

**The Structural Power of the
State-Finance Nexus:
Systemic Delinking for the Right
to Development**

BHUMIKA MUCHHALA

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NOTE

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Chapter 1

INTRODUCTION

FOR over four decades, the ascendance of economic austerity as a multifaceted political and economic project has become a normative paradigm that many nations and governments in the Global South pursue. A consensus of political and economic elites across institutions, governments and the private financial sector has normalized a bias towards fiscal austerity frameworks globally, with particularly pernicious effects on marginalized and vulnerable communities across the Global South (Peck 2010; Blyth 2013). These effects involve a deepening and reproduction of social inequalities, economic dispossession such as loss of livelihoods and employment or taxation targeted at the poorest, and a broader undermining of the social contract through the erosion of public services and goods.

Over two years into a global pandemic, it is not an unreasonable proposition that austerity measures enacted over the last several decades have exacerbated the effects of the pandemic, with deeply unequal effects both within and among nations. The dominant features of austerity – which include inadequate and failing public services in education, health and social protection, and income inequality driven in part by regressive taxation and a deflated role for the state constructed by privatization schemes – have led to a systematic erosion of the resilience of public systems and of a social contract that safeguards redistribution of wealth, resources and public goods towards equity and the fulfilment of human rights.

Founded on the neoclassical economics claim of a non-ideological, pragmatic and economic ‘truth’ (Harvey 2005; Sassen 2009), fiscal austerity often acts as a hegemonic and disciplinarian mechanism by which nations

secure the confidence and approval of global capital markets and creditors. Contrary to the widespread perception that the state has retreated since the establishment of neoliberal economic policies in the 1970s, austerity has deliberately repositioned the state to serve the interests of the market at the expense of the public through the recalibration of institutions, universal rules, policy norms and legal protections in ways that protect and strengthen the private sector (Slobodian 2018).

This distortion of the role of the state illustrates how financialization in practice, as opposed to theory or concept, does not always enact the self-regulation of markets as autonomous entities. The developmental role of the state in guiding economic development and structures, retaining ownership of key sectors such as industry and banking, and allocating resources to meet the social and economic needs of its people, is effectively disabled through structural adjustment and fiscal austerity frameworks that position private firms and market financing to shape decision-making, own key public sectors and direct the allocation of financial resources towards foreign debt repayments rather than addressing domestic needs.

The international institution responsible for the diffusion of fiscal austerity policies across many parts of the Global South through the disbursement of conditional loans and production of national macroeconomic surveillance reports is the International Monetary Fund (IMF). Fiscal austerity frameworks include macroeconomic policies oriented towards reducing budget deficits by way of reducing public expenditures and increasing taxation, often through indirect taxation (Stubbs et al. 2017). In many ways the archetypal unapologetic neoliberal institution, the IMF has the power to shape and manage the social provisioning of its borrower governments. Governance power in the Fund's Executive Board is disproportionately skewed towards rich countries, which hold over half of the voting power; developing countries, which together constitute 85% of the world's population, have a minority share. For example, for every vote that the average person in the Global North has, the average person in the Global South has only one-eighth of a vote (Hickel 2018).

Today, in the wake of a global health pandemic, followed by a conflict-induced food and fuel price inflation shock and international monetary policy tightening, sovereign debt burdens across the Global South have exponentially multiplied, generating systemic crisis and debt defaults in many nations. Total debt in the developing world now stands at a 50-year high (Estevão 2022). In middle-income countries, sovereign debt stands at a 30-year high; the number of emerging markets with sovereign debt trading at distressed levels more than doubled in the first six months of 2022 (International Monetary Fund 2022). And 60% of low-income countries are in debt distress or high risk of debt distress (International Monetary Fund 2022). The World Bank stated that ‘over the next 12 months, as many as a dozen developing economies could prove unable to service their debt’ (World Bank 2022). The implication is nothing less than the greatest debt crises and defaults in developing economies in a generation.

The critical need for fiscal liquidity in many developing countries is, in great measure, generated by the fact that public revenues already in contraction by the economic downturn induced by the COVID-19 pandemic are being spent on servicing debt payments. In the absence of a sovereign debt restructuring mechanism in which all creditors, including private, bilateral and multilateral, participate towards the objective of reducing debt-distressed nations’ debt stocks, the role of the IMF in providing conditional financial assistance has heightened to an unprecedented level. As of August 2021, approximately 221 loans have been arranged with 88 developing countries (Kentikelenis and Stubbs 2021). Through both loans and country surveillance reports, the Fund has advised 154 developing countries in 2021 and 159 in 2022 to commence fiscal consolidation measures, following a temporary and targeted duration of fiscal spending in 2020 to respond to the immediate health and economic damage inflicted by the pandemic (International Labour Organization 2022).

The fiscal consolidation measures in current loan agreements include public expenditure reductions and public wage bill cuts and caps, including in some instances the privatization of public sectors, which have historically

constrained equitable public services in education, health, social protection, water and public transport. Measures also include regressive revenue generation measures such as consumption and value-added taxes, which extract revenue from vulnerable households, who experience both lower and less affordable access to social services alongside declining income to meet basic needs. Narrow targeting of social protection programmes, which excludes the majority of low-income communities, is a key part of consolidation measures, while labour flexibilization measures which augment the precarity and wage insecurity of workers, especially women workers, are commonplace. Monetary measures such as increases in bank loan interest rates and weakening the accountability of central banks to people's needs are also a central part of IMF loans (Munevar 2020; Tamale 2021).

