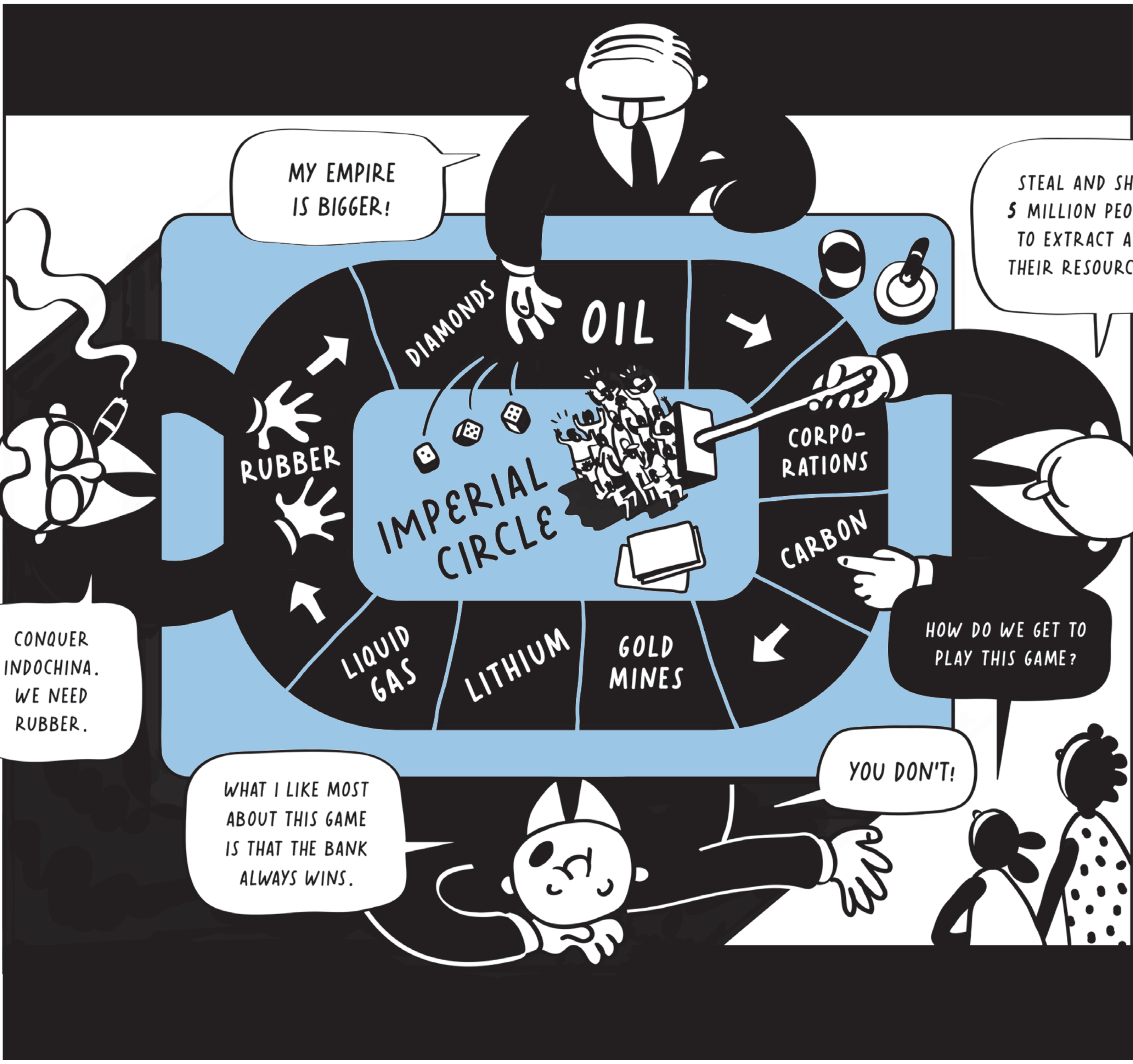
ESCR-Net

THE INTERSECTION OF DEBT AND CORPORATE CAPTURE

Introduction

Debt is a manifestation of neoliberal capitalism and its crises. The current waves of debt accumulation have been an increasingly central phenomenon of the global economy since the 19th Century with the development of sovereign debt as a powerful tool for colonial empire-building. This led to the expansion of capital markets by creditors from industrialized countries who saw an opportunity to invest heavily abroad for profits. The influx of foreign capital dangerously inflated the debt of occupied and impoverished countries, bringing them closer to insolvency[1]. Despite successful anti-colonial struggles, former colonies have continued to face debt legacies that they inherited from colonial regimes, as well as ongoing economic imperialism. This was further intensified in the 1990s, following the rise of the US as the dominant global superpower and the related imposition of the neoliberal Washington Consensus. The term 'Washington Consensus'[2] refers to the agreement between the International Monetary Fund (IMF), World Bank and the US Department of Treasury on new economic policy recommendations shaped by corporate and financial elites.

Origins of debt: Colonial and imperial legacies



The global economy has experienced four waves of debt accumulation over the past fifty years since 1970[3]. The first three ended with financial crises in many poor and wealthy countries: the Latin American debt crisis of the 1980s, the Asian financial crisis of the late 1990s, and the global financial crisis of 2007-08. The current wave started in 2010 and reached an initial record high of $55 trillion in 2018.[4] This latest crisis has led to the ballooning of debt in most economies, making it larger, faster, and more broad-based than in the previous three waves.

These waves of debt and related crises are entrenched in colonialism, imperialism and financial capitalism orchestrated by wealthy countries, individuals and corporations to advance their neo-colonial extractions with the aid of International Financial Institutions (IFIs) like the IMF, the World Bank, private banks and a growing number of public development banks. In particular, the influence of financial corporate elites is manifested actively and passively through business, lobbying or networking and has a direct impact on the lending policies of the IMF and other financial institutions.