Written by Alberto Acosta, Translated by Danica Jorden
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The squaring of capitalism in the revolutionary circle

Fuente: [La Línea de Fuego]

“The farther we can keep from the IMF and the World Bank, the guiltiest parties in the Latin American debacle of the last 20 years, the better off we’ll be.” Rafael Correa, October 2007

“The World Bank is behind us in financing us because they admire the country’s growth and the economy’s performance.” Rafael Correa, April 2014

Almost seven years have elapsed between these two presidential statements, and a lot of water has passed under the bridge. A superficial reading might lead one to believe that, after all this time, certain changes had taken place that could explain this unquestionably significant change in official position, and that this would represent positive news for the country.

There are several possibilities. In rough terms, we can imagine the two ends of a wide spectrum of options. At one end, it could be that the World Bank has over the last few years magically changed the orthodoxy that has been its hallmark throughout recent history, bringing it into line with proposals from “progressive” governments. The other option would be that it is Ecuador that has in reality abandoned the initial tenets of the 2006 PAIS Alliance project, demonstrating significant achievements in line with the demands of urban capitalism, which deserve recognition by the World Bank [1]. In between these two estimations are many others that, in one way or another, encapsulate Ecuador’s growing need for foreign financing.

Fever for Financial Resources

This is, or should be, the departure point for analysis: How to understand and justify the government’s growing demand for financial resources?

Since the beginning of the project, the Correa government’s proposed economic plan has tried to overcome neoliberal vision, while recovering the State’s role in the economy. It seemed that the IMF and World Bank’s impositions were left in the dust- they precipitated an “orthodox, conservative and prudent” management of the economy. Washington’s consensus, and especially its discourse, was filed away like a bad memory of a long and sad night for Ecuador. In all, restrictive and neoliberal-inspired macroeconomic policies appeared to be things of the past. The State has unquestionably recovered a central role in the economy, an example of which is expressed by extremely large public investments requiring great amounts of financing. But in the end, the State has become but an ever more active guest at the banquet of capitalist reconstruction.

Tax revenues are not lacking. The Correa government is way ahead of any former government in terms of revenues on petroleum exports. This government got by on the very particular situation of high prices and demand in the international market, allowing it to count on enormous resources coming from petroleum exports.

In addition to petroleum, tax revenues must also be added in. As well, at the beginning of its administration, the government counted upon resources frozen during earlier governments in various petroleum funds. In this way, it has also resorted to the productive use of resources accumulated in freely available liquid reserves (especially at the height of the international crisis in 2008-2009). And today, just as previous governments have done, the current Administration has borrowed from Ecuador’s Social Security Institute (the IESS), though in far greater amounts than previously.

The sum of all these areas – petroleum, taxes, IESS loans, and more – vastly exceeds the financial availability of previous governments. Add in the temporary benefits from renegotiating the foreign debt, which allowed for the mitigation of the State budget's interest payments, especially in 2009 and 2010. This point should be underlined, not just from a merely fiscal perspective, but also from a reading of the political economy in order to analyze the government's "proud and haughty" logic, one that it is now being diluted.

Unexpected Credit from the World Bank

The details of the proposed line of credit are succinct. It would be for the amount of a $1 billion (USD), thereby doubling the amount of debt Ecuador carries with the World Bank. There's talk of a thirty year payment period, and a fifteen year grace period. The interest rate would be LIBOR +1. And according to official documents, there would be no conditions at first… although, as we know, conditions arise as soon as projects are presented and at the disbursement of each tranche.

However, before any hasty over-confidence, it must be noted that this is nothing more than a line of credit. Though surely it doesn't have the conditions that were imposed in the past, that doesn't mean the money is already available, or that the government can use it in any way it sees fit. Respective projects will have to be presented and qualify under World Bank rules.

It is important to remember that there are two projects presently financed by the World Bank. The relationship with the multilateral organization, which has been keeping a low profile since 2007, did not impede approval for a $205 million credit for the Quito Metro, and $100 million for a health project in Manta. (In order to obtain these credits, the 2008 public debt audit's recommendations were cast aside.)

A first conclusion would be that the government obtained an increase in the line of credit it already had, as well as the possibility to diversify sources of financing, at a time when it is increasingly difficult to obtain credit from the CAF (Andean Development Corporation) and the IDB (Inter-American Development Bank), as well as China. Is that all? No, definitely not.

Completing the Cycle

Before exploring the credit's implications, we should recognize that foreign debt is, quite often, the most visible expression of an evolution that goes far beyond financing or even the economy. Not keeping this in mind will impede a proper analysis of the situation.