The current fiscal consolidation, or austerity, measures are projected to be premature and more severe than in the aftermath of the global financial crisis of 2007-2008 (Initiative for Policy Dialogue 2021). They are projected to affect approximately 85% of the world population in 2022. A key point of discernment here is that 80% of the affected population are in developing countries across the Middle East and North Africa, sub-Saharan Africa, South and East Asia and the Pacific, and Latin America and the Caribbean. A significant literature of impact analysis illustrates how austerity has led to increases in inequalities that persist over the medium term, material deprivations and lower living standards, intergenerational cycles of poverty, intensified discrimination and a subterranean stream of social fissure and emotional-spiritual alienation (Cornia et al. 1987; Williams 1994; Bullard et al. 1998; Garuda 2000; Forster et al. 2019). Most recently, Lang (2021) shows a correlation between increases in inequality and IMF loan programmes, documented by both relative and absolute losses of income by the poor. The gendered nature of austerity and the channels through which women and girls are adversely affected, as well as involuntarily become 'shock absorbers' of fiscal consolidation measures, are also detailed in a rich body of feminist economics analysis (Sen and Grown 1987; Elson and Cagatay 2000; Seguino et al. 2010). Mitigation measures such as spending floors and cash transfers are only implemented around half the time and have not protected social

spending budgets from protracted cuts (International Labour Organization 2021). Meanwhile, as opposed to universal social protection measures, the temporary and targeted nature of assistance schemes, where access is often mediated by income thresholds or employment categories, means that many who need assistance do not receive it.

Critics, development advocates and social movements for global economic justice warn that with an additional 100 million pushed into poverty as a direct result of the pandemic and an economic recession exacerbated by the war in Ukraine, a ‘lost decade’ for the Global South is imminent (United Nations Conference on Trade and Development 2021; World Bank 2022). Mass protests and counter-movements have surged across the globe over the course of decades, decrying austerity’s devastating toll and castigating it for deepening social injustices (Ortiz et al. 2022). Meanwhile, the empirical evidence across time, geography and context, demonstrating that austerity has neither restored income growth nor reduced unemployment, has only mounted over the years, while academic research has illustrated how the economic methodology in support of austerity is conceptually flawed (Blyth 2013; Herndon et al. 2013).

Chapter 2

STRUCTURAL POWER OF FINANCE

THE structural power of finance today stems from several shifts that have occurred since the 1970s. These include, in summary, the steep increase in financial actor concentration, the growing reliance of states on private credit, and the ways in which the state intervenes in financial markets. A brief elaboration follows.

The concentration in the financial sector is reflected in the fact that ‘the share of the top five largest global banks in the assets of the largest 1,000 banks has risen from around 8% in 1998 to double that in 2009’ (Haldane 2010: 6). This was accompanied by a centralization of global credit markets, seen by the share of loans made and number of assets held by a decreasing amount of financial institutions. For example, while there were 14,434 banks in the US in 1980, approximately the same number as in 1934, this number halved to 7,100 by 2009 (Haldane et al. 2010).

A second shift is the state’s growing dependence on private credit through the market issuance of international sovereign bonds (ISBs). Some key features of private debt that are critical for a debt architecture to address are: issuance of bonds with high and variable interest rates, their denomination in foreign currency, and the lack of enforceability over private lenders to ensure comparability of treatment in debt restructuring exercises – all of which generates systemic risk in the debt profile of developing countries. The creditor composition of sovereign debt has made a sharp turn over the last few decades from official bilateral creditors, nearly all of whom were Paris Club members, to commercial creditors as well as non-Paris Club bilateral creditors. Consequently, by 2021, low- and middle-income

economies owed five times as much to commercial creditors as they did to bilateral creditors (Estevão 2022).

This increased exposure to private creditors – in the exogenous context of the COVID-19 pandemic followed by food and fuel price inflation and international monetary tightening, as well as the systemic context of the absence of a multilateral debt restructuring mechanism that ensures private creditor cooperation – has created a perfect storm of vulnerabilities for the Global South. Furthermore, many developing country states now finance their public expenditure through foreign-currency-denominated borrowing from private lenders far more than they do through taxation, creating ever-proliferating debt stocks that must be financed with an ever-greater share of national foreign exchange revenue. This debt-generating cycle of lending and borrowing has led to a symbiotic, or at least tightly bound, relationship between domestic political and financial elites and global finance. Consequently, the state's autonomy from finance weakens.

A third shift is the ongoing restructuring of the state apparatus through the critical role of state actors, central banks and international financial institutions as lenders and market participants since the 1980s. This has unfolded despite the dominant narrative of the diminished state freeing space for unfettered financial liberalization and deregulation (Slobodian 2018). This turn towards the imbrication of state with finance, facilitated through the dependence on external financing since the 1970s, can be viewed through Strange's (1988) conceptualization of the formation of a 'state-finance nexus'. Streeck (2014) refers to the emergence of private creditors as a second constituency alongside national citizens, exercising unprecedented political influence and, importantly, structural power over the state. In turn, the debtor state must 'take care to gain and preserve (the financial markets') confidence by conscientiously servicing the debt it owes them and making it appear credible that it can and will do so in the future as well' (Streeck 2014: 81).

