

Privatization Is the Atlanticist Strategy to Attack Russia

By [Dr. Paul Craig Roberts](#) and [Prof Michael Hudson](#)
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[Agenda](#)

Two years ago, Russian officials discussed plans to privatize a group of national enterprises headed by the oil producer Rosneft, the VTB Bank, Aeroflot, and Russian Railways. The stated objective was to streamline management of these companies, and also to induce oligarchs to begin bringing their two decades of capital flight back to invest in the Russia economy. Foreign participation was sought in cases where Western technology transfer and management techniques would be likely to help the economy.

However, the Russian economic outlook deteriorated as the United States pushed Western governments to impose economic sanctions against Russia and oil prices declined. This has made the Russian economy less attractive to foreign investors. So sale of these companies will bring much lower prices today than would have been likely in 2014.

Meanwhile, the combination of a rising domestic budget deficit and balance-of-payments deficit has given Russian advocates of privatization an argument to press ahead with the sell-offs. The flaw in their logic is their neoliberal assumption that Russia cannot simply monetize its deficit, but needs to survive by selling off more major assets. *We warn against Russia being so gullible as to accept this dangerous neoliberal argument.* Privatization will not help re-industrialize Russia's economy, but will aggravate its turn into a *rentier* economy from which profits are extracted for the benefit of foreign owners.

To be sure, President Putin set a number of conditions on February 1 to prevent new privatizations from being like the Yeltsin era's disastrous selloffs. This time the assets would not be sold at knockdown prices, but would have to reflect prospective real value. The firms being sold off would remain under Russian jurisdiction, not operated by offshore owners. Foreigners were invited to participate, but the companies would remain subject to Russian laws and regulations, including restrictions to keep their capital within Russia.

Also, the firms to be privatized cannot be bought with domestic state bank credit. The aim is to draw "hard cash" into the buyouts - ideally from the foreign currency holdings by oligarchs in London and elsewhere.

Putin wisely ruled out selling Russia's largest bank, Sberbank, which holds much of the nation's retail savings accounts. Banking evidently is to remain largely a public utility, which it should because the ability to create credit as money is a natural monopoly and inherently public in character.

Despite these protections that President Putin added, there are serious reasons not to go

ahead with the newly-announced privatizations. These reasons go beyond the fact that they would be sold under conditions of economic recession as a result of the Western economic sanctions and falling oil prices.

The excuse being cited by Russian officials for selling these companies at the present time is to finance the domestic budget deficit. This excuse shows that Russia has still not recovered from the disastrous Western Atlanticist myth that Russia must depend on foreign banks and bondholders to create money, as if the Russian central bank cannot do this itself by monetizing the budget deficit.

Monetization of budget deficits is precisely what the United States government has done, and what Western central banks have been doing in the post World War II era. Debt monetization is common practice in the West. Governments can help revive the economy by printing money instead of indebting the country to private creditors which drains the public sector of funds via interest payments to private creditors.

There is no valid reason to raise money from private banks to provide the government with money when a central bank can create the same money without having to pay interest on loans. However, Russian economists have been inculcated with the Western belief that only commercial banks should create money and that governments should sell interest-bearing bonds in order to raise funds. The incorrect belief that only private banks should create money by making loans is leading the Russian government down the same path that has led the eurozone into a dead end economy. By privatizing credit creation, Europe has shifted economic planning from democratically elected governments to the banking sector.

There is no need for Russia to accept this pro-rentier economic philosophy that bleeds a country of public revenues. Neoliberals are promoting it not to help Russia, but to bring Russia to its knees.

Essentially, those Russians allied with the West—“Atlanticist Integrationists”— who want Russia to sacrifice its sovereignty to integration with the Western empire are using neoliberal economics to entrap Putin and breach Russia’s control over its own economy that Putin reestablished after the Yeltsin years when Russia was looted by foreign interests.

Despite some success in reducing the power of the oligarchs who arose from the Yeltsin privatizations, the Russian government needs to retain national enterprises as a countervailing economic power. The reason governments operate railways and other basic infrastructure is to lower the cost of living and doing business. The aim of private owners, by contrast, is to raise the prices as high as they can. This is called “rent extraction.” Private owners put up tollbooths to raise the cost of infrastructure services that are being privatized. This is the opposite of what the classical economists meant by “free market.”

There is talk of a deal being made with the oligarchs. The oligarchs will buy ownership in the Russian state companies with money they have stashed abroad from previous privatizations, and get another “deal of the century” when Russia’s economy recovers by enough to enable more excessive gains to be made.

The problem is that the more economic power moves from government to private control, the less countervailing power the government has against private interests. From this standpoint, *no privatizations should be permitted at this time.*

Much less should foreigners be permitted to acquire ownership of Russian national assets. In order to collect a one-time payment of foreign currency, the Russian government will be turning over to foreigners future income streams that can, and will be, extracted from Russia and sent abroad. This “repatriation” of dividends would occur even if management and control remains geographically in Russia.

Selling public assets in exchange for a one-time payment is what the city of Chicago government did when it sold the 75 year revenue stream of its parking meters for a one-time payment. The Chicago government got money for one year by giving up 75 years of revenues. By sacrificing public revenues, the Chicago government saved real estate and private wealth from being taxed and also allowed Wall Street investment banks to make a fortune.

It also created a public outcry against the giveaway. The new buyers sharply raised street parking fees, and sued Chicago’s government for damages when the city closed the street for public parades or holidays, thereby “interfering” with the rentiers’ parking-meter business. Instead of helping Chicago, it helped push the city toward bankruptcy. No wonder Atlanticists would like to see Russia suffer the same fate.

Using privatization to cover a short-term budget problem creates a larger long-term problem. The profits of Russian companies would flow out of the country, reducing the ruble’s exchange rate. If the profits are paid in rubles, the rubles can be dumped in the foreign exchange market and exchanged for dollars. This will depress the ruble’s exchange rate and raise the dollar’s exchange value. In effect, allowing foreigners to acquire Russia’s national assets helps foreigners to speculate against the Russian ruble.

Of course, the new Russian owners of the privatized assets also could send their profits abroad. But at least the Russian government realizes that owners subject to Russian jurisdiction are more easily regulated than are owners who are able to control companies from abroad and keep their working capital in London or other foreign banking centers (all subject to U.S. diplomatic leverage and New Cold War sanctions).

At the root of the privatization discussion should be the question of what is money and why should it be created by private banks instead of central banks. The Russian government should finance its budget deficit by having the central bank create the necessary money, just as the US and UK do. It is not necessary for the Russian government to give away future revenue streams in perpetuity merely in order to cover one year’s deficit. That is a path to impoverishment and to loss of economic and political independence.

Globalization was invented as a tool of American Empire. Russia should be *shielding itself from* globalization, not opening itself to it. Privatization is the vehicle to undercut economic sovereignty and increase profits by raising prices.

Just as Western-financed NGOs operating in Russia are a fifth column operating against Russian national interests, so are Russia’s neoliberal economists, whether or not they realize it. Russia will not be safe from Western manipulation until its economy is closed to Western attempts to reshape Russia’s economy in the interest of Washington and not in the interest of Russia.

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Articles by: [Dr. Paul Craig Roberts](#) and [Prof Michael Hudson](#)

About the author:

Paul Craig Roberts, former Assistant Secretary of the US Treasury and Associate Editor of the Wall Street Journal, has held numerous university appointments. He is a frequent contributor to Global Research. Dr. Roberts can be reached at <http://paulcraigroberts.org>

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