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The global union federation of workers in public services

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1

Rentier capitalism and debt

PSI BRIEFING SERIES - DEBT AND WORKERS

INTRODUCTION

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Each year since 1970 an average of 8 countries have faced a sovereign debt crisis, with each one effecting neighbouring countries and trading partners. Sovereign debt issues will likely affect the vast majority of workers in the world at some point in their life.

When these crises hit public debt is often presented by journalists, politicians and business as the result of wasteful government spending, overpaid workers and welfare recipients like pensioners bleeding the country dry.

Yet more often than not, public debt is caused by governments bailing out reckless private speculation, politicians allowing the rich to dodge taxes, corruption and the gifting of unsustainable benefits to wealthy businesses.

In reality it is usually workers, pensioners and users of public services who bear the brunt of debt restructuring through austerity, labour market deregulation and privatisation, even when it is not them who created the problem.

In this series, PSI presents five related aspects of sovereign and public debt – and explains why workers must better understand this economic phenomenon that appears to be removed from day-to-day life, but has direct impact on economic and social conditions of workers.

Most importantly workers and their unions need to understand when they are being lied to or mislead so they can engage in real social dialogue and defend our interests.

To help do this our series on sovereign and public debt examines what happens when public spending leads to indebtedness, why indebtedness of the state is perceived to be a problem, what debt means for the sovereignty of the state and how this all impacts workers. The five parts to the series are:

1. Rentier capitalism and debt: why workers should be concerned
2. The Business of Debt: What workers and unions should look out for
3. Sovereign debt and default: Why it matters for workers
4. Debt distress and crisis: what happens when it hits?
5. Fixing a rigged system: fairer global debt rules

Proper public spending supports economic growth through investment in infrastructure, supporting an educated and healthy workforce, redistributing income to increase the spending power of poorer consumers, creating insurance against risks, providing direct support for industry (including through technological innovation), and increasing efficiency by taking on these functions.

Public spending also supports job creation, in both high income and developing countries: through direct employment of public service workers; indirect employment of workers,by contractors supplying outsourced goods and services; employment of workers on infrastructure projects; and extra demand and jobs from the spending of the wages of these workers and also of recipients of social security benefits. (For more information, see *Why We Need Public Spending*)

Ultimately, the enablers of crippling foreign debt lie in a global economic system deliberately created to allow powerful sections of our society to extract enormous wealth from our communities without taking responsibility for the risks they create.

Under such a rigged system it falls to workers to be vigilant and demand governments act responsibly to avoid such crisis. Where that does not occur, workers must ensure they are not punished for the reckless activity of others. When crisis hit, events move very quickly and if workers and their unions want to avoid being side-lined, they need to be informed about these issues in advance.

In the long term we must develop a better global system of sovereign debt work out like those endorsed by the UN but whose implementation has been blocked by a minority of rich creditor nations.

For all these reasons PSI is proud to be partnering with UNCTAD to produce this Series for unions and workers on sovereign debt.

Rosa Pavanelli
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GLOSSARY

DOMESTIC DEBT - Domestic debt (also known as internal debt) is the part of the total government debt that is owed to lenders within the country.

SOVEREIGN DEBT – Refers to central government debt, typically issued as bonds denominated in a reserve currency, like the US dollar. It often refers to how much the country owes to outside creditors (non-domestic).

OFFICIAL CREDITORS - Official creditors are international organisations, governments and government agencies including official monetary institutions.

PRIVATE CREDITORS – Creditors that are not governments or public sector agencies, including private bondholders, private banks, other private financial institutions.

HOLDOUT CREDITORS - In a financial restructuring, when a country is in default or nears default, a restructuring offer may be made to creditors (government-bond holders), which typically involves a discounted pay-out. Holdout creditors refuse the restructuring terms, instead holding out for full - or at least improved - repayment of the original debt.

RENTIER - a person who lives on "rents" from property or securities, rather than productive profits.

RENTIER CAPITALISM - A system where large corporations gain significant amounts of profit as a consequence of the ownership and control of assets, rather than from innovative, entrepreneurial use of economic resources.

VULTURE FUNDS - Funds which purchase assets (bonds) which are in distress or default – such as sovereign bonds - at significantly discounted rates, and then go on to holdout for full face-value repayment, resulting in significant gains for the fund.

