

Chapter 1:**The Policymaking Process and the Reform of Latin American Public Utilities**

Economic policy preferences regarding the state's role in fostering economic development have traditionally moved in waves.¹ Less developed countries have usually been importers of ideas about economic policymaking to a larger extent than advanced capitalist countries.² By the 1990s, free-market ideas had reshaped the policy debate in the less developed countries, and especially in Latin America, due to the economic pressures created by globalization. After the 1980s debt crisis, capital scarcity encouraged most Latin American countries to pursue market-oriented policies. Even politicians that had campaigned on populist platforms often turned into neoliberal presidents after their inaugurations. Consequently, citizens of Latin America's fledgling democracies experienced a paradoxical combination of expanding political rights and shrinking policy choice.

Nevertheless, the apparent convergence toward free-market policies in the last two decades of the twentieth century has given way to unanticipated divergence at the dawn of the twenty-first. Nowhere is this divergence more clear than in the realm of utility provision. While some Latin American countries have continued on the path to privatization, others have interrupted the march, and still others have turned back in their footsteps. Chile, Mexico, and Argentina had been poster children of market reforms in

¹ Peter Hall (1993) elaborates on policy paradigms of ideas about economic policies. Paradigms change in waves and affect "normal policymaking" until the next change in paradigm.

² Weyland (2004: 11) discusses the psychological implication of policy learning across country borders suggesting that emulation is more likely to take place if originating in a country of higher status, therefore less developed countries are more likely to import policy paradigms from advanced countries than the other way around.

the 1990s. However, by 2005 new institutions had been consolidated in Chile, privatization had stalled in Mexico, and public ownership was returning to some of the previously privatized sectors in Argentina.³ Moreover, the stability of the new market institutions was guaranteed in Chile by the political parties that had originally opposed privatization. By contrast, the political party that had led the march toward market reforms in Mexico was resisting the privatization of electricity, and its Argentine counterpart had recovered its populist roots and was denouncing free-market policies.

This book explains this apparent puzzle by showing the understudied but persistent effect of political competition and partisanship on policymaking in Latin American during the era of market reforms. It also traces these effects to incentives for regulatory change that explain the subsequent policy divergence, which became so remarkable at the start of the new century. In a nutshell, it argues that when issues are publicly salient, political competition forces policymakers to take public opinion seriously, and voters' influence grows accordingly. When issues are not exposed to public scrutiny, however, policymaking is circumscribed less by political competition than by partisan ideology and interests. And finally, it argues that different issues are variably subject to public scrutiny depending, among other things, on their effects, transparency, and technical complexity. Furthermore, the effects of public salience persist long after the implementation of the new institutions, for political competition influences only the publicly exposed efforts at regulatory reform, which otherwise are dominated by private providers.

³ Although Argentina's 2001 crisis is correctly associated with the policy shift in this country, it was not an isolated phenomenon. For instance, Dominican Republic, which had been another poster child of market reforms under the administration of President Leonel Fernandez (1996-2000), was also prompted to nationalize electricity distribution in 2005 with the exit of private provider Union Fenosa. That same year, Bolivia, which had been among the earliest reformers in the region, was facing popular mobilizations demanding the nationalization of previously privatized oil and gas resources.

In addition to its empirical contribution, this book also seeks to shift our understanding of market reforms in developing countries by showing the value of focusing on the policymaking process rather than on policy occurrence or expenditures as a policy indicator. The literature on the comparative politics of developing countries has traditionally focused on policy outcomes or their effects, but has neglected the analysis of the policymaking process as such. Building upon the literature on advanced countries and studies of the United States in particular, this book shows that focusing on the process rather than on occurrence or policy effects on expenditures contributes to clarifying the debates about the politics of market reforms. In particular, it highlights how the effect of the same explanatory variables varies for different dimensions of the policymaking process.

This chapter is organized into four sections. Section one provides the historical background and introduces the object of study. Section two presents the variation in the dependent variable along the three dimensions of policymaking—adoption, implementation, and regulatory reform—and the three market-oriented policies analyzed in this study: privatization, market liberalization, and the establishment of regulators. Section three introduces the main argument and explores the effects of public salience, political competition, and partisanship on policymaking. The last section discusses the research design and the organization of the rest of the book.

I- Setting the Stage: Policy Convergence and Public Utility Reform

The shortage of capital and fiscal deficits resulting from the debt crisis in the early 1980s, along with the region's common cultural and religious background, conspired to facilitate the diffusion of market-oriented policies in the late twentieth century.⁴ The agents of policy diffusion included the international financial institutions, foreign investors, and domestic technocrats. Hunter (2001), Vreeland (2003) and Henisz et al (2005) show the influence of international financial institutions in promoting the adoption of market reforms; the latter, specifically in the realm of public utilities. Mosley (2003) demonstrates that foreign investors make more stringent and influential policy demands on developing countries through sovereign credit ratings. Kogut and McPherson (2004) underscore the influence of US-trained technocrats on the adoption of privatization across the world whereas Centeno and Silva (1998) provide more general evidence about their role in promoting market reforms in Latin America. Furthermore, the specific links between different agents of policy diffusion are explored by a number of analysts. For example, Teichman (2001) traces the influence of technocrats to their connection with peers in the international financial institutions. And Schneider (1998) argues that policymakers appoint technocrats in order to signal their willingness to undertake market-oriented reforms to foreign investors.