[5] In his remarks at the 1987 Summit of the Organization of African Union, Thomas Sankara - the former president of Burkina Faso, who was assassinated for trying to build alternative models of development, centering women's rights and equality, and standing in solidarity with other anti-colonial and socialist struggles - proclaimed: "We think that debt has to be seen from the perspective of its origins. Debt originated from colonialism and imperialism. Those who lend us money are those who colonized us. They are the same ones who used to manage our states and economies."[6]

In the 1990s, following the fall of the USSR and the rise of the US as the world's briefly unrivaled superpower, the International Monetary Fund (IMF), the World Bank, the US Department of Treasury and the World Trade Organization adopted a set of economic policies which later became known as the Washington Consensus - a term coined by British economist John Williamson.[7] These reforms ushered in neoliberalism[8] as a political and economic philosophy that emphasized free trade, deregulation, globalization, privatization, paving the way for huge profits for the private sector. For instance, through the Washington Consensus the IMF has been able to impose measures that forced countries to shift public spending priorities away from essential services such as health and education, to liberalize trade, allow foreign investment, privatize state enterprises, strengthen private property, and reform tax regimes to benefit private actors and large investors. However, this economic model led to the destruction of prior institutional frameworks and powers, challenging traditional forms of state sovereignty, divisions of labour, social relations, welfare provisions, technological mixes, ways of life and thought, reproductive activities, attachments to the land and habits of the heart.

The Washington Consensus was enabled by structural conditions, including historic realignments in global political and economic power, and dominant ideas within academic economics.[9] However, it is also the result of deliberate actions of powerful agents: the United States government, with the backing of the corporate world in alliance with other wealthy-country governments and like-minded officials in international organizations.

