POPOPULISTULIST

MOVEMENTS

A DRIVING FORCE

BEHIND RECENT

RENATIONALIZATION

TRENDS

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Key Points

• Populist uprisings often call for the renationalization or buying back of public goods that were originally privatized as a result of austerity measures established and disseminated by the International Monetary Fund (IMF) and the World Bank.

• These movements occur either as a backlash to IMF/World Bank austerity measures, failure of privatization, an economic crisis, or as a reaction to neo-liberalist approaches that lead states to diverge from strong interventionist policies directed at the provision of essential services to the public.

• Renationalizations are indicative of populist movements that mobilize around the sectors of natural resources and provision of services, such as water and energy; we can expect similar pressure in the sectors and economies on all continents under neo-liberal austerity measures.

• In order to mitigate the social and political unrest associated with populist movements, it is recommended that governments make an effort to build strong social safety nets, develop means of communication with the discontented public and, where possible, consider renationalizing basic public good sectors.

Introduction

After decades of pressure on countries to roll back state interference in economic affairs, as witnessed in many parts of the developing world, there has been a recent push from populist movements for increased state involvement in service provision, as well as rising criticism of the private sector. Anti-austerity populist pressures originated in the 2000s in Latin America, and have more recently moved into Central Asia and Southern Europe. Most often, populist upsurges call for the renationalization of public good sectors (such as water or energy) originally privatized as a result of IMF and World Bank austerity measures. Perceived failures of the privatizations, frequently exacerbated by economic crises, and a divergence from once-strong nationalist policies, continue to stimulate discontent with neo-liberalist approaches to state governance. In order to prevent the social unrest and upheaval associated with populist uprisings, this brief suggests that governments should adopt effective communication strategies and establish reliable social safety nets designed to protect their constituencies and involve them in decision-making processes, thereby increasing public satisfaction and reducing chances of populist movement formation.
Starting in the 1970s, developed countries began to recognize the limitations of state provision for goods and services. Inefficiency and gridlock plagued the public sector, which had originally flourished following the end of World War II. As technological change and innovation spurred development throughout the final decades of the twentieth century, governments succumbed to the pressures of neo-liberalism and associated policies, such as privatization and liberalization of markets, trade and capital. The Washington Consensus conviction in free market superiority argued in favour of the neo-liberalist accumulation regime, which promised to provide consumers with more for less (Moore 2010). Private enterprise thus replaced the state as the primary driver of economic growth. The resulting era of privatization and economic liberalization characterized the late 1980s and 1990s. Cheap energy, food, raw materials and labour, noted by J. Moore (2010) as the cornerstone of capitalism, also proved instrumental to the laissez-faire golden age. Once neo-liberalism was embraced throughout the developed world, privatization was heartily encouraged in the global South. The World Economic Forum and associated international institutions, such as the IMF and World Bank, began tying financial aid to privatization-driven conditions, which ostensibly provided cash infusions and fiscal relief, as well as mobilized the more effective and cost-efficient private sector.

The global economy flourished in the 1990s; deregulation and market provision of goods and services proved successful. Many developing countries became frontier economies and the Western world seemed dedicated to the consolidation of free market policies. At the beginning of the twenty-first century, the merits of privatization clearly outweighed the drawbacks. It was hard to find dissenting views against free market economics. From academics to pundits to politicians, there seemed to be a consensus on the way to run an economy. So it has come as a surprise that recent years have seen a strong tendency toward populist-driven pressures for renationalization of certain industries. In fact, it appears that the pendulum of state involvement may have started to swing away from the private sector and toward the public one.

Populist pressure requires charismatic leadership, social movements and a nationalist ideology (Roberts 2007). In the era of populism against privatization and austerity, it is social movements and not charismatic leaders that are integral in terms of the origins of populist formations (Collins 2014). The populist pressure for renationalization policies in developing countries may reject the structural adjustments the IMF and World Bank impose on them (Chase-Dunn et al. 2010), or are frustrated by the failures of privatization, be they lack of incentive to expand services, corruption or high prices (Baer and Montes-
Rojas 2008). In some developing countries, depressed economic growth is the perfect environment for populist movements that promote nationalist policies to blame privatization and foreign trade for the country’s economic failures (Petras and Veltmeyer 2011).