To begin with, and we know it full well, we cannot simply claim that suspending payments on foreign debt has been the cause of repeated economic crises. It is a fact that the 2009 moratorium closed the door on Ecuador to various lines of financing and that the country found in China a financial lifeline of last resort. However, it was a decision that did present the country with some benefits. For example, it managed to alleviate the burden of servicing the debt, as well as allowing the country to get out from under the impositions of multilateral credit organizations, in addition to those of the World Bank itself. And then, a certain amount of time after the suspension of payments, the country now opts to return to the international financial markets.

Seen this way, the problems derived from foreign debt, still lingering since the dawn of the 21st century, are not new to the history of Ecuador. From the first foreign debentures contracted at the beginning of the 19th century, up until the present debt, our economy has gone through a recurrent series of booms and busts, closely linked to the cycles of central capitalist economies. This can be explained by the availability of financial resources that are loaned with relative ease at certain times, and collected at others. In this way, it can be observed throughout international financial history that debtor countries that repeatedly take credits experience a boom, then a decline, then cease paying, and then after a time, come back to ask for loans again, and life goes on.

It must be made clear that the 2009 renegotiation, which liberated in part the debt's burden on the economy, was not complete. It suffices to analyze the incompliance with the Public Credit Integral Audit Commission's recommendations for all tranches of the foreign debt: bilateral, multilateral, and even commercial.

The World Bank: The Evil One Knows

In 2008, the government of President Correa suspended servicing part of the foreign commercial debt, but not the entire debt. This suspension of payments, or moratorium, was marked by a clear and preconceived programmatic position to seek out better conditions for renegotiating the debt, not because it was impossible to service.

The government partially accepted the Public Credit Integral Audit Commission's findings. The Commission was created in 2007 in light of reiterated pressure from diverse civil society groups that was being expressed for years and not acted upon by the two previous governments, though they had initially given some signs of support for this citizen's initiative. The Commission's work, which was more ethical than judicial, was in all respects explicit about evaluating all tranches of the foreign, as well as domestic, public debt.

Under those conditions, and without complying with the Commission's recommendations, Correa only declared the suspension of one tranche of the foreign commercial debt payments, considering it illegitimate and illegal. A few months later, filing the charge of illegitimacy and illegality for possible concrete legal action, the Correa government repurchased part of the Global Bonds (for 12 and 30 years, not the 15 year Global Bonds) that had been declared part of the moratorium. It is not understood why the 2015 Global Bonds were not contested, as they were issued in order to service other Global Bonds, or in other words, also had an equally questionable origin. It is also hard to understand why the Commission's recommendations concerning charges of irregularities in the bilateral and multilateral debt tranches were not accepted as well.

As such, the indicated audit, being an historic exercise of international relevance, did not end up having greater effect because it was not accompanied by corresponding legal responses or coherent actions.

Let's keep in mind that, as demonstrated by the "Final Report on the Integral Audit of the Ecuadorian Debt" (2008), foreign creditors in Ecuador protected their interests in open conspiracy with the multilateral credit organizations: the IMF, the World Bank, the IDB; as well as several creditor governments; nearly always with the complicit support of national negotiators. According to the Report's published findings, they formed a:

"multilateral coalition to support and ensure, in the first place, negotiations for the Brady Plan, whose legitimacy and legality have been solidly questioned by the Commission's examination of the commercial debt; and perceiving a favourable opportunity, introduced at that time an economic doctrine aimed at reducing the size and role of the State, privatizations, commercial and productive liberalization, to be borne on the shoulders of prevailing inequities and social impacts."

The Audit Commission's list of conclusions also states that:

"There exist sufficient proofs to repudiate the loans of the group examined in this part of the multilateral debt audit, and initiate the cancelation process and restore sovereignty."

Furthermore, it revealed *"the simultaneous presence of odious, illegitimate, illegal and illicit factors."* Here, the World Bank was one of the major players. Nearly the entirety of credits granted by this multilateral organization – such as the Mosta project or the Prodeminca, to cite just two examples – raise the same doubts. Furthermore, it must not be forgotten that the World Bank, in complicity with its Siamese twin, the IMF, was one of the reasons causing the enactment of structural adjustment policies.

Cognizant of this reality, President Correa was a harsh critic of the World Bank. He not only expelled its representative at the start of his term as President of the Republic, but years later, in 2013, insisted that, *“they should begin their speech by asking for forgiveness for the damage the World Bank has caused in Latin America and the world,”* when he left the room at the XXI Iberoamerican Summit in Asunción, Paraguay, to protest the presence of a World Bank representative. According to him, *“The World Bank was one of the harbingers of neoliberalism in Latin America.”*

It is doubtful, to say the least, that the World Bank will change its role. It probably won’t as vigorously and dogmatically defend neoliberal approaches. But that doesn’t mean it won’t continue to be a fundamental mechanism for transnational capitalism’s financial rationale.