Rentier capitalism and debt

WHY WORKERS SHOULD BE CONCERNED

Multinational corporations are capturing an increasing share of the benefits of global economic growth in the 21st century, because of their undue influence and power resulting from market manipulation, tax avoidance and inequality.

Their ascendancy is creating a new form of rentier capitalism. This is a system where large corporations gain significant amounts of profit as a consequence of the ownership and control of assets, rather than from innovative, entrepreneurial use of economic resources.[1]

As a result, those who own financial, physical and intellectual property - the rentiers - get profits far beyond what they deserve. Rentiers are capturing the lion's share of wealth created, leaving workers with a declining participation in global prosperity.

WHAT IS A RENTIER?

A rentier is a term that is used to describe a person who can live off income from property or other assets, rather than current employment. For example, a landlord who owns a street of houses can live off the "rent" income.

When it is expanded to describe the capitalist system - as in rentier capitalism, it means corporations are similarly earning revenue from products or services that have been transformed into assets through copyright protection or through past investment. But in the case of corporations there is an underlying element of monopolisation and scale which may further capture revenue. For example, pharmaceutical companies claim intellectual property rights on drugs for decades after they are licenced, meaning they are sold at many times the production cost.

Payment systems and booking systems run by financial institutions and tech companies, and which have become essential to modern transacting, earn revenue for each transaction that far exceeds processing costs. Similarly, property companies have huge property portfolios, sometimes dominating significant parts of a geographical area and are able to impose high and growing rentals.

HOW DOES THIS AFFECT WORKERS?

As the benefits of the rentier economy flow towards the top multinational corporations, workers lose out. The relentless increase of corporate profits has been accompanied by a decline in the share of income going to workers. While workers' wages in advanced economies represented around 55% of total income in 1970, that participation has fallen to less than 40% in 2015.[2] The rise of multinational corporations has played a key role in this dynamic. UNCTAD estimates that nearly two thirds of the decline in the global labour income share between 1995 and 2015 resulted from the increase in the profits of the largest and most influential corporations.[3]

The degree of concentration and market power achieved by these firms has negatively impacted on the employment conditions of workers around the world. The international nature of their operations allows them to constantly use the threat of job reallocation, to move to countries with lower wages and regulations, to suppress wage claims by workers. In addition, multinational corporations tend to employ fewer people per dollar of revenue than smaller companies. As their share of economic activity increases, employment opportunities for workers decline. Coupled with low rates of economic growth, declining wages and employment opportunities leave workers receiving a declining share of a barely expanding pie.[4]

The forces of globalization have spectacularly failed to realize the promises some believed they held for women's rights: Where new transnational corporations have set up and created jobs for women - mostly in export processing industries and value chains – the majority of the jobs have been extremely precarious and among the worst paid and most exploitative. Globalization has instead maximized rentier profits from women.[5]

State deregulation and "enablement" of corporate activity by governments has facilitated the rise of rentier capitalism. The point is not whether states intervene or regulate, but how they regulate, as well as the extent to which their regulatory activities are captured by particular interests.[6] The state now needs to play a different role and regulate and intervene in the interests of ordinary citizens.

WORKERS SHARE IS SHRINKING

1975 - 55%

OF INCOME WENT TO WORKERS

2015 - 40%

OF INCOME WENT TO WORKERS

THE CONCENTRATION OF MULTINATIONAL CORPORATIONS

Multinational corporations have long been a staple of capitalism. In the not so distant past, a combination of strong government regulations and powerful labour unions kept their power in check.

However, decades of market deregulation across the world have shifted the scales in favour of multinational corporations.

DECADES OF MARKET DEREGULATION ACROSS THE WORLD HAVE SHIFTED THE SCALES IN FAVOUR OF MULTINATIONAL CORPORATIONS

The ensuing concentration of corporate power represents a political and economic threat to the global economy and its institutions. The share of profits from the innovative and entrepreneurial deployment of economic resources is declining. Instead, multinational corporations abuse their vast influence to rig the rules of the game in their favour and reap the benefits. In effect, globalization is an uneven playing field: only nine countries have governments that generate as much tax revenue as Walmart, the largest corporation by revenue in the world in 2015.[7] Multinational corporations deploy this power to protect their dominant positions, lower taxes and undermine labour bargaining power. This results in a weak global economy that struggles to achieve balanced and inclusive growth for the many.

