

# Shock Therapy: How Austerity and Privatisation Destroy Nations

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*Politicians from rich countries have tried to forcefully ‘persuade’ other countries to use an extreme economic system with few public services and very little regulation of big companies. This is usually called neoliberalism. The rights of big business and investors have priority over everything else. Public and community interests are ignored. People’s lives, their health, their jobs, pollution, the environment – all of these things become irrelevant when businesses are not properly controlled. This post summarises the policies that poor countries have adopted, due to violence, threats, bribes or personal self-enrichment, for much of the last 50 years. Note that these policies are very different from the policies that advanced nations used during their development.*

Many critical writers had been saying this for many years, but were mostly ignored. In the year 2002 the former chief economist of the World Bank, Joseph Stiglitz, wrote a landmark book entitled ‘Globalization and its Discontents’, which brought these criticisms to a wider audience.

a) Spend Less – Cut the heart out of the patient

We saw in earlier posts that government spending is at the heart of every successful economy. Despite this, poor countries are told that the government must spend less on public services, even when military spending is sometimes increased. This means that less is spent on water, sanitation, education and healthcare, in countries where the existing systems are already inadequate. Teachers, doctors and nurses lose their jobs. Some children cannot get an education, so they have no way of getting themselves out of poverty, and many poor people cannot get treatment for even the most basic medical problems. The government is also encouraged to cut wages and end assistance to the poor, such as food subsidies. The current word for this is austerity.(1)

**b) Remove Controls on Money – Cut off the blood supply**

Poor countries are advised to allow money to flow into the country, so rich people from other countries can invest more easily. More than anything else, those with money want a global system where money can flow freely between countries with no controls. Unfortunately this usually means that money can also flow out of poor countries very quickly, creating

instability. Giving up control of money flows is a bit like cutting off a patient's blood supply. In the past, many readers would have found it difficult to understand how flaws in the financial system can devastate economies. However, the 2007 global financial crisis affected even the wealthiest countries. The financial system, and control of money, is so important that it is discussed in other posts.

### **c) Privatised - Selling off the Family Jewels**

Privatisation is where industries that are owned and run by the government, such as water and electricity, are given or sold to private owners. They claim that profit motivates them to be more efficient. This is propaganda. The US has one of the most privatised healthcare systems of any advanced nation, yet it is far more expensive than any other country's, without noticeably better results. When the world's steel industries were compared, the most efficient steel companies were found to be the government-owned businesses in South Korea and Taiwan.(2)

Privatisation in the developing world usually means a small number of big companies taking control of a whole industry. (This is known as oligopoly). These companies can be from overseas, or owned by rich locals with government connections. The process of handing over these industries is extremely corrupt and has been called 'briberisation.'(3) The end result is that they can charge high prices, even for providing basic essentials.

A good example of the downsides of privatisation could be seen in Bolivia in the year 2000. The water supply had been privatised and prices immediately tripled. Locals were not even allowed to collect rainwater. They were expected to pay for every drop of water they used. The American company in charge was Bechtel, which has powerful connections in the US government, notably through former US Secretary of Defense Donald Rumsfeld. Large numbers of people protested because they could not afford the water. Eventually Bechtel and their business partners were forced to leave the country.(4)

In African countries where the water system has been privatized, and even very poor people have been charged for water, it was found that some of those people would sooner walk for four hours each day to get free water, rather than pay for it. After privatisation in South Africa, many people found their water bills cost one-third of the family's income. In Johannesburg, 22,000 people were disconnected each month because they could not pay their water bills. This led to an outbreak of Cholera, on a scale not seen for many years, because hygiene standards declined so much.(5) The importance of clean water cannot be stressed enough. A certain minimum amount of water has to be provided to the poorest people for free.

There are many examples of unsuccessful privatisations throughout the world. One of the most notorious was the Californian electricity system. This led to the collapse of major corporations, such as Enron. The senior people at Enron realised that at certain times of the day, there was enough demand for electricity that by closing down a power station for unnecessary 'maintenance', demand would exceed supply. It was then possible to charge much more for electricity. The price increased dramatically.(6) US politicians had been 'bribed' to deregulate the energy markets. Politicians in poor countries can be bribed just as easily as in the US.

