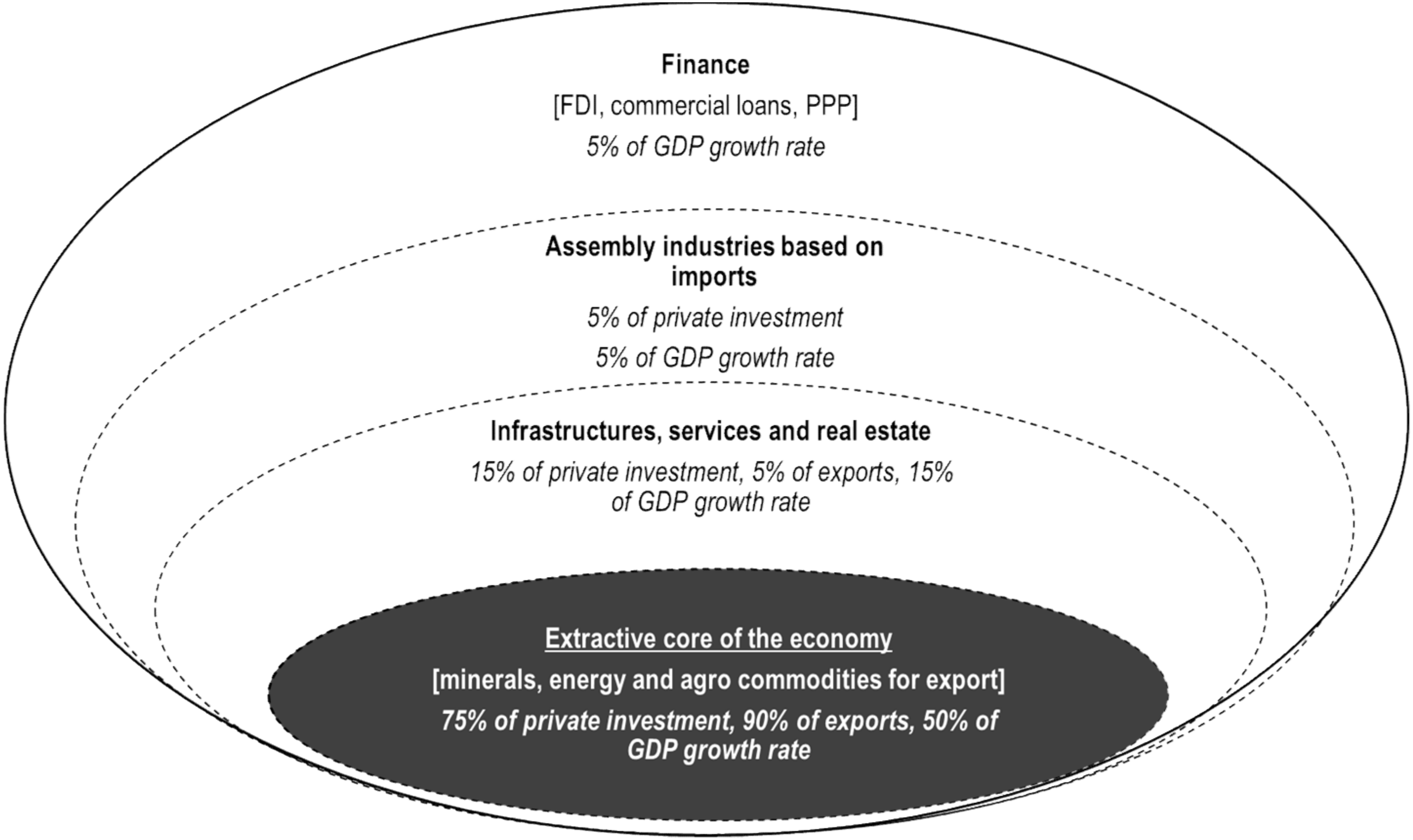
Systemic economic indebtness – unsustainable reproduction of capital



