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Privatization in the Center and the Latin American Periphery

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Privatization in the Center and the Latin American Periphery

INTRODUCTION

"Privatization" is being promoted in this decade as the ultimate economic panacea. The latest "privatization craze" began in 1980 in Britain under Margaret Thatcher and has since spread throughout the industrialized nations of the world, such as France, Japan, the United States. More recently, the policy of privatization has been introduced in Mexico, Brazil, and other Third World countries. Billions of dollars of public assets have already been sold on the market to private investors and billions more of government tax revenues have been contracted out to private firms during this decade.

What precisely is this latest economic phenomenon sweeping through the economies of the nonsocialist world? Why are privatization programs instituted? What are their motivations and objectives? What do they accomplish? These are some of the more important questions raised by the privatization phenomenon, and the answers are being provided by many scholars. However, the debate is far from over, and definitive, objective, and conclusive answers to these questions have yet to be provided to a largely uninformed public.

Although the geographical focus of this discussion is Latin America, it begins with a consideration of privatization in the center, or industrialized, nations of the world: it is here where the philosophy, policy, and programs of privatization originated and from where they are being imposed upon the dependent, peripheral countries of the third world. It then takes up Latin America's privatization programs, particularly those in Brazil and Mexico. Combined, this approach provides a holistic view of contemporary privatization from a number of different perspectives.

DEFINITIONS AND TYPES

Over time, privatization has meant different things to different people in different countries. Privatization has been part of many other programs: liberalization, export promotion, and industrial transformation. It has, consequently, numerous pseudonyms and many forms. Nevertheless, most privatization programs can be categorized in the following general types:

1. Denationalization—the transfer of public property and enterprises to private investors;
2. Franchising—the contracting out to private firms of public services financed by taxes; and
3. Deregulation—the liberalization of private enterprise operations from public control.

Before 1987, "privatization" was not listed in Webster's dictionary. In 1987, however, Webster's Ninth New Collegiate Dictionary records: "privatize; to make private; esp. to change (as a business or industry) from public to private contract or ownership—privatization."
PRIVATIZATION IN THE CENTER AND THE LATIN AMERICAN PERIPHERY

PRIVATIZATION IN THE CENTER

BRIEF HISTORY

Privatization, which has a very long history in Europe and the West, is simply the transfer of public assets and activities to private ownership. History, therefore, provides us with a background useful for an understanding of contemporary privatization. The entire transition from feudalism to capitalism can be interpreted as a process of privatization, as can the enclosure movement, the seizure of Catholic Church properties, and the freeing of the serfs, as well as the later conquest and colonization of Asia, Africa, and America by the Europeans. Most of the property privatized during this period, from 1500 to 1700, was first confiscated by the state and then transferred to private and corporate entities. The result was a massive transfer of wealth and power to the European monoplastic merchants and corporations.

Initially, and for a period of time during the latter half of the eighteenth century, the industrial revolution and representative democracies retarded this earlier drive to centralized privatization. Industrial competition replaced mercantile monopolies, and the emerging democracies of the Americas and Europe were ostensibly “of the people, by the people, and for the people.” Privatization in this century was continued at a slower pace and was often accompanied by a modest amount of financial compensation.

Liberal policies of laissez-faire and free trade in the late 1800s and early 1900s gave rise to the next historic stage of centralized privatization. Industrial capitalism matured, merged, and emerged as monopoly capitalism. A new wave of colonization in Asia and Africa compensated the Europeans, in part, for the loss of their American colonies and empire. This time around, the newly emerging powers of the United States and Japan participated. This latest stage of imperialism, via colonies as well as free trade and international finance, expanded privatization throughout the globe—leaving no region untouched.

World War I, the socialist revolution in Russia, the Great Depression of the 1930s, and World War II combined to reverse this century’s trend toward global privatization—albeit temporarily. The post–World War II wave of socialism and the nationalization of private property in both the center nations of Europe and in the peripheral nations of Asia, Africa, and Latin America might even be called “deprivatization.” At the very least, these new socialist economies, as well as nationalized enterprises and public properties everywhere, henceforth constituted formidable barriers to any future expansion of capitalism.

Nevertheless, monopoly capitalism not only survived but prospered in the second half of this century. Multinational corporations, their home governments, and international institutions—such as the World Bank (IBRD) and the International Monetary Fund (IMF)—have greatly extended privatization throughout the world since World War II. Monopoly capitalism has, however, by the decade of the 1980s, reached the national frontiers of the socialist world, and further expansion has been blocked in this direction as well as by the internal barriers of public property and nationalized enterprises. Frustrated by attempts to roll back the national frontiers of socialism in such countries as Cuba, Vietnam, and Korea, international capital shifted to a policy of removing the internal barriers to privatization within the capitalistic center and the peripheral nations. Contemporary privatization, therefore, can be viewed as the latest expansionist phase of monopoly capitalism in the making of a global economy dominated by private transnational corporations.