Nowhere is the effect of economic policy convergence in Latin America at the end of the twentieth century more obvious than in the realm of privatization, and especially in the privatization of public utilities. As publicly-owned utilities suffered from

⁴ Simmons and Elkins (2004) show that dominant language, common colonial heritage, and common dominant religion come close to capturing the identity orientations shared by countries and have an effect on the diffusion of economic policies, such as exchange rate, capital and current account policies (p.184). Further, Weyland (2004: 11) argues that policy diffusion is more likely from countries that are perceived as sharing similarities in economic and political characteristics, such as those of Latin America.

underinvestment and technological delay in a context of capital scarcity, market-oriented reforms not only attracted investment but also generated fiscal resources through the sale of assets.⁵ As a result, Latin America featured the highest proceeds from privatization in the world during the 1990s and most of that revenue was generated by public utility privatization (Chong and Lopez-de-Silanes 2005: 5).⁶ Yet studies not only show that, despite this strong regional effect, there was variation in the pace of reform across Latin American countries, but also suggest that political variables explain that variation (Chong 2005, Chong and Lopez-de-Silanes 2004).

This book proposes a theory for understanding market-oriented reforms and applies it to the reform of public utilities in Latin America. Market-oriented reforms in telecommunications and electricity—including the privatization of assets, liberalization of markets, and separation of regulatory authority from operations—spread rapidly in Latin America—and the rest of the world—in the last part of the twentieth century, and therefore provide an ideal opportunity for the study of incentives confronted by policymakers who are under external pressures. In 1980 only 10% of countries in the world had adopted market reforms in electricity and 6% in telecommunications; however, by 1999 these figures had risen to 41% and 73%, respectively. By the same date, moreover, 88% of the Spanish and Portuguese-speaking countries of Latin America—

⁵ The electricity industry in Latin America was suffering from lack of incentives for efficiency, price levels that did not cover costs, and lack of investment capacity due to the large fiscal deficits accumulated by state-owned companies (IADB 2001: 165). In telecommunications, because long-term capital investments make up a large fraction of telecommunications costs, the cost of keeping the system running was lower than the cost of making new investment, contributing to underinvestment by cash-strapped state-owned enterprises in a technologically dynamic sector (Noll 1999: 13).

⁶ Telecommunications and electricity provided the two largest shares of world privatization revenues between 1990 and 2000: 36% and 16% respectively. In Latin America, 75% of the value of privatization revenue came from utilities and infrastructure (Chong 2005: 8-9). Noll (1999) argues that the privatization of infrastructure was triggered by its effect on revenues, which could help with the compensations for the cost of adjustment to market-oriented reforms.

excluding non-capitalist Cuba—had adopted some market reforms in electricity and 94% of them had done so in telecommunications (Henisz et al 2005). Indeed, the diffusion of market reforms in these two sectors has been associated with technological change, pressures from the international financial institutions, and emulation of peer countries (Levi-Faur 1999, 2004, Henisz et al 2005). Furthermore, the rapid pace of market reform in telecommunications and electricity contrasts with the slow pace of their earlier nationalization in the region, which started in the late nineteenth century and did not end until the late 1970s. Moreover, as shown in figure 1, there were discontinuities in the nationalization process. Peaks of nationalization were visible during the 1940s and 1960s in telecommunications and during the 1950s and 1970s in electricity.

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This apparent policy convergence, however, hides important variation in the reform of Latin American public utilities. Although the 1982 debt crisis hit all countries of the region generating a simultaneous stimulus for reform, not all countries privatized both sectors. Indeed, even among those countries that undertook all three market reforms, there was variation in the pace of their adoption. The Chilean military regime and its neoliberal technocrats pioneered market reforms in electricity with market liberalization and regulatory reform in 1982 and had started the sale of the main utilities by 1986. In contrast, the Mexican PRI (Institutional Revolutionary Party) policymakers did not attempt to privatize electricity until 1999, although they had opened electricity generation to private investment in 1992 and set up a regulatory agency in 1995. The delay was most notable, not only because they failed to privatize, but also because the PRI was the party that had responded to the debt crisis with a dramatic policy turnaround toward market

reforms in 1985, including privatization, trade liberalization, and Mexico's joining the North American Free Trade Agreement with the United States and Canada.

