EIR Political Economy

The scam that London calls 'privatization'

by Dennis Small

Around the world, over the ten-year period from 1988 through 1997, desperately indebted Third World and former Soviet bloc nations were forced to sell off nearly a quarter-trillion dollars' worth of state-held assets, in order to try to pay off their foreign debts and to cover their growing government budget deficits.

This global fire-sale frenzy was ushered in with the advent of the Bush-Thatcher era in the late 1980s, and it was promoted as a key component of the "new world order" by the International Monetary Fund (IMF), and by the financial oligarchy's propagandists more broadly, under the code-word, *privatization*.

Privatization was pioneered in Margaret Thatcher's England in the 1980s, on the policy design of the lunatic Mont Pelerin Society (see box). Some sources estimate that, under Thatcher's hand, as much as $100 billion in state-held industry and infrastructure was stripped down and dismantled, leaving the country a post-industrial rubble heap. The Mont Pelerin Society's American cheerleaders, such as Newt Gingrich and other Conservative Revolutionary fanatics, have been imposing similar policies on the United States, where "privatization" has also become the code-word under which deindustrialization is proceeding. New Zealand, Australia, and other supposedly "developed" nations have also been prime targets.

But it is in the developing sector and former Soviet bloc countries, that this process has gone the furthest, with devastating consequences for the very existence of these nations and their people.

In a word, privatization is a scam. It is the means by which the London-centered financial oligarchy is carrying out a highly successful raid on the world's most significant raw materials deposits; on strategic electrical and other utilities in developing nations; and on communications, transportation, and other vital infrastructure the world over. In short, they are buying up the world for a song, positioning themselves to come out on top of the ongoing disintegration of the world financial system.

The London oligarchs' strategic objective in this is threefold:

1. Seize these assets to bolster their own highly unstable financial positions, by using them to generate an income stream—which is then often "securitized," i.e., used to generate a new mountain of debt—to feed their global derivatives bubble. They "invest," not for production, but for speculation.

2. Deny these physical assets to the nations that today own them, in order to ensure that they can never develop as sovereign, industrial nations. Asset-stripping and other physical disinvestment frequently follow quickly after the sale.

3. Dismantle not only the state's role in the economy, but the very existence of the sovereign nation-state itself.

London's marketing of this policy of genocide is, of course, couched in different terms:

- *Privatization* will cut your government budget deficit, because you will sell off unproductive state assets to more efficient private owners, Third World governments are informed by the financial media.
- *Privatization* is the key to ending statist waste, former socialist nations are lectured by pompous visiting Harvard economists.
- *Privatization* will generate resources to pay off your public debt, they are all assured by their international creditors.
- *Privatization* is so good, the IMF swears, that if you do

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it, foreign investors will soon be tripping over each other to invest billions in your economy.

But the sales pitch aside, what is privatization really all about?

'Piratization': Ibero-America leads the way

EIR founder Lyndon LaRouche has quipped that *privatization* should actually be called *piratization*—since it amounts to the sort of robbery on the high seas that earned Britain's Sir Francis Drake his reputation. Take just one recent example: the auctioning of Brazil's Companhia Vale do Rio Doce (CVRD) in May of this year.

CVRD is the largest mining company in all Ibero-America, and the third largest in the world. It produces prodigious amounts of minerals of all sorts (it is the top iron producer in the world, for example), and owns very large deposits of many of these minerals, most of which have not even been fully quantified. It owns six seaport facilities, 22 ocean-going ships, and 2,000 kilometers of railroads. It has the country's most significant reservoir of scientific and technological know-how in most fields of engineering. It was founded in the 1940s (with the help of U.S. President Franklin Delano Roosevelt), and quickly became the very heart of the Brazilian national economy.

And yet, it was sold off in May 1997 to an international financial consortium—headed by the drug-promoting mega-speculator George Soros, investment banker to the Queen of England—for the insulting sum of $3.3 billion (for a controlling 30% share). This, the nation was told, would help Brazil "reduce the government budget deficit" and "pay its foreign obligations."

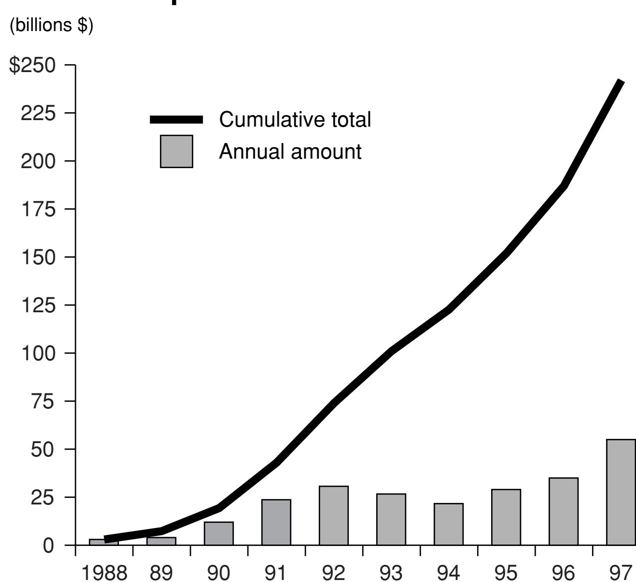
CVRD is probably worth 100 times what was paid for it, if a price can be put on it at all. Moreover, as more than one Brazilian patriot has noted, $3.3 billion is approximately the amount by which the Brazilian government's public debt grows *every ten days*. At these prices, the government would have to privatize CVRD or its equivalent 37 times over, to take care of their public debt problem—which is pretty much what the government of President Fernando Henrique Cardoso is now trying to do.

Thus, *piratization*.

Once in charge, Soros et al. promptly began to asset-strip and dismantle CVRD's nation-building capabilities. For example, Docegeo, its prized geological and R&D unit, which was set up 26 years ago, is laying off 70% of its 300 highly skilled employees. In total, over 5,000 CVRD workers will have been laid off by the end of 1997.

In **Figure 1** we see that the world privatization process began in earnest in the late 1980s, quickly rose to generate annual revenues of over $30 billion in 1992, and settled in at the $20-25 billion per year range through 1995. Then, in 1996, it rose again to about $35 billion; and in 1997, it took off like a rocket, as London and the IMF used the global financial crisis to force through a major wave of privatizations, in Australia, Brazil, and Russia, in particular. It is projected that the total dollar value of 1997 privatizations will come in at about $55 billion—close to double the annual rate of 1995—with about a third of the total coming from Australia, and another third from Brazil. By Dec. 31, 1997, the cumulative total of privatizations over the last decade will have reached $242 billion. Over the last two years of crisis-induced developments, world privatizations have been growing by more than 25% per year.

FIGURE 1
World total privatizations
(billions $)



It has to be underscored that this is simply the monetary price that the governments received for the physical assets they sold—it doesn't come close to reflecting their actual economic value, as the CVRD case exemplifies.

More than a third of these privatizations have occurred in Ibero-America, with East Asia and the Pacific, and Europe and Central Asia, following behind.[1] Ibero-America was the first region to be assaulted with this new form of looting, and through 1992, the lion's share of all world privatizations occurred there (see **Figure 2**). Special mention must also be made of New Zealand in this early stage of privatization, which, under Mont Pelerin tutelage, sold off close to $5 billion in state-sector companies, from 1988-90 alone (see *EIR,* June

1. These are the standard regional definitions used by the World Bank in its *Global Development Finance* yearbook, which was one of the primary sources for data covering 1988-95 used in this study. This was then cross-checked, modified, and updated by more detailed individual country reports, where these were available. The World Bank yearbook data do not include Australia and New Zealand, however, presumably because these are considered "developed" nations, which fall outside their purview. We have, nonetheless, included them in our world totals.