The dynamic of external dependency is situated in the proposition that if the state requires access to credit from the international financial markets as well as institutional lenders, state administrators will do everything possible to 'keep their creditors happy and not to scare away potential investors' (Roos 2019: 58). What exactly is required from the state in the endeavour to

‘keep their creditors happy’, within a web of explicit asymmetry of structural power between state and finance? At face value, the minimum requirement is repayment of the borrowed amount, including accrual of interest, to creditors. However, the expectation that undergirds debt repayment is the uncoded/unwritten and yet authoritative priority of assuring ‘market confidence’ or demonstrating ‘sound macroeconomic fundamentals’ (International Monetary Fund 2014, 2015, 2020, 2021). In other words, the foundational mechanism that activates the structural power of finance over the state is the task of reassuring lenders that the state’s budget is under control.

As Ostry et al. (2016: 40) admitted from within the IMF, ‘it is surely the case that many countries (such as those in southern Europe) have little choice but to engage in fiscal consolidation, because markets will not allow them to continue borrowing’. While the reference here is to states that are defaulting on their debt or in the throes of debt crises, the expectation to maintain the general trajectory of ‘fiscal discipline’ via consolidation permeates beyond recurrent inflections of debt distress. As the annual surveillance reports of the IMF illustrate, even in the absence of signs pointing to debt distress, namely the core statistic of national debt-to-GDP ratios, the Fund’s macro-policy advice to most developing countries is to keep budgets in line by ensuring ‘sound and macroprudential indicators’ (International Monetary Fund 2015). As the political scientist Lindblom (1982) articulates, political leaders find themselves bound to the responsibility to maintain a healthy investment climate under all conditions, and to immediately restore business confidence whenever key indicators start trending downwards.

The unavoidable message here is that maintaining good standing in the omnipresent eyes of finance requires an internalization of the austerity ethos. This point is not explicit, in that it is not written out verbatim. However, the effect is a resounding compliance across the Global South with reining in public expenditure, promoting privatization and, importantly, prioritizing the repayment of debt over and above national expenditure and investment priorities (Ortiz and Cummins 2012, 2013, 2019; Ortiz et al. 2015, 2017; Kentikelenis and Stubbs 2021). The growing dependence of the state on

private credit thus leads directly to the internalization of debtor discipline within the borrowing country's state apparatus.

Fiscal consolidation frameworks are the core policy content of IMF loans and surveillance reports, in which austerity measures such as reducing public budgets, enacting regressive taxation and privatizing state-owned enterprises act as either conditions for the loan or recommendations which may be reinforced by influential actors such as credit rating agencies (Peck 2010). Other mandates such as financial, environmental and labour market deregulation, liberalization of trade tariffs and government procurement and increasing the independence of central banks are also often present in loan and surveillance documents (International Labour Organization 2022). Despite not possessing a formal or encoded global consensus, much less a legally binding mandate, austerity is embedded into the bedrock of the global political economy as a given, a *quid pro quo*, an unnegotiable reality in which resistance, dissent and refusal to perform the norm of servicing finance capital before and over people and nation are not expected to come from the state polity (Harvey 2005).

Multiple dimensions of institutional and relational restructuring have occurred from national to global levels. Within the state, a contradictory dynamic underpins the phenomenon of external financing, in that it simultaneously enables and constrains the agency of state authorities. It supplies the material financial resources for expenditure the state would not otherwise have, while at the same time requiring the state to maintain a constant effort to restrain that very expenditure to maintain repayments of debt owed to creditors and lenders within a web of ever-increasing dependency. At the global level of international institutions, the IMF was restructured from an international monetary coordination agency into a *de facto* lender of last resort for South borrowers in debt distress. This transmogrification of the Fund since the late 1970s significantly altered the international financial architecture towards conferring structural power to private, national and institutional creditors and ascribing to the IMF the role of 'fiscal disciplinarian' over borrowing countries in exchange for providing emergency financing and loans (Buirra 2003).

Starting in the 1980s, recurrent payments imbalances, pressures for currency devaluation, and the macroeconomic instability associated with intermittent financial-economic crises in Latin America, Asia and Russia saw the Global South turning with increasing frequency to IMF loans and signalling effects to financial (creditor) markets delivered by surveillance reports (Thacker 1999). The balance of power between debtor and creditor became increasingly tilted as the policy conditions within structural adjustment programmes – enforced by the Fund’s emergency financing programmes in response to the recursive debt crises over the last four decades – revealed the extent to which social policy expenditure, as well as the economic redistribution from wealthy to poor that supports social policy, was eroded in order to maintain debt repayments and prevent sovereign default. The effect of the Fund as an enforcing agent of fiscal austerity measures has served to protect the balance sheets of the big commercial banks and investors from their own imprudent lending decisions (Roos 2019). By the late 1990s, scholars from Robert Wade to Jagdish Bhagwati were shedding light on the pervasive and wholly unaccountable role of a ‘Wall Street-Treasury-IMF complex’ and its entrenchment of a pro-creditor bias in international crisis management (Wade and Veneroso 1998). The enactment of austerity measures becomes depoliticized and internalized into normative compliance by most Global South states.