Early economic studies suggested that privatization should be accompanied by competition and stressed the importance of independent regulatory authorities.⁷ However, there was variation in the implementation of each reform—including limits on the origin of capital, the division of assets for sale, conditions for their purchase, rules on entry to markets, and the structure and power of the regulatory authority—that had profound consequences for competition and regulatory stability. For instance, in reforming telecommunications, Chile and Mexico made different choices at implementation. The Chilean right-wing military regime privatized a major long-distance and a major local company with no limits to entry into these markets and no restrictions on foreign investment while severely limiting the regulatory discretion granted to the under-secretary of telecommunications. The Mexican PRI technocrats privatized a national monopoly, restricting the participation of foreign capital, and limiting entry into the long-distance market for five years. Moreover, they granted sufficient regulatory discretion to the under-secretary of telecommunications to effectively prevent entry of competitors into local communications for the same period.

Finally, studies on the political economy of market reforms suggest that private providers gain so much policy influence that they can hinder subsequent policy changes affecting their rents (e.g. Hellman 1998). However, there was variation in the success of efforts at modifying the adopted institutions as well as on the effects of regulatory

⁷ In their 1988 study of privatization based on the British experience, Vickers and Yarrow suggest that “changes in property rights will materially affect the incentive structures”...but...“the efficiency implications of these changes in incentives depend very much upon the competitive and regulatory environment in which a given firm operates.” (p.3).

reforms on the rents of providers. For example, both the Chilean military regime and the traditionally populist and democratically-elected Peronist government in Argentina privatized electricity, set up regulatory agencies, and created wholesale electricity markets with independent dispatch operators. Yet there were no regulatory changes in Argentina until the 2001 crisis hit and another Peronist administration ordered a freeze on electricity prices and modifications to the rules for operating the wholesale market, which had dramatic costs for providers and provoked the exit of some foreign investors. By contrast, in Chile there was one regulatory reform done directly by the executive power in 1997 and major legislative reforms in 1999 and 2004, all of them under the administration of a democratically-elected center-left coalition. Only the 1999 reform, however, was denounced by private providers as damaging to their interests and caused their subsequent drop in investment.

Beyond the theoretical value of understanding policy outcomes, the consequences of the adoption and implementation of market reforms in public utilities, and especially privatization, are enormous but controversial. The volume edited by Chong and Lopez-de-Silanes (2004) analyzes the consequences of privatization in seven Latin American countries reaching the conclusion that it improved efficiency, increased productivity, and expanded access for public services. According to Murillo and Martinez-Gallardo (2005), the mean rate of change in the density of telephone lines and electricity consumption per capita in the region increased in most cases after the sale of assets through privatization began compared to before.⁸ In telecommunications, privatization not only increased per

⁸ Exceptions are the Dominican Republic in telecommunications and Colombia, Guatemala and El Salvador in electricity. A difference of means test shows that on average the mean rate of growth for either service among countries that privatized was significantly greater after the public company was sold. This is also true using the number of telephone connections and the level of electricity consumption, or the change

capita penetration, but also reduced the waiting list for main lines and the faults per main line while increasing digitalization (IADB 2001: 185-186). Reform in the electricity sector expanded generation capacity through private investment, increased the security of supply, and reduced prices for large users (IADB 2001: 165-166).

Nevertheless, Latin American public opinion is not favorable to the privatization of public services (Carrera et al 2005). On the contrary, the distributive consequences of the reform have provoked ongoing controversy. For instance, according to an Inter-American Development Bank study of privatization (2001: 166), the expansion of electricity coverage was limited, residential consumers did not necessarily benefit from lower prices, and the lack of competition and poor regulatory institutions permitted the transfer of rents to the private sector. The effects of privatization, thus, were greatly shaped by the implementation of each reform. In particular the effect of rules regulating entry (and thereby investment of new entrants) in privatized markets and the type of regulatory authority established had an enormous effect on outcomes. For instance, the Argentine Peronist government established rules on entry limiting property concentration in electricity in 1991. Five years later, the right-wing ARENA (Nationalist Republican Alliance) government of El Salvador opened its electricity market with no entry rules. As a result, by 2001, the three main producers in electricity generation concentrated thirty percent of the market in Argentina and ninety percent in El Salvador (IADB 2001: 171).

This book makes a general argument about market reforms and tests it on the reform of public utilities in Latin America because these sectors suffered strong pressures

in these indicators. Differences in means were tested using the *ttest* command in Stata. The null hypothesis (mean (after) – mean (before)=diff=0) was rejected with 99% confidence in favor of the hypothesis that diff>0 for all versions of the test, with the exception of the rate of change in electricity consumption, which was rejected with 94% confidence.

for policy convergence and affect large sections of the population. Moreover, the reform of public utilities in Latin America also has an effect on the general view of the population about market reforms. Discontent with public utility privatization, for instance, has been associated with increasing disappointment with privatization in general throughout the region (Carrera et al 2005). Therefore, public utilities offer a valuable lens through which to understand not only the politics of market-oriented reforms in the 1980s and 1990s, but also the policy variation that emerged at the turn of the new century.