FIGURE 2
Privatization, by region
(% of world total)

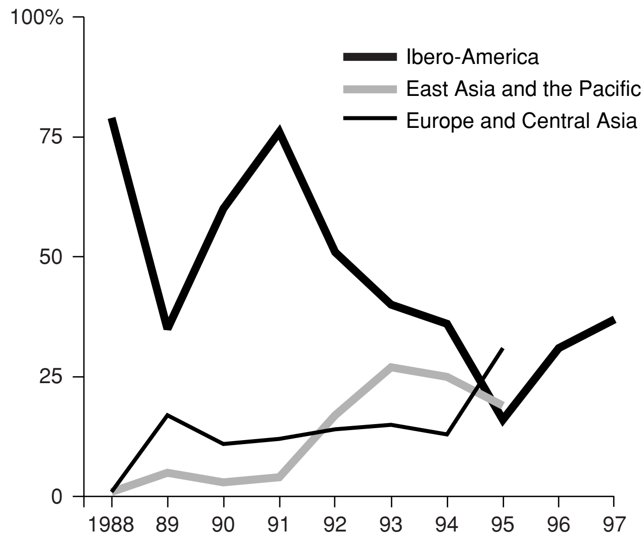
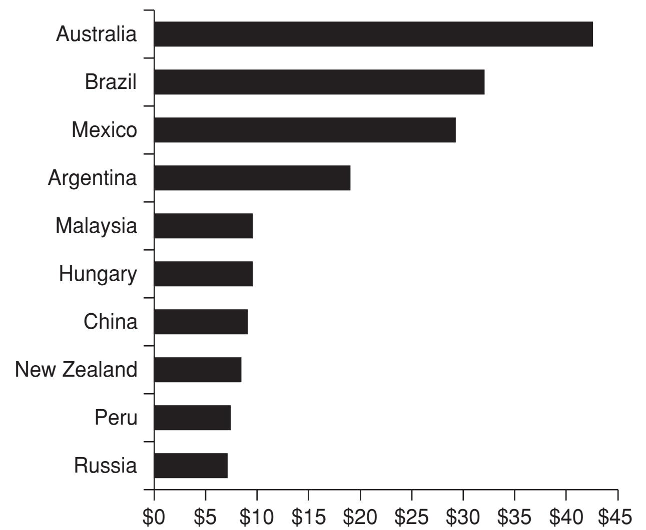


FIGURE 3
Top 10 countries in privatizations, 1988-97
(billions $)

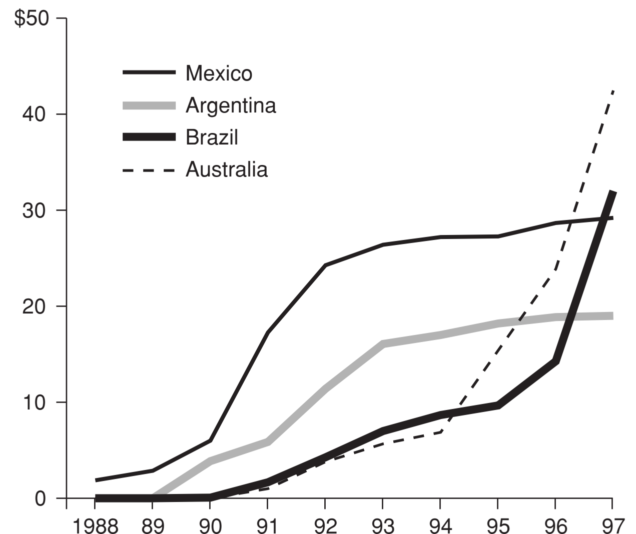


13, 1997 for a full study of the New Zealand case). Beginning in 1992-93, the London raiders moved aggressively on East Asia and the Pacific (especially Malaysia, the Philippines, and China), and also on Europe and Central Asia, including former Soviet bloc nations such as Hungary, Poland, Russia, and the Czech Republic. In 1995, both of these regions briefly surpassed Ibero-America in annual privatizations; but in 1996 and 1997, Ibero-America again became the preferred looting ground, along with Australia, which became a major victim of privatization over the last few years.

In fact, Australia is, at this writing, the leading privatizer worldwide, with a cumulative total to date of nearly $43 billion. The next three countries are all Ibero-American: Brazil, with a cumulative total over the decade of more than $32 billion; Mexico, with $29 billion; and Argentina, with just under $19 billion (see **Figure 3**). Malaysia, Hungary, China, and New Zealand are all back with "only" about $8-9 billion each, but Russia is high on London's hit list, and may well surpass these four in another year or so.

The most dramatic shifts are occurring in Australia and Brazil (see **Figure 4**). Australia sold off over $8 billion in assets in each of 1995 and 1996, and in 1997 has privatized nearly $19 billion—including the telecommunications giant, Telstra, for over $10 billion. As for Brazil, after a relatively slow start in the early 1990s, the London privatizers finally got their claws into Brazil in a big way. From January 1996 through late November 1997, Brazil was forced to privatize an additional $22.4 billion in assets, and is scheduling to sell off a staggering $60-65 billion more over the coming three years, according to the government's projections.

FIGURE 4
Privatization revenues, cumulative totals
(billions $)



This is a good example of how financial manipulations are used to carry out piracy. The same Brazilian companies that are today listed for privatization by the year 2000, were given a total "market valuation" of $85 billion as recently as mid-October 1997. But then, the Brazilian stock market

crashed by over 30%, as part of the global Black Monday, and this collapsed the quoted asset value of the companies targetted for privatization by about $20-25 billion. So now, Brazil will hand over the same physical assets, but will get $20-25 billion less for them—unless the market plummets further, of course, by the time they are sold.

Not all nations have gone along readily with London's plans. Nigeria, for example, Africa's most populous nation, has so far successfully resisted attempts at significant privatization of its public sector. The IMF-World Bank and their "free-market" supporters in Nigeria have gone after large state-sector companies, like the National Electric Power Authority (NEPA), Nigerian Telecommunications (NITEL), the country's four oil refineries, and even the National Nigerian Petroleum Corp. (NNPC), which is responsible for 90% of the country's foreign exchange earnings. A small component of NNPC was privatized in 1993, for $500 million. But total cumulative privatizations through 1995 were still under $1 billion.

The world map (**Figure 5**) gives a bird's eye view of the

Mont Pelerin, Thatcher, and privatization

Lyndon LaRouche recently remarked that the British often "first infect themselves with a disease, and then kiss the United States" and other nations, that they seek to destroy. That is the true story of the doctrine of "privatization."

The policy of privatization is most widely associated with the 1980s reign of Margaret Thatcher in Great Britain. But where did the "Iron Lady" herself catch the disease? From a Satanic outfit called the Mont Pelerin Society.

The Australian newspaper *New Citizen,* put out by associates of LaRouche in that country, earlier this year published a March 1996 interview with Lord Ralph Harris, a former president of the Mont Pelerin Society, who was, for decades, the executive director of Mont Pelerin's main think-tank, the London-based Institute for Economic Affairs (IEA). Asked what generated the "reforms," including privatization, which swept Thatcher's Britain, among other places, Harris replied, "There is this outfit called the Mont Pelerin Society. It was started in 1947. The Mont Pelerin Society created the IEA, which comes to be called 'Thatcher's think-tank,' but we were running long before Thatcher. We weren't Thatcherites, but she was an 'IEA-ite.' " From Thatcher's Britain, Harris said, these ideas spread around the world. The most honored Mont Pelerinite, Harris emphasized, whom the Queen dubbed one of only 60 "Companions of Honor" of the British Empire, was its seminal thinker, Friedrich von Hayek.

The Society was founded on the slopes of Mont Pelerin in Switzerland in 1947. That first meeting was a regroupment of some of the leading families of the ancient European oligarchy, most of whom, like von Hayek, carried the prefix "von" before their names, indicating "noble" origin. These included: Otto von Hapsburg, of the ruling dynasty of the now-expired Austro-Hungarian Empire; Max von Thurn und Taxis, whose family, originally Venetian (Torre e Tasso), relocated to Germany in the 15th century, where it headed up the postal and intelligence services for the Hapsburg Empire for centuries; and Ludwig von Mises, the leader of the bitterly anti-Renaissance "Austrian School" of economics. From Britain came Sir John Clapham, a senior official of the Bank of England and the president in 1940-46 of Britain's pre-eminent intellectual body, the Royal Society. Milton Friedman, from the Fabian-founded University of Chicago, was also present; he was to become a chief salesman of Mont Pelerin's dogma.

Von Hayek's 1944 book *The Road to Serfdom* set the tone for the "Conservative Revolution" which the new society championed—that of a return to feudalism: "We shall not rebuild civilization on the large scale. It is no accident that on the whole there was more beauty and decency to be found in the life of the small peoples, and that among the large ones there was more happiness and content in proportion as they had avoided the deadly blight of centralization." Von Hayek cynically denounced the nation-state as "tyrannical," even while he called for the establishment of a one-world empire: "An international authority which effectively limits the powers of the state over the individual will be one of the best safeguards of peace."

"Privatization" of the state and its assets, was a critical component of this strategy.

