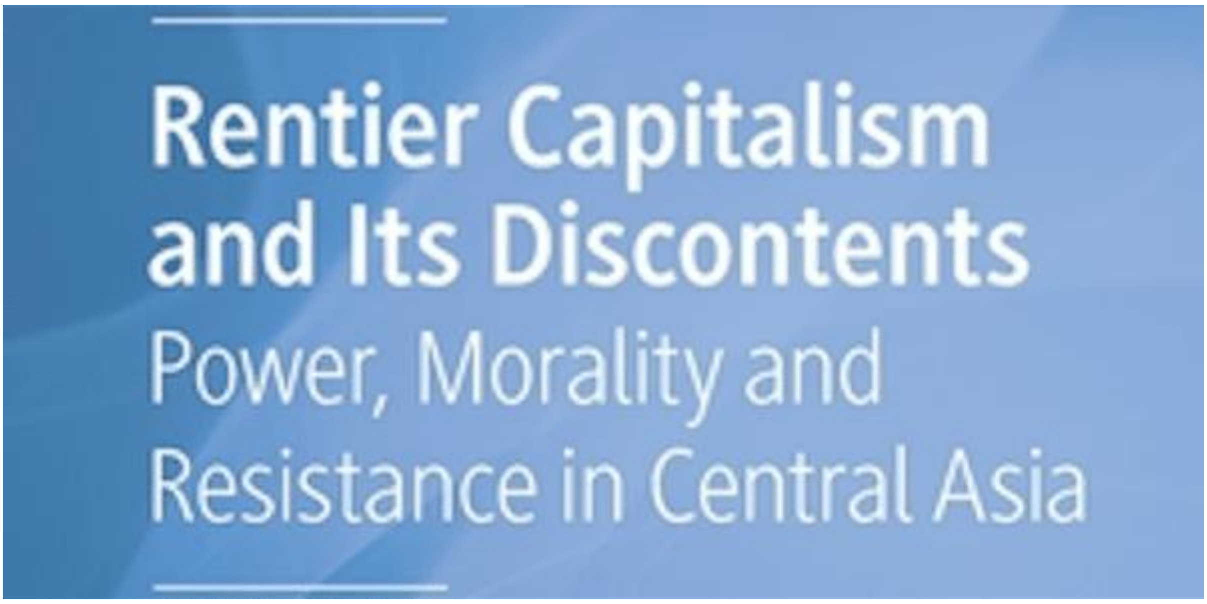


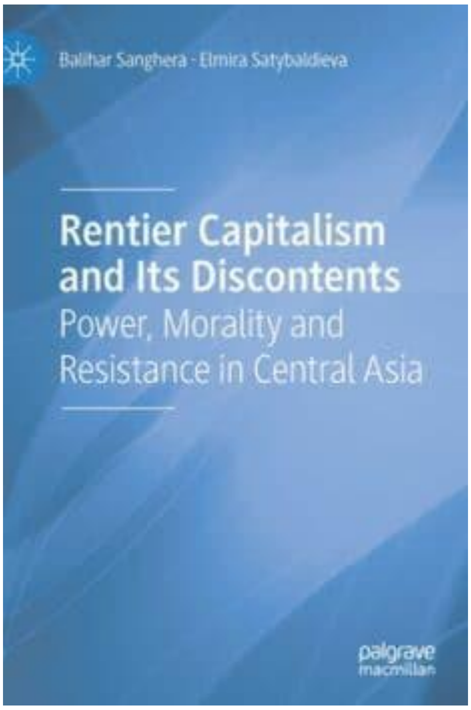
Rentier Capitalism and Its Discontents: Power, Morality and Resistance in Central Asia. By Balihar Sanghera and Elmira Satybaldieva

Central Asia's neoliberal tragedy

Posted Oct 18, 2021 by Michael Hudson
Originally published: Naked Capitalism (October 15, 2021)
Capitalism, Financialization, Political Economy, StrategyRussia, Soviet Union (USSR)Newswire

Yves here. The story of the post-USSR plutocratic land grab in Russia is well known, at least among those paying a bit of attention. By contrast, comparatively few have heard of the parallel, similarly exploitative, neoliberal program in Central Asia, specifically Kazakhstan and Kyrgyzstan.

I had a friend who was regularly flying to Almaty in the 1990s trying to do oil deals (as well as running heli-skiing trips he'd organized). Now I have a better picture of what he was up to.