II-Disaggregating the Dependent Variable: the Policymaking Process

The dependent variable of this study is not policy occurrence or its consequences, such as the resulting levels of public expenditures, but the policymaking process. By shifting the focus of analysis from policy adoption or expenditures to the policymaking process, this book makes an important contribution to the study of comparative public policy in developing countries because it demonstrates that the effect of explanatory variables is not constant along the policymaking process.⁹

Kaufman and Nelson (2004) emphasize the need to study the policymaking process rather than policy adoption alone. In his study on the importance of time in political science, Pierson (2005) emphasizes the importance of focusing on policy feedback effects and how the first round of policymaking affects subsequent reforms to the policy initially adopted. The effects of adopted policies on subsequent policymaking may be generated by the consequences of specific policies on specific actors or by their

⁹ For two excellent examples using expenditures as the dependent variable to assess political effects on policymaking in Latin America, see Kaufman and Segura-Ubierno (2001) and Avelino, Brown and Hunter (2005). For criticism on the limitations generated by the use of expenditures as a policy measure, see Esping-Andersen (1990) and Mares (2005).

impact on the conditions for policy change at the level of the political system.¹⁰ Therefore, only by studying the different dimensions of the policymaking process rather than policy occurrence or the resources committed to it—as measured by studies on the political determinants of policies that use expenditures as an indicator—can the interaction between explanatory variables and other conditions that affect policymaking (such as public salience) be captured.

In capturing the policymaking process as a dependant variable, this book focuses on policy adoption, policy implementation (which can vary for the same policy), and attempts at changing the original rules. This operationalization of the dependent variables is applied to three policies usually defined as the standard package of market reforms in public utilities: privatization, market liberalization (i.e. opening of the market to private investment), and the establishment of regulatory authorities separated from operation, which have traditionally been studied only from the perspective of policy adoption.¹¹ For these three policies, the three different dimensions of the policymaking process can vary along a different range of options, which are explained below.

¹⁰ For instance, in discussing conditions for regulatory change in the area of social policy, Pierson (1994) explains the differences between the politics of welfare expansion and retrenchment focusing on the policy feedback generated by the original policies. By contrast, Cox and McCubbins (2001) explain regulatory adoption and change by focusing on two main characteristics of political systems—decisiveness (how easy is to adopt a policy) and resoluteness (how easy is to change a policy once adopted). These conditions are caused by institutional checks and balances along with power distribution, which in turn can be affected by policy consequences.

¹¹ Henisz, Zelner and Guillén (2005) and Levi-Faur (2003, 2004) use these three policies as indicators of market reforms in public utilities in studies of cross-regional scope. These studies, however, focus on reform adoption and their cross-regional nature does not permit the analysis of regional patterns. Henisz' et al impressive study of seventy-seven countries demonstrates the role of international financial coercion at the macro-level, but does not analyze patterns within regions. In comparing reform adoption in Europe and Latin America, Levi-Faur (2004) finds cross-sectoral patterns of reform adoption. In his 2003 study, Levi-Faur also analyzes the implementation of market liberalization as a dichotomous variable and he finds cross-regional variation. This result suggests that a disaggregated analysis along policy dimensions should provide a more nuanced understanding of regional patterns of policymaking.

a) Policy Adoption

By policy adoption, I mean the “authorization” of the reform by either legislative or executive decrees (Kaufman and Nelson 2004), but not the implementation of technical regulations that foster different effects for the same policy. The study of policy adoption involves each of the policies in question: privatization of assets, market liberalization (i.e. allowing the entry of private capital into industries that had been public monopolies), and the establishment of regulatory authorities separated from operation. Each of these three reforms is part of the standard package of market reforms in electricity and telecommunications and they are usually associated with each other. That is, rules for entry and the structure of regulatory authorities inform investors of their potential returns and probabilities of regulatory expropriation in the privatized markets.

The adoption of market reforms in public utilities confirms the trends toward policy convergence in Latin America. By 2000, fifteen of the eighteen countries had decided to privatize telecommunications (telecommunications in the Dominican Republic had been private since the 1930s) and eleven had private operators in place (including the Dominican Republic). Meanwhile, fourteen countries had taken the decision to sell electricity assets and eleven had already privatized them. Sixteen countries had opened the electricity market to private investment. Eleven countries had opened the long-distance telecommunications market to competition and ten had done so for local communications. Finally, the establishment of telecommunications and electricity regulators had been accomplished in all countries, with the partial exception of Paraguay.