CONTEMPORARY PRIVATIZATION—INDUSTRIAL NATIONS

While since 1980 virtually every industrialized country—including France, West Germany, and Italy—has instituted a privatization program, the major ones are those in Great Britain, the United States, and Japan. One of the most peculiar features of privatization in these countries is the lack of official explanations by the governments responsible for them. Neither Prime Minister Thatcher nor President Reagan publicly explained the reasons for or the goals of their privatization programs; they simply implemented the programs and left it to others to explain, rationalize, or justify. Right-wing “think tanks,” political analysts, journalists, and social scientists were quick to fill the void.

From the public documents and utterances of such bodies, we are able to surmise the following objectives: (1) to expand the private sector (capitalism) and shrink the public sector and government; (2) to help finance government expenditures in the short run; (3) to increase the number of private shareholders and expand the base of conservative political parties; and (4) to reduce the power of trade unions and shrink the political base of labor, socialist, and progressive parties. All of these goals are political and ideological. It is worth noting that nowhere does one encounter reference to equity or social justice as either explicit or implicit objectives, while efficiency, growth, and stability are, for the most part, merely implied goals.

It is perhaps not surprising that Great Britain is both the country where contemporary privatization began and the model for privatization programs throughout the world. Since 1979, 16 large public enterprises with a market value of approximately $18 billion have been sold in Great Britain at discounted prices. Yet another $10 billion of public assets were slated for privatization in 1988. Among the public firms already privatized are British Airways, British Telecommunications, and British Gas. Public utilities, including electricity and water, are also scheduled for privatization. Along with promoting denationalization, Prime Minister Thatcher and her government have reduced taxes and deregulated private enterprise. Thatcher’s recent re-election to a third successive term virtually assures that every British public enterprise, of any value, will be privatized before she leaves office.

The London International Stock Exchange was deregulated in 1987 to facilitate the financing of this privatization program. This industry, which accounts for 5 percent of the nation’s jobs, was privatization’s answer to deindustrialization. Unfortunately for the program, however, the October 1987 stock market crash lowered the value of everyone’s newly acquired shares and caused widespread unemployment and bankruptcies. The market has since recovered, and Britain’s privatization program is once again back on course. While speculators benefited from the privatization program, financial instability was the price paid.

Competition was obviously not enhanced, since many of the privatized enterprises, including British Telecom and British Petroleum, presently enjoy monopoly or semi-monopoly status. In essence, deregulated private monopolies were merely created from regulated public monopolies. Because the shares were sold at discounts ranging from 6 percent in the case of British Petroleum to 91 percent in the case of British Telecom, immediate windfall profits and instant capital gains were realized by the private investors. Ironically, as Samuel Britton, assistant editor of the Financial Times, points out, the nationalizing of many public corporations, such as British Leyland and Rolls-Royce, “were not planned acts of nationalization but rescue operations for ailing companies.” Once saved from bankruptcy and made solvent by the government, these enterprises were later
practiced in the 1980s. The booming stock prices in the financial markets and depressed wages in the labor markets virtually guaranteed profits to the new private monopolies and their shareholders—not all of whom are British citizens. Privatization also benefitted the Conservative Party government, which balanced its budget with the proceeds from these public sales. Everybody else, one assumes, was a loser who paid the cost of privatization. In this manner did all the people's public enterprise become only some of the people's private property in Britain. Advocates of privatization everywhere have conveniently ignored the fact that "nationalized industries are supposed to belong to the public already and that the Government holds them merely as a trustee on the public's behalf."15

Like Britain, the United States embarked upon a privatization program soon after the election of Ronald Reagan and the Republican Party in 1980. Privatization in the United States, however, differs from that of Britain for the simple reason that this country has few nationalized enterprises. In addition, approximately 25 percent of the U.S. population are already shareholders, and individual ownership of houses is widespread. In the United States, even the so-called public utilities are private enterprises. The U.S. central bank, the Federal Reserve Board, is also a composite of privately owned regional banks. Moreover, government procurement is, for the most part, contracted out to private firms in road construction, defense, and education. Public services, too, such as garbage collection, retirement plans, health benefits, and food relief, have been traditionally allocated by contracting out and vouchers.