In the mid-1980s, Soviet officials saw a need to open up their economy in hope of achieving Western-style innovation and productivity. That was the decade in which Margaret Thatcher and Ronald Reagan were sponsoring the neoliberal pro-financial policies that have polarized the U.S., British and other economies and loaded them down with *rentier* overhead.

The Soviet Union followed a privatization policy far more extreme than anything the social-democratic West would have tolerated. It agreed in December 1990 to adopt the neoliberal blueprint presented in Houston by the International Monetary Fund (IMF), the World Bank, the Organization for Economic Cooperation and Development (OECD) and the European Bank for Reconstruction and Development (EBRD)to transfer hitherto public property into private hands.[1] The promise was that the privatizers would find their interest to lie in producing abundant new housing, consumer goods and prosperity.

The Soviet leaders believed that the neoliberal advice they received was about how to follow the path by which the advanced industrialized nations had developed and made their prosperity seem so attractive. But the advice actually turned out to be how to open up their economies and enable U.S. and other foreign investors to make money off the former Soviet republics, by creating client oligarchies of the sort that U.S. diplomacy had installed in Latin American and other puppet states. The Cold War's isolation of the former Soviet Union gave way to turning its republics into prey for financial and natural-resource exploitation by U.S. and other Western banks and corporations.

The result was kleptocracy, euphemized as a free market. Banking, real estate, natural resources and public utilities were privatized in the hands of appropriators who managed their acquisitions in their own self-interest, which they found to dovetail with that of foreign investors and banks. As a Russian joke of the 1990s expressed the ensuing crisis: 'Everything they Party old us about communism was false; but everything they told us about capitalism was true!'

Vladimir Putin described the destruction of the former Soviet Union as the great tragedy of the late 20th century. What made it a classical Greek tragedy was how inevitable yet also how unanticipated its destiny was when the Soviet republics accepted shock therapy and abolished the government's role as investor, credit creator and regulator in 1991. Privatization did not end dysfunctional planning. It merely privatized social dysfunction, soon proving to be as economically and demographically destructive as an outright military attack would have been.

Every economy is managed by some class or another. In the absence of public authority, planning passes to whomever is in control of banks, land and related sources of wealth, and above all the allocation of credit. Today, three decades after the post-Soviet carve-up began, the concentration of banking has devastated, indebted and impoverished the population, leading to shorter lifespans and rising emigration.

This excellent but heart-breaking book describes the tragedy wrought by post-Soviet neoliberal remaking of Kazakhstan and Kyrgyzstan. Sanghera and Satybaldieva describe how U.S., World Bank and IMF officials, posing as helpful advisors claiming to help these republics adopt the model by which the Western economies had grown prosperous, pressured these countries to act on behalf of foreign financial institutions and corporations more than for their own populations. These 'aid-giving' (or more accurately, debt-creating) institutions acted on behalf of Western banks and investors to promote the carve up and financialisation of post-Soviet land, real estate, oil and mineral wealth.

Soviet planning had provided housing as a right, along with access to education and basic health care. There was no market for housing and no mortgage debt. Government financing of housing by its own credit creation kept housing charges low. There was overcrowding, but at least families were not driven into debt to obtain housing, education or medical treatment. That is a major reason why so many Russians and other post-Soviet populations now feel a certain nostalgia for Soviet times, bad as they seemed in 1991.

The subsequent malaise was unnecessary. The post-Soviet economies could easily have been made vibrant and affluent. They could have given title for real estate to its existing occupants and users. In the immediate aftermath of the Soviet Union, occupants and users of real estate were given titles, obtaining property free of debt. But if state controls on rent and speculation had remained in place and social housing construction had been adequately financed, people would not have had to amass huge debts to own homes, buildings and land. This would have minimised the economy's cost of living, helping the post-Soviet states develop a low-cost agriculture and industry.

The Soviet planners paid little attention to how the course of rent and interest payments were polarizing the Western economies. Not having levied charges for land rent or interest led them to miss their economy's great advantage compared to Western finance capitalism: freedom from land rent, monopoly rent, interest and usurious financial practices. It has been these *rentier* revenues that have ended up polarizing and impoverishing the Post-Soviet economies.

The post-Soviet republics could have used their own central banking systems to finance restructuring, keeping credit creation as a public utility as it was in the Soviet times. That would have freed these economies from reliance on foreign banks to extend dollar credit to be spent locally. Without wages being paid or other income received after their currency collapse wiped out domestic savings, there was an immediate need for debt financing to survive. Public banking would have freed economies from the need to borrow dollars or other foreign currency, especially to obtain housing.

