The politics of electrical power

Power Play: The Fight to Control the World’s Electricity by Sharon Beder

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Power Play: The Fight to Control the World’s Electricity *by Sharon Beder; 400 pages; New York: The New Press, 2003*

Electricity is an essential feature of modern life. One need only consider the consequences of a relatively short power outage—factories, offices and stores close down, many telephones and computers go dead, traffic slows to a crawl, food rots in freezers and refrigerators, homes are lit by candles—to see our utter dependence on electrical power.

Electricity, its generation and distribution, is also, however, a source or potential source of profit. The relatively stable conditions under which power was provided for decades—conditions that of course, in the final analysis, benefited or enriched the wealthy elites—have now broken down. In a crisis-ridden capitalist system, the reliability and affordability of electrical power are increasingly at risk, even within the advanced capitalist world.

The inability of private utility companies, under intense pressure from investors and speculators, and public utilities, facing the threat of privatization or budget cuts, to properly maintain facilities endangers the very functioning of a modern society, as the August 2003 power blackout in the US Midwest and Northeast demonstrated. The parasitic activities of firms like Enron, which buy and sell in the global energy market, have qualitatively worsened the situation. The anarchy, wastefulness and irrationality of the profit system have few clearer illustrations than the current state of electrical power generation and distribution.

In her new book, *Power Play: The Fight to Control the World’s Electricity*, Sharon Beder, a professor at the University of Wollongong in Australia, provides a detailed and valuable account of global electricity deregulation and its ruinous consequences. Beder notes justly on the opening page of her book, “The privatisation of electricity is not something that citizens have demanded or wanted.”

The volume details the struggle for control over this basic form of energy, ranging from the early days in the United States, when Thomas Edison first conceived of the idea of selling electricity, to the post-World War II era of the International Monetary Fund’s “free market” restructuring. It features the rise and demise of power broker Enron and its role in the massive California energy crisis, as well as the electricity privatization calamities in Asia and Latin America.

It is not accidental that the privatization and deregulation of various national and regional electrical systems became a feature of modern life in the last three decades, with the end of the postwar economic boom and increasing pressure on profit rates.

After the US-sponsored military coup in 1973, the Chilean dictatorship, influenced by the theories of American economist Milton Friedman, became the first country to break up its electricity authority and sell off its component parts. This was followed in the advanced capitalist world by Britain in 1990 and then the US, with California being the first state to deregulate. The “liberalization” of electricity opened new frontiers for the accumulation of profit, not through the construction of generating facilities and the delivery of energy supplies, but by the buying and selling of energy in the global market.

Power Play painstakingly documents the impact on electricity of what become known in the 1970s as “neoliberalism” in Europe, “neoconservatism” in the US, and “economic rationalism” or “economic fundamentalism” in Australia.

Electricity has characteristics that set it apart from commodities “that have been more traditionally found in the marketplace,” Beder points out. The variability of demand (e.g., weather, time of day), the inability of electricity to be stored and the interdependence of an electrical system that covers massive distances are some of the elements that make planning and oversight essential. “In a market there is no central planner choosing which plants to call on according to logic and marginal costs.” Therefore, costs for system coordination are higher in a market model than in one “dominated by an integrated monopoly.”

Price fluctuations inherent in the market are exacerbated by the manipulation of private companies that can use market power to create artificial shortages and gouge prices. “Electricity markets bring a disjuncture between price and the cost of production. Whenever deregulation has been introduced, wholesale electricity prices have spiked at hundreds of times the cost of production.”

Electricity’s particular need for planning and integration arise from the fact that, as a system, it “is more than the sum of its parts.” Beder’s book provides a valuable historic overview of this fundamental dimension of modern society.

She writes, “From the outset, private electricity companies in the US competed with municipal electricity suppliers by promoting the belief that public ownership of resources and essential services threatened the ‘American way of life.’”

By 1888, some 53 cities and towns in the US had municipal electrical systems. Between 1895 and 1906, more than 700 public systems were created, and by 1912 a third of the power companies in the US were publicly owned. The private companies fought back with vicious propaganda campaigns, equating legislation such as the Water and Power Act of 1921 as “socialistic” and “Bolshevistic.”

The activities of private power holding companies were credited with contributing to the onset of the Great Depression, and by 1935 some 90 electric and gas companies had gone under. During that time, the banks stepped in to assume control of many holding companies, and the issue of electricity featured prominently in the 1932 presidential election.