Chapter 3

DISCIPLINARY MECHANISMS

DISCIPLINARY mechanisms play a foundational role within the political rationality of austerity by reinforcing and operationalizing its structural power. In conceptualizing disciplinary neoliberalism, Gill (2008) illustrated how a financialized political economy employs the structural power of capital to impose discipline on public institutions and to reroute accountability relationships of the state from citizens to markets. A multitude of financial-political mechanisms and arrangements discipline the South into enacting a national austerity agenda. For example, central bank independence (CBI), or the distancing of the central bank's function and mandate from the national government, reduces national policy space for alternative policy options. Research by economic scholars observes that 'strengthening CBI helps the IMF in nudging a government into painful austerity and reform measures, ultimately leading to greater (loan) program compliance' (Reinsberg et al. 2021). In practice, CBI becomes another binding constraint on the capacity of countries to use available policy space to pursue developmental policies towards national autonomy and economic and social development.

One of the most effective disciplinary channels is that of sovereign ratings issued by credit rating agencies (CRAs), which in turn influence a state's ability to access credit, which includes the terms of that credit, such as borrowing costs. Aside from the disciplinary effect of CRAs, the reinforcement of austerity measures is cyclically implanted into the rating methodology.

CRA's are supposed to act as a bridge between lenders and borrowers by reducing the information asymmetry through the provision of 'objective, independent and expert information on issuers or borrowers of bonds and other debt instruments and fixed-income securities' (Li 2021: 7). Their overriding concern is the creditworthiness of the borrower nation, that is, the ability of a state to observe its debt obligations. Upon evaluating the borrower's financial, political and economic circumstances, CRA's provide their opinion or judgment in letter form; for example, credit ratings such as A, B, C and so forth. Credit ratings not only influence investor decisions on where to lend money to, they also determine the ease or difficulty of accessing external finance and shape the pricing of the debt instruments that South states issue, such as the interest rates (Partnoy 2017).

As market makers and movers, a negative or downgraded rating has attendant repercussions of threatening both access to and terms of external finance, reputational damage and capital outflows, for example (Lewis 2011). The significance of the repercussions renders the force of CRA's much greater than one of merely incentivizing an economic house that is 'in order'; rather, the effect is that of disciplining South states into 'economic order'. In this way, CRA's are ascribed with disciplinary power over South states, which is further entrenched by the monopoly formation of three agencies which control more than 94% of outstanding credit ratings. Another challenge is the conflict of interest generated by the 'issuer pays' model, where agencies deliver rating judgments to the very financial clients who pay them for assessments, raising questions over the objectivity, motives and legitimacy of the ratings methodology (Li 2021).

Austerity is not only strengthened by the methodology CRA's employ in producing sovereign ratings, but also cyclically reinforced, particularly during recurrent inflections of crisis (Sager and Hinterleitner 2016). Academic research shows how CRA methodology in sovereign ratings is determined by an explicit preference for countries implementing austerity measures. Efforts to endorse fiscal consolidation, decrease spending and, therefore, reduce debt are viewed as 'credit positive' (Ferri et al. 2003). Conversely, stimulus packages that facilitate economic and social recovery from crises

but that increase fiscal deficits and debt levels in the short term are assessed as ‘credit negative’, despite the necessity of stimulus measures in times of crisis.

The message pronounced by the CRA monopoly is undeniable, in that more austerity leads to higher ratings and therefore easier and cheaper market access. Austerity is in fact seen as a signal to capital markets that a government is willing to repay its debt obligations, creating a cyclical dynamic that has been called the ‘downgrade-austerity vicious-circle’ (Sager and Hinterleitner 2016: 27). In the context of the ongoing global pandemic, CRAs have downgraded numerous South states, or have placed them on a ‘negative watch’. This plays the role of signalling that ‘spending what is needed on pandemic response could invite ratings downgrades’ (*Financial Times* 2020). Out of the wide range of disciplinary mechanisms deployed by powerful financial actors and institutions, that of CRAs is perhaps one of the most effective in generating an internalization of the austerity bias across the South.

Chapter 4

FINANCIAL DEPENDENCY ROOTED IN LIBERALIZATION

WHILE several dependency theorists have sought to unpack the dynamics of financial dependency, Samir Amin's articulation directly addresses the politics of lending from the core to the periphery.¹ Amin proposed that the periphery is prone to a 'chronic tendency towards deficits in the external balance of payments' that generates a parallel chronic tendency 'towards the need for external financing' (Amin 1976: 252). In Amin's analysis, the periphery lacks the integrated internal market that many core regions possess, in terms of a dynamic feedback loop between productive sectors of the economy and domestic revenue, investments and markets. Such a nexus is critical to supporting economic self-reliance and a diversified productive sector. The disproportionate reliance on exporting a narrow range of agricultural and other commodities, and labour-intensive and low-technology

¹ The core-periphery model is a spatial metaphor which describes and attempts to explain the structural relationship between the materially rich or metropolitan 'core' and a less wealthy 'periphery', either within a particular country or, more commonly, as applied to the relationship between developed and developing societies. The use of the core-periphery model in this context assumes that the world system of production and distribution is the unit of analysis. It also assumes that underdevelopment is not a simple descriptive term that refers to a backward, traditional economy, but rather a concept rooted in a general theory of imperialism. The core-periphery model thus suggests that the global economy is characterized by a structured relationship between economic centres which, by using military, political and trade power, extract an economic surplus from the subordinate peripheral countries and regions. One major factor in this is the inequality in wage levels between core and periphery, which makes it profitable for capitalist enterprises to locate part or all of their production in underdeveloped regions.

products, does not always generate domestic revenue and employment to scale. Furthermore, the export-oriented development model constructed through successive waves of trade liberalization is typically dependent on consumer and buyer markets in the core. This leads to a structural dependence on borrowing foreign exchange to meet financing needs (Amin 1976; Jomo and Rock 1998).