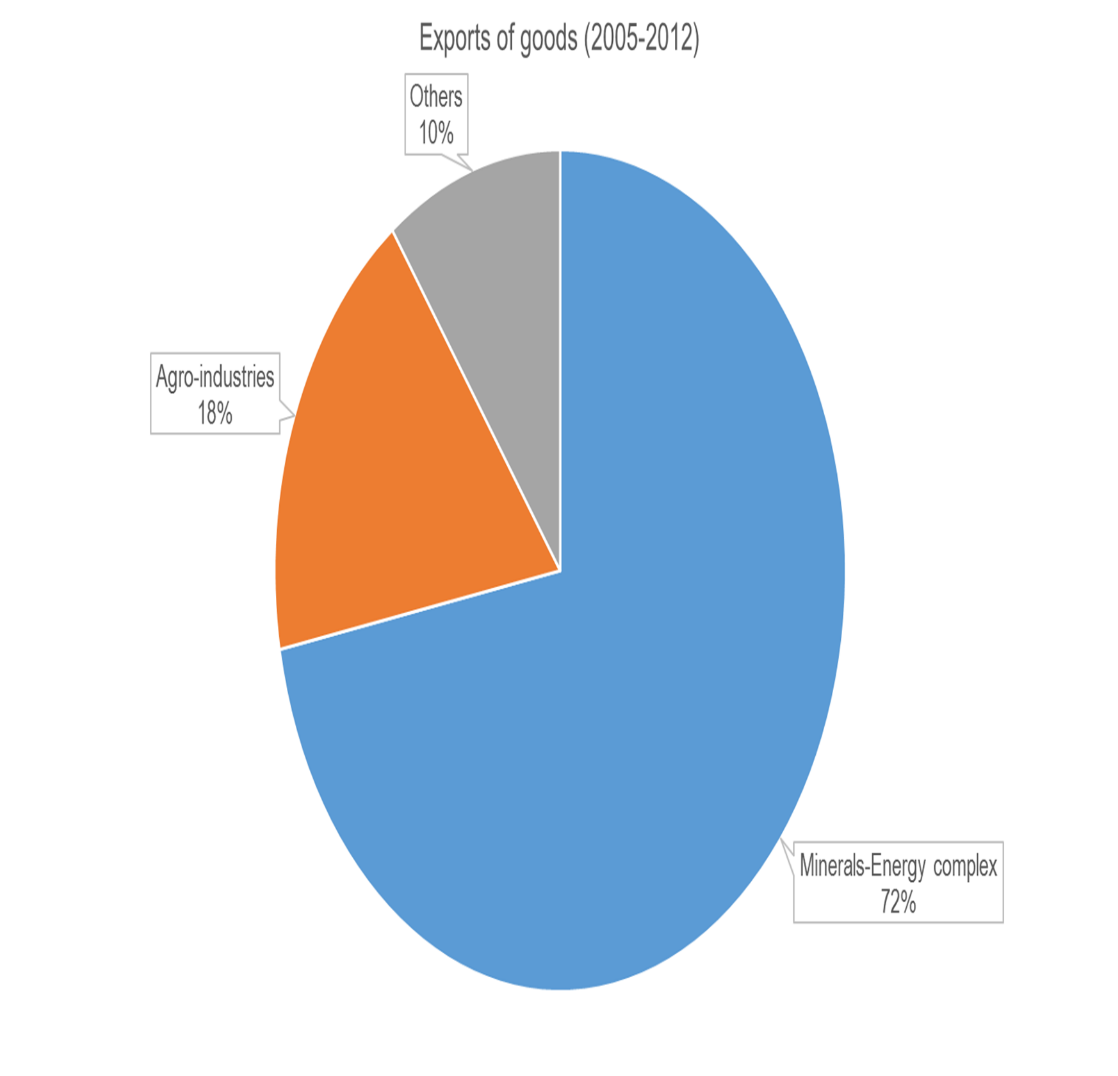
Private Investment/reinvestment

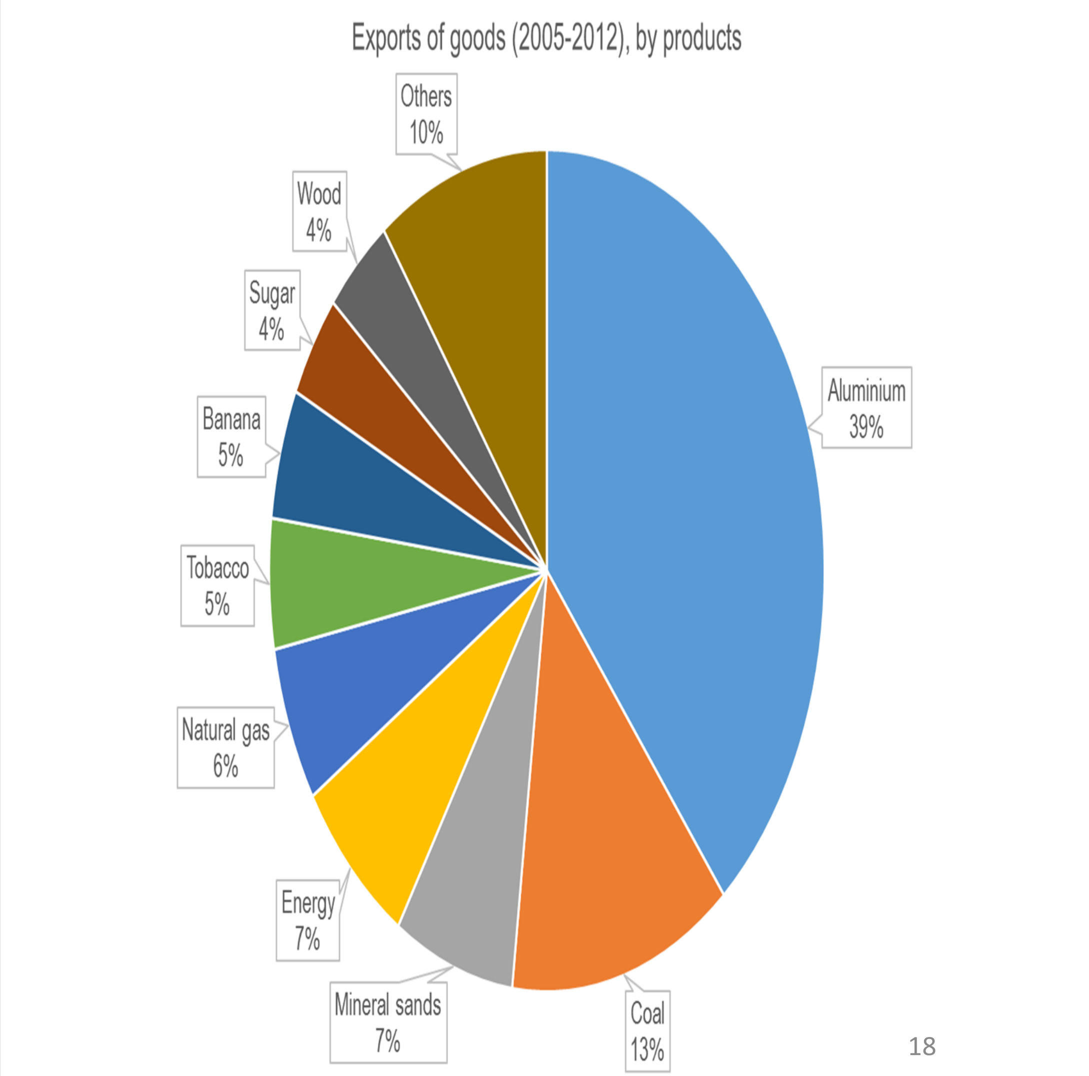
- Private investment:
  - 35% FDI, 50% foreign loans, 15% domestic banking system
  - 85% allocated to FDI led projects
- Investment/Reinvestment:
  - Multinationals: 3%-5% of their profits
  - Where does private investment (foreign and domestic) go? Back to the minerals energy complex
  - How much of approved private investment is actually implemented?
- 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