In a major defeat for the power companies and their allies, President Franklin D. Roosevelt set up the Tennessee Valley Authority (TVA) in 1933, a public entity for the development of electricity. The federal Public Utility Holding Company Act (PUHCA) was passed in 1935, whose aim was to break up the power trusts. Ratepayers saw their electricity bills drop by 14 percent between 1938 and 1951. Beder argues that the power companies once again became resurgent during the Eisenhower presidency (1953-61).

She quotes the president of the Montana Power Company in 1959: "Government ownership of utilities has always been the first goal of the socialists and communists. Because of this, the future of the American system of government is dependent on the electric business continuing in the hands of investor-owned, tax-paying companies.... Our problem is not only to save our industry, but to save the American system of government."

This blood-curdling rhetoric aside, and despite their excesses and waste, private electric utilities were able to provide decently priced electricity for several decades after the introduction of state-regulated monopolies. Technological advances and economies of scale kept prices low in the 1950s and 1960s.

This period ended with the oil crisis of 1973, prompting the utilities to lean toward building capital-intensive nuclear power plants, leading to disasters such as Three Mile Island in 1979. In the late 1970s, electricity prices soared due to the cost of building nuclear power plants, rising interest rates under the Democratic Carter administration and the escalating cost of oil.

The election of Reagan inaugurated a period of deregulation in the 1980s that hit upon the airline industry, natural gas, oil, financial services, telecommunications and transportation. (Reagan himself had been employed for 10 years at General Electric as a media relations opponent of public power.) This set the stage for electricity deregulation in the 1990s, which transformed one of the largest industries in the US, valued at $200 billion, "into one with minimal public safeguards, wildly fluctuating prices, and multiple opportunities for profits and losses."

In 1992, the Energy Policy Act required regulated utilities to allow other companies to use their transmission lines so that electricity could be traded across the country. It "encouraged adoption of market-based principles as a way to increase the availability and efficient use of energy supplies." In 1996, the Federal Energy Regulatory Commission (FERC) further deregulated the wholesale market, with California being one of the first states to take advantage of the new rules. That same year, the deregulation bill, AB1890, was passed with bipartisan support in both houses of the California state legislature.

The Foundation for Taxpayer and Consumer Rights (FTCR) asserted in January 2002: "In total, the deregulation law, enacted with the unanimous support of politicians in 1996, will cost Californians approximately $71 billion, or $2,100 for every man, woman and child in the state." Beder states that this figure includes "$23.6 billion in stranded costs, $10 billion in expected bailout costs for the utilities, $22 billion in inflated long-term contracts and $16 billion in excessive prices paid during 2001."

Not surprisingly, Beder devotes a considerable portion of her book to the Enron experience. Following deregulation, she writes, "Enron explored the lengths to which the commodification of energy could go...an icon of deregulation and the epitome of the free markets."

Enron CEO Jeff Skilling hinted at the company's philosophy when he suggested that energy companies needed to cut cost by 50 to 60 percent and get rid of employees because "they gum up the works." Making light of the California plight in 2001, he asked a business audience that year what the difference was between the state of California and the Titanic. He answered: "At least when the Titanic went down, the lights were on."

An article in *Fortune* written in 2001 summarized Enron's essence as a parasitical entity: "Enron operated under the belief that it could commoditize and monetize anything, from electrons to advertising space. By the end of the decade, Enron, which had once made its money from hard assets like pipelines, generated more than 80 per cent of its earnings from a vaguer business known as 'wholesale energy operations and services.' From 1998 to 2000, Enron's revenues shot from $31 billion to more than $100 billion."

It was not until Enron went bankrupt that documents surfaced proving that power companies had been manipulating California electricity prices through a number of different strategies. In 2000, when price caps were imposed, Enron sold electricity to another party outside the state and resold it back to California for prices far above the price caps. (Price caps applied only to electricity bought and generated inside the state.) Enron called this strategy "Ricochet," or "megawatt-laundering." Sometimes Enron bought electricity in California at the capped price of $250 per MWh and sold it for up to $1,200 in other states—this was called "Fat Boy."

Enron was not the only beneficiary. The profits of the California electricity companies also soared in 2000 and 2001. Most of the nation's leading power traders, including Reliant, Duke Energy and Southern Company, were spin-offs from the original, regulated utilities.