Therefore, the U.S. privatization program was characterized by tax reductions, deregulation, mergers, and above all, public debt. Recent tax reductions accompanied by increased deficit government spending constitute the largest single privatization act in the history of the world. Since 1980 the Reagan administration doubled the U.S. federal government debt from $1.2 trillion to $2.4 trillion, and in the process transformed the United States from an international creditor to a debtor nation. Presently, the country owes foreigners a net $400 billion. With record high budget and trade deficits of over $150 billion each, the U.S. foreign debt will increase to $1 trillion by 1990. Corporate mergers, totaling more than $600 billion between 1980 and 1987, were made possible by these tax reductions. Today, the United States has become a tax haven with virtually no corporate taxes and with income tax rates significantly lower than those in the other developed nations of the center.16 In this way, public tax obligations were converted to private investments in bonds, stocks, and futures; that is, privatized. Like the British, the United States privatization program fueled financial speculation, industrial concentration, and financial instability. Unlike the British, the U.S. privatization program increased public deficits and debts, since fewer public assets were sold in this country and the tax reductions were larger.

In the mid-1980s, however, the Reagan administration embarked upon a modest denationalization program, selling public assets in an attempt to reduce the federal government budget deficit in accordance with the Gramm-Rudman guidelines.17 Federal loans on farms, homes, and other subsidized properties were offered for sale to private investors at discounts of up to 42 percent.18 Consolidated Rail Corporation (Conrail), a public enterprise created in 1976 from the remains of six bankrupt northeastern railroads, was recently sold for a reputed $1.6 billion to Norfolk Southern Corporation. Since 1976, U.S. taxpayers have pumped $7.7 billion into the line and turned it around to a profit-able concern earning $442 million in 1986.19

Not even defense or foreign policy were spared privatization in the United States during the Reagan administration. Of the $6.8 billion in Strategic Defense Initiative ("Star Wars") contracts awarded over four years, $4.4 billion in contracts was awarded to the 20 largest private military contractors, while only $1.5 billion went to the 20 largest public research laboratories. The National Aeronautics and Space Administration's (NASA) proposed space station was recently contracted out to private firms, as was health care for the U.S. military personnel.20 Foreign policy, too, was "privatized" by the Reagan administration when it circumvented the Congress by enlisting private "entrepreneurs" to sell arms purchased from the Pentagon to Iran. Some of the "profits" from this privatization project were used to finance the Nicaraguan contras. This is, of course, the infamous case of "Iran-gate."

The election of President George Bush, a conservative Republican like Ronald Reagan, assures a continuation of the U.S. privatization program for at least the next four years. Fiscal year 1988 has on the Congressional approved agenda the sale of Amtrak, the Naval Petroleum Reserve, and other miscellaneous public real estate. The President's Commission on Privatization Report, published in March 1988, outlines the future agenda for the U.S. privatization program.21 Virtually every remaining public asset of any value is slated for sale to private shareholders—at a discount. Included are all remaining federal loans, the postal services, the federal Home Mortgage Association, federal prisons, and military commissaries. While the report champions privatization on the grounds that it promotes competition and offers consumers greater choice, in no instance does it recommend that the government engage in any activity currently monopolized by the private sector. The clear implication here is that the private sector is per se competitive and efficient. Neither history, economic theory, logic, nor empirical evidence support this assertion.22

As large and as widespread as the U.S. and British denationalization programs are, they both pale financially in comparison to Japan's privatization of one single company. Nippon Telegraph and Telephone Corporation (NTT).23 The first block of shares sold in 1986 for $8,815 a share and provided the government with $17 billion of revenue. Because it is Japanese government policy to maintain the price of NTT shares, which constitute 10 percent of the total value of stocks listed on the market, this one act of privatization, in effect, provided a floor to the Tokyo Stock Exchange. On "Black Monday" of 19 October 1987, Nippon T&T shares fell less than 10 percent, only to rebound to previous levels the very next day due to intervention in the market by the finance minister, who exerted pressure upon the major Japanese brokerage firms "to buy." The government had a big stake in maintaining the price of NTT stock, since it intends to denationalize Japan Air Lines, Japan Tobacco Company, and the Japan National Railways in the near future. The total value of these and other Japanese public assets scheduled to be privatized exceeds $1 trillion.

Japan goes further than other industrial nations with its program, because it has a long history of government-planned, -financed, and -controlled privatization. During the Meiji Revolution of the late nineteenth century, numerous state-developed industrial enterprises and model factories were sold to private investors.24 In fact, the latest global wave of privatization is, in essence, more distinctly Japanese than British or American. The impression gathered is that the entire privatization "craze" is but a thinly veiled attempt on the part of other center nations to duplicate Japan's fabulous economic success by copying its unique public/private sector institutional arrangement.

