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Chronic of a crisis foretold: public debt in the context of the extractive economy

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The previous numbers of IDeIAS described the shape, trends, structure and dynamics of the debt and its implications for the economy of Mozambique. They deconstructed some of the myths that have developed around the debate and discussed options for adjusting and transforming the economy. From this series of texts it became clear that the problem of indebtedness is not recent, it is not atypical, and it is not limited to the illegal debts. It has systemic and structural characteristics and socio-economic impacts which exceed the fiscal capacity to pay the debt. This IDeIAS looks at the evolution of the analysis of the public debt, in the context of the critique of the extractive mode of accumulation, in response to new questions which the economic dynamics have posed.

Public debt and productive structures

The starting point for discussing the problematic of the debt was the study of the structure of production and trade of the national economy, which incorporates the dynamics of systemic crisis. The colonial economy generated dualist productive structures, in response to various socio-economic and political pressures. First, an exporting sector emerged, focused on the semi-processing of primary products for export (tea, sisal, sugar, copra, cotton and cashew, among others), since the first goal of the colonial economy was extraction. In relation to this sector, and with the provision of transport services to the countries of the hinterland, the railways were developed and the associated maintenance services (such as the general workshops, which marked the beginning of heavy engineering in Mozambique, and the construction workshops and those for naval maintenance and the maintenance of the lines, which launched metallurgy and cement production). The import substitution industries, for domestic consumption, were given a push by World War II, because of the breakdown of international trading circuits, but it was with the mass migration of Portuguese settlers in the years 1950-1960 that these industries expanded and quickly diversified. There were six main motives for the development of industry for the domestic market: the expansion in the demand for goods by the settlers, the need to create more urban jobs, the political pressure to generate Portuguese capitalists in the colonies, the reduction in the costs of the modernisation of Portuguese industry, achieved in part by selling obsolete equipment to the colonies, the opening of markets for financial and industrial applications by the Portuguese monopoly capitalists, and the international political pressures on Portugal, which intensified with the emergence of the national liberation movements, and the unleashing of national liberation struggles. This import substitution industry was, ironically enough, dependent on imports, since it did not result from linkages upstream and downstream within the economy and substituted imports only in the final phase of the production process.

So the industries relying on local resources exported; those that produced for the domestic market imported up to 85% of the equipment, spare parts, raw materials and auxiliary materials, and fuel. The export industries expanded more slowly because of the rigidity in the world demand for primary products, the trend to volatility in international markets, and the long term decline in the terms of trade. The import substitution industries expanded more quickly because they were responding to political pressures and incentives, they were linked to rapidly growing domestic markets, and they benefitted from protection. Nevertheless, this dualist structure contained factors of crisis which reflected its structure: production depended on imports because effective substitution of imports was feeble; exports were concentrated in primary products with volatile markets and prices; hence, whenever the economy expanded more quickly than export revenue, or whenever the international prices of the primary products fell, the economy went into a crisis related with its incapacity to import, the reduction in state revenue and hence a reduction in capacity for indebtedness.

After Mozambican independence, solving this problem was one of the priorities of the new government, and the Prospective Indicative Plan (PPI) was the instrument. However, this plan was focused on mega-projects for structural transformation of the economy, particularly agro-industrialisation projects. This suffocated the existing economic capacity, and was dependent on huge inflows of outside resources, which never arrived. Productive investment increased sixfold in the three years between 1980 and 1982, but reduced, in 1983, to two thirds of the investment of 1982 (subsequently, it continued to fall until, in 1986, it reached levels lower than those of the end of the colonial period, eleven years earlier). Obviously the war made the problem worse, by paralysing production and the circulation of goods in the countryside, since it disintegrated the export sectors. But even without war, it would have been unlikely that the pace of indebtedness demanded by the PPI could have proved sustainable. For the returns on the large projects, even if they were successful, would have arrived after the economy was exhausted. If all resources are applied in very long term projects, suffocating what exists without replacing it, the economy goes into crisis before reaching the distant and uncertain destination – that was what happened with the PPI.