Mont Pelerin soon moved from Switzerland to London, where the chief sponsor of its radical free trade and other lunatic nostrums was City of London financier Harley Drayton, who managed the private fortune of the Queen. Drayton financed all the early personnel and the first headquarters of the IEA.

Though von Hayek was the Mont Pelerin Society's chief intellect, he in turn drew his essential ideas from Bernard de Mandeville (1670-1733), particularly from Mandeville's *The Fable of the Bees: Private Vices and Publick Benefits*. Mandeville, whom von Hayek worshipped, was the founder of the devil-worshipping Hell-Fire Clubs of the 18th century; his *Fable of the Bees* is a naked glorification of the "Seven Deadly Sins."

—*Allen Douglas*

scope of completed major privatizations in nations around the world, giving some indication of the range of physical assets that they have lost.

Infrastructure and raw materials

What are the principal assets that these nations are handing over, and who are the new owners?

Infrastructure heads the list, with electricity and telecommunications each accounting for more than 20% of the world total over the last decade (**Figure 6**).

Over $54 billion in *electricity* generation and distribution companies have been sold off so far—30% of the total by Australia, and another 25% by Brazil, mainly over the last 2-3 years. Although Electricité de France and various American and German utilities have been involved in a number of the takeovers, a particularly aggressive role is being played in the Americas by an interlocking group of Spanish and Chilean electricity companies, which recently moved to merge under the name of Endesis. As we will document in an upcoming *EIR* feature, this Spanish-Chilean group is actually run by London-controlled banking interests, including Spain's Banco Santander (see Dennis Small, "British Banks Establish Death Grip Over Ibero-America," *EIR,* Aug. 22, 1997), and it today holds the lion's share of electricity generation and distribution in the southern half of South America.

Despite the fact that a lot has already been privatized worldwide on the electricity front, major additional activity is expected in the near future as well: in Argentina, the giant Yacyretá hydroelectric plant (priced at $1.8 billion) and the country's two operational nuclear plants ($1 billion); in Brazil, over $50 billion worth of national and state electricity companies (see below for details); and in Russia, the giant

FIGURE 6
World privatization, by sector, 1988-97
(% of total)

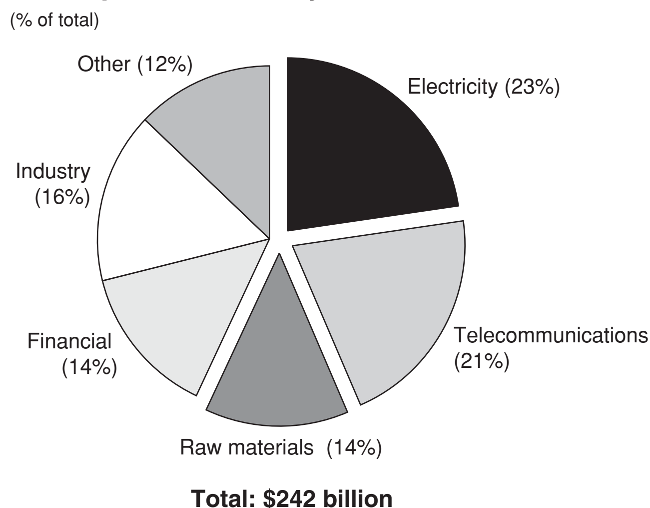


FIGURE 6
Leading country totals and mega-privatizations
(billions $)

Mexico $29
Telmex 5.0
Aeroméxico 1.5
Chihuahua-Pacific RR 1.4
Inmevisión 1.1
Asemex 0.5

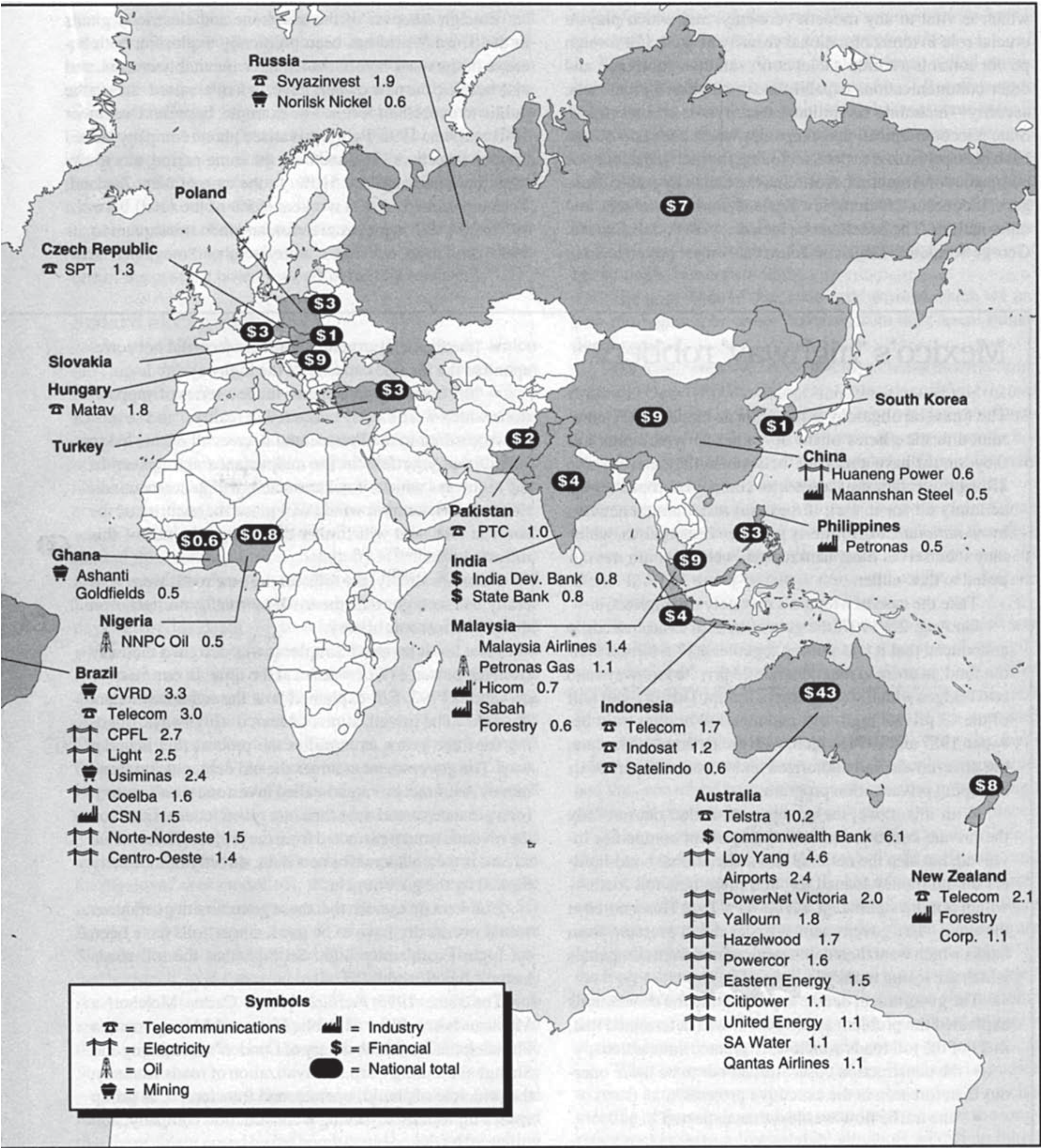
Venezuela $4
CANTV 1.9

$32

Peru $7
Entel 1.4
Telefónica 1.2
Edegel 0.5

Chile $19

Argentina $2
Entel 7.3
YPF 3.0
Argentine Airlines 1.9
Transp. de Gas 0.5



Russia
Svyazinvest 1.9
Norilsk Nickel 0.6
$7
Poland
Czech Republic
SPT 1.3
$3
$3
$1
$9
Slovakia
Hungary
Matav 1.8
$3
Turkey
$9
$1
South Korea
$2
China
Huaneng Power 0.6
Maannshan Steel 0.5
$4
Pakistan
PTC 1.0
Philippines
Petronas 0.5
$3
$0.6
$0.8
Ghana
Ashanti Goldfields 0.5
India
India Dev. Bank 0.8
State Bank 0.8
$9
$4
Nigeria
NNPC Oil 0.5
Malaysia
Malaysia Airlines 1.4
Petronas Gas 1.1
Hicom 0.7
Sabah Forestry 0.6
Brazil
CVRD 3.3
Telecom 3.0
CPFL 2.7
Light 2.5
Usiminas 2.4
Coelba 1.6
CSN 1.5
Norte-Nordeste 1.5
Centro-Oeste 1.4
$43
Indonesia
Telecom 1.7
Indosat 1.2
Satelindo 0.6
$8
Australia
Telstra 10.2
Commonwealth Bank 6.1
Loy Yang 4.6
Airports 2.4
PowerNet Victoria 2.0
Yallourn 1.8
Hazelwood 1.7
Powercor 1.6
Eastern Energy 1.5
Citipower 1.1
United Energy 1.1
SA Water 1.1
Qantas Airlines 1.1
New Zealand
Telecom 2.1
Forestry Corp. 1.1
Symbols
= Telecommunications
= Electricity
= Oil
= Mining
= Industry
= Financial
= National total

Unified Energy System (UES) electricity company, which is estimated to be worth as much as $200 billion, but which will surely be auctioned off at far less than that amount.