SUMMING UP

One suspects that privatization in the center nations is, in many ways, a substitute
For the failed economic policies of monetarist and supply-side economics. The monetarist policy of high interest rates in 1979 succeeded in reducing inflation but at the high cost of deindustrialization, global depression, and Third World debt. This monetary policy was shortly followed by supply-side tax cuts, which did not generate the expected government revenues, but rather larger budget deficits everywhere they were implemented. Privatization was the perceived solution to all these problems. Government revenue generated from the sale of public assets, tax reductions, and unprecedented deficit financing permitted the center nations to pursue expansionary quasi-Keynesian fiscal policies. The sale of public assets at discounted prices provided compensation for the deindustrialization losses and new investment opportunities for center countries.

It is perhaps too early to judge the overall success or failure of privatization in the center. In general, the private sector was expanded, profit rates were increased, and budget deficits have been partially financed through the sale of public assets. But what will happen when the "family silver," has been sold and the limits of debt are reached? The costs of these programs have not yet been properly accounted for, or even recognized in the developed center nations. Here, as elsewhere, privatization came with a high price tag. Deindustrialization, unemployment, the distribution of income, public debt, and monopolization have all been worsened by privatization in the United States as well as in Great Britain.

Nevertheless, most of the benefits of privatization, now as in the past, have been realized in the center nations of the world, while the peripheral countries have been made to shoulder a disproportionate share of the costs. Nowhere is this more evident than in Latin America.

**Privatization in the Latin American Periphery**

**Brief History**

To fully comprehend contemporary privatization in Latin America, once again we must look first to economic history. From the time of the Spanish Conquest to the present, the nations of this region have been part of the global periphery whose structural division of tasks is to provide the center nations with minerals, raw materials, and food in return for manufactured goods. Loans, direct investment, and technical assistance from the center nations to the periphery cement these real structural relationships. Mines in the Andean region, and plantations in the Central American republics, as well as ranches and wheat farms in Argentina, were all developed to supply these primary commodities. Because transportation and commercial infrastructure were necessary for the export of these primary commodities, they, too, were developed. From these structural relationships developed a harmony of interests between the commercial and financial interests of the center nations and those of the peripheral nations of Latin America. For a period of time, this arrangement brought limited prosperity to a number of Latin American countries; in the 1920s, for example, Argentina was one of the ten wealthiest nations in the world, with a per capita income greater than that of Japan.

However, all this changed with the onset of the Great Depression of the 1930s, which greatly reduced the demand for and prices of Latin America's primary exports and gave rise to populist governments in Argentina (Juan Peron), in the United States (Franklin D. Roosevelt), and elsewhere. These events—together with World War II—greatly weakened structural ties between the center and periphery nations. Preoccupied with waging war, the center was unable to provide the peripheral nations with manufactured goods or finance development, while the war increased both demand and prices for Third World primary commodity ex-

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crisis. Argentina's foreign debt increased to just $8 billion by 1979. Mexico's $29 billion of debt was also manageable in 1979 and was the result of large investments in crude oil production. Only Brazil's foreign debt of more than $36 billion, due largely to inflated oil imports, was approaching crisis magnitude at this time.27

For the region as a whole, the real economic crisis became a debt (financial) crisis only after the United States drastically restricted the supply of dollars in late 1979, raised the rate of interest, and precipitated the world-wide depression of 1981–1982. "Real interest rates—those adjusted for inflation—had averaged only 0.85 percent from 1973 to 1980, rocketed to 10.68 percent in 1981 and averaged 16.4 percent in the first half [1982]."28 The impact of this large increase in the real interest rates upon the foreign debts and economies of Argentina, Mexico, Brazil, and other debtor nations of the periphery was immediate and disastrous. Looking first at finances, we see that approximately half of the foreign debt of Latin America was private-bank, short-term credit. Each year the maturing portion of this debt had to be refinanced at the market rate of interest. Even if these countries had been able to pay the interest charges and had not borrowed any additional funds from abroad, their foreign debts would have doubled in about five or seven years at the prevailing high interest rates. In fact, the foreign debts of most Latin American debtor nations tripled and quadrupled in less than three years because they were obliged to borrow from abroad, not only to pay the interest and principal on their foreign debts, but also to pay for needed imports.29

This debt interest and principal payments skyrocketed, the base upon which the debts depended for servicing and refinancing simultaneously eroded. The 1981–82 recession lowered the demand and reduced the prices for primary commodity exports, and these prices have yet to recover.30 Service of foreign debts required more than 100 percent of foreign exchange earnings of the major Latin American nations by late 1982.31 In reaction, private capital began fleeing the region as never before—fleeing the inevitable devaluations, inflation, and exchange controls in their nations on the one hand, and attracted to the safe, high-interest return on investments in the center nations on the other hand. During the years from 1976 to 1982, Argentina lost $27 billion, Mexico lost $36 billion, and the region as a whole (excluding Brazil) lost $93 billion in capital flight.32 Had this financial capital not fled Latin America, or had the interest earned on this capital been repatriated, many of these countries would be practically debt-free today.

