Paradox of globalisation

• Globalisation is associated with flexibility, efficiency and competitiveness but everywhere advanced countries have become increasingly brittle, sluggish and fractured

• Developing countries are increasingly connected – but this allows for the net negative resource transfers to the rest of the world

• We have allowed those who were the architects of GFC back into the driving seat, comforted by the word that the world is simpler, safer, fairer.

• Global debt is higher now than ever before.

• We have bought into the notion that public capacity is inefficient and power has been taken by those with the money …rule by law…not rule of law…

• Rise of the Rentiers (super elites – top 1% of earners) in finance and elsewhere that have benefitted
The return of rentier capitalism

• If those living on incomes derived from ownership and institutional and political control of physical and financial assets gain the upper hand over innovative and risk-taking investment – the outcome is distortionary

• Tobin – High private rewards disproportionate to their social productivity

• Stiglitz – rent-seeking – not for creating wealth but grabbing a larger share of it

McKinsey - using a database of 28,000 companies with revenues greater than USD$ 200 million – found that firms with USD$ 1 billion accounted for nearly 60% of global corporate revenues – and top 10% accounted for 80% of total profits
The return of rentier capitalism

• Unproductive corporate rent-seeking and restrictive business practices have soared over recent years, spreading to non-financial sectors as a new norm.

• A growing share of nonfinancial corporate profit is surplus profit associated with growing corporate market and lobbying powers that drive corporate rent-seeking.

• Increasing market concentration in leading sectors and the lobbying powers of dominant corporations is creating a new kind of rentier capitalism that is detrimental to balanced and inclusive growth for the many.
A core driver of corporate rentierism: Growing market concentration

- Growing market concentration widely reported in leading economies
- Attributable to regulatory failures to rein in burgeoning corporate power, including for so-called “superstar firms”
Average shares of top 1 per cent, 5 per cent and 25 per cent exporters in country total export, 1997–2014

C. Developed countries

D. Developing countries
QE and the global debt machine

• Ten years on, the ratio of global debt to GDP was a third higher at the beginning of 2018 than at the start of the crisis in 2007/2008, and roughly four times global GDP.

• It is only in the context of the conditions and mechanisms created by the global financial system that the rise of corporate rentierism and increasing indebtedness of – particularly of the developing countries can be understood.

• While it is generally accepted that the provision of unprecedented levels of liquidity by advanced economies to counter weakness and instability in their economies following the global financial crisis of 2007-2008 sowed the seeds for the next crisis by making portfolio capital flows to developing countries more attractive, the global financial system that created the crisis remains in place and continues to exert its influence over debt sustainability in developing countries.
Developing countries - premature inclusion?

- QE accompanied by private-sector deleveraging, weak aggregate demand and volatile financial conditions, has kept the outcomes investment-lite. The bulk of the newly available credit remained unused or was channelled towards speculative markets.

- Asset markets in developed (and emerging economies) became default destinations for flows seeking higher yields. Credit expansion in developing countries, led to appreciation of currencies and propelled commodity prices above the levels justified by market fundamentals alone.

- The annual growth rate of debt stocks for all developing countries average 8.5% annually since 2007 to 2018. For sub-Saharan Africa, it was 9.4%.

- Emerging market economies most affected, but also some of the poorest countries emerging successfully from the HIPC (Heavily Indebted Poor Countries) initiative and Multilateral Debt Relief Initiative (MDRI).

- Increased (and in many cases - premature) connectivity to international financial markets has led to financial distress and binding constraints on developing countries.