Telecommunications is another infrastructure capability which is vital to any modern economy, and which plays a crucial role in terms of national security as well. If a foreign power controls a nation's telephone, satellite, computer, and other communications capabilities, that nation's most basic security—including its military security—is compromised. State telecommunications companies worth over $50 billion have been privatized to date, including the national telephone companies of Argentina, Australia, the Czech Republic, Hungary, Indonesia, Mexico, New Zealand, Peru, Venezuela, and other nations. The beneficiaries include AT&T, Bell Canada, George Soros, and Deutsche Telekom. Not yet privatized, but expected to be put on the chopping block over the next year, are Brazil's giant Telebras (priced at about $17 billion); Russia's Svyazinvest holding company, which controls 38% of the country's telephone enterprises; and others.

Foreign takeover of the telephone and electricity giants in the Third World has been politically explosive, both because of the mass layoffs which have inevitably ensued, and also because the new owners have, as a rule, raised rates to the public to exorbitant levels. For example, between December 1991 and June 1996, Peru's privatized phone company jacked up user rates by 873%; and over the same period, electricity rates there increased by 510%. In the case of New Zealand, Telecom sacked 15,900 workers (65% of the total) between 1987 and 1996, in preparation for, and then subsequent to, its 1990 privatization. That country's other "mega-privatiza-

Mexico's 'highway' robbery

The financial oligarchy is not quite as ideologically committed to the glories of the so-called "private sector" as they would have everyone believe. If they can make a killing by privatizing state-sector companies, then they are certainly all for it. But, if they can make another killing by *re-nationalizing* formerly privatized enterprises, which they themselves have bankrupted, well, they are not opposed to that, either.

Take the case of Mexico's privately run highways.

On Aug. 22, 1997, the government of Ernesto Zedillo announced that it was putting together a $7.5 billion bailout fund, in order to renationalize 23 private highways and two bridges which were going belly-up. This is about half of the 43 private highways and nine toll bridges built between 1987 and 1994, which, with great pomp and fanfare, the government had authorized and licensed as part of its sweeping privatization program.

With this move, the government bailed out not only the private construction and management companies involved, but also the national and international bond-holders on the money loaned to build these new toll roads—which is more significant. As the *New York Times* noted at the time: "The government is under direct pressure from banks which want their debts serviced and from companies which are losing money."

The government decree expropriating the concessions explained the problem as follows. It was determined that, in 23 of the toll roads which were granted concessions,

- the construction costs "turned out to be more onerous than foreseen in the executive projects";
- "the traffic flow was less than expected";
- "the financial structure of the projects did not correspond to the income capacity of the highways";
- "the licensing agreements made a series of suppositions which were clearly exceeded in reality," and so on.

According to the Presidential decree, all of this led to "significant shortfalls in the maintenance and upkeep of the highways which, if not corrected, will generate conditions of deterioration which will place the security of the users at risk, and will further discourage the use of this infrastructure."

Put more simply, the tolls for the new roads were generally set so high, that there was virtually no traffic on them. The rest was history.

How did it happen? Simple: It was designed that way from the outset, as *EIR* warned at the time. In our *Feature* on Oct. 8, 1993, *EIR* explained how the scam was meant to work: "The privatization of Mexico's highways, ongoing for three years, exemplifies the process that is under way. The government assumes the old debt, puts up 'seed money' to attract private so-called investors, who, in return for a pittance spread over time, are given 'concessions' on the revenue stream extracted from the project. The revenue stream is the collateral for new debt, directly or indirectly backed by the government."

EIR went on to warn that these government guarantees would eventually have to be used, since "tolls have been set high, exorbitantly high. So high that the toll roads haven't functioned."

The same 1993 *Feature* quoted Carlos Melcher, a Mexican-born officer of Public Financial Management, a Philadelphia-based subsidiary of London's Hongkong and Shanghai Banking Corp.: "Privatization of roads works on the principle of 'build, operate, and transfer. . . . A group comes in, usually involving a construction company, and

tion," of the Forestry Corporation, led to 4,473 layoffs (63% of their total labor force).

Two other sectors of privatizations should be noted: *financial* institutions, and *raw materials* companies (which includes both oil and mining). In an earlier study (*EIR,* Aug. 22, 1997), *EIR* exhaustively documented the role of British Commonwealth companies in seizing control over the banking and mining activities in Africa and Ibero-America, in particular. As for oil and natural gas, the British resource grab in the developing sector and the former Soviet bloc nations, has only just begun. Argentina's national oil company, YPF, was privatized in 1993 (for a pathetic $3 billion), as have been Peru's PetroPeru and Russia's Lukoil. But the international vultures now have their sights set on Mexico's Pemex, Brazil's Petrobras, Venezuela's PDVSA, half a dozen major Russian oil companies (Rosneft Oil, Eastern Oil Co., and others), and Russia's natural gas giant, Gazprom, whose assets are estimated to be worth from $100 billion to $1 trillion, and which they intend to seize control of, whether by privatization or other means.

To get an idea of what this means in physical terms, consider that Pemex, Petrobras, and PDVSA, respectively, produce oil at the rate of 2.9 million barrels per day (bpd), 1.0 million bpd, and 3.0 million bpd. Together, this adds up to about 85% of the total output of Saudi Arabia. Similarly, investigative journalists in Russia have estimated that the handful of Russian oil companies targetted for privatization in the near future, jointly produce 2.4 million bpd of crude, or 41% of the national total. These sources pro-rated these output figures by the percentage share of each company being

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they build a road. . . . If the construction company operates the road, then this is a concession. The term of the concession can run 10 or 12 years, but now they're getting longer, and concessions are running up to 20 years. . . . The concessionaire gets the revenues for running the roads. The concessionaire keeps the tolls."

In hearings called by then-chairman of the U.S. House Banking Committee, Rep. Henry Gonzalez (D-Tex.), on Sept. 8, 1993, additional aspects of the arrangement were revealed. The income stream extracted from the highway projects, which is in pesos, has to be converted into dollar-denominated bonds on behalf of the foreign private investors who are supposedly investing in the "build, operate, and transfer" projects.

These were the infamous "highway bonds," which were the first step toward the establishment of other paper instruments which were called "NAFTA bonds" or "NAFTA dollars." This is a reference to George Bush's North America Free Trade Agreement (NAFTA) among the United States, Mexico, and Canada, one of whose principal objectives was to establish a new "monetary zone" in the northern Western Hemisphere.

'Garden variety' corruption

As can be seen, the Mexican Presidential decree of August 1997, which announced the re-nationalization of the privatized toll roads, is the "light" version of what actually happened. Besides the mentioned "securitization" of the income stream related to the tolls, there were other, more garden varieties, of corruption involved.

The general "concession" scheme, most of which was put in place between 1988 and 1991, invariably consisted of the construction company estimating a cost for the project, toward which it "contributed" one-third of the total. The rest of the financing was lined up from some commercial banking institution, from among those "recently privatized" by the Salinas de Gortari government (1988-94). According to a Mexican Senate investigation, what actually happened, was that the majority of the resources were coughed up by the Federal government itself, through the National Bank for Public Works and Services (Banobras), and by the Federal Toll Road department of the Ministry of Finance, which administers Mexico's highways. In all of this, there was precious little so-called "private investment."

Thus, the much-touted "four-lane highways" that were presumably built, in many cases boiled down to adding two new parallel lanes to existing (free) two-lane highways, and then imposing tolls on the "new" highways, thereby effectively eliminating the constitutional guarantee to all Mexicans of the right to free transit throughout the country. Furthermore, the "concessions" were generally granted when the "highways" were still under construction.