National treasuries could have given value to this money by taxing the economic rents created in real estate, agriculture and industry. That was the ideal of classical economists, after all. Taxing the land's rental value would have prevented it from becoming an object of speculation. Instead, rental income was paid to the commercial bankers who emerged, financed by Western banks instead of a new national central bank. The post-Soviet tax systems burdened labour and industry, while property owners were largely untaxed, steering their economies along *rentier* lines.

The 'rule of law' sponsored by Western backers enabled managers and political insiders to register public land, oil and mineral resources, public utilities and factories in their own names, and 'cash out' in hard currency by selling many (and often most) shares in their new companies to Westerners. Most of the proceeds were kept abroad, leaving local economies in need of foreign credit to function.

To make this asset grabbing irreversible, the neoliberal rule of law and 'security of contract' were legal straitjackets giving creditors the right to foreclose on the property of debtors–without rights for debtors and renters, who were evicted if they could not meet their mortgage payments or pay higher rents as housing was gentrified. As Sanghera and Satybaldieva summarize, 'By instituting neoliberal financial policies, the Central Asian states re-wrote the social contract and created a new class dependency between financial elites and borrowers. Debtfare states were established that facilitated, justified and normalized unequal class relationships to ensure debt-led capital accumulation. They minimized the oversight of the financial sector, and eliminated strong protections against predatory lending. The political elites legitimized the neoliberal framing of debt as empowering.' The effect was not to empower the population but to marginalize it while driving smallholders into debt and depriving them of their homes.

What was lost was the concept of housing and other basic needs as a human right. 'In the Soviet Union there was a definite set of property rights that people could rely on, and the state would respect and implement,' the authors describe. 'The bundle of rights included rights to land and housing, and rights to occupancy and use for tenants and their families. Rent, interest and speculative gains were 'non-labour' income, and were not allowed.'

After 1991, however, housing throughout the former Soviet republics had to be obtained by taking on debt. They thus traded away domestic state-sponsored financial, fiscal and real estate self-reliance to follow a dream of obtaining widespread U.S.-style prosperity, not realizing how polarizing the policy of debt-financing would be. In the absence of domestic savings (which had been wiped out by hyperinflation), commercial banks obtained loanable funds by borrowing abroad. Domestic private-sector debt thus found its counterpart in rising debts to foreign banks.

Describing how ambitious individuals obtained title to prime housing, shopping centres and marketplaces before entering political office, the authors provide a list of local mayors who enriched themselves further by selling off public land and municipal assets. Corporate housing became a vehicle for appropriators to evict former employees and long-time tenants, gentrifying real estate much as in the U.S. Rust Belt where factories were being closed down. The new owners were free to maximise whatever they could squeeze out, with no attempt made to provide the social protections taken for granted in the West for debtors or renters.

Obtaining housing after 1991, required going into debt. Unlike the 5% range of mortgage rates in the West, much of the population borrowed money at effective interest rates between 25 and 50%. It was like trying to buy a home by resorting to American-style payday loans. There was little way to pay them off. Moreover, women and the non-affluent rural influx into the cities had to rely on microcredit, typically bearing 80% annual interest.

Sanghera and Satybaldieva single out the World Bank's International Finance Corporation andthe United States Agency for International Development (USAID) for their efforts to legitimize such usury while sanctimoniously claiming that it 'empowered' women as debtors. The reality, they point out, was that, 'the International Finance Corporation and other international donors mandated these MFIs [microfinance institutions] to become fully commercialized to achieve high returns on equity. The average interest rate was 44%.' The result, as Satybaldieva has pointed out elsewhere, has been a disaster:

Many women, who were previously employed as factory and agricultural workers, and as teachers and healthcare specialists, were forced into petty trading through Western sponsored microcredit schemes. . . .

Second, many women borrowed money to pay for services, such as health care and education, which were previously available for free. Key social services saw significant cuts in state spending, which not only reduced public sector pay but privatized and commodified basic necessities, enabling affluent groups to access better quality services while low-income groups were deprived of them. . . . A 2021 survey of online microcredit borrowers in Kazakhstan showed that 29% of respondents took out loans to pay for emergency expenses, 21% to make ends meet, and 16% to pay off debt on bank loans. The rest used the loans to pay for medical treatment, utilities, educational fees. Only a small minority of loans was linked to buying consumer goods.[2]

To enforce collection, local microcredit lenders mobilized local district officials and elders to shame women for missing their repayments, even descending on families at funerals to insist that they bear collective responsibility for the debts of the deceased. The amounts involved are enormous, the authors report. 'Between 1995-2012 microcredit enabled a transfer of up to $125 billion from poor communities in the Global South to financial centres in the Global North.'