The need to rely on additional foreign loans to service their debts, balance their national accounts, and purchase needed imports, the debtor nations of Latin America became increasingly dependent on the financial community of the industrialized nations. Aid from this source was immediately forthcoming, but at a very high price. Through the IMF as intermediary, private banks and governments of the center imposed austere monetary and fiscal policies upon the debtor nations as conditions for additional loans and debt rescheduling. Specific IMF Standby Agreements and loans varied from country to country, but they always included the following privatization conditions: (1) eliminate controls on finance and private enterprise; (2) reduce the role and size of the public sector in the economy; (3) adopt a wage-price policy that redistributes income from laborers to property owners; and (4) devaluate the currency and remove foreign exchange restrictions.

Although Latin American governments had signed many of these agreements with the IMF in the past, they often resisted these conditions, which are widely perceived to be an intrusion into their national sovereignty. However, the more profound the crisis, the less these countries are able to moderate the demands of the IMF. The present crisis in Latin America is of such magnitude that each country's bargaining power is today virtually nil. After a brief period of resistance and posturing, opposition collapses, and the countries are obliged to concede to IMF pressures and conditions.

This creditor-debtor relationship can be seen as the monetary dimension and consequence of the basic center-periphery structure. The OPEC reaction to the worsening terms of trade threatened the center's historic role as monopoly price-setter and accumulator of capital. The response of the center to OPEC's price setting was to reestablish the status quo ante by first lending large sums of petrodollars to the peripheral debtor nations and then abruptly raising the rate of interest. The resulting debt, capital flight, and depression in the periphery created a crisis situation, allowing the center to re-establish the historic structural relationship between it and the periphery; OPEC was disciplined in order to solve stagflation in the center countries.

The present economic crisis in Latin America is real in essence and in origin. What appears to be a short-run crisis of liquidity in the money markets is, in reality, a manifestation of the structural, long-run crisis in global production and distribution. The world debt crisis officially began on 20 August 1982, when Mexico suspended principal payments on its foreign debt. However, the real economic crisis began much earlier and gave rise to the present debt crisis rather than the other way around. The significance of all this for our purposes is that the present crisis is the necessary condition for the contemporary wave of privatization in Latin America. In the absence of the present economic and financial crises, it would not have been possible to impose privatization programs upon the Latin American republics.

COMPULSORY PRIVATIZATION

Among the many ironies of contemporary privatization in Latin America is the current belief among orthodox economists and decision makers that Latin America's persistent underdevelopment and economic crises are the result of too much public enterprise and government.34 For the adherents of the neoclassical paradigm, private multinational corporations are not responsible for Latin America's historic underdevelopment or structural dependency. Monetarism is not the cause of the debt crisis, nor are IMF austerity programs the cause of the contemporary perversions and economic decay. Yet another irony of Latin American privatization is that the programs are often referred to as the "democratization of the economy." When privatization is not imposed upon a nation's citizens by a dictator from within, it is imposed from without by Western governments and the international organizations they control; namely, the International Monetary Fund and the World Bank (IBRD). Unlike Britain, France, and the United States, the debtor nations did not, for the most part, embrace privatization either voluntarily or with ideological conviction. Through such institutions as the U.S. Agency for International Development (USAID), privatization has been, and is presently being, imposed on the periphery as a condition for economic and financial assistance—as seen in the following directive from USAID/Washington to its field missions:

Our goal will be for A.I.D. to be involved in an average of at least two privatization activities in each of these missions by the end of fiscal year 1987, and two new privatization activities every year thereafter. . . . In other words, the selected bench marks must represent substantial evolutionary progress in moving the parasatal towards market-based operations and divestiture in order to qualify for A.I.D. assistance. . . . Privatization will become an integral part of each mission's programming.35
The very Articles of Agreement of the World Bank moreover require such programs:

to promote private foreign investment by means of guarantees or participation loans and investments made by private investors. Only if these are not forthcoming on reasonable terms should the bank provide “finances for productive purposes out of its own capital.”

Neither the World Bank nor AID operate independently of each other in peripheral nations, despite appearances and assertions to the contrary. It is now common knowledge that these agencies, along with private international banks, cooperate closely and coordinate their policies and programs. Presently, the *sine qua non* for economic and financial assistance from all these sources is compliance with the stabilization programs of the IMF, which, since the dollar standard (1971) and the debt crisis (1982), has become both the “lender of last resort” and the architect-taskmaster of the austerity agreements. Today, nearly all the stabilization agreements include specific privatization provisions like those in Mexico’s Third Letter of Intent to the International Monetary Fund:

- the cancellation or freezing of all vacancies in the federal government and all parastate companies.
- As part of the process of nationalization of the nonstrategic activities of the public sector, the government has initially set aside 236 companies and entities which have state participation, which will be sold, merged, transferred to states or closed down.
- the majority of shares of the non-banking companies has been sold.
- This plan [FICORCA] continues to work successfully: presently the program covers approximately $12 billion of private sector debt, of which $5 billion have been the object of definite restructuring.

