Cambridge University Press
978-0-521-88431-0 - Political Competition, Partisanship, and Policy Making in Latin American Public Utilities
Maria Victoria Murillo
Excerpt
More information

Introduction

As democracy was returning to Latin America in the 1980s and 1990s, the citizens of the region's fledgling democracies experienced a paradoxical combination of expanding political rights and shrinking policy choice. Governments of different partisan orientations pursued market-oriented policies. Unsurprisingly, right-wing governments, such as Violeta Chamorro's in Nicaragua or Armando Calderon Sol's in El Salvador, adopted market reforms. Yet, unexpectedly, market-oriented reforms were also accomplished by populist parties that had previously promoted state-led growth and infrastructure nationalization, such as the National Revolutionary Movement (MNR) in Bolivia under Victor Paz Estenssoro, the Peronists in Argentina under Carlos Menem, or Democratic Action (AD) in Venezuela under Carlos Andres Perez. The decline of partisan differences in economic policy making seemed to render the vote inconsequential for economic policy outcomes in the new Latin American democracies.

One of the most symbolic transformations produced by this regional wave of market-oriented reforms was the policy shift of former champions of infrastructure nationalization into privatizers of the same services. Unexpected reformers included political parties that had nationalized public services, such as electricity and telecommunications, claiming the need to defend national sovereignty: nationalization and coverage expansion had been deemed crucial in these two sectors of utmost importance for economic development and the everyday life of households. In the aftermath of the 1980s debt crisis, however, under pressure from financial shortages and technological underinvestment, the formerly populist parties joined their right-wing rivals in seeking to attract private capital and management to these two sectors characterized by capital intensity and technical complexity. In the 1990s, Latin America was the region of the world that moved most quickly in attracting private capital to electricity and telecommunications.

The paradox of apparent policy convergence in the new Latin American democracies provides an opportunity to further our understanding of the effects of partisanship and electoral competition on policy making. Most literature on political parties assumes that linkages between voters and politicians should ideally be based on policy accountability, which requires clear policy differentiation between parties (Hinich and Munger 1994). Hibbs's seminal article (1977) shows how partisan differences on macroeconomic policies (either expansionary for left-wing parties or antiinflationary for right-wing parties), reflecting the interests of constituencies, produced different macroeconomic outcomes in advanced democracies. Alesina (1987) and Alesina et al. (1989) add rational expectations to this partisan theory, thereby predicting that differences in macroeconomic policy should be transitory and should occur immediately after the change of government.

The contemporary literature on globalization emphasizes how increasing capital mobility since the 1970s has reduced the influence of domestic politics on economic policy outcomes by making all countries compete for footloose capital. Following Downs's median voter model (1957), the argument is that politicians are limited in their policy options for fear of creating deleterious economic consequences for constituents that would impinge upon their chances of reelection (Strange 1996; Simmons 1999). Boix (2000) shows how institutional arrangements and increasing capital mobility affect partisan macroeconomic policy effects. Garrett (1998) and Boix (1998) qualify this argument about policy convergence by pointing to partisan differences on economic policy making in advanced democracies into the 1990s, especially with regard to microeconomic policies.

Yet recent studies of policy making in advanced democracies for technically complex and capital-intensive public utilities, such as telecommunications and electricity, emphasize the combination of technological and competitive pressures with institutional effects, and especially the role of technical bureaucracies (Vogel 1996; Thatcher 1999; Bartle 2002; Levi-Faur 2004).[1] Only Schneider et al. (2005) focus on partisanship and

[1] Most of these studies of public-utility reforms undertaken in response to globalization pressures in advanced capitalist countries rely on national institutional differences or follow the literature on "varieties of capitalism" (Hall and Soskice 2001), which argues that different institutional configurations generate incentives for economic actors to sustain these diverse equilibria.

find that right-wing governments privatized, whereas left-wing governments defended state-owned telecommunications companies in advanced countries. They conclude that partisan effects declined in the 1990s, however, as privatization became widespread.