The crisis of the 1980s, the later privatisations, without a productive strategy , in the first half of the 1990s, and the focus of economic strategy on attracting large international capital by putting at its disposal, at low cost, strategic natural resources – sources of energy, mineral resources and land – contributed to a drastic narrowing of the economy. Thus more than 40% of the industrial park went bankrupt, ten industrial sub-sectors, including five import substitution sub-sectors, disappeared, and the concentration of national production in semi-processed primary products increased considerably, to an average of 70% per sector (99% in metallurgy, dominated by aluminium). Agricultural dynamics were oriented towards the export of commodities, namely cotton, tobacco, timber, bananas and sugar, while at the same time per capita food production declined. As a result, 90% of exports are derived from 9 primary products, namely aluminium, coal, heavy sands, electricity, natural gas (which amount to 72% of exports), tobacco, bananas, sugar and timber (18%). Imports are dominated by the needs of the mega-projects of the mineral-energy complex (66% of the imports of goods and 60% of the imports of services) and by food requirements. Thus the economy has less variety, fewer linkages, less capacity to substitute imports, both for consumption and for investment, so that economic expansion, particularly in periods of acceleration, such as the last decade, leads to a rapid growth in imports. Furthermore, exports are more limited and concentrated in primary products for volatile markets, and so are subject to constant shocks – given the concentration of exports, these shocks have a greater impact on the economy than would be the case if exports were more diversified. If imports grow more quickly than the export revenues retained by the economy and than the reserves and fiscal capacity of the State, the crisis appears.

The combination of dependence on imports for consumption and for investment, the concentration and volatility of exports and the acceleration of economic growth, in these shapes, engenders inevitable balance of payments crises. These crises can be hidden behind foreign aid, external capital flows, a rupture in international reserves, currency devaluation, or public indebtedness, or they can be expressed openly. The central question is that they are systemic crises, built from within the growth model, which can only be solved with the diversification and articulation of the productive base, and the effective substitution of imports.

Hence analysis of the extractive structure and dynamics of production has made it possible to locate the crises and ruptures, including the reasons for and role of public indebtedness, within the dynamics of growth themselves. This analysis draws attention to two crucial points. First, the crises are not atypical or momentary, but systemic. Second, the solution does not lie in producing more within the same model, but in transforming the economy – diversifying and articulating the economy, substituting imports in an effective manner, and replacing the stress of economic policy on using strategic resources to attract multinational capital – which suffocates the rest of the economy – by a stress on solving the basic problems for social well-being and for more balanced development of the economy. The most important issue is not whether the economy is larger or smaller, whether it grows more or less quickly, or how many millionaires it creates, but what are the basic problems of society, as a whole, which the economy helps solve.

Public debt as a development option

The analysis of the productive structure and dynamics explains why public indebtedness is an organic part of economic expansion. However, in itself this analysis does not explain the reasons for the acceleration of public indebtedness in the past decade, at a rate much higher than that of economic growth – total public debt and the commercial public debt grew by 60% and 13 times more rapidly than the economy, and this was the determinant factor in the growth of the public debt. To explain these trends, we must pay particular attention to the commercial debt, especially to its use and to the repayment terms, and include this analysis in the more general discussion of the growth pattern in Mozambique.

Mozambique's commercial debt rose from US$ 300 million to about US$ 5.5 billion between 2006 and 2015 (47% of the total public debt and 56% of the foreign public debt). The foreign component of the commercial debt increased from practically zero to 70%, between 2006 and 2015. About 40% of the commercial public debt (US$ 2 billion) resulted from State guarantees of private commercial loans related with the extractive core of the economy (mineral-energy complex and other primary commodities for export), namely the direct financing of services, companies of national oligarchs and security. About 70% of the rest resulted from loans for construction works and services and other business services provided to the extractive core. Hence, about 81% of the commercial debt (US$ 4.5 billion) is the direct result of the public financing of private interests in the context of the extractive economy.

The other side of the debt question is the continual porosity of the economy, which means the loss of social surplus and wealth in favour of national and foreign private interests, the maintenance of redundant fiscal incentives for the large projects, the free repatriation of capital, the low rate of reinvestment of the profits of foreign investment in Mozambique, the feeble linkages within the economy, the speculative nature of the financial system, the narrowing of the productive base, the intermediation and outsourcing, instead of production, as the basic activity of many national companies, the delivery of natural resources and infrastructures, at low cost, to the national and multinational oligarchies. All this combines to minimise the capacity of the economy to mobilise domestic surplus to invest in its transformation.