In this one agreement alone, the Mexican government committed itself to selling one-fourth of the nation’s public entities. In short, the Latin American privatization programs are encouraged, if not imposed, by the center and constitute yet another dimension of peripheral nation dependency. Therefore, two additional objectives of privatization programs in Latin America are (1) comply with conditional loan agreements; and (2) attract back the hundreds of billions of dollars that have fled since the debt crisis.

The huge stock of untaxed assets of wealthy Latin Americans deposited in the center nations now equals at least half of the total foreign debts of the region. There is, clearly, a class dimension to both the foreign debt crisis and the privatization programs in Latin America. Public debt and private profit is a reality of the region: to ignore it denies services only to render the issues incomprehensible. The profitability of debt and denationalization for sectors of international and national capital explains why privatization programs are imposed on these countries from abroad as well as why they are embraced by political and business leaders from within.

In Mexico, where the Third World debt crisis officially began in 1982, privatization is well advanced. It is estimated that approximately half of the money Mexico borrowed from abroad during the 1970s and 1980s has since turned around and left the country in “capital flight.” In addition, half of Mexico’s approximately $107 billion foreign debt is owed to private multinational banks. Since 1983, Mexico paid $33 billion in interest to its foreign creditors, while receiving only $13 billion in new foreign loans. Including capital flight, Mexico lent nearly $50 billion, net, to the outside world. Paradoxically, the nation’s private assets held abroad are now approximately equal in value to its public sector debt, which, incidentally, increased by approximately $20 billion during this same period.

From the information above, a number of statements can be made that apply not only to Mexico, but also to the other debt-burdened Latin American countries. While Mexico’s foreign debts (debits) are public, its foreign assets (credits) are private. The tax-free income of these private assets abroad is more than sufficient to service Mexico’s public foreign debt. Wealthy Mexicans benefit greatly from the existing debt arrangements, the economic crisis, and the IMF-imposed austerity/privatization measures. They profit from the many devaluations of the peso, the falling real wages, the debt crisis, and privatization—all of which are related. These capital flight assets, held abroad by Mexican speculators, are legally encumbered by the nation’s foreign debts for which they are responsible in the first place. Ironically, many of these Mexicans are the politicians and decision makers who make economic policy. Perhaps the most unusual privatization feature currently in vogue in Mexico and elsewhere in Latin America is the debt-equity swap. Although Mexico is obliged to pay interest on the face value of its foreign loans, private foreign banks today sell these debts to private investors at half their face value in dollars. The private investors redeem the securities at full face value in pesos from the Mexican government and then proceed to purchase the real assets of manufacturing plants, hotels, or land. In essence, therefore, real productive property in Mexico is being discounted 50 percent via these debt-equity swaps for those who possess sufficient dollars. One fails to see the “equity” in these ingenious financial transactions.

Prime targets of these subsidized investments are the public enterprises privatized by the Mexican government. Nacional Hoteleria, Mexico’s profitable state-owned hotel chain, was privatized in 1985 with the aid of a debt-equity swap. Aeromexico ceased operations in 1988 and is scheduled to be sold to private investors along with an additional 300 other Mexican public enterprises. Unlike Nacional Hoteleria, however, many of these public enterprises are not profitable and will be difficult to privatize unless their assets are hierarchically discounted. Privatized public assets, doubly discounted in this manner, are profitable investments.

Mexico’s privatization program has attracted very little investment to the industries that produce for domestic consumption, due to the depressed condition of the Mexican economy. Real wages and income are low and have been decreasing since 1982. In order to attract flight capital and foreign investment back to the country, as well as to generate the billions of dollars needed to service its foreign debt, Mexico’s new development strategy is oriented to export. Maquiladoras—multinational corporate assembly plants on the United States border—were designed to achieve these objectives. *Maquiladoras* are virtually tax-free, assemble imported component parts with imported machinery, and export the final products to the United States and other industrialized nations. Since 1982, the number of *maquiladoras* has doubled and today there are about 1,000 of these plants employing more than 300,000 Mexican workers at an official minimum wage of $3.50 a day. *Maquiladoras* account for more than one quarter of Mexico’s total manufacturing and “non-traditional exports.” This combination of subsidized capital, cheap labor, and virtually no taxes or tariffs makes *maquiladoras* very profitable investments, with the result that they attracted large numbers of multinational corporations, predominately from the United States and Japan.

