Survival of the Nastiest

In surveying the damage done by energy deregulation, many people wonder why it is that such a destructive process would be allowed to continue, why it is that an obviously failed policy is not reversed. "Don't they understand that they are destroying the economy with their greed?" people ask.

To find the answer to that question, one must look at the issue from a higher perspective. The truth is that the economy has already been destroyed, by three decades of deindustrialization and financial speculation. Knowing that their bubble would ultimately collapse, the oligarchs and their servants have been consolidating their control over food, energy, telecommunications, precious metals, strategic minerals, and other essentials of life.

What they are now doing, is looking for a way to survive the consequences of their own folly—and ours, for letting them get away with it—by setting up looting operations for the post-crash world. That, ultimately, is the nature of deregulation.

The Bankers' Feeding Frenzy: 'Privatization'

by Dennis Small

Peruvian President Alejandro Toledo. His new government is handing Peru over to the privatizers.

In examining the way in which energy and other forms of *piracy* are functioning, it's useful to note that there are two distinguishable components of this looting process. The first, is the policy of *privatization,* under which public-sector companies in the developing sector and the former East bloc nations, are systematically sold off to private interests—usually foreign private interests. The second, is the *deregulation* of the victim economy, meaning that the government is instructed that not only may it not own any major enterprises, but it also must not try to regulate them—or the rest of the economy—in any way.

We will look at the second aspect, the direct loss of national sovereignty from privatization, in the following article; the huge quantitative expansion of this looting process will be analyzed here.

The underlying—if unstated—concept of both of these policies, is that there is no such discernible thing as the General Welfare of a society, and so it is pointless and counterproductive for the government to try to attain it, by any combination of direct ownership and regulation of economic factors. The more efficient approach, we are regularly informed by the advocates of piracy, is to let "market laws of supply and demand" set the price and quantity of all goods produced, and to interfere with those laws as little as possible—ergo, privatize and deregulate. Only when private interests are allowed totally free rein, will the sum of their individual greedy appetites add up to the greatest good.

Of course, this is all a giant hoax masquerading as cheap economic theory, and cheaper philosophy. The reality is that "privatization" is barely concealed robbery of government assets in order to pay the foreign debt. And "energy deregulation," it turns out, actually means the heavy-handed *regulation* of the market—not by the government, but by a handful of private energy pirates, such as AES, Enron, etc. Under *deregulation,* these companies get to use their dominant market position to impose their own highly *regulated* policy decisions, decisions which are set according to the political and financial interests of the international financial oligarchy, who are intent upon hijacking any and all financial flows in order to bail out their bankrupt global monetary system.

So the actual policy fight is not between regulation and deregulation, but rather over *who* is going to do the regulating: the sovereign nation-state, or a gang of global pirates. This point will come into sharper focus as we look, first, at the privatization process worldwide, and then at the energy sector in Ibero-America.

On Dec. 19, 1997, *EIR* published a world survey of privatization, which estimated that the cumulative dollar value of all privatizations internationally had reached about $242 billion. That was based on our estimate that total privatizations in 1997 would hit the record level of $55 billion. But we were wrong: The 1997 total turned out to be even greater, reaching a whopping $85 billion. And 1998 and 1999 were also "banner" years.

Ibero-America the Leading Victim

In fact, the Twentieth Century ended with a veritable orgy of privatizations, as can be seen in **Figure 1.** Loot-hungry

FIGURE 1
World: Total Privatizations
(Billions $)