Consequently, the economic articulation of the periphery conforms ‘to the needs of accumulation at the core’, often resulting in a continual fiscal imbalance in the periphery’s public budget (Amin 1976: 238). Production and revenue in the periphery are subject to competitive pressures with other peripheral regions, while national expenditure needs often outweigh national revenue. This imbalance of the budget, or balance of payments, is then overcome by ‘structural adjustment’, or reducing the public expenditure side of the ledger. The disarticulation of domestic economies in the periphery is then rooted in great measure within externally focused productive capacities that systematically generate financial dependency on the core to access credit in order to, for example, pay for imports, finance investments and expenditures as well as maintain debt and interest payments arising out of borrowing (Gunder Frank 1974). Through this lens of dependency theory, the formation of the ‘debtor’ or ‘borrower’ state across the periphery is characterized by a continual accrual of debt that is rooted in the asymmetrical structures and conditions of production created by the legacies of economic colonialism.

In the contemporary context of inequalities in the global political economy, the constraints and barriers that the South experiences are systemic, in that they are embedded into the very design and function of international trade and finance. Obstacles to economic diversification are woven into trade and investment rules that prohibit the use of the very industrial policy tools and strategies that facilitated employment generation, value-added production, backward and forward linkages between primary commodities and manufactured goods as well as food security within industrialized countries (Rodrik 2007; Chang 2009). Insufficient diversification in domestic economic sectors reduces the possibilities of generating financial resources, and financial autonomy, from within domestic production (United Nations

Conference on Trade and Development 2014). Other significant political economy constraints on generating sustained and sufficient domestic revenue include intellectual property rights controlled by industrialized countries and their outright refusal to agree to technology transfer clauses in trade, climate and financial negotiations and agreements, as well as trade liberalization and privatization requirements encoded into trade agreements and loan conditions (South Centre 2015).

A key dimension of systemic liberalization is that of free capital flows, and its prerequisite, capital account deregulation. Financial liberalization, underpinned by currency deregulation, creates surges of ‘hot money’ inflows from North to Global South when interest rates are low in the North and high in the South. When this calculus starts to reverse direction, surges of outflows result, triggering currency depreciations which may in turn trigger financial and debt crises as the cost of debt servicing and import payments increases with a weaker currency (Akyuz 2013; United Nations Conference on Trade and Development 2014).

In the context of a pervasive anxiety over volatile capital outflows, and the domino effects of financial instability, economic recession and debt crisis, many South governments have turned to a strategy of self-insurance. In other words, governments have over the decades self-insured their economies through accumulating foreign exchange reserves as a buffer in times of financial crisis and capital outflows, as well as building local debt markets to raise capital. Developing countries have increased their reserve holdings from an average of about 5% of GDP in 1990 to an average of 30% in 2018 (Ito and McCauley 2019: 5). Central banks and sovereign wealth funds in Asia and among oil exporters have emerged as prominent players and sources of funds in international capital markets. Approximately 66% of foreign exchange reserves are held in dollars, while the euro share is about 25% (Ito and McCauley 2019: 5).

Self-insurance against the volatility in external financing flows through the accumulation of foreign exchange reserves generates an inequity bias (Ocampo 2019). Global South reserves are essentially invested in rich countries’ assets, which creates a perverse reality where developing countries are systematically lending to rich countries at low or zero interest rates. As

developing countries accumulate reserves, global imbalances between surplus and deficit countries are worsened and a deflationary bias is created, in that dormant reserve holdings have a contractionary effect on the world economy. This asymmetry of global reserves entrenches systemic inequity and instability into the international financial architecture. Meanwhile, reserve accumulation is not a systemic or sustainable solution to prevent financial vulnerability and instability, or the threat of conditional loans enforcing austerity measures from the IMF.

However, in the absence of a normative acceptance of capital account regulations, or capital controls, by international capital and financial markets, in particular credit rating agencies, as well as the lacuna of an adequate global financial safety net, developing countries are left with little option but to accumulate reserves as a form of self-insurance. The large sums of financial resources frozen in reserves are essentially forgone development resources which, if invested in social and economic development needs, could yield higher long-term returns and allow countries to reorient from extraversion to domestic economic autonomy and self-sufficiency. A key force that works against the prioritization of capital controls is neoclassical economic theory, and the internalization of its rationale among policymakers in countries across all development levels (Chang 2018). Neoclassical rationale suggests that capital account regulations can drive up the cost of capital and curb incoming investments. Neoclassical economists claim to present evidence that is consistent with the hypothesis that capital controls increase market uncertainty and carry the risk of reducing the availability of external finance, which in turn lowers investment levels (Rodrik 2007).

