

No More Privatization Scams

By [Boris Kagarlitsky](#)

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At last week's St. Petersburg International Economic Forum, Russia's new round of privatizations was one of the hottest topics of discussion. A host of liberal economists and analysts claimed that this new round would result in higher competition and efficiency for the companies — something that previous privatization efforts were never able to do.

Liberal economists who have blind faith in the free market consider themselves to be highly rational people, but experience shows that they adhere to certain irrational beliefs just as strongly as savages believe in their rituals and incantations. For example, they believe that privatization is beneficial at any time or place and under any conditions, and that states everywhere are bad managers by definition.

Ordinary Russians have their own strong reasons for opposing the transfer of prime state assets into private hands. They remember how the hasty privatizations in the 1990s were a complete disaster. Everyone remembers how they led to looting and destruction of the economy and family households, the effects of which are still being felt 15 years later. While the government has spent much of the last decade trying to dig itself out of the enormous pit

that the 1990s privatizations created, it seems to be headed directly down the same path, bound to repeat the same mistakes.

Perhaps the worst mistake is trying to privatize during a crisis. This can be accomplished only if the state sells its assets at fire-sale prices — even lower than they are now. (The Russian stock market has dropped nearly 30 percent over the past 15 months.)

Russian companies have always been heavily undervalued in comparison with similar foreign companies. Since the companies must be sold for rubles, part of the earnings will be lost if the value of the ruble continues to fall. Under such conditions, the seller is effectively subsidizing the buyer.

To make matters worse, often the new private owners are unable to manage the company effectively and ultimately turn to the government for help — especially during an economic crisis when state coffers are already squeezed. The new owners' favorite argument is that their firms are too large, strategic or socially important to be allowed to fail.

In the electricity sector, in particular, there is no guarantee that private companies will be able to improve conditions for consumers. Most likely, the opposite will happen. A private owner unregulated by the government can always raise its rates. Americans still remember the California energy crisis in 2000 and 2001 that was caused by private companies manipulating energy supplies and prices. But Russian officials have learned absolutely nothing from both foreign and domestic experience in this area.

The government still has a little time left to come to its senses and hit the brakes, but the desire to rapidly privatize the oil and gas and energy sectors is gaining force. That would be more than just a bad decision. If the authorities choose to return to the privatizations of the "wild '90s," they will anger the millions who were swindled by the corrupt schemes. Alienating this huge segment of the Russian population is the last thing the Kremlin needs, particularly when the protest movement is gaining momentum and supporters.

Boris Kagarlitsky is the director of the Institute of Globalization Studies.

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