The degree of concentration at the top of the global corporate order is breath-taking. Over the last decades, it has intensified in terms of revenues, profits and market capitalization (the total value of a company's outstanding shares).

FACT FILE:

THE WORLD'S BIGGEST CORPORATIONS ARE CASHING IN

- The revenues of the top 2,000 multinational corporations have almost tripled since 1995, from USD 12.8 trillion into USD 36.8 trillion in 2015.[8]
- The combined revenue of this group of corporations has been larger than global trade for each of the last 20 years.
- Within these top multinationals, firms from advanced economies account for 66% of total revenues.[9]
- The top 10% of firms now account for 80% of global corporate profits.[10]

These trends set the scene for a winner-takes-most environment, where multinational corporations rely on their ability to capture rents created elsewhere in the economy to cement their position at the top of the global economic order while squeezing workers, competitors and governments.

LOBBYING AND MULTINATIONAL CORPORATIONS

Multinational corporations rely on lobbying to capture rents and pull ahead of their competitors. Lobbying activities grant these firms privileged access to policy makers and allow them to secure favourable regulatory and tax treatment while undermining transparency and democratic accountability. Reductions in tax rates or introduction of loopholes in the tax code are a source of massive profits. In response, corporations are shifting their efforts from investment and innovation to lobbying and rent seeking.

LOBBYING FOR CORPORATE TAX CUTS (US EXAMPLE)

- In the US, each dollar firms spend on lobbying for tax breaks reaps returns in excess of 220 dollars.[11]
- For every dollar spent on lobbying by labour unions and public interest groups, large corporations spend 34 dollars.[12]
- This spending is part of a vicious circle, where "money is used to get political power and political power is used to make money."[13]
- Since 2000, political activity and lobbying have been the second most important factor in increasing corporate profitability.[14]

Regulatory capture through lobbying by multinational corporations is a pervasive element of international economic treaties, such as trade or investment agreements. Multinational corporations have played a central role in shaping these agreements in a way that has allowed them to capture a growing share of global profits. The growing number of trade agreements between advanced and developing economies has increased the power of corporations against governments and labour.

These agreements allow corporations to re-organize global production chains to maximize profits, while skirting taxes and regulations. A good example are the provisions on Intellectual Property Rights (IPR) included in trade agreements. In the case of pharmaceutical companies, such as Novartis or Pfizer, IPR provisions allow them to protect patents on medication for extended periods of time and far beyond what is economically reasonable. Pharmaceutical companies are able to capture monopoly rents and deter the entrance of new competitors. In many instances, corporations use IPR provisions to block attempts by developing countries to produce affordable medication of strategic importance to public health.

As a result of these practices, multinational corporations have emerged as the undisputed winners of globalization: the top 1% of exporting firms account for over 50% of country export revenues in many developed countries.[15]

TAXING MULTINATIONALS

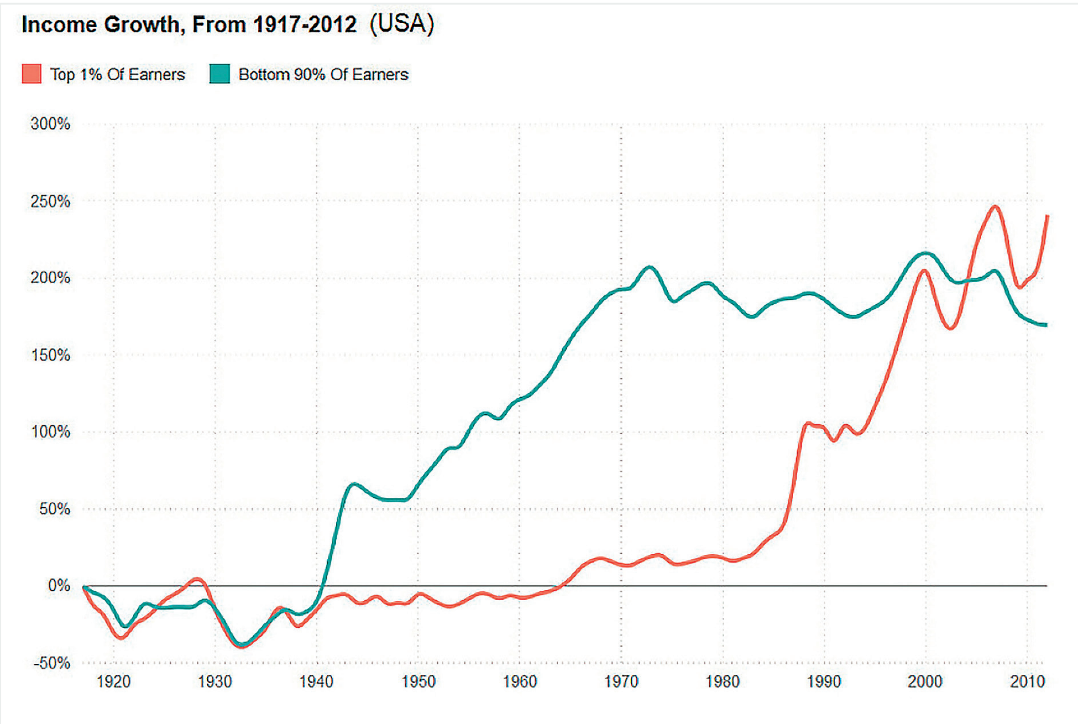
The influence of multinational corporations extends to government budgets. While government expenditures on basic social programmes for unemployment, pensions and health have been systematically reduced in most advanced economies and in some developing countries, the global average corporate tax rate has fallen by more than half, from 49% to 24%.[16]

