Licensed Larceny: Infrastructure, Financial Extraction and the global South

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Inequality is not just a problem of poverty and the poor: it is as much a problem of wealth and the rich. Licensed larceny is a proxy for how effectively elites have constructed institutions that extract value from the rest of society.

The provision of public services is one area which is increasingly being reconfigured to extract wealth upward to the 1%, notably through so-called Public Private Partnerships (PPPs).

The push for PPPs is not about building infrastructure for the benefit of society but about constructing new subsidies that benefit the already wealthy. It is less about financing development than developing finance.

Understanding and exposing these processes is essential if inequality is to be challenged.

But equally important is the need for critical reflection on how the wealthy are getting away with it. What does the wealth gap suggest about the need for new forms of organizing by those who would resist elite power? No struggle for social justice is ever likely to make more than a marginal dent in the status quo without a grounded understanding of how wealth is accumulated within society and by whom. Today, a constantly watchful eye is essential if new forms of financial extraction are to be blocked, short-circuited, deflected or unsettled.

So when the World Bank and other enablers of wealth extraction promote greater private-sector involvement in “infrastructure” through Public-Private Partnerships (PPPs), alarm bells should start to ring.

This book explores how roads, bridges, hospitals, ports and railways are being eyed up by finance and transformed into an asset class through which private investors are guaranteed income streams at the public’s expense.

Such legalised looting – or “licensed larceny” – extracts considerable wealth from the global South and siphons it to the elite 1% of the global rich.

The trajectory is not only towards increased inequality: it is also profoundly undemocratic, elitist and unstable:

–Undemocratic because a handful of fund managers determine what gets financed and what does not.

–Elitist because the facilities that would most benefit poorer people do not get built.

–Unstable because infrastructure-as-asset class is a bubble that is set to burst.

The challenge is not only to understand the mechanisms through which infrastructure is being reconfigured to extract wealth: equally important is to think through ways in which activists might best respond. What oppositional strategies genuinely unsettle elite power instead of making it stronger?

CHAPTER 1: The injustices of wealth

Research by academics such as Thomas Piketty has documented the growing wealth gap, both within countries and between them, with wealth increasingly concentrated in the hands of the elite 1% of the global rich. Such inequality does not come about by accident: it reflects the extent to which elites have constructed institutions that extract value from society. It takes hard political work to build the social, legal and economic infrastructure that embed such forms of extraction to the point where they are assumed to be "normal". One area in which new forms of wealth extraction are being constructed is infrastructure finance.

CHAPTER 2: A study in financial extraction - Lesotho's national referral hospital

A concrete example of infrastructure-as-extraction is Lesotho's Queen 'Mamohato Memorial Hospital. It has been built and is operated by Tsepong (a private sector consortium that includes healthcare group Netcare) under a Public-Private Partnership (PPP) contract. The Chapter traces the flows of money into and out of the project – and highlights who benefits from them. The PPP arrangement serves to extract considerable wealth from one of the poorest countries in the world and siphon part of it to the elite 1% of the global rich. The central concern is that such extraction is entirely lawful.

CHAPTER 3: Infrastructure as financial extraction

Finance views infrastructure very differently from ordinary people. For finance, a road, hospital or oil pipeline is not "infrastructure" unless it provides a stable, contracted cash flow for the long-term. This Chapter examines how infrastructure is being reworked to provide what finance seeks of it. One focus is the contractual arrangements – Minimum Revenue Guarantees, Take or Pay contracts and stabilisation clauses – that investors are putting in place through Public-Private Partnerships to ensure guaranteed high rates of profit. Such guarantees are a crock of gold, providing legally-enforceable liens on future public flows of money that are irrevocable for the length of the contract. Even though the state remains the major financier and operator of public services, the relatively small space that has now been opened up for private investors has enabled finance to construct a multi-billion-dollar extraction machine, with major ramifications for inequality.

CHAPTER 4: Extraction in motion – infrastructure-as-asset-class

For investors, "infrastructure" is now an "asset class", the boundaries of which are limited only by the ability of finance to build new contracted income streams that extract wealth from funding, constructing and operating infrastructure facilities. What started off with investments in so-called economic infrastructure (utilities, roads, ports, airports) now include investments in resource/commodity infrastructure (oil and gas facilities, mining, forests), social infrastructure (hospitals, public housing, schools, prisons, law courts, military bases), information infrastructure (big data harvesting) and, still in its infancy, natural infrastructure (payments for so-called environmental services). This Chapter looks at the many new investment vehicles – from private equity infrastructure funds to venture capital funds – that are being used to profit from infrastructure, and attempts to quantify the amount of money now being extracted. The trajectory is not only towards increased inequality: it is also profoundly undemocratic, elitist and unstable. Undemocratic because a handful of fund managers now increasingly determine what gets financed and what does not. Elitist because the facilities that would most benefit the poor do not get built. And unstable because infrastructure-as-asset class is a bubble that is set to burst.

CHAPTER 5: Infrastructure corridors, frontier finance and the vulnerabilities of capital

This Chapter seeks to understand the structural forces behind the emergence of infrastructure-as-asset-class and the vulnerabilities of capital that these reveal. It takes a global tour of the massive infrastructure corridors – from the IIRSA programme in Latin America to the "spatial development initiative" (SDI) in Africa to China's One Belt, One Road project – that are being planned to enable further economies of scale in the extraction, transportation and production of resources and consumer goods by compressing space by time. Dominant forms of industrial capital cannot easily expand without massive expenditure on these corridors. But the planners' plans are bumping up against the frontiers of traditional infrastructure finance. The money simply is not available without tapping a wider pool of finance beyond the state, private banks and multilateral institutions: global capital markets are the target source, Public-Private Partnerships the inducement, and infrastructure-as-asset class the currently-favoured (if often faltering) means of delivery.

CHAPTER 6: Reflections for activism

The push for greater private sector involvement in financing and operating infrastructure has sparked resistance from many quarters, including trade unions, environmental and human rights campaigners, and other social movements. But its trajectory remains largely unaffected. Does the problem lie in a failure of activists to shout loudly enough? Or in the ways that progressive activists are organising (at least in part)? What forms of resistance are failing? What ways of social and political organising are proving more promising in building and strengthening ways of living that respect the collective right of all (not just the few) to decent livelihoods? What oppositional strategies assist elite power? And what strategies unsettle it? To what extent has effective resistance been undermined by the hollowing out of many of the social institutions, such as trade unions, through which elite power has historically been challenged? Or by the often depoliticised organising that has emerged in many countries to fill the vacuum? Challenging the trajectory of contemporary infrastructure finance – and the inequalities and injustices to which it gives rise – is likely to be more fruitful where it is part of wider efforts to foster and support commons-focused resistance to accumulation.