But does all this constitute a successful Mexican privatization program? Per-
happens it is too early to tell. One thing is certain: privatization has not proven to be a panacea for Mexico's economic problems. The country's foreign debt continues to increase, national capital has not returned, stagnation continues, income distribution worsens, and the already low Mexican standard of living is further deteriorating. In response, millions of Mexicans have fled the country, many of them illegally. Others expressed their discontent with the ruling Institutional Revolutionary Party (PRI) in 1988, in which PRI candidate Carlos Salinas de Gortari won with only 50 percent of the vote. PRI's electoral share just one decade ago was 85 percent, and for half a century it monopolized Mexican politics. President Salinas, a Harvard University graduate, was the nation's budget and planning minister during the previous administration and is widely believed to be the architect of Mexico's austerity/privatization programs. He calls it "modernization" or "restructuring," not "privatization" or "export promotion," and promises the nation more of the same.

Since the Mexican experience with privatization is being duplicated throughout Latin America, modified only by nationalistic and geographic distinctions, we briefly consider the privatization program in just one other country: Brazil. Since World War II, Brazil's model of development was based upon the partnership of state-owned enterprises, Brazilian-owned private firms, and foreign-owned multinational corporations. Capital-intensive utilities—Petrobras (petroleum), Embratel (telephone), Nuclerbas (nuclear energy), and the Itaipú Dam—have traditionally been public. Private capital was unable or unwilling to invest in these long-term, high-risk ventures. This tripartite mixed economy, like that of Mexico's, was oriented to national development via import substitution from the 1930s until 1960. The coup of 1964, led by General Humberto Castello Branco, ushered in an era of multinational corporate expansion and liberalization for the Brazilian economy. The so-called Brazilian Miracle (1968 to 1973) of double-digit growth rates and balance-of-payments surpluses occasioned by foreign direct investments and World Bank loans, however, abruptly ended shortly after the OPEC oil price increases of 1973 and 1975.

Brazilian privatization during this period was hampered by the nationalistic policies and goals of the military governments, which clashed with the "state-shrinking" ideology of its neoconservative alliance. Much evidence points to an expansion of the public sector during this period of "authoritarian capitalism." This trend continued during the following years of petrodollar recycling via multinational banks. Brazil incurred huge foreign debts in the later half of the 1970s in order to pay for oil imports and undertake public mega-projects, like the São Paulo subway and the Itaipú Dam. Even the 1980-1981 recession inadvertently expanded the Brazilian public sector when foreign capital flows reversed themselves and many private enterprises went bankrupt and were taken over by the state.

Like Mexico's, Brazil's massive foreign debt to private multinational banks, capital flight, and IMF austerity agreements soon combined to set the stage for Brazil's contemporary privatization program. Brazil's foreign debt of nearly $120 billion is today the largest in the peripheral world. To service this debt, Brazil has to export billions of dollars more than it imports. Brazil realized a trade surplus of $6 billion in 1983, $9 billion in 1984, and over $12 billion in 1985. It is estimated, however, that an additional $20 billion will be required to service Brazil's foreign debt in 1990.

As was the case in Mexico, Brazil's privatization was an IMF condition for additional foreign loans. During the decade from 1975 to 1985, Brazil's experience with its debt paralleled that of Mexico and most other Latin American nations. It can be summarized as austerity, stagnation, privatization, liberalization, and export promotion. The economic policies were the same, and so were the results. During this period, Brazil instituted a new política de privatização; 88 public firms were slated for privatization by the Special Commission on Privatization in 1981. The textile firm Dona Izabel, the publishing firm Josq Olypio, and the paper company Inbrapel were all secretly privatized: that is, sold to investors' bids without public knowledge.

Like Mexico's also, the Brazilian IMF austerity/privatization programs returned the nation to renewed dependency on foreign finance and commodity exports today, "industrialized" Brazil's two leading exports are soybeans and coffee. Increased peripheral dependency, hyperinflation, economic depression, and a worsening income distribution eventually led to massive political discontent and democracy in January 1985.

Soon after taking office, the civilian government of President José Sarney refused to follow the IMF "game plan," and their agreement was broken. Early in 1986, the government launched the heterodox CruZado Plan in an attempt to control inflation by fixing wages and prices. One year later, the plan collapsed when the corporations raised prices to obtain traditionally inflated profits. The private multinational banks also resisted Brazilian bilateral negotiations of its foreign debt without IMF conditions. In response, Brazil declared a moratorium on private bank debt payments in February of 1987. Shortly thereafter, the World Bank and the U.S. Import-Export Bank denied the nation short-term trade credits. The trade surplus immediately deteriorated, capital fled the country, and inflation soon reached the four-digit level. Less than a year later, the Brazilian government capitulated and renewed payments on its debts to the private foreign banks. Brazil was subsequently rewarded with $6 billion in new bank credit and a rescheduling (extension) of its debt obligations.

