Making a Killing from 'Austerity': The EU's Great Privatisation Fire Sale

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Europe's economic crisis has offered vast business opportunities to an all-powerful nexus of financial interests that have snapped up valuable state assets at bargain basement prices, defrauding the poorest countries of countless billions of euros, write Sol Trumbo & Nick Buxton. The EU's highest institutions are in the grip of a deep, systemic corruption that knows no boundaries.

> These lobbyists have turned privatisation into a capitalist virility test; used to judge whether an indebted country is truly committed to economic reform. The fact their advice reaps considerable private profit for themselves is rarely mentioned.

Some rights reserved.When the leftist party Syriza came to power in Greece in 2015, it promised to revise the crisis-hit country's unpopular privatisation programme.

Yet this month, the same party found itself in fierce confrontations with its own electoral base, unionised workers, protesting the government's sale of its major ports in Athens and Thessaloniki.

Greece's recently privatised port of Piraeus, near Athens, gateway to the islands. Photo: Jeffrey via Flickr (CC BY-ND).

Reactivatating Greece's privatisation programme was made a central condition of the humiliating memorandum that Syriza signed in July 2015, after capitulating to its creditors. Since July, Syriza has moved forward with the privatisation of Piraeus port in Athens, 14 regional airports and is currently preparing to privatise its rail network.

So why have the European Commission's policy makers made privatisation such a central tenet for agreeing to loans to Europe's indebted countries? The European Commission (EC) in correspondence in 2012 explained it this way:

> … privatisation of public companies contributes to the reduction of public debt, as well as to the reduction of subsidies, other transfers or state guarantees to state-owned enterprises. It also has the potential of increasing the efficiency of companies and, by extension, the competitiveness of the economy as a whole, while attracting foreign direct investment.

In other words, privatisation would help countries pay back their debt, would improve the state-owned companies' efficiency and effectiveness, and therefore would boost economic growth.

That's the dogma. So what are the facts?

But do those arguments stand up in practice? Five years into the economic programmes imposed by the EC, Transnational Institute in its report *The Privatisation Industry in Europe* decided to examine the evidence. Its conclusions cast serious doubt on the EC's rationale.

It found that the sales of state-owned assets during recession have consistently failed to raise expected revenues. Greece for example was predicted to raise €50 billion but has so far raised a paltry €3.5 billion. This may be partly down to popular and Syriza resistance, but it is also what happens when profitable companies are sold at a time of recession.

Greece's sale of 14 regional airports is typical of how privatisation short-changes taxpayers, as only the profitable ones were sold, leaving the unprofitable ones still subsidised by Greek citizens.

In other austerity-struck countries, share prices of state-owned assets soared as soon as the sale went public, suggesting the set price was far too low. In the case of the airport network AENA in Spain, for example, the price of the shares increased by 20% the first day of going public, which meant a loss of almost €1 billion for the Spanish state.

Meanwhile, the case for increased efficiency has ironically been undermined by research by European universities funded by the European Union. The project examined the relationship between employment, productivity and quality of public services undergoing a process of privatisation in six European countries and concluded that it *"promoted a model of competition that is largely based on the reduction of wage costs and not on the improvement of quality and innovation."*

As well as reducing wages and undermining labour rights, other evidence shows privatised companies tend to increase costs for consumers. In the 34 OECD countries, for example, the average price for energy charged by private companies is 23.1% higher than the price charged by public companies. In France, which has a long history of privatised water supply, the price of water provided by private companies is 16.6% higher than water provided by municipal utilities.

Perhaps most perversely, the European Commission's argument in favour of private as opposed to public ownership, falls apart when you realise that significant numbers of state-owned companies in Greece and elsewhere are currently being taken over by state companies from other nations.

Greece's regional airports for example are being sold to Fraport, majority-owned by the German state. Meanwhile Chinese state companies have been actively buying up state companies across Europe, notably energy companies in Portugal, Italy and the UK.

A nexus of financial power comes in for the kill

So if the arguments for privatisation no longer stand up to scrutiny, what is driving the process? Along with an ideological fixation with neoliberal policies in the Commission, it is notable how many powerful legal, accountancy and financial firms are reaping profits from the process.

The report, *The Privatisation Industry in Europe* shows that the privatisation of state-owned assets depends on the participation of a small coterie of corporations, that provide the financial and legal advice.

In terms of financial advice, Lazard and Rothschild are the big players; legal advice features mainly UK-based law firms, such as Freshfields Bruckhaus Deringer and Allen and Overy, and in all of the deals the so-called 'Big Four' accountancy firms (Deloitte, KPMG, PricewaterhouseCoopers and Ernst & Young) are involved. Their advice does not come cheap: Lazard made profits of £1.5 million as an advisor in the privatisation of Royal Mail.

In a few cases, these large corporate firms have had both the legal and financial departments of their company involved in privatisation which means they have been able to profit from their own advice.

For example, in the aforementioned sale of AENA in Spain, Lazard advisory branch helped determine the price of shares, and its asset management branch, Lazard World Dividend & Income Fund, acquired AENA shares at the IPO and sold them roughly a month later netting a 60% profit.

The firms argue that a 'Chinese wall' between their different divisions prevent conflicts of interest, but perhaps a more honest assessment is provided by William Cohan, a former Lazard banker who said: *"This is a very high-margin business … All their expenses are paid, and they have no capital at risk. This is as sweet as it gets."*

'The drive for austerity was about using the crisis, not solving it. It still is.'

It comes as no surprise that these institutions are all involved in powerful European lobbying groups, such as the European Financial Services Roundtable, Business Europe and the Society of European Affairs Professionals. Many of the firms have their own lobbyists in Brussels: Freshmans Bruckhaus Deringer openly states that it is present there to *"help to shape EU legislation and administrative decisions."*

Collectively, these lobbyists have turned privatisation into a capitalist virility test; used to judge whether an indebted country is truly committed to economic reform and competitiveness. The fact their advice reaps considerable private profit for themselves in the process is rarely mentioned.

The fact that the financial sector emerged not only unscathed, but strengthened in the wake of the financial crisis is a conundrum that the left and progressives still grapple with. It showed that popular awareness and anger was not enough to overcome the combined force of a powerful financial industry and a neoliberal ideology deeply entrenched in political and cultural life.

So it is perhaps no surprise that privatisation has accelerated in Europe rather than slowed down since the economic crisis. As Nobel prize-winning economist, Paul Krugman put it: *"The drive for austerity was about using the crisis, not solving it. It still is."*

However, just as in the financial crisis, this powerful nexus of forces cannot hide the social costs of policies that put private profits before human needs. Along with anger at the surging inequality expressed in the rise of anti-establishment party candidates on both sides of the Atlantic, there is also growing disaffection with growing cases of privatisation that have led to declining public services and rising prices.

In the area of water, for example, 235 cities worldwide in the last 15 years have brought water services back under public control in frustration at rising prices and declining service delivery. This trend is one that European Commission bureaucrats would do well to learn from before ploughing ahead with the next wave of austerity-drive privatisation in its most indebted countries.

Their failure to listen, will only contribute to a growing disaffection with the European Union project, from both the left and the right, that won't be reversed until economic policies are designed for the benefit of the majority rather than a privileged minority.

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