The utilities, PG&E and SoCalEd, benefited from deregulation. The huge losses claimed by the utilities—for which they demanded a $12 billion bailout from Democratic Governor Gray Davis—were parlayed into gains by their parent companies, each making $3 billion from selling off generating plants plus another $3 billion selling power from the remaining California generating plants at high prices. According to consumer advocates, the $12 billion could have bought all the power plants in California!

Since California's deregulation experience, 42 other states have begun steps toward the same process. A Department of Energy report in 1999 found that "[t]he overall effect has been that the infrastructure for reliability has been considerably eroded." Because there is no incentive in a deregulated system to upgrade equipment or assign accountability for equipment failure, blackouts have occurred so far in New York City, Chicago, Long Island, New Jersey, New England and Texas.

In Britain, the Thatcher government embarked on privatization in the 1980s, shifting the country from having the highest level of government ownership of industry among the OECD (Organization for Economic Cooperation and Development) countries to being the "most liberal" energy sector in the world. Australia followed, and by 1999 it was the worldwide leader in both announced and completed privatizations.

In the less developed, debt-laden countries, the World Bank and the International Monetary Fund (IMF) pushed for the opening up of public services, including electricity, to foreign investment. The proportion of World Bank "structural adjustment" loans made conditional on specific targets for deregulation rose from 13 percent in 1986 to 59 percent in 1992. Privatization was included in 70 percent of the World Bank's structural-adjustment loans in 2000. As a result, the rate of privatization quadrupled in Latin America and tripled in Asia. By the mid-1990s, 42 African countries had undertaken some measure of privatization.

During the 1990s, some $187 billion flowed into the energy sectors of 76 developing countries with disastrous results. For example, in Soweto, South Africa, 61 percent of the residents had their electricity cut off because they could no longer afford the rates. Brazil, which at one time had an abundance of cheap electricity, faced an acute shortage in 2001 when it was in the hands of foreign private investors. Following privatization in Rio de Janeiro, prices shot up 400 percent. "Forty percent of electricity workers lost their jobs, and the lights went out."

"Electricity privatization—more than any other privatizations—has been borne along on the intellectual and ideological trajectory of the New Right to the point at which privatization and competition appear to have achieved the near-total eclipse of the case for retaining public ownership," quotes Beder from a 1996 book by John Surrey, entitled *The British Electricity Experiment*.

However, the author of *Power Play: The Fight to Control the World's Electricity* does not grasp the objective roots of this development. Beder concludes her investigation by stating that the claims put forth by the deregulators and privatizers about the "historical inevitability" of the "worldwide trend that individual countries can't go against" are false. Her contention is that deregulation/privatization is "more like a confidence trick than a rational evolution of electricity systems...whose deception is becoming more difficult to sustain."

While there is an element of the con, deregulation is bound up with an enormous increase in the pressure of big investors and financial institutions—a pressure exerted through the stock market—for the highest possible short-term returns on their investments. This type of market operation is not peripheral to but at the heart of the world capitalist economy. For the last two decades, some 75 percent of total return on investments has resulted from capital gains derived from the appreciation of market values and not from profits and interest. This parasitical and speculative mode of accumulation that begets an increasingly criminal ruling elite is not an aberration but the dominant tendency within modern capitalism.

Power Play clearly demonstrates that the forces of privatization are transnational, but preaches that they can be controlled or regulated on a national level if sufficient protest is generated.

This is an illusion. Electrical production has run aground, in part, on the most fundamental contradiction of capitalism: the global character of production—in which millions of people vitally depend on reliable energy—and the constraints of national boundaries. The subservience of the energy system to blind market forces has created, and will continue to create, social catastrophes.

The power blackouts in various parts of the globe, the California crisis and the collapse of Enron reveal how the conditions of everyday life for masses of people are entirely subordinated to the process of frenzied profit accumulation by a thoroughly outmoded ruling elite. This is an objective historical process, not the result merely of greed, fraud and subjective policy-making.

Although Beder's political outlook is that of the anti-globalization protest movement, the logic of *Power Play: The Fight to Control the World's Electricity* tends to argue in an opposite direction: for a globally planned solution to a global problem, possible only after the socialist reorganization of society. On the whole, Beder's work is a meticulous and serious contribution to an understanding of what plagues the production and distribution of one of society's most elemental necessities.