In spite of the trend, there was variation in the pace of reform adoption from the pioneering experience of Chile, which decided to privatize and open markets in both sectors in 1982 to others that did not adopt some of these reforms by the end of the century or dragged their feet in undertaking these policies despite the common stimulus provided by technological and financial pressures since the mid-1980s. Furthermore, there was also variation in the sequencing of policy adoption that had an important effect on the subsequent policy influence of private providers. For instance, if privatization precedes market liberalization and the establishment of regulatory authorities, the new private providers will be able to exercise policy influence in the adoption of these reforms.

b) Policy Implementation

The adoption of a policy with the same name, such as privatization, often obscures the different ways in which that policy can be implemented. There are different reasons for variation in implementation. Policymakers can adopt policies as an expressive gesture to please powerful actors or just out of social mimicry, but then implement policies in different ways, as they all do not share the same goal. Alternatively, governments can implement policies in different ways because they adapt the same institutions to their particular contexts.¹² Finally, institutional choices may differ because the policymakers in charge of their implementation have different goals.

The different institutional choices involved in implementation vary along each of the three studied policies. On privatization, implementation involves decisions on the

¹² In analyzing policy learning from foreign models, Weyland (2004:23-25) discusses expressive policy adoption as well as adaptation of imported policies through implementation to different domestic contexts.

origin of the capital, the conditions for the sale, and the division or consolidation of assets before their sale. On market liberalization, policymakers have to decide whether to establish rules on entry or not, and what type of limits to impose—to either promote or restrict property concentration. Finally, in establishing regulatory authorities, policymakers need to decide whether to set up a new agency or to use the structure of an existing ministry, and if a new structure is created, what degree of independence will it be granted. Whether a new structure is created or not, policymakers decide on the power delegated to the regulator (i.e. its discretion in making regulatory decisions).

Variation in policy implementation affects the concentration of property, prices, and service expansion, and therefore, consumer welfare. By shaping the distribution of market power as well as the power of regulators, the decision to opt for different institutional choices influences subsequent regulatory reform after providers have already deployed their investment and their exit costs have increased.

c) Regulatory Change

Studying regulatory change in the privatized industries is important in assessing the political effects of policy adoption and implementation on the subsequent processes of policymaking. New actors, such as private providers, and new institutions, such as regulatory agencies, are created in the process of reform adoption and their influence should re-shape subsequent policymaking in the privatized industries. As these processes are relatively recent, the consequences derived from the study of regulatory change are tentative, but provide some indication of short-term effects.

In assessing modifications to public utility regulations, it is important to evaluate the occurrence of reform and its impact on providers' rents. The literature on privatization suggests that because investors in these sectors have high sunk cost, after deploying their capital, their bargaining power declines, thereby generating incentives for regulatory expropriation (Levi and Spiller 1995). The expectation that regulatory reform will reduce providers' rents is reinforced by the effect of privatization on the expansion of coverage—and therefore, the number of consumers—in the new Latin American democracies. However, the private interest literature argues that investors with high exit costs and large stakes are likely to influence the policy process (Frieden 1991) and because public utility providers have an organizational and informational advantage relative to consumers, they should prevent a reduction in their rents through regulatory reform (Stigler 1971). The diverse experiences regarding the occurrence of regulatory reform and their effect on providers' rents across countries and sectors will thereby serve to provide an empirical assessment of this theoretical controversy in the context of new market institutions.

In assessing specific policy feedback effects on regulatory change, it is important to consider both the sequence of policy adoption and consequences of the institutions defined at implementation. If privatization was adopted first, we should expect private providers to try to prevent reforms that may affect their rents (Hellman 1998). Institutional choices at implementation not only affect the resources of providers, but also their ability to coordinate collective action by establishing incentives for collusion or competition when facing regulatory changes that may affect their relative prices.

III-Introducing the Argument: Public Salience, Political Competition and Partisanship

Whereas the previous section focused on the dependent variable and the value added by disaggregating it, this section introduces an argument derived from the interaction of public salience, political competition, and partisanship. The effect of the explanatory variables—*political competition* and *partisanship*—varies depending on the public salience of each dimension in the policymaking process. When issues are publicly salient, political competition makes policymakers consider the voters' preferences. When issues are opaque for the public, partisan ideology and interest influence the preferences of policymakers.

Public salience is related to the technical complexity, scope of effects, and historical development of the issue. This concept is similar to Baumgartner and Jones' (1993) argument about the effect of public exposure on policymaking. They suggest that low exposure favors policy stability and incremental change (within institutions) whereas high exposure is associated with dramatic change (including institutions). Similarly, I argue that policymaking varies when exposed to the scrutiny of public opinion. The public salience of each policy issue varies depending on its technical complexity, the scope of its effects, and historical developments related to previous policymaking. Thus, the factors increasing the public salience of a policy are its technical simplicity, its broad effects on the population, and its relation to historically defined citizen entitlements. These conditions are likely to increase public attention and the probability that these policies become electoral issues. By contrast, technical complexity, narrow effects, and policies that are not associated with citizen entitlements reduce public exposure and the likelihood that policy reform will be salient on the electoral trail.

