PUBLIC SERVICES INTERNATIONAL

The global union federation of workers in public services

ENGLISH

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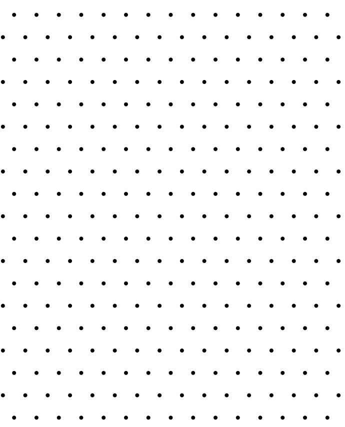
Rentier capitalism and debt

BRIEF 1

PSI BRIEFING SERIES - DEBT AND WORKERS



INTRODUCTION

By Rosa Pavanelli,
General Secretary,
Public Services
International

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.

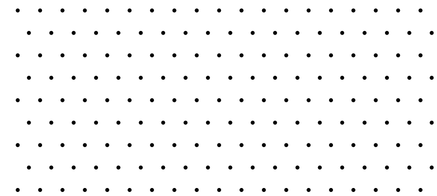
Yet more often than not, public debt is caused by governments bailing out reckless private speculation, politicians allowing the rich to dodge taxes, corruption and the gifting of unsustainable benefits to wealthy businesses.

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
General Secretary
Public Services International

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.

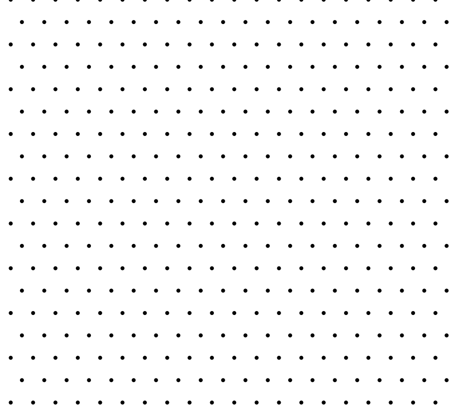
WORKERS SHARE IS SHRINKING

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

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