Renationalization involves the state buying back assets or industries into state ownership after the industries had previously been privatized. I. Bremmer (2012) highlights the sectors of the economy that are usually renationalized: “natural resource companies, public utilities, banks, transportation and automotive manufacturers.” Renationalization in these sectors may be required for a country to operate smoothly. Generally, pundits, analysts and think tanks view renationalization policies not as a way to maximize economic growth, but as a way to maximize a state’s political power (Bremmer 2010). Regarding state-owned industries, economists still follow the traditional argument that the risk of political pressures will cause the industry to make uneconomic decisions. The Brookings Institution suggests several nationalizations of different industries would burden a state’s capability that already has other tasks to deliver outside of business (Caprio et al. 2004).

Pressure for renationalizing sectors may not be the healthiest environment for foreigners to invest in an economy. The push by populist movements for renationalization in sectors can provoke a wave of panic for foreign direct investment. If a state purchases an industry, shares in that entire sector may fall because of the risk that the state might buy out more industries in the sector (Newman 2009; Haarstad and Andersson 2009). Despite the skeptics, renationalization can lead to economic growth that is consistent with national objectives (Kohl and Farthing 2012). It is imperative for governments to have the option to renationalize particular industries and use a profitable source of funding to fund the economic development plan for their country.

Case Studies

The following case studies examine privatizations that were followed by populist responses in Latin America, Central Asia and Europe. While some cases culminated in privatization reversals, others have had mixed results. Specifically, populist uprisings in Latin America and Central Asia have seen success in the pursuit of renationalization measures. Alternatively, more recent populist movements in European countries have encountered significant pushback from their respective states specifically, and from the European Union more generally. As such, it is still unclear whether the movements will yield successful results.

Latin America

During periods of austerity in Latin America, either voluntarily or following the advice of the IMF and World Bank, governments privatized state-run natural monopolies to pay off large debts. J. Petras’ (2009) findings claim more than 5,000 state-owned enterprises were privatized at prices below their value into the hands of Western corporations. Followed by the economic crisis in Latin America in the late 1990s and early 2000s, injustice across the population provoked a wave of populist movements in the region. The populist movements across Latin America mobilized around the sectors of natural resources and the provision of basic services, and pushed for a renationalization of the industries.

When Ecuador adopted neo-liberal reforms to its economy in the 1980s, the state reduced public spending and distributed productive sectors to the hands of private investment. The oil and mining sectors in Ecuador were privatized to increase foreign investment, rates of extraction and revenues (Perreault and Valdivia 2010). The 1990s and early 2000s were characterized by populist mobilization against the government’s privatization agenda orchestrated by the Confederation of Indigenous Nationalities of Ecuador and other popular organizations. The movements halted the privatization of the social security system and stopped further liberalization of eliminating price controls in the agriculture sector (Petras and Veltmeyer 2011). By the late 1990s, of the 1,000 social conflicts from 1996 to 1998, “30 percent originated in the public sector and revolved around the issue of privatization” (ibid., 98). With the populist movement gaining momentum, the oil workers and indigenous groups that are directly affected by oil development opposed foreign involvement and argued for a renationalization of hydrocarbon sectors in the economy (Perreault and Valdivia 2010). With the majority of the shares in Petroecuador renationalized, the success contributed to the popular movements in the 2000s that mobilized around the mining sector. The anti-privatization mining movement continues today to push for a renationalization of the industry with stronger environmental regulations, the elimination of foreign companies and “thorough consultation with and consent from the local communities potentially affected” (Rosales 2013, 1451).

By 1985, austerity measures were enforced by the IMF and World Bank, and Bolivia became “the poster child for structural adjustment” (Perreault and Valdivia 2010, 691). Populist movements flourished in rural communities challenging neo-liberal measures over agricultural plantations and the privatization of the mining sector. In urban centres, populist movements fought the privatization of services such as water and the significant reduction of budgets for education and health care. Six hundred thousand people protesting high tariffs and bad service provision participated in the “Water War” to renationalize the sector (Spronk and Webber 2007). With such a strong mass mobilization, the concession contract was cancelled and returned to Cochabamba’s municipal water company.
In October 2003, with 92 percent of Bolivians supporting the nationalization of the oil and gas industry, protestors violently denounced private interests in the industry (Perreault and Valdivia 2010). In 2005, the populist movements resulted in the election of Evo Morales as president, and the renationalization of water, gas, tin- and zinc-mining industries, electricity distribution companies and provision of basic services such as telecom (Roberts 2007; Collins 2014).