Public salience varies along the different dimensions of the policymaking process. Policy adoption is usually more publicly visible than the more technically complex implementation or regulatory reform—unless the latter is produced by a crisis or sudden change on prices or quantities of the delivered services. There is also variation in public salience across policies depending on their effects. Privatization usually has immediate effects on consumers by ending cross-subsidies, which makes it more visible, than the establishment of a regulatory agency, which lacks immediate effects on price or supply.

The history of both sectors and differences in coverage across Latin American countries can also produce different levels of public exposure. The reform of electricity was more visible than that of telecommunications because it was considered a necessity and, therefore, its coverage was much broader than that of telecommunications across all Latin American countries by the mid-1980s.¹³ Telephone provision—beyond public pay phones—instead was considered more as a luxury until later into the nineties.¹⁴ Thus, telecommunications reform promises access to a majority of the population without risking changes in relative prices for a service for which they have no coverage. The possible gains for telecommunications reform are thereby higher in countries with more limited telephone coverage. By contrast, electrification was considered part of long-term development efforts in the region and electricity is easier to steal than telecommunications. As coverage is broader, the effect of reform is more likely to be perceived on relative prices of an existing service rather than on potential access.

¹³ In 1989, when only Chile had privatized either of both sectors, there were 5 phones per 100 inhabitants on average in all Spanish and Portuguese speaking countries of Latin America (excluding Cuba) according to the ITU whereas the average coverage of electricity was 60% (World Bank and OLADE, 1991).

¹⁴ A comparison of coverage for both sectors across income deciles in Brazil by the end of the 1990s is revealing of this difference. In 1999, less than five percent of people in the lower quintile had access to telephones at home but eighty percent had access in the highest decile, while more than eighty percent of those in the lowest quintile and a hundred percent of those in the highest decile had electricity (IADB 2001: 175 and 179).

Potential losses are more likely to generate mobilization than potential gains and thus electricity reform has a higher potential for politicization, which raises its salience for political competition.¹⁵

In short, variation on public salience shapes the effect of political competition and partisanship, which are the main explanatory variables for the politics of adopting and implementing market-oriented reforms. Moreover, public salience also has an impact on subsequent policymaking by allowing consumers to gain influence on regulatory reform through political competition.

Political Competition:

Political competition signals to policymakers the threat of their displacement as their electoral margins dwindle and their challengers can use unpopular policies to attract disaffected voters. When political competition increases, so does the marginal value of votes, making it less likely that policymakers pursue policies likely to have electoral costs—if policies are popular, the effect will be in the opposite direction. Yet political competition requires public exposure that generates the risk of the issue turning electorally salient.

Political competition generates electoral, legislative, and informational effects. The electoral effect involves the relative threat of rivals taking power and the possibility of their using market reforms of public utilities in the electoral campaign, which assumes public salience. It involves both voter dissatisfaction with the incumbent and the credibility of contenders to provide an alternative to policies unpopular with voters. The

¹⁵ Pierson (1994: 18) explains this effect for social policy based on propensity to risks since individual are more risk averse with respect to gains but risk seeking with respect to losses. I thank Bob Kaufman for bringing this point to my attention.

main indicator of an electoral threat generated by political competition is the electoral margin between the incumbent and his/her main electoral rival and can be measured retrospectively in real elections or prospectively with public opinion surveys.

The legislative effect generates incentives for opposition in Congress because legislative posturing generates credibility for the main electoral contenders as providers of policy alternatives—especially because economic and technological pressures for policy adoption are only suffered by incumbents. The main indicator of the occurrence of this effect is the ideological distance between the incumbent party and its main legislative opposition. Ideological distance reduces the likelihood of policy coalitions and increases the credibility of contenders as having different policy ideas, thereby favoring legislative posturing. Legislative posturing, in turn, is more likely when it will be noticed by public opinions as should happen with publicly salient issues.

Finally, the informational effect is generated by the incentives for denouncing these policies—with strong distributive effects—by opponents who want to gain credibility vis-à-vis potential voters. Their denunciations further their credibility as alternatives to the incumbent if policies are perceived as failures and favor their use of regulatory reform in the electoral trail.¹⁶ Indicators of this effect include public statements by electoral challengers and their mobilization of policy opposition. As with the other effects, public salience is important in defining the impact of public statements in building a credible electoral threat and increasing the appeal of calls for participation in policy protests.

¹⁶ Grzymala-Busse (2003) argues that political competition generate incentives for political parties to check on each other dubious redistributive practices in the new democracies of East Central Europe. Studying the same region, Orenstein (2001) argues that political competition generates incentives for policy change when rivals get to power, thereby reversing policy mistakes.