The above only begins to illustrate a complex and historical web of constraints on the policy space for equitable development generated by multiple forms of liberalization which serve to hollow out domestic revenue generation and economic sovereignty for social development and tackling climate change in large parts of the South. Augmenting these systemic trade and financial forces of economic disarticulation is the financial drain from the South to the North through corporate and investor tax evasion and avoidance, which further strengthens the South's need to turn towards external financing. Recent research illustrates that the South lost approximately \$7.8

trillion due to tax evasion and avoidance carried out primarily by firms and investors in industrialized countries during the 10-year period from 2004 to 2013 (Kar and Spanjers 2015). Most critically, the African continent incurs losses of approximately \$90 billion a year through tax evasion and other forms of illicit financial outflows (United Nations Conference on Trade and Development 2021). Empirical research conducted in 2018 quantifies the financial drain from the Global South through unequal exchange since 1960 at \$62 trillion and, when accounting for lost growth in the South, almost \$152 trillion (Hickel et al. 2021).

In light of the multiple dimensions of trade, financial and tax deregulation and liberalization that generate layered forces of fiscal drain, many South nations have little recourse but to raise financing by issuing sovereign bonds at high interest rates in order to attract investors. Part and parcel of attracting investors is the project of maintaining investor and market confidence, which drives the implicit priority of South policymakers to maintain a ‘macroprudential and sound’ economic and financial landscape. In other words, domestic economic and financial indicators, such as the fiscal deficit, inflation rate, interest rate and overall balance of payments, for example, must be amenable to investors and markets on a constant and consistent basis.

Even while exogenous shocks, such as the current food and fuel price inflation or the global financial crisis induced by the US mortgage crisis in 2007-2008, have adverse impacts on the macroeconomic and financial stability of the South by no direct doing of their own, South nations must confront the adverse market consequences. For example, capital outflows and currency depreciations result in many South governments yielding towards increasing sovereign bond spreads and tightening domestic monetary policy in order to assure and secure market confidence. In this way, the accountability gap apparent in many South regions on the part of policymakers in delivering and ensuring economic and social rights, public services and climate financing, for example, can be understood as a consequence of how the structural power of finance demands that states fulfil the interests of creditors at the expense of communities.

Chapter 5

RIGHT TO DEVELOPMENT: CHALLENGES AND OPPORTUNITIES FOR POLICY CHANGE AND SYSTEMIC TRANSFORMATION

THE right to development (RTD) was first proposed by a Senegalese jurist, Keba M'baye, in 1972, and was awarded its first legal recognition in the 1981 African Charter on Human and Peoples' Rights (Kunanayakam 2013). The Declaration on the Right to Development (DRTD) was adopted by the United Nations General Assembly in its resolution 41/128 of 4 December 1986. The Declaration defines development in its preamble as 'a comprehensive economic, social, cultural and political process, which aims at the constant improvement of the well-being of the entire population and of all individuals on the basis of their active, free and meaningful participation in development and in the fair distribution of the benefits resulting therefrom'.

The RTD reflects a rethinking of development strategies in response to the failure of growth-centred neoclassical and neoliberal narratives and frameworks by underscoring a development that integrates the structural and systemic, the individual and the collective, the national and the international, with awareness of the indivisible and interdependent nature of development. The 1993 Vienna Declaration and Programme of Action, the 2000 Millennium Declaration, and, most recently, the Durban Declaration and Programme of Action reaffirmed the RTD as a universal and inalienable human right.

The origin of the RTD can be traced to the debates of the Non-Aligned Movement (NAM) of the 1960s-1970s which campaigned for the creation of a New International Economic Order (NIEO), which is explicitly mentioned in the 1986 Declaration (Piron 2002). The objective of NAM countries was

to reorient the international human rights system from being weaponized against the South through civil and political rights to being expanded to development as a collective human right which requires reforms to unequal international economic relations. The context of the Cold War had defined the political forces within which a polarizing and reductive dichotomy was reinforced between civil and political rights on the one hand and economic and social rights on the other.

The DRTD's articles and principles have the active potential to redress the structural power of finance and the distortion of the role of the state. Specifically, the DRTD centres the creation of an enabling international environment for structural policy change that upholds principles of sovereign equality, social justice and equity; free, active and meaningful participation; fair distribution of the benefits of development and fair distribution of income; self-determination and permanent sovereignty over natural wealth and resources; and equality of opportunity for development for all nations and individuals who make up nations. Articles 2.3, 3.3 and 4.2 of the DRTD stipulate that states have the right and duty to cooperate with each other in order to enable the formulation of national development policies towards promoting 'a new international economic order' that achieves the above principles through the realization of all human rights (DRTD, Article 4.2).

As a human rights paradigm, the RTD's contributions include two distinct differences from dominant human rights discourses focused on civil and political rights. First, the ambit of 'rights holders' is expanded from individuals to states as well, in that states have the right to formulate appropriate national development policies. The crucial implication of this expansion is that states can have human rights claims against other states, and possibly against the international community, in cases where global economic governance constrains the ability of states to develop national

development policies. This integration of extraterritorial obligations² opens critical space to address the elimination of the obstacles to creating an enabling international environment for development, rather than being limited to obligations and responsibilities in conventional human rights frameworks. Second, the RTD claims that international financial institutions (IFIs) such as the World Bank, IMF and World Trade Organization (WTO) are key international development actors and thereby have a role to play in the realization of the RTD. In this way, the RTD addresses global governance of policies and norms in ways that more conventional human rights are limited or ill-equipped to do so.