The largescale privatization of public industries in Argentina is a strong case in which the IMF and World Bank’s structural adjustments heavily influenced the government. In a 15-year window, beginning in the early 1990s, the privatization process “included every public service managed by the state: electricity, postal services, telecommunications, television, railways, water and sewerage and ‘strategic’ industries such as petroleum and gas” (Baer and Montes-Rojas 2008, 324). The economic crisis in the late 1990s resulted in the devaluation of Argentina’s currency, which in turn affected revenues and the costs of the newly privatized enterprises. Failures of privatization were increasingly visible, with firms’ lack of incentive and resources; services were not reaching entire populations (ibid.). Job cuts skyrocketed and the unemployed people of Argentina mobilized a mass populist uprising against President Carlos Menem’s neo-liberal agenda, including privatization of public enterprises (Cooney 2007). The populist movements successfully renationalized railways, water and sewage, and postal services (Baer and Montes-Rojas 2008).

Central Asia and Europe

Despite the fact that populist movements have had less time to lead to significant privatization reversals in Europe and Central Asia, industry renationalization pressures are consistently surfacing in countries such as Russia, Kyrgyzstan, Greece, Spain and the United Kingdom.

Russia was arguably on the frontier of the renationalization drive in Europe and Central Asia. As such, the Russian oil industry renationalization should be mentioned as a precursor to recent populist movements. Beginning in 2004, Russia made considerable strides to re-appropriate an energy sector it sold in the late 1990s (Milov 2008). Still, the legally ambiguous manner in which the oil sector was reclaimed as well as the subsequent oil and gas industry corruption rumours, make the populist role in the Russian anti-privatization effort difficult to assess (ibid.). A more cut-and-dried example can be found in the 2010 renationalization scandal of the Kyrgyz energy sector, which was briefly privatized at the behest of the IMF that same year. In a move reminiscent of the aforementioned Bolivian water crisis, the Kyrgyz government significantly increased energy tariffs following the sale of major state-owned energy companies. This decision elicited severe negative backlash from the public and led to an eventual revolution and rapid repatriation of the assets (Hasanov and Izmailov 2011).

While comparable violent tendencies of populist upsurges have not surfaced in European countries, the tendency toward aggressive, impassioned populist movements has definitely been observed. The most obvious examples of social unrest and public disapproval of neo-liberalist values have been observed in Spain and Greece, both of which have recently experienced damaging economic downturns. The populist movement in Spain began in 2011 and has been linked to similar public protests in Iceland in 2009. The Spanish people, of whom an estimated 6 to 8 million have participated in the events, call for a reinvention of the current political system, which is said to revolve around capitalism and corruption (Kassam 2015). The Greek people call for renationalization of assets and the improved provision of basic services. Greece elected a new anti-austerity government in 2015 that promptly fired the heads of the Greek privatization agency. In an effort to placate public grievance, Prime Minister Alexis Tsipras halted the privatizations of Greek railways and oil refineries that were agreed upon under the former conservative government (Hope 2011).

Perhaps less obvious, but equally significant, is the recently noticed public disapproval of UK rail, water and energy sectors. The industries, which were privatized in the late 1980s and early 1990s, have failed to provide the quality of services expected by the British people. On the other hand, prices for these services have grown inexplicably high. As a result, nation-wide polls have determined that 66 percent of UK voters want a renationalization of the British railway (Dahlgreen 2013), 71 percent want a renationalization of water (Coates 2012) and 68 percent would like to see the renationalization of the energy sector (Beech 2014). Furthermore, the independent research group Corporate Watch predicts that state re-appropriation of the energy industry would reduce costs to consumers by £4.2 billion per year, and reinstating a public water sector would save citizens £2 billion (ibid.). While the UK public has not yet taken to rallying the streets like the residents of some of the aforementioned case studies, such strong prevalence of public ownership advocacy has the capacity to significantly influence the topical issues at upcoming elections as well as dictate future policy reform.
Recommendations

State and populist movement representatives should participate in mutually beneficial dialogue in pursuit of productive negotiations within a neo-liberal space. Constant dialogue between populist movements and governments is necessary for any economic reform to be successfully implemented. Populist unrest is a form of political instability and is seen as the biggest threat to the implementation of neo-liberal reform programs and attractiveness for foreign investment (Haarstad and Andersson 2009). Neo-liberal measures have been generous toward foreign private investors and have sparked populist movements that damage the investment climate, especially when industries are nationalized.

Promoting an attractive environment for foreign direct investment and addressing the pressures of populist movements for renationalization requires dialogue and an effort to balance the demands of populist movements and maintain favourable conditions for investors in the industries that have been renationalized. Governments have to accept divergence from neo-liberal polices, to maintain political stability, mitigate popular unrest, and further nationalize the sectors that have been historically state run (natural resources and basic services sectors). A greater role for the state in economic life and higher tax rates for private concessions will avoid further populist unrest, and create political stability and an improved climate for investment in the long run. The costs of economic reforms will fall on the people, especially the poor, who do not have a voice and are not part of the discussion. Therefore, transparency will increase accountability for politicians to make the right decisions. Additionally, social dialogue is necessary when dealing with economic reforms, thus avoiding costs falling to the people and populist movements.