Partisanship:

Partisanship has two components—ideology and constituencies—that affect the policymaking process. Ideology has an effect through delegation to allied technocrats, and constituencies through pressures for distributive benefits carved out of market-oriented reforms. Both effects are more likely under low public salience and limited public opinion pressures on policymakers. In the case of economic policymaking, partisanship involves ideology, constituencies, and technical cadres. Partisan ideological beliefs are usually expressed in policies that benefit partisan constituencies. Technical cadres tend to self-select themselves to political parties with which they share a partisan ideology and/or personal links with politicians who can appoint them to office. Indeed, the lack of meritocratic civil service in the region should make technocrats more tuned to political preferences than bureaucrats as they are dependent on politicians for the continuation of their tenure (Weyland 2004).

Policy implementation usually involves technically complex institutional choices that limit its public salience while favoring delegation to technocrats. While delegation is justified by the informational asymmetry between politicians and technocrats, the former want to select technocrats whose ideas they trust (and are likely to benefit their partisan constituencies).¹⁷ Technocrats have different preferences for state regulation in a continuum from statist to neoliberal and politicians are likely to delegate to those that

¹⁷ Politicians are more likely to delegate to bureaucrats in a context of high policy uncertainty because the latter have information about technical policies whose consequences are hard to understand for politicians. The use of partisan ties in the selection of technocrats is similar to the application of the ally principle by which politicians are more likely to delegate to bureaucrats who share their preferences. See the summary of Huber and Shipan (2005) on the effect of both policy uncertainty and the ally principle on the incentives for delegating to bureaucrats, which I am applying here to technocrats due to the lack of civil service in the region.

they perceive as having preferences more similar to their own. External pressures forcing governments to adopt market reforms also induce every reformist administration to appoint neoliberal technocrats, either as preachers of the new creed or signals of their own commitment to the religion. Hence, neoliberal technocrats act as agents of diffusion for free-market policies as has been amply documented by the literature on market reforms.¹⁸ However, political parties with a statist past (i.e. converts) also have technocrats with more statist preferences in their ranks, thereby making technical disagreement within the administration more likely than when pro-market political parties (i.e. true believers) are in power. In contrast to the first effect of neoliberal technocrats promoting the adoption of market-oriented reforms, this second effect of technocrats producing different advice for policy implementation is less visible because the technical complexity of this process reduces its public exposure.

Political parties also have different constituencies and those with a statist past are more likely to have supporters that have benefited from state intervention and may be hurt by market reforms, such as labor unions. Policies of low salience are easier to use for redistributing to partisan constituencies (especially if compensation is necessary to keep them on board). Institutional choices with immediate distributive effects—such as price subsidies or cheaper access to privatized assets—are particularly attractive for partisan constituencies. This distributive effect to partisan supporters along with delegation to allied technocrats should therefore generate a partisan bias in the implementation of market reforms, which often goes immediately unnoticed by the public due to the low salience of the issue.

¹⁸ The role of neoliberal technocrats, who share a common postgraduate education or at least epistemic communities, as agents of diffusion for free-market policies is analyzed, among others, by Teichman (2001) for Latin America and Kogut and McPherson (2004) for privatization across the world.

Public Salience in the Policymaking of Public Utility Reform

The policy effects of political competition and partisanship, thus, are conditioned by the public salience of the issue or dimension of policymaking. As public salience varies along the policymaking process affecting the likelihood of a policy turning electorally salient, so does the effect of political competition. Due to variation in public salience, political competition should have a stronger effect on electricity than on telecommunications, on policy adoption rather than on technically obscure policy implementation, and on privatization rather than on the establishment of regulatory authorities without immediate effect on supply or prices. By contrast, due to low public salience, partisanship should have a stronger effect on policy implementation than on adoption. Political competition, however, can have an indirect effect on policy implementation by signaling disaffection with the pro-market policies of the incumbent and thereby eroding the influence of the most neoliberal technocrats. This effect can weaken their capacity to persuade policymakers to implement their preferred institutional options as their tenure is dependent on politicians.

Regulatory change is not usually salient due to its technical complexity, but on occasions is associated with external shocks, such as dramatic changes in supply or prices. If the reform is not salient, actors with an advantage in information and resources, such as providers, usually have the upper hand in lobbying policymakers except when the regulatory change has redistributive consequences between themselves in addition to its effect on consumers. When the public is aware of regulatory change, though, political competition can grant further policy influence to residential consumers, qua voters. In

particular, political parties that had opposed policy adoption can credibly use consumer advocacy as an electoral banner because not only had they not established the original institutions, but that had also denounced their deleterious consequences. That is, they have an advantage in selling themselves as alternatives to pro-market incumbents in trying to attract the votes of disappointed consumers.

In sum, without ignoring the effect of economic and technological pressures that pushed for policy convergence, this book argues that political competition and partisan ideology and interest played an important role in shaping policymaking for market reforms in general. The effect of each of these variables varies depending on the public salience of each dimension of the policymaking process. The following section presents the plan of the book to test the empirical implications of this argument in the reform of public utilities.