Even with this massive tax windfall, multinational corporations use aggressive tax planning schemes to further reduce their tax obligations across the world. These tax schemes take advantage of provisions included in trade and investment treaties. Corporations use them to ensure that their subsidiaries in different countries are treated as independent companies. This allows corporations to set up internal trading and pricing schemes designed to shift profits from subsidiaries to low tax jurisdictions.

ROTTEN APPLES

- Companies like Apple have used this system to reduce tax liabilities on a massive scale.
- Over the last decade Apples European tax scheme allowed it to shift over USD 120 billion from world revenues into Ireland.[17]
- Secret agreements with the Irish government allowed Apple to pay an effective tax rate of less than 1%.
- This meant an estimated loss of tax revenue for EU Countries of over USD 14.5 billion.[18]
- If this tax were collected, it would be enough to pay the annual salaries of over 300,000 nurses in Ireland

At a global scale, the impact of profit shifting and tax avoidance on public revenues is even larger. Multinational corporations shifted at least USD $600 billion in corporate profits to tax havens in 2015. As a result, governments around the world lost around 10% of their tax revenues.[19]



Source: World Bank Top Incomes Database

ENRICHMENT OF A FEW

Corporations actively lobby for the privatization of public assets. Under the pretence of private sector efficiency, a drive for large scale privatizations has taken place over the last three decades across the globe. Many of these privatizations turned into highly effective vehicles to boost corporate monopoly rents. In some cases, privatizations involved the transfer of liabilities and undervaluation of assets to attract private investors. In other cases, lack of regulations allowed recently privatized firms to retain and grow monopoly power.

Suppression of competition and high fees translate into exorbitant rents for their owners at the expense of the provision of public services for the population. An analysis of the evolution of wealth of billionaires shows that privatizations and political connections are the most important factor in accounting for billionaire wealth in emerging markets between 2001 and 2014. It is estimated that these two factors account for 30% of the growth in the wealth of billionaires in emerging markets.[20]

The spoils from these schemes are distributed between CEOs and shareholders.

Multinational corporations use an increasing amount of resources to boost the returns of shareholders at the expense of productive investment. Companies deliver massive profits to shareholders through dividend payments and stock buybacks (where a corporation buys its own stock to artificially increase its price). Over the last decade and a half, dividends absorbed 37% of corporate profits in the US. On top of this, companies in the US spent an additional USD 2.4 trillion to finance stock buybacks. equivalent to 54% of corporate profits. This diverts income which could otherwise be used to reinvest in hiring new workers, building new infrastructure or developing better products.

The scale of purchases has given a manipulative boost to stock prices to the benefit of shareholders. Taken together, dividends and stock buybacks represented 91% of corporate profits in the US between 2004 and 2014.[22]

RENTIER CAPITALISM AND DEBT

But what does debt have to do with rentier capitalism? Ideally, bankers and financiers would use their powers to pump productive credit into the economy: to help ensure full employment, efficient use of resources and socially desired growth. Keynes described credit as “the pavement along which production travels; and the bankers, if they knew their duty, would provide the transport facilities to just the extent that is required in order that the productive powers of the community can be employed to full capacity.”[23]

But if they are more interested in making a quick buck, they use credit and debt instruments as just another financial asset to play with.