Women became the most radical opponents of Western-style neoliberal reforms. In Bishkek, Kyrgyzstan's capital and largest city: 'On 26 May 2016 about 700 people, mostly rural women, protested in front of the U.S. Embassy demanding debt amnesty from banks and MFIs that had been created and supported by the United States Agency for International Development (USAID) and the World Bank's International Finance Corporation. Holding placards that read "Occupy FINCA", "Debt kills", "Save our homes from banks" and "Humans above profit", the protesters did something very significant that day.' They attributed responsibility and blame for their situation to Western financial institutions rather than on their personal failings. Similar anti-debt protests and attributions occurred inneighbouring Kazakhstan.

What made the debt burden a national problem was that homebuyers and businesses typically agreed to denominate their debts in dollars in order to lower the exorbitant interest rates charged for loans in local currency. As economies were dollarised, their local exchange rates depreciated as a result of the balance-of-payments deficits resulting from trade dependency and general economic imbalance. The cost of servicing foreign-currency debts rose in proportion to the depreciating exchange rate.

Poverty drove labour to emigrate. Ironically, this helped stabilize the balance of payments for many Central Asian countries. Remittances from Kyrgyzstan's exodus of migrant workers account for about 30% of its GDP, and Kyrgyzstan had a similar ratio of 33%. That was typical of Central Asia. Similarly, Tajikistan's migrant workers in Russia sent their families back home income amounting to over 30% of its GDP.

Post-Soviet Central Asia lacks the basic reforms almost universal for thousands of years. Already around 2350 BC, the Sumerian ruler Urukagina proclaimed a reform that stopped creditors from entering the homes of debtors and simply grabbing their possessions and animals. From Mesopotamia and Egypt down to Roman times the rights of debtors were protected by requiring written records to document all creditor claims and limiting interest rates. But Western advisors made no attempt to create such rule of law in Central Asia. What their legal system achieved is closer to barbarism, as Sanghera and Satybaldieva conclude:

In seeking to liberate the population from the Soviet form of welfare dependency, the neoliberal architects produced new parasitic and exploitative forms of market dependency, in which the powerful propertied class appropriated and exploited surplus value that others generated. The asset-rich and transnational capital became richer by taking from the asset-poor through interest, rent, capital gains and low wages. The massive transfer of wealth left much of the population in a state of indebtedness, poverty, misery and distress.

On the international level, the neoliberal rule of law is what corporate lawyers have written to enable Investor-State Dispute Settlement (ISDS) courts to block government attempts to fine or charge foreign investors for the ecological and social damages they cause. Global oil and mining monopolies confront governments in a united front, having mobilized the World Bank, IMF and World Trade Organization to pressure host countries to abide by pro-corporate rules that limit the rights of their governments and blocking democratic electoral oversight or pressure. In the face of these courts and the often naïve (or corrupt) contracts signed with government, no countervailing attempt was made to create state regulatory agencies, courts or international law to give post-Soviet economies the protections common in the United States and Europe.

What Western investors wanted most from Central Asia was its natural-resource wealth. The authors describe how U.S., World Bank and NGO advisors imposed contracts favoring the interests of Western oil and mining companies.Chevron set its eyes on thevast oil reservesin Kazakhstan'sTengiz oil field. What Kazakhstan wanted was Western expertise as contractor and minority investor. But Chevron wanted control– and to leave the host-country government with as little revenue as possible from the sale of its oil.

The result was one of the world's most predatory oil contracts–nothing like what Kazakhstan thought it was to get, but a bonanza for Chevron. The contract promised that the government would receive 80% of production, reflecting the normal 80%/20% production-sharing agreements for European and Middle Eastern countries. However, the authors describe, Kazakhstan ended up with only 2% of the project's revenue. Corporate lawyers drew up a contract obliging Kazakhstan's government not to receive any profits at all until it had borne the immense costs of developing the oil field itself (borrowing from the IMF) and met a long-term production target– by which time nearly a quarter of the Tengiz oil reserves would be emptied out and sold.

Chevron's operation proved to be as disastrous an ecological horror story as it had caused in Ecuador. It was fined $303 million for violating environmental protection laws, but pressured President Nazarbayev to repeal the fine to show the world how 'investor-friendly' Kazakhstan was! When popular opposition arose to demand a fair contract, international investors, the response by international investors and Western government officials and their front men at the IMF, World Bank and USAID was to claim that renegotiation would violate the rule of law and sanctity of contracts.