The incredible part of all of this, is that the "superhighways," which were never really used, due to their stratospheric tolls, may now require emergency maintenance by the government—also at taxpayer expense. On one stretch under construction, in San Juan de Los Lagos, Jalisco, a bridge collapsed before it was opened; and another bridge, also in Jalisco, came crashing down after barely three months of use. One last fact: The highways which the Federal government is currently building, cost about half as much as the the "superhighways" built under the Salinas government—and this, despite the fact that, after the December 1994 debt crisis, the peso was devalued by over 40%, leaving about 200% inflation as a result.

—*Carlos Cota Meza*

A Pemex facility in Veracruz, Mexico. Pemex is a principal target of the privatizers, but so far, nationalist resistance has blocked any selloff of the state-owned oil company.

privatized, to conclude that about 1 million bpd of crude capacity, or 16% of Russian national output, is going to be sold off for a mere $8 billion.

Who's in charge here?

Official government reports on privatization, as well as those of the multilateral institutions that promote it globally, such as the World Bank, often emphasize that more than just foreigners are involved in privatization, and that a significant share of the companies that are sold, ends up in the hands of local investors. This, they argue, strengthens the domestic private sector, and prepares them for the future of "globalization."

Although there are some instances where this may be the case, such as Malaysia, in the majority of privatizations, the new local "owner" either turns out to be a front-man for powerful international financial interests, which are actually pulling the strings; or else, he is himself bought out, soon enough, by a foreign entity. This picture comes into sharper focus as we look at a few case studies. London emerges unmistakeably as the driving force behind privatization, and also its main beneficiary.

Similarly, the privatization valuations and bidding processes are run by large financial houses which "advise" the victim governments, while rigging the operation to benefit City of London and related financial interests. Prominent among these is Crédit Suisse First Boston, which has orchestrated a large part of the privatizations, from Russia, to New Zealand, to Ibero-America. CS First Boston is tied to Sir George Bush's interests in the United States, including the blueblood Weld family of Boston.

Mexico

Mexico has the dubious distinction of being the first Third World nation to be thrown in the privatization barrel—where it was joined in the late 1980s by the Mont Pelerin Society's showcase, New Zealand. Mexico was singled out for this treatment by London, because of its long, and strong, tradition of state involvment in national economic development. The British wanted to prove the point that state-sector dirigism was a thing of the past; "globalization" had arrived, and with it privatization. If Mexico could be whipped into line, the rest would follow.

Furthermore, in 1982, Mexican President José López Portillo had followed crucial elements of Lyndon LaRouche's outlined steps for overturning the IMF system and establishing a new international financial system. So, the Thatcher-Bush crowd wanted to make a bloody example of the country for this as well, to destroy the economic and political institutions on which nationalism depends for its social base of support.

In 1988, Mexican President Miguel de la Madrid, on the orders of the City of London and Wall Street, privatized $1.9 billion in state-held assets—about 60% of the world total for that year (see **Table 1**). This mainly consisted of the two national airlines, Mexicana de Aviación and Aeroméxico, a

TABLE 1
Ibero-America: revenues from privatization
(millions $)

Country	1988	1989	1990	1991	1992	1993	1994	1995	1996*	1997**	88–97
Argentina	28	0	3,841	1,981	5,567	4,732	890	1,208	628	80	**18,955**
Bolivia	0	0	0	0	9	13	0	789	87	NA	**898**
Brazil	0	8	44	1,635	2,564	2,718	1,697	992	4,690	17,683	**32,031**
Chile	278	302	98	364	8	106	128	13	341	NA	**1,638**
Mexico	1,915	971	3,160	11,289	6,924	2,132	766	167	1,400	450	**29,174**
Peru	0	0	0	2	212	127	2,840	1,276	2,544	408	**7,409**
Venezuela	0	0	10	2,278	140	36	8	39	165	866	**3,542**
Others	309	154	144	439	382	797	1,490	140	1,000	1,000	**5,855**
Sub-total, Ibero-America	**2,530**	**1,435**	**7,297**	**17,988**	**15,806**	**10,661**	**7,819**	**4,624**	**10,855**	**20,487**	**99,502**
Total, World	**3,221**	**4,061**	**12,177**	**23,784**	**30,841**	**26,795**	**21,688**	**28,995**	**35,000**	**55,000**	**241,562**

* Brazil, Peru full year; others through 9/96.
** estimate through 11/97.

handful of secondary petrochemical plants, and a string of state-run hotels. Although the principal purchaser was nominally Mexican, the Brenner family (widely known to be on close terms with President De la Madrid), actual control passed to the late Sir Jimmy Goldsmith, a top City of London financier, who put up most of the money for the Brenners.

The next major development came in 1991, under the baton of the notorious President Carlos Salinas de Gortari, Sir George Bush's partner in crime (including the running of crack cocaine from Central America up through Mexico into the United States). In 1991, Salinas "re-privatized" Mexico's banking sector, which had been totally nationalized by President López Portillo in 1982, as part of López Portillo's war against the IMF. Salinas's move netted the government about $9 billion (out of $11 billion total that year—the largest yearly amount for any country, until Australia and Brazil's $18 billion each in 1997).

The buyers, all Mexicans, came to be known as "neo-bankers," because almost none of them (the exception was Agustín Legorreta) had been an owner of a banking institution before the 1982 nationalizations. All of these "neo-bankers" had the additional distinguishing characteristic of having owned stock brokerages, each of which had undergone a scandalous collapse at the time of the world stock market crash of October 1987, followed by a highly profitable rescue operation at the hands of the Mexican government.

Thus, Agustín Legorreta, who had owned Banamex before the nationalization, in 1991 became the new owner of the privatized Inverlat banking group. Banca Serfín was turned over to Adrián Sada of the Monterrey Group. And the Bital group was bought up by Antonio del Valle.

But the December 1994 explosion of the debt bomb in Mexico, followed by the IMF measures imposed upon the country, pretty much bankrupted the Mexican banking system, and forced the new Mexican owners to sell off over 60% of the country's banking assets to foreign owners, over the next 2-3 years. Legorreta's Inverlat is now owned by the Bank of Nova Scotia, of Canada; Banca Serfín was taken over by the London-based Hongkong and Shanghai Banking Corp. (HSBC), known as the "central bank" for Dope, Inc.; and Bital is controlled by Spain's Banco Central Hispano, which has a strategic alliance with HSBC throughout Ibero-America.

It may have taken them 15 years and a couple of intermediate steps along the way, but the British have now succeeded in "privatizing" the Mexican banking system right out from under the country, and into the City of London's pocket. As of this writing, over 60% of the banking system's total assets are controlled by foreign interests—specifically by London.

The third and final big round of privatization in Mexico occurred in 1992-93: the sale of the state telephone monopoly, Teléfonos de México (Telmex), for about $5 billion. The purchaser, again, was nominally a Mexican: Carlos Slim. Slim is one of the richest men in Mexico, but no one quite knows where he made his money. He was on intimate terms with the Salinas family (including brother Raúl, today jailed in Mexico on murder charges, and under investigation in at least three countries for drug-money laundering). The very least that one can say about Slim, is that he is an essential part of the Salinas-Bush cartel, and thus answers to their British controllers.

To London's dismay, Salinas's successor, Ernesto Zedillo, has so far failed to deliver on the next—and final—target of the privatizers: the national oil company, Pemex. Even the preliminary move to achieve this, the sale of Pemex's downstream petrochemical operations, hasn't gotten off the ground, due to strong nationalist resistance in the country.

Russia

Compared to other former Soviet bloc countries, such as Hungary and Poland, Russia got off to a relatively late start in privatizations. In part, this was because the IMF and London had to first sufficiently weaken the country, both economically and politically, before the former superpower would submit to the humiliating fire-sale to foreign interests of vital national assets. But now, to quote the eager words of a well-informed official at the IMF-World Bank enforcement apparatus: "The prospects for privatization in Russia are *huge*."

Phase one of Russia's privatization began in late 1992, when the government distributed to citizens privatization vouchers. Each voucher, for which the citizen had to pay a fee of 25 rubles, had a face value of 10,000 rubles (dollar equivalent: $84, or about six weeks' pay, when the voucher law was passed; only $24 in November 1992, when the program began; less than $10 by March 1993—but, the vouchers continued to be used for acquisition of state property at pre-inflation book value). Most vouchers were sold for cash, then pooled for use in privatization auctions, during which close to 70% of Russian industry—many entire small and medium-sized companies, and portions of some large firms—shifted to private ownership.