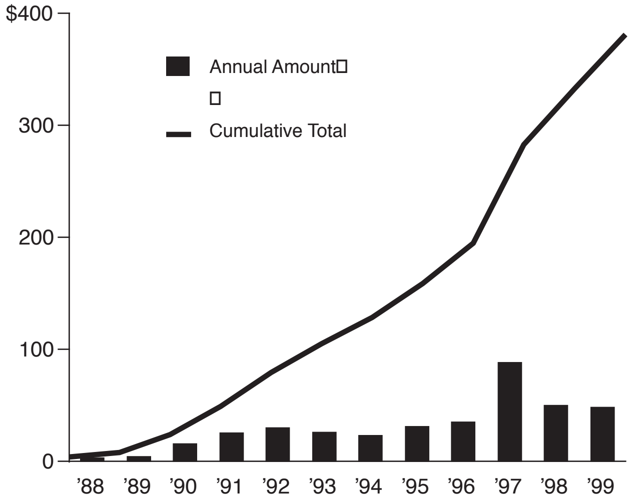
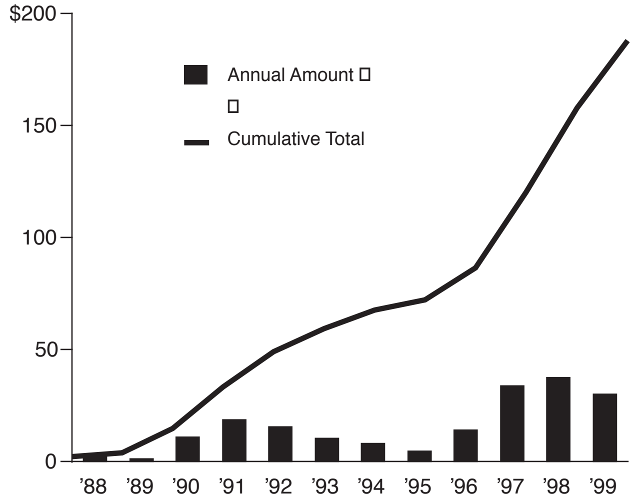


FIGURE 2
Ibero-America: Total Privatizations
(Billions $)



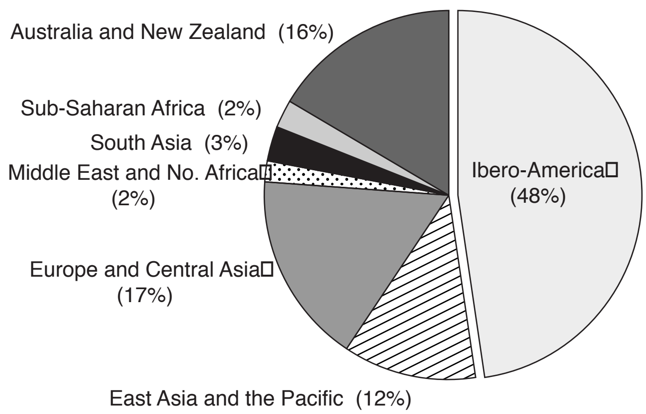
bankers drove country after desperate country to sell off its national patrimony in order to pay its foreign debt. The world cumulative total of privatizations from 1988 through 1996 had reached about $190 billion; but in the next three years that amount *doubled,* to some $380 billion by the end of 1999 (figures for 2000 are not yet available). This frenzied pace of privatizations occurred in the same time frame (the late 1990s) in which the energy deregulation process—in the United States and internationally—also took off. And it was driven by the same global financial crisis which blew up in Asia in 1997, in Russia in 1998, and in Brazil in 1999.

Almost half of all privatizations to date have taken place in Ibero-America. The years 1997, 1998, and 1999 each saw more than $30 billion per year in privatizations in that region, bringing its cumulative total to date to about $188 billion (see **Figure 2**). Of these, the lion's share, especially over the last three years, have been in Brazil, which stepped up its privatization drive, especially in the telecommunications and electricity sectors.

As can be seen in **Figure 3,** Ibero-America accounted for about 48% of world privatizations over the last dozen years. The second largest share (17%) was Europe and Central Asia, reflecting the sell-off of government assets in Russia, Hungary, and other former Soviet bloc countries.

In all of these cases, the driving force behind the privatizations was pressure to generate foreign exchange, in order to pay the foreign debt. And yet, despite the flood of privatizations, and ensuing debt service payments, the foreign debt of these nations only grew bigger and bigger, as a result of the rigged game in the international financial system which we

FIGURE 3
Privatization by Region, 1988-1999
(% of World Total)



Total = $380 Billion

have often referred to as "Bankers' Arithmetic." In a nutshell, "Bankers' Arithmetic" means that forced devaluations and deteriorating terms of trade are used to ensure that the payment of the foreign debt is as perennial as the punishment of Sisyphus: The more you pay, the more you owe.