IV- Establishing a Roadmap

Whereas the previous sections presented the dependent and independent variables, this section focuses on the research design adopted to test the effect of public salience, political competition, and partisanship on the policymaking process of the three market reforms (i.e. privatization, market liberalization, and the creation of regulatory authorities) in the two different industries. The comparison across countries, sectors, and policies allows me to control for policy-, national- and sector-specific factors that have been emphasized by the current literature on comparative public policy. This research

design does not assume that each observation is independent, but that the three-way comparison facilitates controlling for factors that affect only one of these dimensions.¹⁹

The plan of the book is the following: chapter two develops the empirical implications of the argument that are tested in subsequent chapters. Chapter three starts with a quantitative analysis of the impact of political competition on the adoption of the three policies across all Latin American countries between 1985 and 2000. During this period, these countries were subject to similar financial pressures derived from capital scarcity and fiscal deficits as a result of the debt crisis whereas they were facing the same technological developments in the two sectors. The period was elected because the division of ATT and the first privatization of telecommunications (i.e. British Telecommunications) took place in 1984. Moreover, in 1985, both Bolivia and Mexico turned to market reforms to deal with the conditions left by the 1982 debt crisis initiating a trend that was followed by most countries in the region. At the end of 2001, as Argentina collapsed, making the poster child of market reforms into a basket case, several analysts start to decry the slow-down of free-market reforms in Latin America.²⁰

Chapters four to six provides in-depth qualitative studies of the experience of three countries on policy adoption, implementation, and regulatory reform. In choosing the three countries for the qualitative study, I used two criteria: a) that the reforms had started relatively early so that their distributive consequences affected the process of

¹⁹ In quantitative analysis the use of fixed effects and clustering of observations controls for the lack of independence on observations. In the qualitative analysis the comparison of cases within countries or industries can similarly serve to control for the lack of independence in observation along that dimension.

²⁰ Panizza and Yañez (2005) identify 2000 as the first year when the support of Latin American public opinion for privatization in general, as measured by the Latinobarómetro, falls below 50%. Yet, the Argentine crisis of 2001, generated a window of opportunities for those promoting ideas contrary to market reforms and considerably weakened the influence of the “Washington Consensus”, especially as external capital flows to the region dramatically dropped in 2002. Indeed, the contribution of external capital to domestic investment in Latin America dropped from 13.1% in 2001 to 2.1% in 2002 and -3.1% in 2003 according to the 2004 ECLAC Statistical Yearbook for Latin America and the Caribbean (p.176).

regulatory change, and b) to allow for longitudinal variation in the party in government (i.e. power alternation) and on levels of political competition, which are the main variables of interest. To control for the effect of economic variables, such as the size of the potential market for private providers and the level of development, I chose three middle-income countries: Argentina, Chile, and Mexico. These three countries also had the advantage of having different regimes at the time of reform, which provides variation in the exposure of policymaking to public scrutiny that was not related to the characteristics of the studied policy. A qualitative study of the experience of these three countries with these market reforms in telecommunications and electricity provides detailed evidence for my argument about political competition and partisan ideology and interests that cannot be accounted for by statistical analysis. Chapter seven summarizes the empirical findings to provide a more complete picture of the policymaking process as such.

The final chapter discusses the theoretical implications of the empirical findings in this book for comparative public policy in the developing countries. First, through the study of policymaking for market reforms in electricity and telecommunications, this book highlights the different political dynamics established at each stage of the policymaking process, including policy adoption, policy implementation, and the subsequent incentives for regulatory reform. In doing so, it demonstrates how the effect of the main explanatory variables, along with other crucial factors in the literature on market reforms, vary along the policymaking process. Second, within the policymaking process, the analysis of both the adoption of market reforms at the time in which the policy paradigm is changing, and subsequent regulatory reforms after “normal

policymaking” is in place, allows me to assess the political dynamics generated by the sequencing of policy adoption and the policy feedback effects generated by different implementation of the same policy. In particular, this book highlights the policy consequences of reforms in creating new actors with vested interests in the existing regulations and in providing them with different endowments of resources. Additionally, the comparison of both industries illuminates the effect of external shocks (i.e. technology changes more rapidly in telecommunications than in electricity) in shaping economic resources that can later be used for policy influence.

To conclude, this book demonstrates that even in the context of strong financial and technological pressures promoting policy convergence in the developing world, political competition and the identity of incumbents matter for the policymaking process, thereby giving some hope to the value of citizens’ votes. It also explains the mechanisms by which political competition and partisanship affect the different dimensions of the policymaking process. These mechanisms include the selection of technocratic advisors, the information provided by partisan constituencies, the ideological location of political contenders, and the potential for attracting disaffected consumers with regulatory reforms. Indeed, this study helps to understand the survival of ideological preferences that were not visible the 1990s and became more obvious as many converts to market reforms returned to their statist roots at the dawn of the new century, in a way that cannot be explained by the current literature on market reforms in Latin America.

Figure 1: Nationalizations in Electricity and Telecommunications in Latin America