What are the ways forward to redress, reform and ultimately begin to dismantle the complex web of structural financial power, underpinned by trade and financial liberalization, which generates systemically unequal relations of external dependency across many parts of the South? Which are the dimensions of transformation that are required? This paper seeks to advance two levels of change that are, in many ways, already in motion, and can be further supported and strengthened on the multiple scales of global to national and local.

² Extraterritorial obligations (ETOs) are human rights obligations states have beyond their national borders towards people living in other countries. These obligations are crucial for human rights to assume their role as a legal basis for regulating globalization and creating an enabling international environment for the universal fulfilment of economic, social and cultural rights (Gibney et al. 2022). Given the transboundary nature of many of today's human rights challenges, including climate change and eco-destruction, tax evasion and corporate impunity, it is impossible to guarantee human rights universally without adhering to both domestic and extraterritorial obligations. While the universality of human rights has been a cornerstone of the international human rights system since its initial days, states continue to show reluctance to recognize and implement the extraterritorial dimensions of their human rights obligations. This reductionism has led to major gaps in the international protection of human rights, in particular economic, social and cultural rights. These gaps have become more severe with the advancement of globalization over the past few decades.

Chapter 6

STRUCTURAL POLICY REFORMS

THE first area of change pertains to structural policy reforms and, in some cases, fundamental transformations in the scaffolding of the international financial architecture. This involves advocacy and analysis for reform on debt, fiscal policy, tax, trade, capital flows and credit rating agencies that have been articulated by policymakers, civil society, academics and social movements over the decades.

The key global process that has sought to address the changes is arguably the United Nations Financing for Development (FfD) process, whose original mandate is to create precisely the enabling international environment highlighted in the RTD, in order to make possible inclusive and sustainable economic development in the South. The original purpose of the FfD process – which has spanned three FfD conferences thus far, from Monterrey (2002) to Doha (2008) and Addis Ababa (2015) – is to facilitate an international financial system that counters the asymmetry of power and resources between markets and states. Since its origins, the FfD process has striven to build an intergovernmental foundation to mobilize and commit greater political will for an enabling international environment for just development. While the current politics of the annual UN Economic and Social Council (ECOSOC) Forum on FfD Follow-up (established through the Addis Ababa Action Agenda) have, in many ways, shifted away from its original ethos of structural reform, the understanding that the lived realities of many developing nations are directly linked to international actors, from investors to institutions, is perhaps even more relevant today. The origins of the FfD process also recognize that current inequalities between and among nations are

significantly shaped by a colonial history that either constructed or reinforced the material and relational basis of multiple registers of inequality, including class, gender, race, ethnicity, caste, sexuality, ability and so on.

Amidst myriad geopolitical obstacles, the FfD conferences, as well as other global institutions and processes, have generated traction on some policy change. However, an effective mechanism for debt restructuring, a governance body for tax, and policy consensus on capital account regulations and fiscal austerity continue to hang in the balance, stymied by a lack of consensus and political will, in large part from rich countries. Some of the central policy reforms that would activate the RTD by countering financial concentration and lack of accountability are the following:

- A transparent and binding *sovereign debt workout mechanism* within a multilateral framework for debt crisis resolution that addresses unsustainable and illegitimate debt and provides systematic, timely and fair restructuring of sovereign debt, including debt cancellation, in a process convening all creditors, from bilateral and multilateral to private.
- An inclusive intergovernmental body to facilitate *international tax cooperation* in the form of a UN global tax convention, where all countries have a seat at the table and equal say in determining tax rules aimed at eliminating illicit financial flows.
- Countering the bias towards fiscal austerity through a *fiscal policy* rooted in sustained and long-term public investment in, for example, public health, education and social security, universal social protection floors, progressive taxation of income and capital, and protections for informal sector workers.
- Review and reformulate *global trade rules* under which developing countries have increasingly lost the policy space to support the development of domestic agriculture and key manufacturing sectors, including in critical health and food production, in order for the South to engage in international trade while ensuring national self-reliance in critical sectors. Address the constraints posed by intellectual property rights within the WTO, regional and bilateral trade agreements in order

to promote supply of life-saving public health products as well as to tackle climate change through environmentally sound and climate-change-related technologies.

- *Put an end to the harmful phenomenon of the investor-state dispute settlement (ISDS) system*, the defining feature of investment treaties, through which a foreign investor can bring governments to an international arbitration tribunal and seek significant monetary compensation for government measures that impact the investor's current or future profits. Measures that have been subjected to challenge to date include human rights, public interest and environmental regulations.
- An international consensus on *capital account regulation* on both outflows and inflows as a permanent policy tool to curb exchange rate volatility, reduce the volume of speculative portfolio investments, tackle liquidity and solvency crises, as well as for the pre-emptive prevention of currency and debt crises.
- Create *publicly owned and multilateral credit rating agencies* that promote global public goods and avoid being both market evaluators and market players simultaneously. Regulate and reduce reliance on existing credit rating agencies, including by suspending sovereign downgrades during times of debt distress to prevent worsening of the debt distress.