- Developing countries’ vulnerabilities are not due to their failure to organize themselves and to create policy space for themselves; but are influenced by the global trends over which they have little control (Dymski, 2018).
<table>
<thead>
<tr>
<th>Debt ratios</th>
<th>All</th>
<th>Sub-Saharan Africa</th>
<th>M East &amp; N Africa</th>
<th>South Asia</th>
<th>East Asia &amp; Pacific</th>
<th>Latin America &amp; Caribbean</th>
<th>Europe &amp; Central Asia</th>
<th>LICs</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Total debt / GDP</td>
<td>25,7</td>
<td>31,7</td>
<td>22,4</td>
<td>20,6</td>
<td>17,5</td>
<td>34,5</td>
<td>49,4</td>
<td>28,1</td>
</tr>
<tr>
<td>% Total Debt/Exports</td>
<td>109,9</td>
<td>137,3</td>
<td>92,9</td>
<td>115,5</td>
<td>71,8</td>
<td>175,9</td>
<td>159,8</td>
<td>138,8</td>
</tr>
<tr>
<td>% Debt Service/GDP</td>
<td>3,2</td>
<td>2,5</td>
<td>1,9</td>
<td>2,9</td>
<td>1,7</td>
<td>5,0</td>
<td>7,5</td>
<td>2,0</td>
</tr>
<tr>
<td>% Debt Service/Export</td>
<td>13,6</td>
<td>10,8</td>
<td>8,0</td>
<td>16,2</td>
<td>7,0</td>
<td>25,5</td>
<td>24,2</td>
<td>10,0</td>
</tr>
<tr>
<td>% Reserves/ST</td>
<td>339,9</td>
<td>292,5</td>
<td>733,4</td>
<td>390,5</td>
<td>343,0</td>
<td>292,7</td>
<td>288,5</td>
<td>445,3</td>
</tr>
</tbody>
</table>

Debt ratios

• Debt stocks now represent more than 25% of GDP for all developing countries. The growth of the indebtedness of sub-Saharan Africa now exceeds 31% of GDP.

• High accumulated reserves show vulnerability of developing countries to outflows and represent forgone opportunities to undertake development investment.

• Debt stocks are multiples of export earnings and debt servicing absorbs almost 14% of export earnings on average.

• Private non-financial corporate sector debt makes up an increasing share of debt.

• Growth of developing country regions remains highly variable and on a downward trend.
Non-financial corporate debt as % of GDP rising... and accruing to emerging markets
Sectoral Aggregates Debt: Mature Markets vs. Emerging Markets

% of GDP (GDP weighted averages)
Growth rates of non-financial corp. debt and private capital stock, selected emerging markets

Recent surges in private non-financial corporate flows to emerging market countries is that it does not, by and large, service productive investment needs (UNCTAD 2015, Chapter V).
In a word - “Indebtured”

• The productivity of the recent inflows is questionable and its serviceability is unknown.

• In the context of stagnation of wages and states that deliver less, not more households have become increasingly indebted to expensive forms of credit.

• Much debt creation results from the progressive financialization of private corporate strategies. In an increasingly financialized environment, many private corporations tend to engage into more leveraged and risky financial operations to increase their returns on assets.

• Financialization has not delivered on the promises that financial openness, deregulation and so-called “market discipline” that its proponents would have had us believe.

• For developing countries to grow, be able to sustain useful levels of debt and to provide for basic social needs of their people, the implementation of a balanced growth strategy is necessary so that developing countries are more resilient and less vulnerable to the vagaries of the monetary and financial manoeuvrings of financial players and corporate rentiers in advanced countries.
Features of Global Finance in 2019

• QE Chickens are hovering above the roost
• Corporate Rentierism has emasculated checks and created “Super-elites”
• The business of debt is making of us “indebtured” labour
• Inequality is unprecedented – within and without countries
• How do we invigorate a Global New Deal
Creating a more hopeful future

- Visionary guiding principles from the New Deal, Marshall Plan, and Havana Charter
  - Speed, scale and generosity – slow and incremental changes are less inspiring and transformative.
  - Voice and counter-balancing power – one of the most important elements for a developmental State
  - Cooperation and unity - blending need for State intervention in domestic and international spheres

- Build on initiatives such as the SDGs and Paris Climate Agreement
- Unlock the creative impulses of markets but control their more destructive tendencies
- Coordinate internationally - to support national policy efforts, avoid beggar-thy-neighbour approaches and share benefits of inclusive growth.
Elements for a Global New Deal

• **Inclusive recovery**
  • Replace austerity with full and decent employment
  • Enhancing public investment with a strong caring dimension
    • Physical and social infrastructure spending for regeneration
    • Seizing environmental opportunities

• **Expand fiscal space**
  • Progressive taxes; stop the slide in corporate taxes; strengthen international controls
  • 5% tax hike on top decile – yields $1 trillion!
Elements for a Global New Deal

• **Regulating rentier capitalism**
  • Being ‘friendly’ to investors does not help countries increase capital formation
  • Clamp down on corporate rent-seeking

• **Redistribution**
  • Must be universal & structural to be transformative
  • Basic income schemes designed not as a replacements, but in addition to – public provision of services
References