And let us not forget, as shown by the long history of foreign indebtedness, that debt has been a mechanism for exacting resources from poor countries and for the imposition of rich countries’ policies upon them. Debt has and continues to be, as Karl von Clausewitz would have said if he had been speaking of finance and not war, the continuation of politics by other means. Using this logic, foreign debt management dovetails with another axiom of Clausewitz, in which debt has been an act of violence whose objective is to force the debtor country to acquiesce to the will of its creditors.

A Financial Reading of a Potential Credit

From the point of view of conventional analysts, the World Bank's line of credit is seen favourably. They say it is positive not having to depend solely on the Chinese banks, which don't seem ready to continue loaning money indefinitely. And it will thereby diversify financing sources. They furthermore underline the better credit conditions obtained. These statements also demonstrate the symbolism inherent in being indebted to the World Bank. It's as if the world were reverting to its natural order. On the other hand, and this is something to emphasize, this rapprochement with the World Bank may facilitate the complete return of the country to the international financial market, into which the Government intends to enter this year. This is why President Rafael Correa declared, in an announcement made on Sunday April 6 in a televised interview, that there will be *"a bonds transaction in the open market this year"* of almost $700 million to finance the investment budget.

Certainly many are demanding that the situation be rectified in the face of the latest moratorium and the limited number of actual bond holders (and there are some who have said that the bonds could be serviced with World Bank funds). In this spirit of reunion, there have also been requests for transparency in all the accounts related to the Chinese debt, generally characterized by its high degree of opaqueness.

And so the traditional circle of distancing from financial markets would be closed, leading to the late 2008 moratorium, propelled from positions of sovereignty over debt management just to, after a time, return to said markets. The reasons might stem from a change in the "unruly politics" of a country, or in a mollification of international financial conditions, such as the increasing availability of financial resources being granted with one eye closed despite the bad memories experienced by the debtors and creditors. It certainly could be both of these situations. But there is no doubt that the World Bank is celebrating Ecuador's return.

The Capitalist Squaring of the Revolutionary Circle

Based on the above, one could conclude that, beyond the (supposed) changes that may exist in the international financial market as well as at the World Bank itself, the Correa government's economic policies are surely seen as the Ecuadorian "economic miracle" by various international analysts close to liberal circles and the big transnational interest groups.

The attraction awakened in those places by Correa's extractivist bets could not go unnoticed. The exploration for crude in the ITT oil fields in Yasuní National Park, expanding the oil frontier in the southern Amazon, mega-mining, promoting biofuels or stripping the constitutional prohibition on importing genetically-modified seeds and their cultivation. The portfolio probably also contains investments in major Government infrastructure and base industries projects – refineries, steel mills, ironworks, shipyards – where they could set the foundation for the productive model's transformation.

Attention should also be paid to the FTA negotiations with the EU, by whatever name that agreement will be called, one of the oldest aspirations of reduced national power groups, many foreign investors, and certainly multilateral credit organizations. It may be worth underlining the measures taken from the Ecuadorian Embassy in Washington, headed by Nathaly Celi, from the perspective of the ambassadress' connections to corporate elites and possible talk of resuming commercial negotiations with the United States. In other words, it’s something that shows us the way political interest groups move in and out of the Government (and, in another way, whatever is left of the left in the government).

So to conclude this intent to achieve a capitalist squaring of a supposedly revolutionary process, it would be fitting to bring up the proposed million dollar investment of Coca-Cola in Ecuador, whose director has already met with President Correa. In this line of regressive politics of the process which began in 2007 is situated the failure of the Yasuní-ITT initiative to leave its crude underground in the hands of President Correa; an initiative built by the civil society and taken over by President Correa. Stated in another way, the variability of his statements and his continuing contradictions reveal the return of the prodigal son to world capitalism’s fold.

Today the president is making the circuit of major US universities, extolling the “Ecuadorian miracle” that along with the capitalist education model is the path Ecuador is to take. It should be noted that mercantilism has permeated all levels of government and the State has decided to replicate this at the societal level. What goes unstated is that this Ecuadorian miracle will always be tied to deepening the modality of accumulating exports of primary materials.

In summary, revolutionary and anti-imperialist discourses rapidly dissipate faced with a proposal to modernize capitalism. All this explains the enormous backward steps now being taken, a long way off from the transformative alternatives that were proposed in the beginning. And this regressive wave takes on more and more indelible hues, as over-indebtedness – as shown by history – will demand increasing expansion of extractive frontiers at all levels, and overpower the need to end dependency and construct authentic economic sovereignty.

Alberto Acosta is an Ecuadorian economist, professor, and researcher at FLACSO-Ecuador. He is also an honorary professor at Ricardo Palma University, Lima, former Minister of Energy and Mining, former President of the Constitutional Assembly, and former candidate for President of the Republic.

[1] Two questions that are still unanswered: What role did the IMF play in the World Bank's credit offer? Has the IMF yet issued its report on the Ecuadorian economy as stipulated in Article 4 of the statute?