It was through this voucher privatization, that many of today's conglomerates and clans, such as Oneksimbank and the infamous Boris Jordan, then working for CS First Boston, accumulated their assets. Jordan, for instance, reportedly acquired 17 million vouchers on the secondary market. So even in this first phase of Russian privatization, there was de facto foreign asset-acquisition through front-men—even though the official statistics may indicate otherwise.

Russia's first major privatizations for cash, with the direct participation of international bidders, came in 1995, when just over $1 billion in assets were sold, mainly from Lukoil and other petroleum and natural gas companies. A sizable chunk of Lukoil went to Atlantic Richfield Co. Despite ambitious plans for 1996, privatizations dropped off to an estimated $850 million for the year: There was general political upheaval in the country, and the pro-privatization team of Anatoli Chubais et al. were not able to proceed as rapidly as they would have liked.

Chubais's political fortunes improved again in March 1997, and consequently privatization activity in 1997 has stepped up markedly, to a targetted $5 billion for the year—although late 1997 financial turmoil has made it doubtful whether those objectives will be met. Already, 25% of the Svyazinvest telecommunications giant was sold over the summer, to a consortium headed by George Soros. Others involved included Morgan Stanley, Deutschebank, and Russia's Oneksimbank, headed by Vladimir Potanin. Shortly thereafter, 38% of Norilsk Nickel, the world's leading producer of platinum, among other strategic metals, was sold for $618 million, to an affiliate of the same Oneksimbank which had teamed up with Soros on Svyazinvest.

On Nov. 4, Russian President Boris Yeltsin signed a decree, lifting the 15% ceiling on foreign ownership of Russian oil companies that had been in effect since 1992, and allowing a full 100% foreign ownership. His expectation was that this would pave the way for the quick sale in late 1997 of four oil companies, priced at $2.5 billion, with the proceeds going to pay the government's delayed 1997 wage bill for soldiers and others. However, when the first of these, Eastern Oil Company, was put up for auction, there was only one bidder, and the deal had to be called off.

For 1998, according to Maksim Boiko, who was the country's privatization tsar for a few brief months in late 1997, thirty-seven companies have been listed for sale, which are expected to fetch at least $5.2 billion in revenue. Top among them are:

Rosneft Oil: 96% of the company, for $1.5 billion; British Petroleum and the ubiquitous Oneksimbank are reported to be among the leading bidders;

Svyazinvest: another 25%, for $1.8 billion; presumably Soros et al. will have the inside track;

Aeroflot: 51% of the national airline, the world's largest carrier;

Moscow airport: 100%;

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Left to right: international speculator George Soros, whose consortium now owns 25% of the Russian Svyazinvest telecommunications giant; Russian President Boris Yeltsin, who signed a decree allowing 100% ownership of Russian oil companies; First Deputy Premier Anatoli Chubais, the Russian government's most fanatical advocate of privatization.

Energiya space corporation: 25%; and

Unified Energy System (UES): 7.5% for $300 million.

The last case bears closer attention, as it starkly demonstrates the most shocking feature of the privatization program: that Russia is being more vastly underpaid for its physical assets, than probably any nation in the world.

UES, the national electricity company, is still 51% owned by the state. It has 110 gigawatts of generating capacity, and transmits power across 11 time zones. Its plant and equipment comprise 600 thermal electric power plants and 100 hydroelectric power plants (nuclear power is administered separately, by the Ministry of Atomic Energy), and 2.5 million kilometers of transmission lines. Estimates of the value of these assets approach the range of 1 quadrillion rubles, or almost $200 billion.

And yet, the asking price for 7.5% of UES is a paltry $300 million—meaning that the whole company is being implicitly valued at about $4 billion. That is about 50 times less than its actual worth, according to reasonable estimates.

Piratization!

Such highway robbery is, of course, not limited to Russia. Take the case of neighboring Kazakhstan's 4-gigawatt Ekibastuz power station, built in the middle of a coal basin that was a major Soviet-era energy project, which was sold last year to AES of Virginia . . . for $3.7 million! Admittedly, the plant was in disrepair, working at only 20% of capacity, and in dire need of maintenance; but the price was *two orders of magnitude* below the $300 million the same AES paid for a power plant in Northern Ireland, which, at 800 megawatts, has only one-fifth the capacity of Ekibastuz.

Brazil

Tens of thousands of workers and others took to the streets of downtown Rio de Janeiro in early 1993, when the Cardoso government moved to ram through its first major privatization, that of the National Steel Company (CSN). They held noisy protest rallies in front of the Rio stock exchange, arguing that the CSN, especially its flagship Volta Redonda steel mill, was one of the great achievements of Brazil, and that economic sovereignty demanded that it remain with the nation.

The demonstrators were right. Volta Redonda was founded in the 1940s, as part of the wartime agreements between U.S. President Franklin Delano Roosevelt and the nationalist President of Brazil, Gen. Getúlio Vargas. Roosevelt also backed Brazil's 1942 expropriation of Great Britain's Itabira Iron holdings, which then became the basis for the formation of the CVRD mining complex. Volta Redonda and CVRD, combined, laid the basis for Brazil's industrial development in subsequent decades.

In forcing through the privatization of CSN, the British were as interested in denying this industrial capability to Brazil, as they were in seizing it for themselves—a strategic consideration which guides their entire approach to privatiza-

tion. London, in its Malthusian fervor, is intent on making sure that no nation has a sufficient density of high-technology capabilities, to make actual sovereign economic development possible. Thus, a frequent first step with a recently privatized company, is that it will be *asset-stripped* and effectively dismantled as an economic capability, by the vultures that have taken it over—all in the name of "financial efficiency."

When CSN was sold for $1.5 billion, the winning bidder was, to the surprise of many, a failing Brazilian *textile* group, the Vicunha Group. Vicunha is headed by Benjamin Steinbruch, whom some have described as "the Carlos Slim of Brazil"—in other words, a smart operator who has parlayed his close friendship with the President into untold millions. Steinbruch is a childhood friend of Paulo Henrique Cardoso, the President's oldest son. As soon as CSN was privatized, Steinbruch set up Cardoso, Jr. as the company's "communications adviser."

Like Slim, Steinbruch is also, in effect, a front-man for major foreign financial interests. Which interests? Consider the following: When CVRD was privatized in May 1997, the winning bid was placed by a partnership of Steinbruch's CSN, the U.S. bank NationsBank (which also loaned Steinbruch $1.2 billion to fulfill his part of the package) . . . and George Soros. It later turned out that Soros had been the actual lender of half the $1.2 billion that Steinbruch borrowed for the deal. So Soros and Steinbruch are tight; in fact, there has been speculation in the Brazilian press that Steinbruch is little more than a front-man for the mega-speculator and drug legalizer, in service to the Queen.

Steinbruch's Vicunha Group also took a strong holding in the May 1996 privatization of the Rio electrical utility, Light, for $2.5 billion. And, it is reported that he also has the inside track for the upcoming 1998 privatization of the highly sought-after "B Band" cellular phone concession.

Table 2 is a listing of all the major Brazilian state-sector companies that have been privatized to date, as well as of the $60-65 billion more that are scheduled for the chopping block over the next three years. (The listed amounts add up to $85 billion, as the itemization was prepared by the Brazilian government before the late-1997 stock market crash reduced their projected sales prices.) It is important to note that the column marked "revenue" refers only to the cash price paid for the company in question. In many cases, an included feature of the privatization deal was that the Brazilian state *transferred debt* from these companies to the new owners. So, in that sense, the Brazilian government got the additional benefit of ridding itself of debt it was carrying on its books.