Kyrgyzstan suffered in a similar way from foreign gold-mining polluters. These 'externalities' were borne by the host countries, with no cost to the foreign investors for their illegal, irresponsible and predatory behavior. If the West truly had sought to help the post-Soviet states become prosperous, its diplomats would have helped negotiate fair natural-resource investment agreements, environmental protection, worker safety and other public regulation. Instead, Sanghera and Satybaldieva conclude: 'The neoliberal investment rules regime binds governments to agreements signed with transnational corporations . . . If agreements are violated, investors feel justified to take host states to international arbitration for damages. . . . The rule of law . . . claimed that . . . the state cannot infringe individual rights and freedoms, and the domain of private property must be protected from majoritarian politics.' Neoliberalism thus did not get rid of state planning. It established corporate dominance over the state, forcing host-country governments to give 'the interests of transnational capital [priority] over those of their own population, and cooperate with foreign corporations to limit democratic voices and weaken resistance.'

Some conquered countries recover, as Germany and Japan after 1945. But conquest of the former Soviet states took the form of corrupting their economic structure by installing a kleptocracy. The destiny of Central Asia and other post-Soviet states remains shaped by the way in which their land, mineral resources and public enterprises have been privatised at the hands of a client kleptocracy in alliance with foreign capital. Like the land grants created by the Norman Conquest and those of Spain in the New World, the post-Soviet asset grab has created a new oligarchy empowered to collect land and natural-resource rents for themselves, and for U.S. and other foreign shareholders and creditors. The widening maldistribution of property and debt dependency is likely to block their development for many decades.

The accusation that Tacitus put into the mouth of Rome's adversary, the Celtic leader Calgacus two thousand years ago–'They made a desert and called it peace'–might be levied against the Western neoliberals who impose financialized austerity, dependency and debt peonage, and call the takeover of government by *rentiers* a natural and inherent rule of law. The challenge for Central Asia is how to reform in the face of the vested interests that have been put in place over the past thirty years. Reform is resisted not only by the new *rentier* interests and their foreign sponsors, but also by the narrow 'middle-class', which does not find its interest to lie in joining with the majority to revive public spending and tax land rent and other economic rents.

Resilience cannot be restored without public spending, but the *rentier* business plan is to minimize taxes by shrinking the government, especially by privatizing its public utilities and other functions to create opportunities for charging monopoly rents, and to oppose taxation of economic rent. Today's mainstream economic philosophy and academic curriculum throughout the West backs this neoliberal program by denying that there is any such thing as unearned *rentier* income or wealth.

Yet only a rent tax can recapture what insiders have appropriated. At issue above all is whether credit, the banking and tax system will be managed as a public utility or for private gain. A national treasury or central bank must be empowered tocreate money so as not to rely on foreign banks. The guideline must be that no economy should borrow in a foreign currency that it does not earn, e.g., by exporting to earn the foreign currency needed to pay debts. There is no need to rely on foreign banks to lend dollars to be converted into domestic currency. In such cases the central bank has to create the domestic currency anyway. Foreign credit is needed only to pay for trade and payments deficits, not for domestic investment or consumption.

These tax and financial reforms failed as classical economics was rejected after World War I. The world today needs to recover its basic approach in order to free itself from the pro-*rentier* detour that it has taken, not only in the post-Soviet republics most conspicuously but now also plaguing Europe and the U.S. post-industrial economy itself.

To avoid the foreign dependency inherent in the neoliberalism sponsored by U.S. diplomacy, the World Bank and IMF requires an alternative body of economic theory, above all the distinction between earned and unearned income and the concept of economic rent as the excess of market pricing over intrinsic cost value. That was the thrust of classical political economy in the 19th century–to free markets from the *rentier* class. Value and price theory were the analytic tools to isolate economic rent as unearned income. These concepts provide the basis for managing a mixed public/private economy, public investment and credit creation, and for protecting domestic labour, industry and agriculture. In elaborating a theory to guide policy, the disastrous neoliberal promotion of *rentier* interests throughout the post-Soviet states provides an object.

Notes:

1. ↩ The Economy of the USSR. A study undertaken to a request by the Houston Summit: Summary and Recommendations (Washington, D.C.: The World Bank, December 19, 1990).
2. ↩ Elmira Satybaldieva, “The Debt Oppression in Central Asia,” *Naked Capitalism*, June 7, 2021.