Narrowing down the structures of capital accumulation

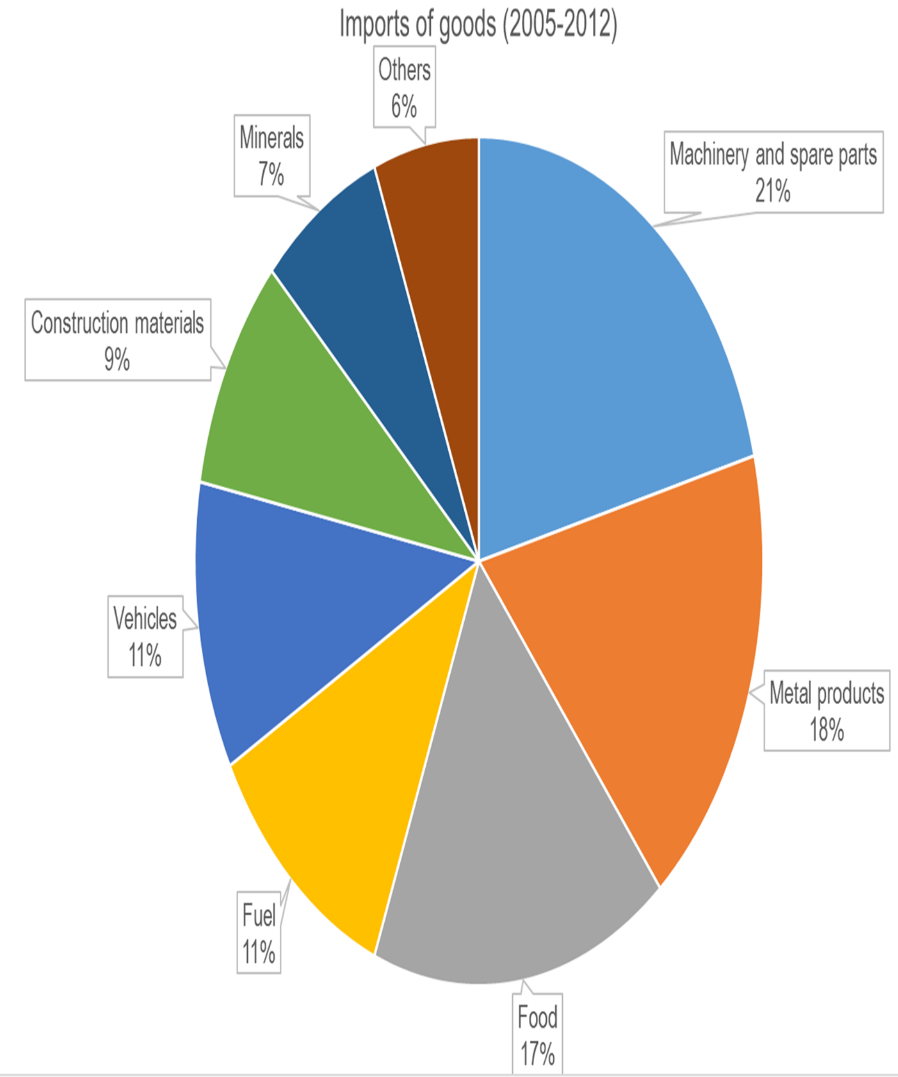


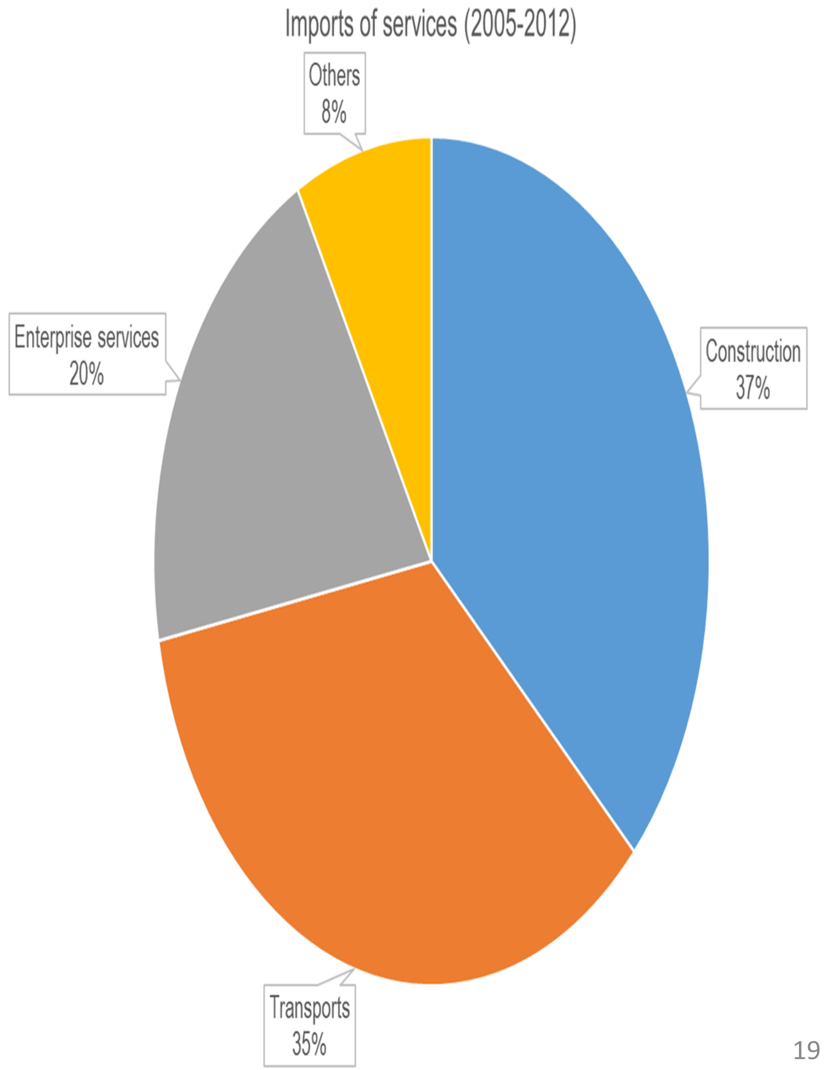
Narrowing down the structures of capital accumulation – Exports (X)





Narrowing down the structures of capital accumulation – Imports (M)





Narrowing down the structures of capital accumulation and volatility – (X/M)*100

Debt as partg of an “extractive” economy – mining the debt space

- “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.
  - Debt and the financial system: a speculative financial system oriented to the debt business (represented by government bonds, claims on future public income to finance current debt and short term cash flow shortfalls) and high end consumption (luxury durables). Together, these two items form almost 50% of the operations of domestic commercial banks, and almost twice as much as the total sum of what these banks lend to agriculture, industry, fishing, turism and transports.

Public Debt and Private Accumulation of Capital – Mozambique

- What caused it?
  - Public expenditure: (i) infrastructure for mega, minerals-energy projects (60% of public expenditure over a 10 year period); (ii) public guarantees for private investment (25%)
  - Public revenue: economic porosity in the form of redundant tax incentives, capital flights, cheap privatization of strategic natural resources and public infrastructures
  - Public/private partnerships that combined both effects
- Broad redistribution of income towards multinational capital and domestic associates, narrowing down of economic structures of accumulation and emergence and explosion of economic bubbles associated with speculative finance and growth

Public guarantees of private debt

Project/Sector	Value (US$ millions)	Origin of funds
EMATUM (fishing, security and unknown applications)	850	Credit Suisse/VTB
Proíndicus (logistics, security and unknown applications – gás related)	622	Credit Suisse/VTB
MAM (logistics, security and unknown applications – gás related)	530	Credit Suisse/VTB
Defense and security	300	Credit Suisse/VTB
Ka Tembe Bridge and road to Ponta do Ouro	725	Exim Bank RP China
TOTAL	3,027	