The amounts are not trivial. For example, in the case of CVRD, the cash price paid was $3.3 billion for about 30% of the company, but an additional $4.3 billion in CVRD debt was assumed by the new owners. Brazil's BNDES bank, charged with handling privatizations, has reported annual figures for

TABLE 2
Brazil: major privatizations
(millions $)

Year	Company	Sector	Revenue	Transferred debt
1991	Usiminas	Steel	1,941	369
1992	Piratini	Steel	102	2
	Petroflex	Petrochemicals	234	21
	Copesul	Petrochemicals	862	9
	CST	Steel	354	483
	Fosfértil	Fertilizer	182	44
	Acesita	Steel	165	232
1993	Açominas	Steel	599	122
	Ultrafértil	Fertilizer	206	20
	CSN	Steel	1,495	533
	Cosipa	Steel	586	884
1994	Usiminas	Steel	480	0
	Embraer	Aircraft	192	263
	CVRD steel	Steel	138	0
	PQU	Petrochemicals	287	41
1995	Escelsa	Electricity	400	2
	Copene	Petrochemicals	270	475
	Salgema	Petrochemicals	139	44
1996	Light	Electricity	2,507	586
	Malha Centro-Leste	Railroad	316	0
	Malha Sudeste	Railroad	870	0
	Malha Sul	Railroad	209	0
1997	CERJ	Electricity	587	NA
	CVRD	Mining	3,299	4,287
	Coelba	Electricity	1,573	NA
	Cachoeira Dourada	Electricity	255	NA
	Telecom	Telecommunications	2,950	NA
	Norte-Nordeste	Electricity	1,486	NA
	Centro-Oeste	Electricity	1,372	NA
	CPFL	Electricity	2,740	NA
	Enersul	Electricity	570	NA
	Cemat	Electricity	353	500
Pending (1998-2000)				
	Banda B	Telecommunications	6,000	
	Embratel	Telecommunications	6,000	
	Telebras	Telecommunications	17,000	
	State electrical cos.	Electricity	28,700	
	Furnas	Electricity	5,800	
	Eletrosul	Electricity	2,300	
	Chesf	Electricity	7,500	
	Eletronorte	Electricity	6,200	
	Fepesa	Railroad	2,100	
	Malha Nordeste	Railroad	11	
	Escelsa, part 2	Electricity	85	
	CVRD, part 2	Mining	2,000	
	Light, part 2	Electricity	1,600	

FIGURE 7
Brazil: revenue and transferred debt
(cumulative, billions $)

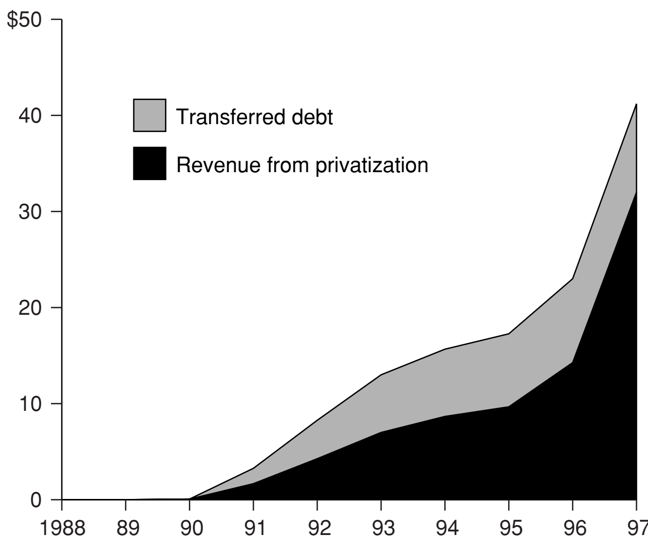
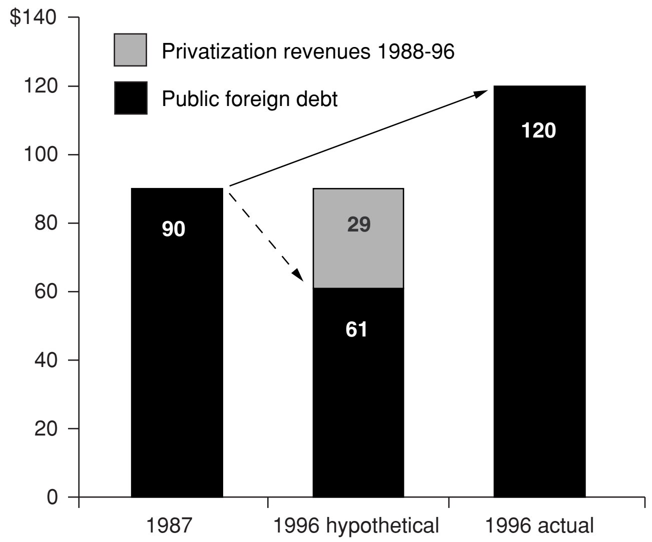


FIGURE 8
Mexico: public foreign debt
(billions $)



such "transferred debt," which add up to over $9 billion over the last decade. If this figure is added to the total cash received, the actual figure for total Brazilian privatizations reaches $41.4 billion—just under Australia's cumulative total of $42.5 billion (see **Figure 7**).

No similar considerations arise in the cases of Mexico, Argentina, or most other Ibero-American nations, for the simple reason that, in those countries, all of the state companies were first restructured and "cleaned up" ("*saneados*")—i.e., their debts were assumed directly by the government—*before* they were offered up for sale. In the case of Russia and other former East bloc nations, there is some "transferred debt" component, but the available data are incomplete and unreliable in this regard.

'Bankers' arithmetic' revisited

Since the victim nations have by and large been forced by the IMF to use their privatization revenues, not for internal development, but to pay off their public debt (both domestic and foreign), one might think that said debts would have been proportionately reduced. Think again. The reality is that privatization revenues have risen; debt payments have risen; *but the total debt owed has also risen*.

This is what *EIR* has identified as "bankers' arithmetic": The more you pay, the more you owe. What it points to, is the fact that the rules of today's economy simply don't work any more the way London and the IMF insist that they do. Let us look more closely into this matter.

One of the standard arguments used to justify privatization, is that 1) it reduces inefficient state-sector spending, which 2) allows the country to control its government budget deficit, and 3) thereby combat inflation. This is a lie on all three counts.

First, as often as not, the companies targetted for privatization are not even in the red. This was the case with Brazil's CVRD, which, the government was forced to admit, was net profitable and expected to become increasingly so in the foreseeable future. And often when these companies do show monetary losses, it is because of their heavy debt burden (about which we will say more below), or because they are operating with relatively backward technologies—thanks to London's technological apartheid policies, to which these nations are also subject.

Second, most government budget deficits are not caused by state-sector company losses, but by the oppressive burden of debt service (both domestic and foreign) that these budgets are forced to carry. For example, Mexico today spends about 30% of its budget on debt service; Brazil is spending over 25%; and in Russia, over a quarter of the federal budget goes to debt.

And third, inflation has next to nothing to do with state-sector performance. Inflation in the developing sector is essentially an imported disease: It comes from the parasitical effect of the global derivatives bubble on these economies and their foreign debt; and it is a result of forced devaluations of their currencies, which the international oligarchy periodically imposes to facilitate their looting of the nations' physical wealth.

FIGURE 9
Argentina: public foreign debt
(billions $)

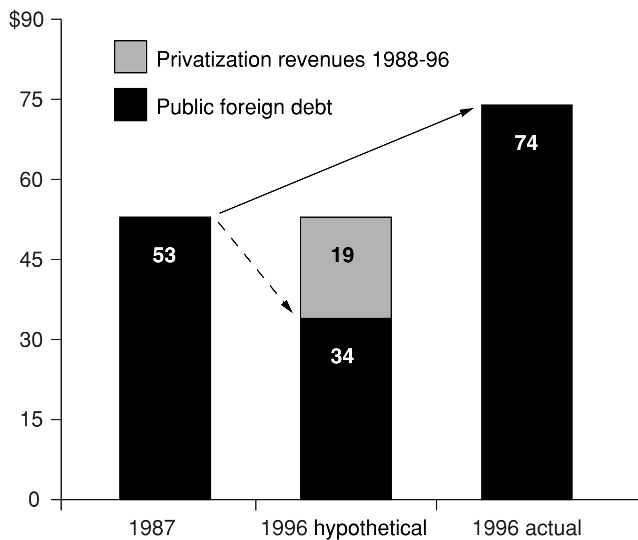
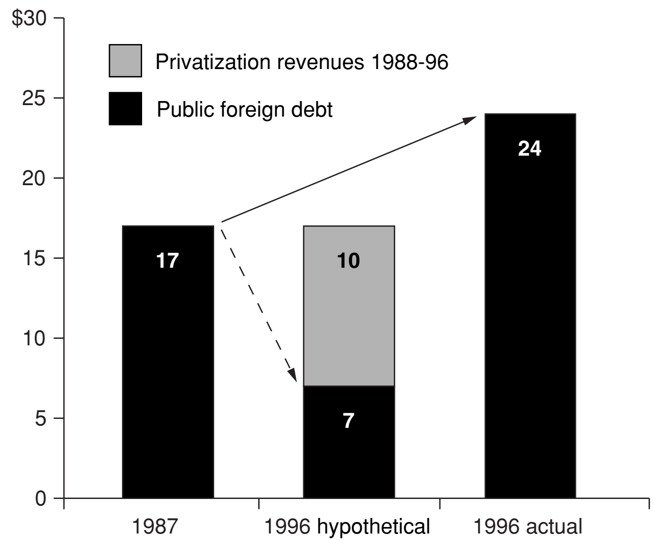