There is a very good reason for electricity, gas, water, sanitation, phone lines, roads and

railways being owned and run by a government. They are known as natural monopolies because each requires an expensive infrastructure. There is no point in ten companies all building railway lines between two towns, each being used by a tiny fraction of the population. It is better to have a single rail line used by everyone. However, if the single line is privately owned, the owners will overcharge users in order to make bigger profits.

Austerity and privatization are connected.(7) Austerity decreases the quality of public services. This makes it easier for private companies, and their supporters in government, to use propaganda to mislead the public into believing that a private system is better.

The final set of policies that have been forced upon poor countries is known as free trade. This is so important that it will be discussed in a later post.

## **Shock Therapy**

Rich countries try to insist that poor countries adopt these policies very quickly. This is known as 'shock therapy'. Unfortunately, rapid economic and social change creates hardship for large numbers of people, even in countries with social safety nets.(8) Without these safety nets, the results are much worse. The usual outcomes of this whole system include the creation of a small number of wealthy locals, and poverty for a large segment of the population. The transfer of wealth from the poorest to the richest happens not only between countries, but also within the country. Each nation loses control of its finances. Many people struggle to afford even the basics.

## **The End Result - Poverty and Death**

When the Soviet Union collapsed in 1989, US advisors tried to persuade the Russian government that Russia could quickly change from its existing Communist system to an extreme version of capitalism. As with almost every other country that has tried this, poverty increased throughout the country. In 1992, the price of bread increased 100-fold in less than a year.(9) It has been estimated that the number of people in poverty increased by over 70 million people. Life expectancy in Russia declined at a rate that would normally only be seen during wartime, with one commentator describing the extra deaths as economic genocide.(10) A handful of people with strong government connections took over many state-run businesses, such as gas and oil companies, and became billionaires. They were known as the Oligarchs.

One of the leading economic advisors who helped to implement these policies, Jeffrey Sachs, admitted years later that he eventually realised that the extreme policies recommended to Russia were about "finishing off the cold war."(11) This meant that senior planners in the US government wanted to destroy Russia's government-backed industry, and replace it with an economic system where US companies could access resources and exploit the people.

Similar results can be seen in most countries that followed these policies. When they were applied in Peru in 1990, the price of bread increased 12-fold overnight. When they were applied in Mexico from 1980-2000, the spending power of many Mexicans dropped to a quarter of what it had been previously.(12) One of the leading experts, Jason Hickel, has described these policies as the largest single cause of impoverishment in the 20th century.(13) In each country that adopts these policies, a handful of people get rich very quickly. This was particularly notable in Mexico and Argentina, where billionaires were created almost overnight. If a group of people from one country suddenly become rich, it is

usually because they have stolen the wealth of the nation. As one writer put it:

“This system is just another rigged game to enable the movers and shakers to get richer.”(14)

## **Advanced Countries Are Now Being Destroyed Too**

Before 2008, the focus of these policies was on developing countries. However, since the global financial crisis the same policies have been applied to advanced nations. We have seen extreme austerity applied to Greece with catastrophic consequences. They have also been applied to Britain, with austerity leading to significant underfunding of social services and the National Health Service (NHS). At the same time there has been a gradual, stealthy privatisation of the NHS. Ever more wealth is being concentrated in the hands of the super rich. Inequality is rising to levels that we have not seen for a century. There are more and more people queueing at foodbanks and sleeping rough on the streets.

These outcomes are not accidental. The economic policies that create them are deliberate choices by governments. There is no evidence that austerity is ever necessary. These governments are gradually destroying state-run services to encourage people to use private alternatives, ultimately to make rich people richer. Since 2008 it has become more and more obvious that many governments, including those of the US and Britain, do not represent their people. Enriching themselves and their cronies is clearly their priority, irrespective of the harm this does to society more generally.

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## **Notes**

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The evidence that private monopolies are more efficient than state ones is also very weak. John Kay, *The Truth About Markets*, 2004

3) Joseph Stiglitz, cited in Greg Palast, ‘The Globalizer Who Came In From The Cold’, 3 Sep 2001, at <http://www.twf.org/News/Y2001/0903-Economist.html>

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13) Dinyar Godrej, 'A brief history of impoverishment', 20 April 2020, at <https://newint.org/features/2020/02/10/brief-history-impoverishment>

14) James S. Henry, *Blood Bankers*, p.289

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