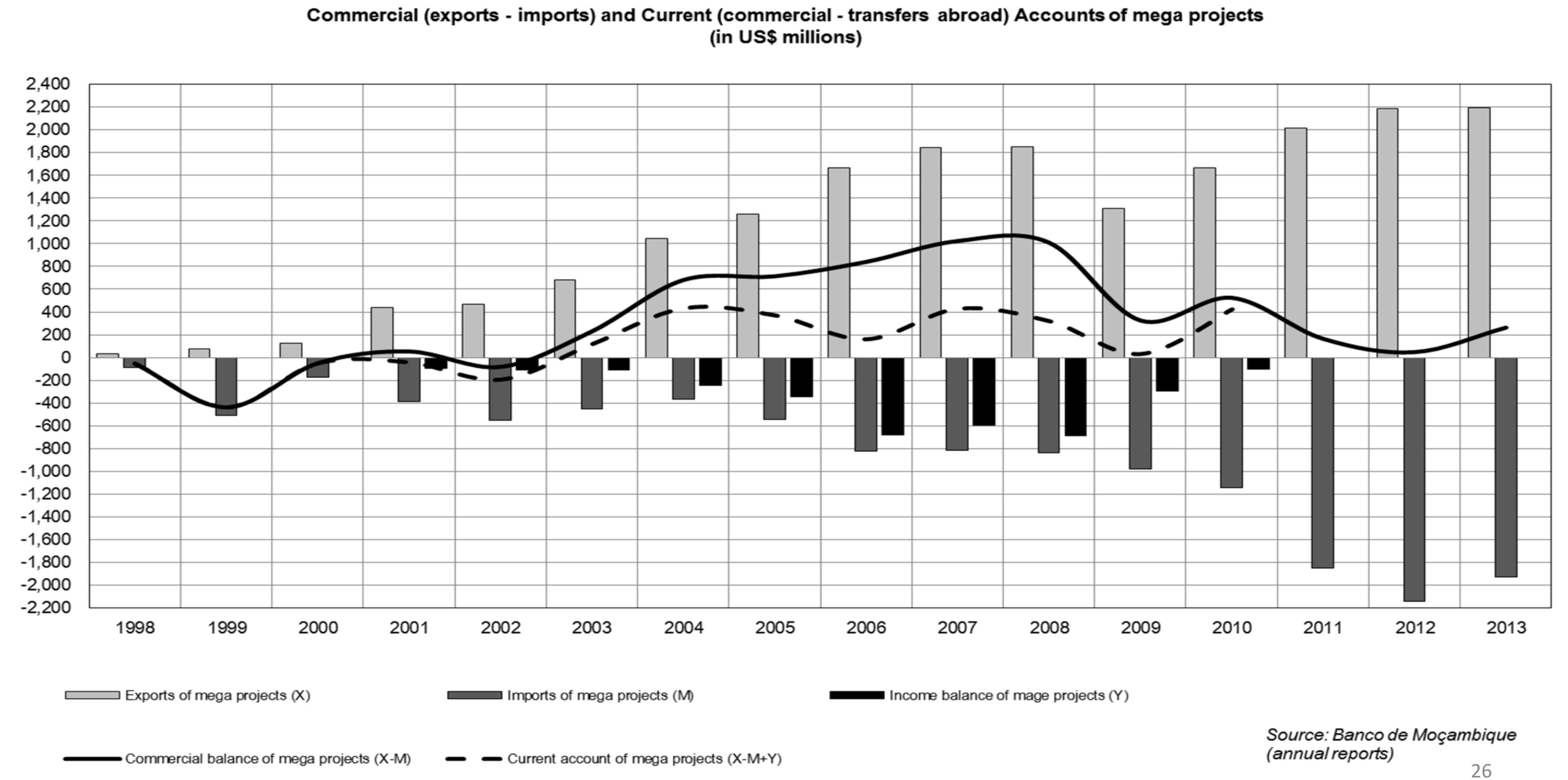
Taxes on mega projects (social contribution of 2 mega projects as % of their total sales)

	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%

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 incentives	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

Revenue crisis and income allocation towards multinational capital – taxation and capital flights

