tionally is Enron, the Texas-based conglomerate, a foremost speculator in energy futures, and raider of generating plants. Last year, Enron, along with Duke Power, bought many of the operating facilities of Pacific Gas and Electric, of northern California.

The photograph illustrates the dilemma now facing California: According to state deregulation law, the remaining hydropower capacity of Pacific Gas and Electric must also be sold. What this involves is literally part of the infrastructure landscape of a widespread area. The Pacific Gas and Electric hydropower holdings include an elaborate network of 174 dams, 99 reservoirs, 68 power plants, 380 miles of artificial waterways (aqueducts, tunnels, canals), and hundreds of acres of watershed property.

State Legislators: Stop the Deregulation

Don't sell, says Fred Keeley (D), a state legislator who has introduced a bill in the California legislature to postpone the process. Keeley's measures would authorize the state to buy up the utility company's land and other assets, and hold them for up to six years, while it is decided whether to transfer them to public agencies, or sell them to private bidders.

In Nevada, the spectacle of the California experience is cited by State Rep. Joe Neal (D-Las Vegas), as evidence for stopping the pending deregulation moves in his state. Originally scheduled to be deregulated as of March this year, the state's electric industry is now likely to be "marketized" this fall. Gov. Kenny Guinn has the last say on when the "market is ready." Current arrangements include setting the rates that the two pre-existing utility companies in the state—Nevada Power Co. in Las Vegas, and Sierra Pacific Power Co. in northern Nevada—will charge any newcomer suppliers for using the pre-existing power lines to transport electricity to the end-users, who are the targets to be bilked.

The 1999 legislature imposed a three-year freeze on rates for Nevada consumers, so they would not be creamed when the "markets" first open up. But after three years, it's anything goes. There are actions in the court against deregulation, but plans are going ahead.

Neal is seeking in the 2001 legislature to dump any deregulation. He charges that it will lead to higher rates for consumers under the present conditions. The *Las Vegas Sun* on July 6 reported, "Right now, Neal said there is a capacity for generating 78 million megawatts of electricity nationwide and 70 million is already committed. That leaves 8 million megawatts in reserve. That power, he said, would go on the open market to the highest bidder. If that happens, he said, 'Too many people will suffer.' The highest price paid by the supplier means increased cost to the consumer."

The North American Electric Reliability Council projects that demand for electricity will grow about 2% per year for the next five years, while supply will increase at 1.5% per year. And, that assumes the plans that companies have on paper actually materialize.

Falling Dominoes in Czech Banking System

by Angelika Beyreuther-Raimondi

With hardly a mention in the Western media, there was a near collapse of the Czech banking system in June. The customers of the Investicni a Postovni Banka (IPB), the third-largest Czech bank in monetary terms (or, calculated on the basis of the number of depositors and customers, the largest), began to withdraw their deposits when the bank's problems were publicly reported. On June 12 alone, the bank had to pay out 1.35 billion korunas (roughly $38 million). This was not the first crisis in the Czech banking system, but it was the most severe. In 1997-98, the Prague government had to intervene to bring a crisis at the Agrobanka under control, and a number of smaller crises, such as the temporary closing of the four largest commercial banks, shook the confidence of the population.

On June 16, the IPB, which had been controlled by the Japanese Nomura investment bank since IPB was privatized in 1998, was put under the management of the government and Central Bank, whose new managers brought in a special police force to deny access to the former management, and prevent further damage. Three days later, after a hectic weekend of negotiations, on June 19, the bank was sold to the large Czech CSOB bank, which, itself, had been sold last year to the Belgian KBC, making CSOB the Czech Republic's largest bank. Only the dramatic government intervention maintained the stability of the banking system and protected the deposits of IPB's 3 million customers. Had Prague not intervened, said Pavel Rococha, the head of the Czech Bank Supervisory Authority, IPB would have been forced to close and be put into bankruptcy.

IPB's problems obviously went beyond its low capitalization and reserves. The German business daily *Handelsblatt* quoted Rococha on July 5 saying, "The transparency of the bank also deteriorated because of the transfer of 60 billion korunas worth of assets, both inside the Czech Republic and abroad. Despite repeated inquiries, the bank supervisory authorities were unable to obtain data from IPB concerning the risks involved."

The size of the state guarantee is estimated to be 10% of the national budget.