Under the unrivaled neoliberal hegemony of the US, debt has become an increasingly powerful tool of economic imperialism, reshaping economic policies and facilitating ongoing dispossession to the benefit of narrow private interests. The long history of debts imposed in many countries and colonialist policies that prevented these countries from entering global capital markets is not only unjust but also burdensome as these debts were virtually impossible to repay without taking on additional loans. If countries default, they are locked out of global capital markets and cannot buy basic necessities for their people. So countries turn to the IMF as the lender of last resort, but IMF loans come with neoliberal conditionalities, from Structural Adjustment Programs, Austerity, to Poverty Reduction Strategy Programs. Through these conditionalities, the IMF has forced countries, in concert with private and public debt holders, to prioritize debt repayment via privatization (i.e. selling off public goods and services), to cut public spending and pensions, regressive value-added taxes (VATs), labor market deregulation, and so on. In the case of Gabon, the IMF imposed austerity measures included a substantial cut in public spending and a reduction on fiscal deficit from 6.6% of the GDP in 2016 to 4.6 in 2017, significantly impacting the health sector's ability to provide services.[10] As a consequence, Gabon's public health sector collapsed, public insurance schemes suffered, and citizens were left vulnerable and exposed to out of pocket spending which often sank families into poverty.

At Zimbabwe's birth in 1980, the country inherited a $700 million debt from the Rhodesian Government of Ian Smith[11]. The loans had been used to buy weapons in the 1970s, breaking UN sanctions. The UK gave 'aid' loans tied to Zimbabwe buying products from British corporations such as General Electric and Westinghouse. Spain lent money for military aircrafts made by corporations in Spain. The UK backed further loans for the Zimbabwean government to buy British made Hawk aircrafts - later used for the Second Congo War, which drew Zimbabwe and several other African countries into conflict in the Democratic Republic of Congo in 1998. In part, the new loans were taken out to pay the Rhodesian debts, fund post-war reconstruction, and cope with a large drought in the early 1980s. However, most of it ended up benefiting corporations from Spain and Britain at the expense of growing debt in Zimbabwe.

What is corporate capture?

ESCR-Net members have defined corporate capture as the means by which an economic elite undermines the realization of human rights and the environment by exerting influence over domestic and international decision-makers and public institutions. The elements of corporate capture identified by members include; community manipulation, economic diplomacy, judicial interference, legislative and policy influence, privatizing public security services, revolving door and shaping narratives.[12]

Understanding the role of the corporate sector in deepening the global debt crises

1. Corporate capture of government decision-making on borrowing: Argentina

At the heart of debt is an economic system that prioritizes private creditors and capital over the shared well-being of all people and their human rights. Corporate and private financial elites have a stronghold in discussions around debt restructuring where countries are forced to develop corporate friendly policies, increase the role of private actors in delivery of public services and other essential government services, and states being forced to pay interests on debt and additional surcharges[13] over longer periods of time at increased rates and amid the tough economic conditions, which creates a perpetual cycle of debt accumulation and dependency. In 2020, many developing countries defaulted[14] on their debt repayment, these include Argentina, Ecuador and Lebanon, and this number has increased exponentially in the last 2 years as the multiple crises hit more countries.