Even without an IMF austerity agreement, however, Brazil promoted most IMF policies, including privatization. On June 1987, the government's Privatization Committee named 63 of the nation's remaining 179 operating industrial and financial firms for immediate privatization. Today, the primary function of Brazil's National Bank for Economic Development is to sell public enterprises. Attempts on the part of President José Sarney's government and the Brazilian constitutional committee to restrict the sale of public assets to Brazilian national firms and terminate debt-equity swaps have both failed. Privatization in Brazil, despite heterodox economic experimentation, is alive and well. As was the case in Mexico, a huge foreign debt, historic foreign dependency, and an economic crisis are fertile ground for the promotion of privatization programs. The Brazilian experience shows that unilateral debt moratoriums, price-fixing schemes, or any other nationalistic policies of even democratically elected governments are apparently no match for the multinational corporations and the international financial community. Privatization is profitable: Where else can a billion dollars of real assets be purchased for a quarter of their market value?

Since Brazil's experiment with privatization, like that of Mexico, has not yet ended, the benefits and costs for a complete accounting are not yet available. Nevertheless, by now it is obvious that privatization programs in Brazil did not achieve their objectives. The nation's foreign debt continues to increase at a geometric rate, inflation is currently running at an astronomical 900 percent per annum, private capital investment has been exclusively directed to export production, and the nation's growth rate has turned negative. Above and beyond all this, Brazil's income distribution has worsened, poverty has increased, and political discontent with President Sarney's government is approaching crisis levels.
cent labor strikes and the election of a "populist" mayor in the industrial city of São Paulo portend the future course of politics in Brazil—barring a return to military rule.

CONCLUSION

Far from being a panacea, privatization in the periphery is part of the problem. The present economic and financial debt crisis made it possible for industrialized nations, through the IMF, USAID, and bank intermediaries, to impose privatization on the Latin American republics. In Brazil, Mexico, and other debtor countries, privatization/austerity programs have restructured national economies to export-oriented development, providing multinational corporations with new investment opportunities and increased profits. The resulting depressed commodity prices and capital flight helped solve stagflation in the center economies, while worsening it in Brazil, Mexico, and the rest of Latin America. As in the past, therefore, contemporary privatization benefited the center largely at the expense of the periphery.

What will happen to the government budgets, the foreign debts, and the economies of Latin America after all public assets have been privatized? Soon, very soon, perhaps, we shall have the answer. Most political analysts would be inclined to admit that programs and policies of this type are candidates for disaster. As with everything else, there are limits to the public subsidy of private enterprise as well as to the frontiers of capitalism. In Latin America today, there are indications that these limits are rapidly being approached—if not already breached. The recent Venezuelan riots, the Peruvian debt moratorium, and the revolutions in Central America are perhaps only the tip of the iceberg. Privatization programs provide socialists and nationalists in Latin America with a new ideological issue that may be worth more to them in the long run than the market value of the privatized public assets are to the multinational corporate investors in the short run.

—Melvin Burke

NOTES


10. Among these are the Heritage Foundation, the CATO Institute, the National Center for Policy Analysis, and the Citizens for a Sound Economy in the United States. In Britain their counterpart is the Adam Smith Institute. See: Stuart Smith, "Privatization: A Policy in Search of a Rationale," The Economist, vol. 305 (1987), pp. 17–18.


15. Ibid., p. 123.


17. The maximum deficit amounts specified in the congressional Gramm-Rudman Act, which can be exceeded by up to $10 billion except for the year 1991, are as follow:...
Table of Privatization and Development

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Maximum Deficit ($ billions)</th>
</tr>
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<tbody>
<tr>
<td>1989</td>
<td>72.0</td>
</tr>
<tr>
<td>1990</td>
<td>36.0</td>
</tr>
<tr>
<td>1991</td>
<td>0.0</td>
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World Economic Outlook (Washington, DC: International Monetary Fund, April 1986), p. 120.


32. Ibid., table 10, p. 13.


34. Any book or publication from the IMF, the World Bank, or USAID on privatization adheres to this paradigm. See, for example, Raymond Vernon, ed., The Promise of Privatization: A Challenge for American Foreign Policy (Council on Foreign Relations (Washington, DC: U.S. Government Publication Office, 1988); or Steve H. Hanke, ed., Privatization and Development (San Francisco: International Center for Economic Growth, 1988).


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