In this situation, the recommendations of the International Monetary Fund demonstrate their cynicism: Last year, the IMF warned that the Czech Republic would have problems if it did not radically "reform" the pension system and reduce high expenditures for social security. At that time, some 40%

of the nation's budget was devoted to such social expenditures.

Industry, Government under Pressure

Since the banking system operates with an estimated 30% of "bad loans" and some 300 billion korunas debt burden, firms that do not have solvent foreign partners are now in danger of going out of business, because they have little ability to obtain commercial credit.

The structure of Czech industry has dramatically changed since 1989. The 135 large complexes which earlier constituted 90% of the country's industry are either bankrupt or have been broken up into small entities. A former industrial manager put it this way: "These industrial complexes survived the First and Second World Wars, but they did not survive ten years of freedom."

Today, multinational firms account for 40% of GNP and have a 60% share of exports. Volkswagen now owns nearly 100% of Skoda's auto production, and is expected to sell 440,000 of the Skodas produced in the republic, meaning that it has a 6.5% share of total technical exports. Other foreign firms produce nothing, but provide "services": McDonald's, Penny-Markt, Plus, Baumarkt, Leiser Shoes, etc., and their sales outlets can be found in every city and even in many small towns. But there are also interesting joint ventures, especially in the traditionally strong Czech mechanical engineering and machine-tool sectors, with medium-sized firms from Germany and other West European countries.

Under pressure from the crisis, it is no surprise that there is intense interest across the Czech Republic's political spectrum in the Ad Hoc Committee for a New Bretton Woods, and the related proposals from Lyndon LaRouche, to reorganize the international financial architecture and revive the physical economy. A delegation of the Schiller Institute, which met with political and business layers for discussions in Prague, was peppered with questions concerning the practical reorganization of a bankrupt banking system.

Prime Minister Milos Zeman, his social democratic cabinet, and 74 people in his parliamentary caucus, are in an unenviable situation. Following their close election victory in 1998, they formed a minority government which is tolerated by President Vaclav Havel and his ODS (63 seats). In this absurd situation, and with Havel waxing enthusiastic for U.S. Secretary of State Madeleine Albright's "Project Democracy" policies, there is scant room left for a real social democratic policy. For example, former Prime Minister Vaclav Klaus (1992-97) demanded a change in the cabinet, and the Minister for Regional Development as well as the Minister for Transportation were forced out, as the price for "tolerating" the government's 2000 budget.

However, on July 4, the cabinet decided to constitute a non-partisan subcommittee on the IPB affair, which is supposed to present its report within one year. Although a lot of water will have flowed down the Moldau by then, and new financial crises will shake the Czech Republic and the rest of the world, still, some interesting connections between IPB and IMF darling Klaus will be unearthed.

'The Little Man'

The average citizen is also in an unenviable situation. Officially, unemployment dropped from 9.8% in January to 8.7% in May, but, in many of the north Bohemian and Maehran industrial areas, it is over 20%, with no prospects for improvement. Over 60% of the population earns less than the average income of about 12,000 korunas per month (about $350), and the poverty line is about $120. Various state expenditures for the unemployed swallow up 12% of the state budget. When the price of gasoline unexpectedly shot up, it not only hit the average consumer hard, but also the deeply indebted hospitals—not to mention police and fire departments—which had not factored these increases into their budgets.

The railway, one of the largest employers, has already announced that money to meet the payroll is running low. Many firms are no longer able to pay wages on a regular basis.

The crisis is also making itself felt in the form of stagnating population growth: Compared to the period before 1989, the number of births has dropped by one-third. In 1994, there were 106,579 babies born; in 1995, less than 100,000; in 1996, less than 90,000.

It is high time that politicians summon up the courage to change direction, because the Czech Republic has enormous scientific potential, immense engineering talent, and rich cultural traditions. In order to retain and recapture these, Czechs have to look forward to a positive future. The Czech Republic should produce high-quality machinery and machine tools, as an equal partner with Germany, France, Italy, and the few other countries which are currently capable of doing it, for those countries which urgently need these industrial goods for their industrial development.

IMF Hyenas Gather Around Romania

by Paolo Raimondi

In mid-April, the International Monetary Fund (IMF) forced Romania to accept a budget for this fiscal year of even greater austerity and more privatizations of state-owned enterprises. A few weeks later, the entire Romanian banking system reached the point of collapse, masses of people began a run on the banks, and riots and protests involving thousands of people exploded in every major city in the country. This wave of bankruptcies escalated at the beginning of May, when the