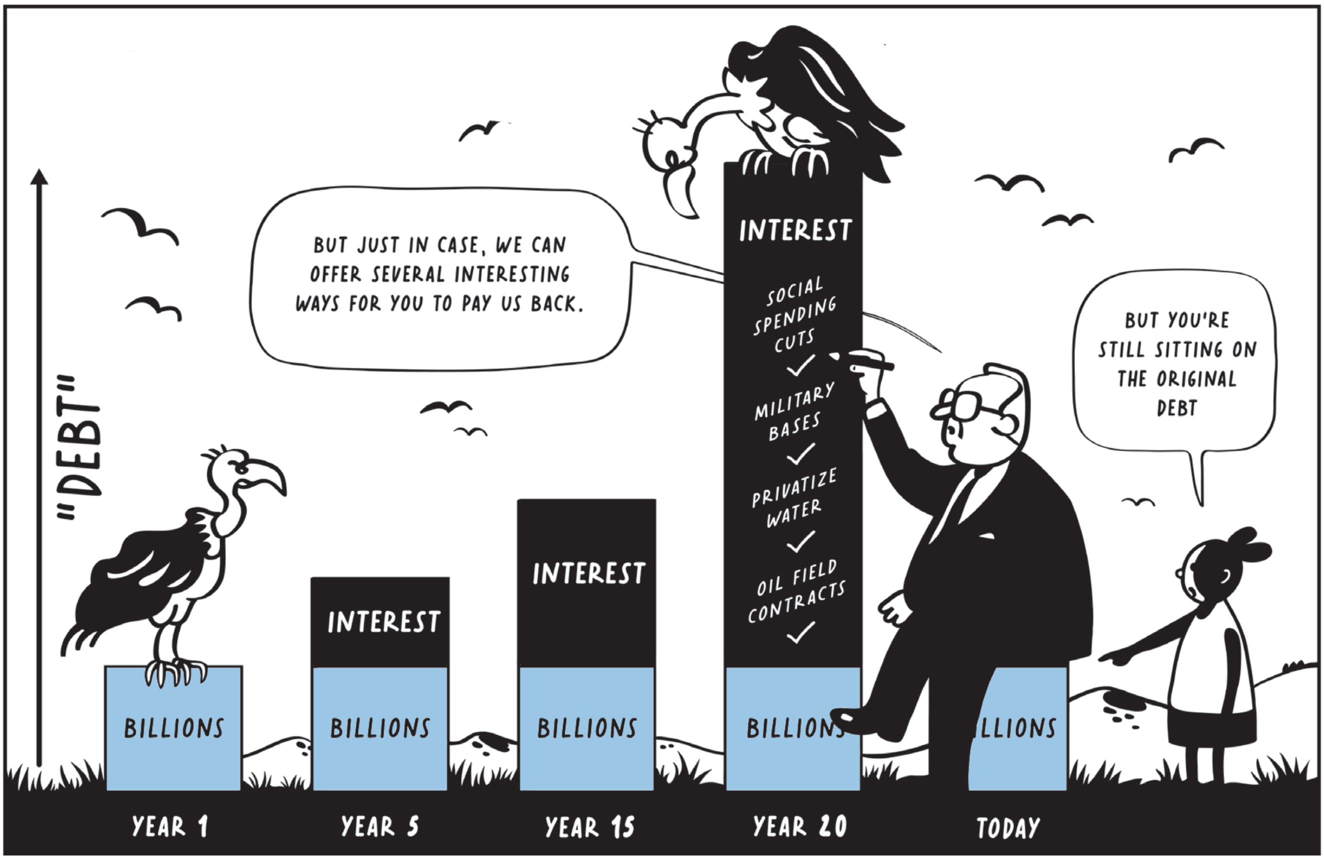
For example, Argentina was plunged into a devastating economic crisis in December 2001/January 2002, when a partial deposit freeze, a partial default on public debt, and an abandonment of the fixed exchange rate led to a collapse in output, high levels of unemployment, and political and social turmoil[15]. As part of the Stand-By Arrangement Argentina signed with the IMF in June 2018, the IMF transferred some 44.5 billion dollars, equivalent to 10% of GDP and close to 1000% of Argentina's quota in the organization, making it the largest loan ever granted to a country in IMF history. In 2020, Argentina had to restructure not only its debt with the IMF but also its debt with private creditors. During this period, the IMF supported negotiations around debt repayment, affirming that the "debt was unsustainable," but at the same time, did not provide additional funds for fighting the pandemic nor insist that the creditors signed a speedier or more sensible agreement. As negotiations with the IMF continue, the institution has discarded the option of reducing the debt and is instead offering to shift to an "Extended Fund Facilities Agreement"[16] which would only extend the deadline for the repayment of the debt, and with it increase the accrued interests. While this will allow for flexibility and elongate the repayment period, freeing some resources in the short-term, it may not be adequate to address the increasing demand for public services.