FIGURE 10
Hungary: public foreign debt
(billions $)



Even more common than the "budget deficit" pitch, is the constantly repeated argument that privatization will generate revenues for the government, which will help it to reduce the public-sector debt (thereby driving down interest rates, making the country more creditworthy, and so forth and so on). A recent, typical World Bank essay on privatization, reports happily that "the bulk of the proceeds from privatization have been earmarked for reducing public debt in most countries." In some countries, they have been used to pay the foreign portion of the government's debt directly; in others, they have been used to write down the domestic component of the public debt, which in turn freed up other government revenues to meet its foreign debt obligations. (In the case of Russia, they have gone to neither. Instead, privatization revenues have been channeled directly to cover the government's gaping deficit in its operating budget, e.g., to pay wages of state workers, soldiers, and others.)

Let's look at how well this supposed debt-reduction scenario has worked in Mexico, which has the world's second-largest foreign debt, and is the second-biggest privatizer (see **Figure 8**). In 1987, Mexico's public foreign debt was already a staggering $90 billion (private foreign debt was an additional $20 billion at the time). According to the arithmetic of Mexico's creditor banks—not to mention their strident demands—the $29 billion garnered from privatizations was to be used to pay down Mexico's public debt. (Although not all of the purchasers were foreigners, and therefore a portion of the privatization revenues were collected in local currency, the peso, the Mexican government was nonetheless in a position to convert those pesos into dollars for foreign debt repayment.)

This, in general terms, is what in fact did happen. Except, instead of *reducing* the $90 billion public foreign debt by $29 billion over nine years—which would have led to a hypothetical public foreign debt level of $61 billion in 1996—the public foreign debt *rose* to $120 billion in that year, twice the amount it hypothetically should have been reduced to. In other words, despite paying off $29 billion (which is 32% of the debt owed in 1987) with invaluable national assets, the Mexican government ended up owing one-third more than it did at the beginning of the swindle. By this logic, we have the following "bankers' arithmetic"[2]:

2. It is true that this account of the matter leaves certain secondary features out of consideration—but the abstraction does not alter the truth of the account. First, there were obviously other payments made against the public debt besides the privatization revenues, which presumably would have led to an even lower hypothetical total in 1996. And second, operating in the opposite direction, one might argue that the rise in public foreign debt over these nine years could, hypothetically, have been the result of *new* credits given to the Mexican government, for its productive investment. Although theoretically possible, this did not occur in reality—as any person familiar with Mexico's recent financial history will admit. Throughout this period, the Mexican government was getting *no* fresh money: All of its new debts were simply refinanced old loans, and/or the capitalization of unpaid interest, which took the form of new indebtedness.

Thus, this account of "bankers' arithmetic," although simplified, does closely reflect the reality of what has been going on with the privatization fraud, in Mexico and elsewhere.

FIGURE 11
Mexico: privatization revenues and interest paid on foreign debt
(billions $)

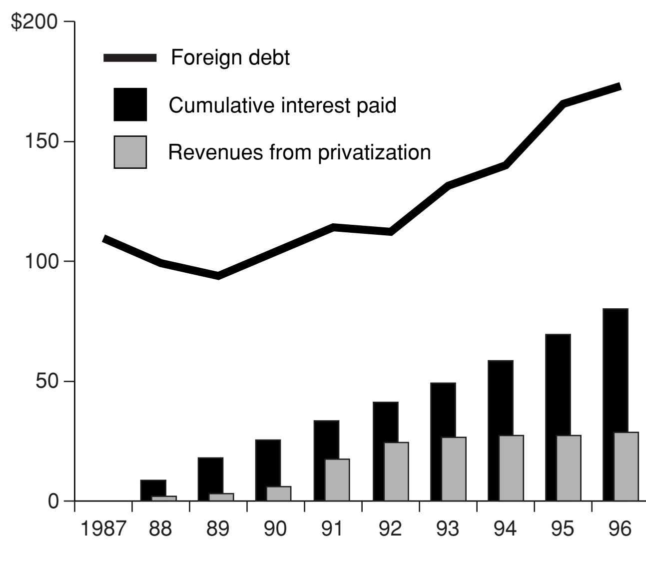
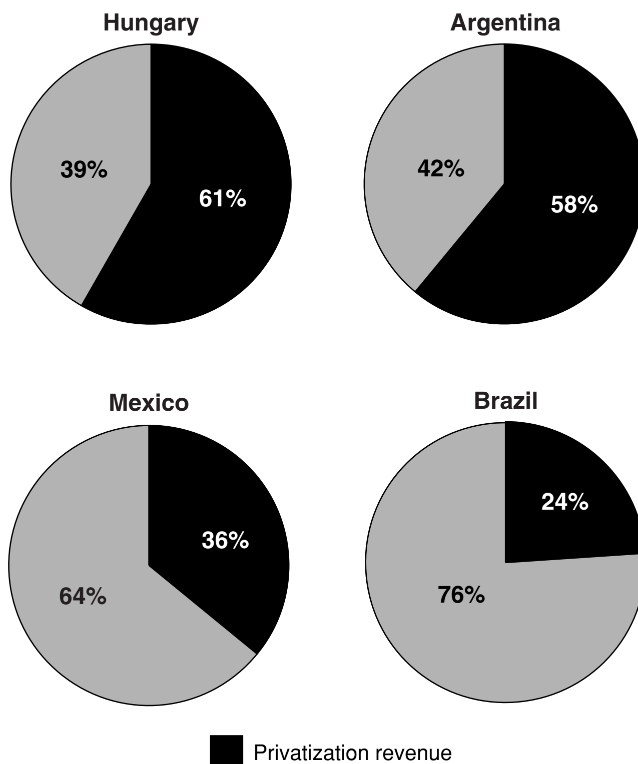


FIGURE 12
Privatization revenue as a percentage of interest paid, 1988-96



$90 billion – $29 billion = $120 billion.

The similar cases of Argentina and Hungary are shown in **Figures 9** and **10.** Argentina presumably shovelled $19 billion in privatization revenues to pay down its $53 billion public foreign debt, which instead rose to $74 billion. And Hungary privatized and paid off about 60% of its 1987 public foreign debt, only to see it rise from $17 to $24 billion.

How is this possible? It would seem that, under the rules of today's IMF system, the faster you run, the more rapidly you move backwards. What is happening is that the privatization monies, by and large, do not go to amortize principal on the public debt (foreign or domestic), but rather to pay interest on the total foreign debt. At the same time, that total foreign debt is expanding wildly out of control, because of the growth of the speculative derivatives bubble globally, no matter how much interest or other income streams are paid against it.

Among the main devices used to foist this uncontrolled cancer on developing-sector and former Soviet bloc nations, are: 1) forced devaluations of their currencies; and 2) rapidly deteriorating terms of trade for their exports. Both mechanisms make their foreign *financial* debts grow, relative to their domestic *physical* economies, at a more rapid rate than they can possibly increase the physical loot they ship abroad, or hand over to foreign controllers through privatization. In other words, the more you feed the cancer, the more rapidly it grows, and the more quickly you destroy the remaining healthy components of the nation's physical economy.

Mexico is the classic example of how this process has laid waste to a nation (see **Figure 11**). Over the last decade alone, the country has paid about $80 billion in cumulative interest payments on its total foreign debt (public and private), which, over this same period, rose from $110 billion, to $173 billion. Interestingly, the cumulative privatization revenues over this same period were about $29 billion—schematically, those $29 billion amounted to about 35% of the total interest payments sent abroad.

While this debt looting was going on, IMF policies imposed on Mexico over the last 15 years have contracted its physical economy by about 30-35%, as we have documented elsewhere (see *EIR,* Feb. 28, 1997).

Figure 12 shows that privatization revenues were also a significant proportion of cumulative interest payments in Hungary, Argentina, Brazil, and Mexico—which points to the real story behind the privatization scam.

It is high time that such *piratization* be banished, along with London's financial and political order that is using such robbery to perpetuate itself in power.