The legitimacy, and resilience, of such proposals for structural policy reform lies exactly in the fact that globally united social movements support them, driving the momentum through their action and voice. Structural change would allow for the developmental role of the state to mediate between the logic of global finance and the economic and social rights of people, through global cooperation, to shape policy content. In the absence of mediation, the calculus of the raw power of material and resource asymmetry erodes the welfare of people and communities, often in irreversible ways.

Chapter 7

SYSTEMIC DELINKING

A SECOND way forward proposed here is that of systemic transformation through delinking. First articulated in dependency theory, delinking from the unequal global production system was proposed by Samir Amin as a prerequisite for economic sovereignty, in that the South must reorient itself from continual adjustment to the North by compelling the international economic system to meet its needs (Amin 1990). Delinking does not require cutting all ties to the global economy; rather, it opens some space to reorient national development strategies away from the imperatives of globalization and towards the economic, social and ecological priorities and interests of people. The aim is to reconstruct the global economy so that the South, even with its divergences and differences in resources, access and interests, can meet its needs rather than having to unilaterally adjust to the needs of a global system overpowered by a handful of wealthy countries and regions. For this objective of greater agency, argued Amin, nations of the South need to strengthen their own productive systems in ways that prioritize the rights of people rather than the demands of international capital.

Delinking as a strategy entails turning away from an excessive focus and reliance on the external sector at the expense of the internal sector. As such, it is a rerouting from the global consensus on following a country's comparative advantage through an export-oriented development model. Amin stressed that not only would strong domestic support be required to delink from unequal terms of integration in the global economy, but strong South-South cooperation and alternative institution building are also critical (Amin 1990: 25-35). Other aspects of delinking would involve investments in long-

term projects, such as infrastructure, with the goal of improving the quality of living for most people in the country, rather than maximizing short-term consumption or profit (Kvangraven 2021). This is, of course, easier said than done. As the world grows more interconnected, possibilities for delinking become more challenging.

A key point within the strategy of delinking is that it is not possible to reproduce elsewhere the specific conditions that allowed for the advancement of capitalism in Western Europe in the 19th century. A new, equitable, rights-based and climate-responsive model needs to be shaped by new ideas that are not necessarily rooted in neoclassical economic theory or the imperatives of financialization. Delinking also requires a conscious engagement with a pluralism of economic knowledge, methods and praxis (Quijano 2007; Mignolo 2009). At least nine major schools of economics and various other smaller schools can be considered in delinking, including feminist, ecological, Marxist, Keynesian, developmentalist and structuralist schools (Chang 2018). Where neoclassical economic theory says that societies are made up of rational and selfish individuals, risk is calculable, choices, exchange and consumption are most important and the free market will automatically correct inefficiencies; structural, feminist and development economics say societies are composed of gender-unequal class structures, the world is complex and uncertain, the most important domain of economies is production and human welfare, including the care and informal economies, and the state must use active fiscal policy to redistribute income to the poor, diversify economies, create jobs and protect local and small businesses.

Chapter 8

CONCLUSION

STRUCTURAL policy change and systemic delinking are merely a few examples out of many other strategies towards resolving the structural asymmetries, policy contradictions and political tensions of an unjust international financial, economic and social order. It is beyond the scope of this paper to address the myriad and complex arenas of law, social theory, culture, gender and racial capitalism, for example. All dimensions of our complex world need to be examined for the explicit purpose of regenerating old and new pathways, intentionally in the plural, towards justice, sustainability and equity for the vast majority of people and places today.

Ultimately, delinking is about reclaiming the often-unequal configuration of terms, criteria, frameworks and conditions by which the Global South engages with the world economy. This calculus then shapes the balance of power within which local and national economies and societies confront opportunities, constraints and a panoply of grey spaces in between. Delinking also alters the imaginary of economy and society through the imperative of structural and knowledge power, opening spaces for sustained transformations. Such spaces generate the possibility of reaching beyond the technocratic and positivist policy surface of economic policy and into the underpinning logics and forms of power, from structural to knowledge, that produce enduring economic ideologies and their attendant inequalities. Integrating both structural and epistemic delinking into a critical political economy understanding of the international financial and economic system is neither prescriptive, definitive nor exhaustive; it is merely one place from

which to initiate a reconceptualization of the political economy of development rooted in the terrain of power, history and politics.

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THE STRUCTURAL POWER OF THE STATE-FINANCE NEXUS: SYSTEMIC DELINKING FOR THE RIGHT TO DEVELOPMENT

The current era of financial hegemony is characterized by a dense financial actor concentration, an exacerbated reliance of many South countries on private credit, and an internalized compliance of South states with financial market interests and priorities. This structural power of finance enacts itself through disciplinary mechanisms such as credit ratings and economic surveillance, compelling many South states to respond to creditor interests at the expense of people's needs.

As a human rights paradigm, the Declaration on the Right to Development has the active potential to redress the structural power of finance and the distortion of the role of the state through upholding the creation of an enabling international environment for equitable and rights-based development on two levels of change. The first comprises structural policy reforms in critical areas of debt, fiscal policy, tax, trade, capital flows and credit rating agencies. The second area of change envisions systemic transformation through delinking as articulated by dependency theorist Samir Amin, which entails a reorientation of national development strategies away from the imperatives of globalization and towards economic, social and ecological priorities and interests of people.

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