2. Evading accountability using the G20 Common Framework for Debt Treatment

The Group of 20 (G20) is the premier intergovernmental forum for international economic cooperation. The forum plays an important role in shaping and strengthening global architecture and governance on all major international economic issues. In the absence of a global architecture to deal with the growing debt crisis pitting both public and private lenders, the G20 proposed the Common Framework for Debt Treatment.[17] Although it poses several shortfalls,[18] the G20 Framework was designed to help poor countries by addressing the current crisis including making urgent decisions of debt relief, forgiveness, cancellations and restructuring. However, the framework fails to compel private lenders, the IMF and WB to participate in debt restructuring, which strongly limits its effectiveness. It is very critical that private lenders are involved in debt restructuring, otherwise the burden will not be shared fairly. The IMF, private actors, the World Bank and other multilateral development banks are key lenders and deliberately refused to participate in the framework.

3. Deepening debt crisis via Vulture Hedge Funds

Since the 1990s,[19] "vulture" hedge funds have made fabulous returns by pursuing a controversial strategy: buying bonds issued by countries in or near default and then suing those countries for full repayment. In the sovereign debt context, the term "vulture funds"[20] (or "distressed debt funds) is used to describe private commercial entities that acquire the defaulted sovereign debt of poor countries (many of which are Heavily Indebted Poor Countries (HIPCs)) on the secondary market at a price far less than its face value and seek repayment of the full face value of the debt- together with any interest, penalties and legal fees. Strategies used to recover the full amount include litigation, seizure of assets or political pressure. Vulture funds have averaged recovery rates of about 3 to 20 times their investment, equivalent to returns of (net of legal fees) 300%-2000%[21]. Through vulture funds, or secondary markets for debt, corporate and financial elites have managed to manipulate, intensify and take advantage of debt crises, particularly in the Global South - making it a profitable business that adds to the burden of countries affected by debt accumulation. The modus operandi is simple: purchase distressed debt at deep discounts, refuse to participate in restructuring, and pursue full value of the debt often at face value plus interest, arrears and penalties through litigation, if necessary.



In 2007 in the United Kingdom a high court ruled that Zambia should pay Donegal International, a vulture fund buyer, a settlement of US$ 15.5 million.[22] The high court ruled that a claim against Zambia by the US company owned by US citizen Michael Sheehan, for debts incurred by the impoverished southern African nation was lawful. The vulture fund, having bought a debt for US$3 million, sued Zambia for US$55 million and was awarded US$ 15.5 million. The vulture funds exert pressure on the sovereign debtor by attempting to obtain attachment of the government's assets abroad. Such proceedings are always burdensome to the debtors concerned, and can complicate financial and reserve management.[23]

Lebanon defaulted on US$31.3 billion of sovereign Eurobonds in March 2020 as a result of personal greed of economic elites, outright incompetence and corrosive manipulation by powerful foreign financiers.[24] The banking system in Lebanon played a major role in sinking the country into a financial crisis and debt default. Pushed by their managers and their largest depositors, both hungry for cash to flee a deepening national crisis, the banks did not hesitate to sell Eurobonds to foreign hands, knowing perfectly well that doing so would severely weaken the government's negotiating position and hamper the prospect of debt restructuring. In total the banks are thought to have sold over US$6.1 billion in Eurobonds. Following the default, the Central Bank of Lebanon sold an additional US$700 million in Eurobonds, thus further diminishing the Lebanese government's bargaining position. This massive sale of bonds to foreign entities, including several vulture funds, "provided a double blow to Lebanese hopes for an orderly restructuring of the country's debt obligations."[25]