Hence both the huge commercial loans and the porosity of the economy are linked to the large projects, particularly to attract large multinational capital (by reducing its costs, uncertainty and risks, and facilitating the financialisation of natural resource assets through speculation on international stock exchanges), and to connect international capital to the national oligarchies, through partnerships, access to the shareholding structure, sharing the spoils of the financialisation of natural resources, etc.

The base for capital accumulation by the emergent national capitalist classes is the connection with multinational capital. The indebtedness of the State is the consequence of the strategy used to attract this capital, but it was also an opportunity created over quarter of a century of austerity which generated an enormous space for indebtedness, which was exploited to exhaustion over the past decade. Thus public indebtedness does not just result from the material and social structure of production, but is also a strategy to promote the primitive accumulation of capital by means of the expropriation of the State over and above the economic possibilities.

Public debt as a structuring and destabilising factor of the economy

The magnitude, weight in the economy, structure and speed in the growth of the public debt has clear consequences, which were discussed in detail in the previous IDeIAS. Six of these consequences are particularly important: (i) the impact that the public debt has in the structuring of public expenditure and of the public services, limiting the capacity of the State to pursue broader social and economic policies, forcing the increasing commercialisation of public services – which limits access, although it creates new profit opportunities for national capitalists – forcing the State to prioritise creditors and speculators instead of social well-being, and projects of great interest for the multinationals, instead of programmes that bring high social benefits; (ii) public indebtedness and the ways in which it is financed make capital more expensive, and make access to means of financing much more difficult for small and medium companies, and transform the domestic financial sector into a market of debt securities, which is not very interested in developing the productive base. Hence, by prioritising large capital – which created its debt – the State suffocates the rest of the economy; (iii) such large, rapid and concentrated indebtedness, in an economy so dependent on imports (for consumption and investment), and on external flows of capital, destabilises the economy in multiple ways: it has a direct impact on the availability of foreign currency and, as a result, on the instability of the exchange rate and, hence on price instability; it affects the costs of production and the cost of living, by reducing real wages, and causing political and social instability; and it causes a retraction in investment and employment, particularly in small and medium companies; (iv) the increasingly commercial nature of the debt (which makes it more expensive, more short term, and more difficult to renegotiate), on such unfavourable terms (the highest interest rates on the market, and short repayment periods) and with non-productive uses, generates the debt trap: the debt cannot be paid, the restructuring of the commercial debt increases its costs, which makes it reproduce itself, and the economy has to incur debts in order to service the debt; then the main goal of economic policy ceases to be development and becomes managing the debt; (v) the debt crisis bursts the economic bubble (growth on a speculative basis generated by exaggerated expectations about the future, fed by public indebtedness and financialisation of strategic national assets), which in turn has a negative impact on expectations about speculative returns in the future, generating the dynamics of the implosion of the economy (retraction of investment, growth and employment, with immediate fiscal implications;. (vi) the current indebtedness was guaranteed and justified with expectations of returns in the future on the application of loans in the extractive core of the economy and on the infrastructures and services associated with it, and on the possibilities of financialising the productive assets on international stock exchanges. The reduction in expectations may increase the speculative trends, and exhaustion of the capacity for indebtedness prevents the State from financing the recovery of expectations, which may lead to the loss of economic and political sovereignty over the direction and priorities of national development and over strategic resources and infrastructures.

Economic recovery will require the skill to escape from the debt trap and from neo-liberal adjustment policies (social austerity, privatisation of strategic assets, monetary repression, among others), focusing instead on the restructuring and partial cancellation of the debt (particularly the illegal debt), on diversifying, broadening and articulating the productive, commercial, fiscal and employment base, on the production and supply, at low cost, of consumer goods and basic public services, on renegotiating the contracts with the mega-projects, and with projects that involve the State as a partner, on a thorough revision of tax incentives, on restructuring the portfolio of public investment, including the economic and financial reassessment of projects, cancelling those that are least relevant to the economy (even if they are large), and, finally, on improving the systems for planning, assessing, budgeting and managing projects and public decisions, and democratic monitoring and control systems.