States should erect robust social safety nets as a means of mitigating the negative impacts of economic crises, which often lead to populist movement uprisings. Examining the case studies above, a pattern emerges, pertaining to the economic stability of each country prior to the mobilization of populist uprisings. It can be observed that most populist movements originate during spells of economic depression, as seen in post-Soviet Russia, Latin America in the late 1990s, and Europe after the 2008 financial crisis. During periods of economic hardship, citizens are particularly vulnerable to income losses, which can leave families struggling to survive. During such times, individuals may be unable to pay for essential services that are typically considered public goods — electricity, heat, water, etc. If privately run companies are responsible for the provision of these services and are unwilling to artificially lower prices for the welfare of the people, protests are likely to result. Thus, populist uprisings are rational public responses to recessionary pressures, which frequently carry the largest negative connotations for low- and middle-income households. If governments wish to avoid populist movements and related political unrest during times of recession, it is recommended that states implement well-designed and flexible safety nets to mitigate the negative pressures placed on their citizens. In her 2013 study, Hedva Sarfati found that following the 2008 financial crisis, countries with the most resilient economies (and coincidentally those with lowest recorded populist dissent) were ones that had actively cushioned the negative economic impacts felt by their publics (Sarfati 2013).

Overall, European countries — such as Austria, Denmark, Norway, the Netherlands and Switzerland — strive to provide their people with broad education access, affordable childcare, flexible work arrangements, security through employment rights and welfare, as well as free and extensive training and employment services. Furthermore, these nations are committed to promoting low income disparities and investing in effective social dialogue measures, designed to endorse public participation in both policy formulation and implementation (ibid.). It stands to reason that policy structured toward enhancing social safety nets notably decreases social unrest during periods of economic depression. Therefore, it is strongly advised that governments commit to supplying their citizens with adequate social services, in particular during economic difficulties. This will help them retain control of their states and avoid populist uprisings, which have already led to regime changes in Greece and Iceland.

Sectors whose privatization commonly leads to populist uprisings should be identified and dedicated to retaining ownership. Populist pressures across the globe have mobilized around the sectors of natural resources and the provision of basic services and pushed for a renationalization of these industries. Simple economics would support this pattern because, historically, many of these industries are viewed as quasi-public goods that require large state investments to get up and running; nationalization is therefore necessary to get public goods across a country (Boettke 1994). The sectors characterized as natural monopolies should be either under government ownership or heavily regulated to avoid populist uprisings. The benefits of competition are not likely to be realized in these areas, since the incumbents have a large cost advantage over any potential new entrants. Additionally, the dominant firms are likely to exploit their monopoly power if they are not subjected to strict regulation (McPherson 2010).

If renationalizations are inherent responses to populist movements that mobilize around the natural resource and service provision sectors, it can be expected that a renationalization trend will appear in many states currently under neo-liberal austerity measures. Yet, renationalization efforts face severe constraints arising from the existing organization of economies, since high policy turnover can negatively impact credibility with
investors, inhibiting flows of capital. Therefore, if governments continue with the same policies with the aim of accommodating both foreign and local investors, they must rededicate themselves to other concession strategies to appease unhappy constituencies and account for the greater roles currently undertaken by populist movements.

**Conclusion**

Several case studies in Latin America, Central Asia and Europe demonstrate that the neo-liberalist trend toward wide-scale privatization has recently come under scrutiny. The service provision and resource sectors have been of particular interest to constituencies in states that have begun to feel their governments are not doing enough to ensure the welfare and security of their populations. As a result, a pattern has emerged of populist movement formation advocating on behalf of renationalization measures. The failings of privatized industries, exacerbated by financial crises, are becoming harder to tolerate for the public. Such discontent will likely percolate throughout most of the Western world, where neo-liberalist approaches to state involvement are widely exhibited. Assuming that governments wish to avoid the political instability, civil unrest and disruption that often accompany populist movements, it is suggested that states adopt robust measures designed to mitigate the negative impacts that privatization has been shown to have on populations. In particular, it is recommended that states establish strong social safety nets, develop means of communication with unhappy constituencies and, where possible, consider renationalizing basic public good sectors. This approach will likely reduce the negative impacts populist movement uprisings can sometimes have on nation stability.

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Works Cited


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