4. Public-Private Partnerships: hidden debts with high returns for the private sector.

In the context of the ongoing economic crisis, governments in impoverished countries are under increased pressure to find quick answers to hard questions about maintaining public services and funding infrastructure. Public-private partnerships (PPPs) are coming back in fashion as a perceived solution.[26] Many governments turn to public-private partnerships in the hope that the private sector will finance public infrastructure and services that have been savagely hit by the ongoing multiple crises of debt, pandemic and climate. PPPs are financing arrangements/models whereby a government transfers to the private sector the role to mobilize resources and carry out a project, for which the government then pays a set fee over an agreed span of time. Under such an arrangement, the government takes on the responsibility of remitting the private investors' capital and profits. Public-private partnerships have been providing private investors and financiers high returns with low risks.[27] This profit comes at the long-term expense of taxpayers and the public leading to an expensive cycle of dependence and debt accumulation as governments go into the financial markets to borrow and pay the interests. Governments entering PPPs are faced with an inherent- conflict of interest between managing and repaying their debts and ensuring that public goods and services are available and accessible. However, the resulting costs, which in essence constitute a liability on the government's side, are never recorded within the contracting country's official debt statistics, a situation that hides the actual debt burden. This has generated a false incentive to use PPPs, even though they are usually more expensive.

In Uganda, the government has heavily relied on PPPs, working closely with multinational corporations which have so far pushed the government into offering guarantees for their investments, essentially creating hidden liabilities for the government. In 2019, the Parliament of Uganda approved promissory notes worth US$ 379.7 million to FINANSI/ROKO Construction SPV Limited for the design, construction and equipping of the International Specialized Hospital of Uganda (ISHU). The responsibility to construct, equip, and operate the hospital was thereby assigned to FINANSI/ROKO, for which it would receive annual payments from the Government of Uganda. Payments totaling US$ 557 million are to be deducted from the Ministry's sectoral budget for a period of eight years. The construction and equipment provision of the hospital are led by FINASI, an Italian multinational corporation. It must be noted however, that the process of developing this PPP was shroud in secrecy, with important information concealed even from members of Parliament who authorized the promissory note. Within their independent report, the Parliamentary Committee on National Economy observed that necessary parliamentary approval had not been obtained for some of these contracts. As payments to this corporation are already underway, Parliament has cautioned that the Health Ministry will have to incur annual costs worth US$ 69.7 million over a period of 8 years to meet the fiscal obligations owed to the private party, likely limiting spending on other critical public health needs.

Conclusion

The roots of the current global debt crisis go deeper than just financial transactions. Where colonialism ended, imperialism was set up to continue the exploitation of resources for the benefit of corporate and economic elites. Institutions like the IMF and World Bank continue to rob nations in the global south of their resources and wealth, leaving them impoverished and dependent on the global north for financial aid which often comes in the form of loans. In the name of "development," these institutions have consistently imposed neoliberal economic policies and conditionalities that prioritize profit over people and the planet, driving the climate crisis that we are currently facing. These policies have also led to corporate capture of critical state decision making institutions and further exacerbating inequality and impoverishment in the south. But the true cost of these debts go beyond just numbers on a balance sheet.

More Political Education Resources on Debt and Corporate Capture

This background document on debt and corporate capture attempts to help understand the current global debt crisis, the structural drivers and the role private financial actors/corporations have played in deepening the crisis while putting profits ahead of people's rights and well-being. The document compliments our comic **The Power of the 99% to Stop Corporate Capture and Debt.** Download it here: https://escr-net.ink/comicdebt. The episode is also available in Spanish, French and Arabic.

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ESCR-Net - International Network for Economic, Social, and Cultural Rights, is a member-led network connecting over 300 social movements, Indigenous Peoples' groups, and human rights organizations and defenders from 76 countries. Since 2003, the Network has provided a space for members to connect their struggles across regions to address systemic challenges, including the harmful human rights impact of the global debt crisis and the increasing influence of corporations and economic elites in policy and other decision-making spaces.

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