Debt - of countries, businesses and households - has increasingly become a tradable asset in international markets. Private and institutional investors increase their rentier incomes by speculating on the future value of these assets and by exploiting the lack of international regulation for sovereign debt restructurings to hold entire countries to ransom for full repayment of the nominal value of debt, bought at large discounts.

These actors are often described as Vulture Funds: private creditors who litigate against governments for full repayment of nominal debt bought cheaply. This often comes after governments have had to socialize private debt, incurred by local businesses and households.

In 1965 the average US worker worked for twenty years to earn what the average CEO made in one year. By 2019, the average worker would have to work for 339 years to earn what the average CEO makes in a year.[21]

Increasingly, the role of credit is no longer funnelled towards productive investment and public services which create jobs, incomes and help the debt pay for itself.

Instead, it fuels financial speculation and becomes indispensable to households deprived of sufficient income from jobs. This leads to ballooning private debt- often accompanied by growing public debt. This can create crises where governments have little choice but to bail out large private corporations, including banks and other financial and non-financial institutions, to avoid systemic bankruptcies and a full-blown economic crisis.

As will be expanded on in more detail in subsequent briefs of this series, this destructive and wasteful use of credit/debit to boost short-term rentier income is depriving ordinary people of jobs and salaries and driving them deeper into household debt.

Debt isn't just another trick in the toolbox of get-rich-quick bankers: it is the heart of the entire rentier economy.

UNIONS TAKE ACTION - ARGENTINA

When the Macri-led Argentinian government set out to undermine labour rights at the behest of the IMF, a united trade union response managed to avoid the worst.

Argentina's past experience with IMF conditions showed they exacerbated poverty, hurt the most vulnerable and undermined quality and quantity of work, wages, pensions and rights. They led to a fall in public investment and a significant increase on public services costs. They also led to capital flight, currency devaluation undermining real wages, inflation, a fall in imports, unemployment and business closures.

PSI affiliates in Argentina, almost all of which are members of the General Confederation of Labour (CGT), actively participated in the opposition to IMF reforms. They organised media campaigns, held meetings with IMF delegates, organised two general strikes and many other mobilisations. The Union movement also organised in coordination with some other important economic sectors including small and medium sized businesses who would also suffer from the IMF conditions.

Because of strong union action, the worst labour reforms were stopped in the National Congress. In some cases, the movement won salary increases and a one-off bonus to cushion the effects of inflation. Layoffs in the public sector were halted through collective bargaining mechanisms. The prices of some basic food products and public services were also frozen.

In the middle of the debt crisis, there were primary elections - political mobilisation by unions led to a bad result for the neoliberal governing parties. The case of Argentina shows that the worst outcomes of debt crisis can be opposed with strong organising by unions.

WHAT ROLE DO UNIONS HAVE?

1. Labour unions must fully exert their role as a countervailing power to global multinational corporations. This requires developing an effective voice and active participation in key policy discussions at the national and international level, so that economic democracy is strengthened.

2. Unions must demand that the private banking sector, including its shadowy elements, are made transparent and subjected to democratic public control. The power to create credit must be made to serve public interests, and used to expand and improve public services, rather than fuel a casino economy.

3. Unions must stand against corporate lobbying on labour, social, financial and environmental rules, which has helped create massive deregulation and fuel instability.

4. Unions must work together with governments to both defend and update the multilateral regulatory framework established in the post-war period. This requires a revision of the status-quo on trade and investment treatments.

5. Unions must fight for measures that tackle large-scale rent-seeking activities by global multinational corporations, such as profit-shifting, collusion and abusive business practices including exploitative and precarious jobs for women and the vulnerable. Addressing these challenges will be central towards establishing a more inclusive global economy in future.[24]

6. Unions must demand that governments cooperate to make the financial reporting of Multinational Corporations (MNCs) transparent and ensure they pay their fair share of tax. Workers lose out when MNCs shift profits to tax havens because these profits are hidden from the workers and are not available to pay wage rises or fund public services, often fuelling further privatization.

7. Unions must demand governments support initiatives to rewrite the rigged global debt workout rules which force unnecessary austerity on millions of workers each year in order to preserve the profits of global finance.

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