For example, Brazil's official foreign debt at the end of 1996 was $178 billion. Over the ensuing three years, about $70 billion in government assets were privatized, with the

FIGURE 4
Top Ten Countries in Privatizations
(1988-98, Bilions $)

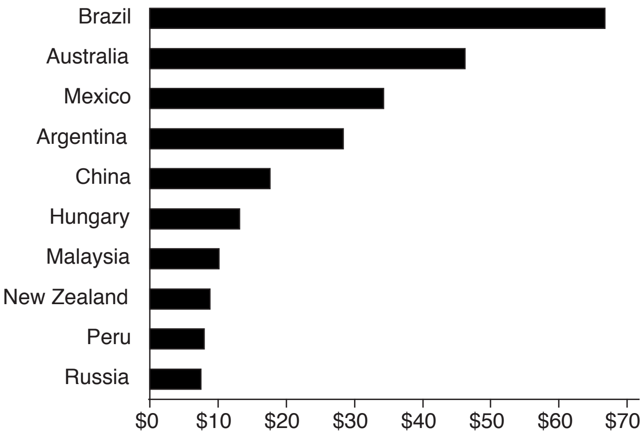
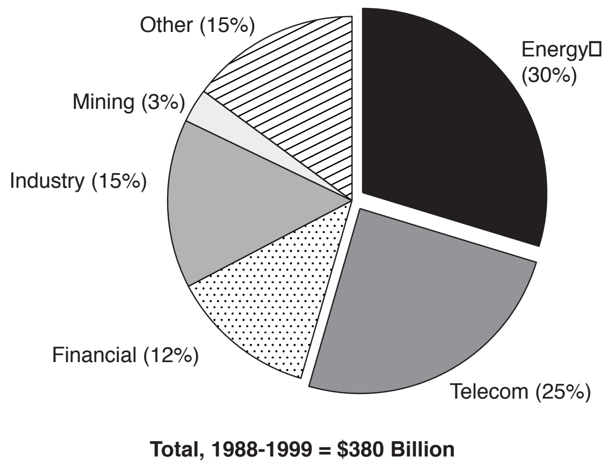


FIGURE 5
World Privatization, by Sector
(% of Total)



majority going to foreign buyers. The foreign exchange thus generated presumably helped Brazil service its foreign debt, with about $48 billion being paid in interest alone over that same three-year period. And yet, Brazil's official foreign debt *rose* by $54 billion during this period—from $178 billion in 1996 to $232 billion in 1999.

So it should come as no surprise that Brazil is *both* the Third World's largest debtor, and also the number-one country in total privatizations, by far and away, with $67 billion in state assets sold off between 1988 and 1998 (see **Figure 4**). Australia was an early British Commonwealth model, and was the world's largest privatizer, until Brazil's binge of privatizations in the late 1990s left Australia and every other country far behind.

Nothing Left To Steal

Mexico and Argentina are also major privatization victims, based on large sales early in the 1990s, but with little activity of late. In fact, it is often ruefully noted in the international financial press that part of Argentina's current debt crisis, is due to the fact they have *already* privatized everything available, and so they can't generate any more foreign exchange from that source, with which to pay off their debt. This is like the thief who robs your house of all its valuables, and then curses you when he comes back the next week, and finds there's nothing left to steal.

Peru and Russia are two cases that show a different trajectory. After a wave of privatizations in the mid-1990s, President Alberto Fujimori balked at continuing the process in the latter part of the decade, looking instead to a process of South American integration to break globalization's stranglehold over Peru. (However, the incoming Toledo government's Economics Minister-designate Pedro Pablo Kuczinsky, a Boston banker for the past couple of decades, has announced that Peru will be returning to the fold of privatizers, and intends to sell off some $3 billion in assets as a way of keeping Peru's creditors happy.)

And in Russia, privatization slowed to a crawl in the aftermath of the August 1998 debt crisis, and President Vladimir Putin has shown no intention to capitulate to bankers' demands that he pick up the pace of the sale of national assets. As the World Bank's year 2000 review of global privatization moaned, in 1998 Russia "earned only an estimated $909 million, partly because of the collapse of the Russian financial system in August 1998. . . . The sales of Rosneft (oil and gas) and Svyazinvest (telecommunications), along with the 1998 planned sale of Rosgosstrakh (financial), were all delayed."

If we look at the sectoral breakdown of world privatization over the last dozen years, a crucial fact emerges: The energy sector leads the way, with about 30% of the total (see **Figure 5**). The sale of telecommunications companies is the second largest area, with 25% of the total; and financial, industry, mining, and others have significantly smaller shares. Thus it is the most nationally strategic areas of the Third World's countries' economies which have been bought up, and bought up by banks and energy or telecommunication conglomerates which loom huge in the currently exploding international debt bubble.

Electricity generation and distribution companies comprise most of the energy sector, but oil and, increasingly, natural gas companies also play an important role. The significance of the fact that nearly one-third of all privatizations worldwide have been in the energy sector, will become evident as we proceed with the remaining sections of this study.