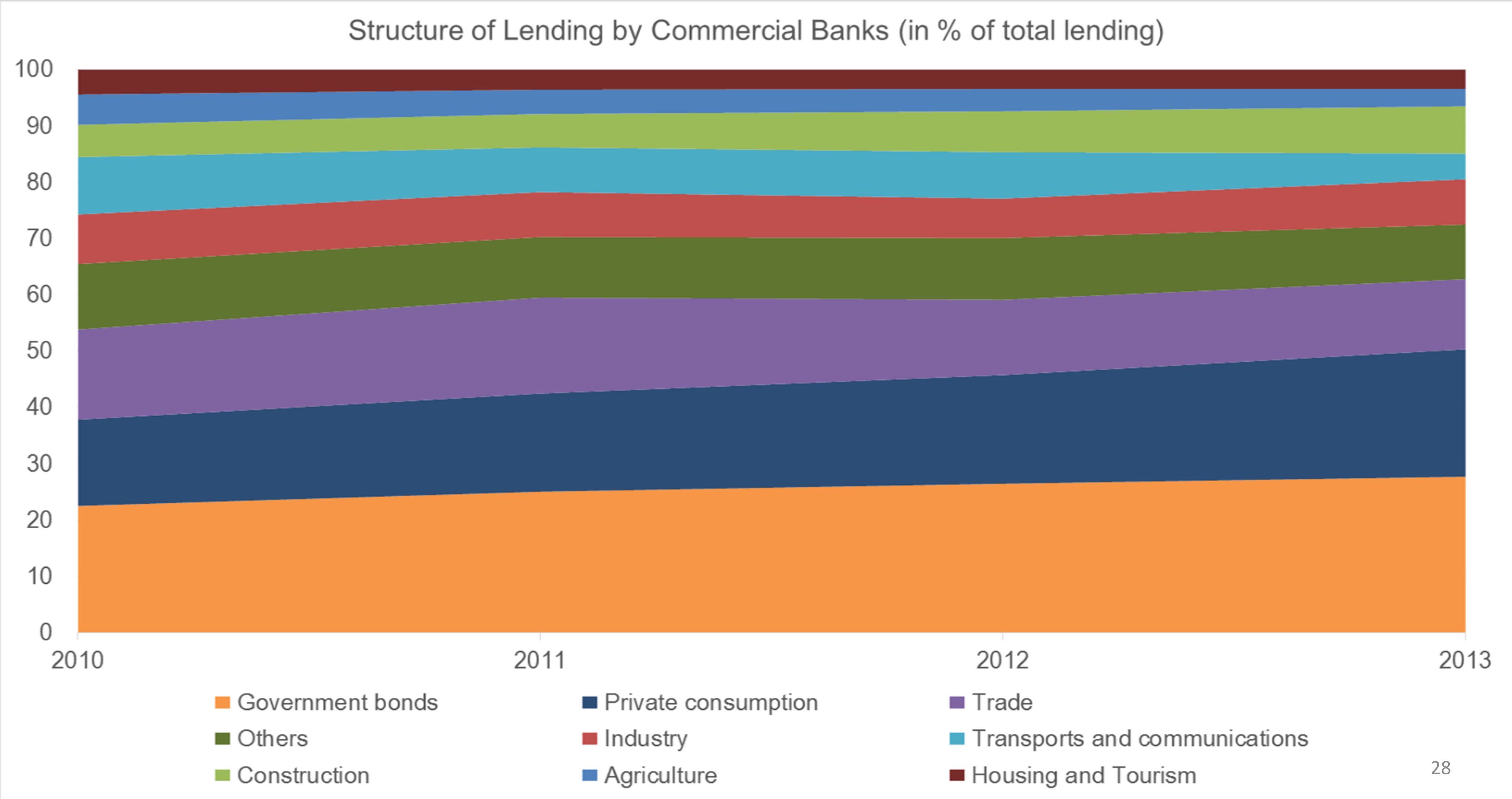


Source: Banco de Moçambique (annual reports)

Speculative bubble – real investment or speculative investment in a fight for control of resources?

	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%

Speculative bubble – public debt and the financial system



The historical rationale of the speculative pattern of accumulation

- President 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

The historical rationale of the speculative pattern of accumulation

- Creation of national capitalist classes through the expropriation of the State

- Four waves of State expropriation:

  - Massive privatization of State owned companies of State owned assets in private companies – 80% to emergent political and economic, domestic elites; at low cost to them (implicit subsidies) and at a significant revenue loss for the State

  - Attraction of foreign private capital and leakages to domestic, private capital accumulation: natural resources, tax incentives, public infrastructures, PPP

  - Utilization of the debt space beyond its reasonable limits: reduction of costs and risk for multinational capital, direct financing of domestic oligarchs, keeping expectations high so that foreign capital may continue to flow

  - Social austerity and contained and constrained expansion of accumulation of real capital

Questions/challenges

- Economic and social strategy as a political economy issue
- The debt issue – a mode of capital accumulation that is largely exhausted
    - Auditing
    - Restructuring and cancellation
    - Changing dynamics: public revenue, public expenditure, consistency with economic growth and social and economic transformation
- The alliances of the State:
    - Social/political/economic contestation, tension, conflict and struggles for the State
    - Social alliances: domestic and foreign
- Can we save capitalism from itself?

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