When less-developed countries characterized by capital scarcity are included in empirical studies of public-utility policy making, the emphasis shifts to financial incentives (Henisz et al. 2005) and to the role of technocrats – especially U.S.-trained economists – in promoting the diffusion of privatization (Kogut and Macpherson 2004). It seems clear that market-oriented reforms in Latin America were encouraged by financial pressures – including the leverage of international financial institutions and foreign creditors, as suggested by Stallings (1992) – and that they were subject to the influence of experts promoting free-market ideas as a means of access to financial markets (Teichman 2001; Weyland 2005). This study, however, will argue that even when external financial pressures were high, electoral competition and partisan linkages shaped policy making in the reform of Latin American public utilities. That is, electoral choices have implications for economic policy making even when countries are most exposed to the pressures emphasized by the globalization literature, and even in two sectors in which capital intensity and technical complexity heightened the influence of financial markets and expertise, facilitating a worldwide trend toward increasing private participation at the end of the twentieth century (Henisz et al. 2005).

Beneath the veneer of policy convergence, domestic electoral choices did shape policy outcomes in the Latin American reforms of telecommunications and electricity, both at the time of their adoption and in subsequent processes of postreform regulatory change. Credible electoral challenges generated incentives for incumbents to focus on marginal voters. This focus, in turn, favored the status quo at the time of reform and regulatory redistribution to consumers in the postreform period. When their survival in office was not at risk, policy makers focused on core constituencies through partisan policy preferences. These shaped the regulatory content of reforms adopted by cash-strapped incumbents and generated diverse distributive preferences for regulatory change in the postreform period.

To briefly summarize this book's argument, political competition explained the timing of privatization – and reform adoption more generally – whereas the partisan orientation of incumbents shaped the content or design of these policies. That is, the threat of electoral replacement by a challenger who could credibly oppose market-oriented reforms made incumbents less likely to adopt these policies, despite fiscal and technological pressures. In the absence of such a threat (for instance, if the challenger was weak or to the right of the incumbent), Latin American presidents succumbed to fiscal pressures and demands for technological upgrading by adopting market-oriented reforms in public utilities. The content of these policies varied, however, depending on the partisan identity of reformers, because politicians faced different distributive demands from their constituencies, inherited different ideological biases in interpreting technical choices, and relied on different experts for advice. Reformers might be either right-wing politicians who were true believers in the market creed or populists who had previously promoted statist policies for public utilities and pragmatically converted to the new religion only under fiscal strain. In the first case, reforms were more likely to be market conforming, and in the latter, market controlling. An index of regulations regarding foreign investment, entry rules, investment conditions, and degrees of regulatory discretion over pricing and market conflicts provides evidence of this systematic difference in regulatory content.

After market-oriented reforms had been adopted, and regardless of the incumbent's partisan affiliation, electoral competition continued to encourage policy makers to focus on marginal voters when public salience was high, thereby generating incentives for direct regulatory redistribution to residential consumers. At times of low electoral competition, partisanship generated different regulatory preferences for incumbents depending on their role in the initial reform process. The regulatory preferences of the new private providers, in turn, varied according to the original pattern of reform and interindustry technological differences. Political institutions provided diverse forums for and constraints on the articulation of policy makers' and providers' preferences for regulatory outcomes.

Setting the Stage

Latin American policy makers were under dramatic external pressures to adopt market-oriented policies during the last two decades of the twentieth century. Due to the deleterious effects of the 1980s debt crisis on the preexisting model of import substitution industrialization and state-led development, most Latin American countries became avid importers of the new economic policy paradigm associated with market-oriented ideas during this period (Edwards 1995).[2] The effects of capital scarcity were dramatic in this region because the debt crisis closed access to financial markets and triggered capital flight (Frieden 1992). The search for policies to attract scarce capital to fill government coffers fostered the influence of free-market ideas in the policy debate during the 1980s and 1990s, especially in light of the inflationary consequences of financing the deficit through expansive monetary policy. The weight of fiscal deficits, trade imbalances, and debt arrears was so heavy that even politicians who had campaigned on populist platforms often turned into neoliberal presidents after their inaugurations (Stokes 2001). Thus, the pressure of capital scarcity in Latin America and the subsequent adoption of market-oriented reforms across the region seemed to suggest the erosion of partisan policy making and electoral policy influence. Johnson and Crisp (2003), in particular, find that the party of the president had no significant effect on the pace of market reforms in the region during the period from 1985 to 2000. Instead, fiscal deficits and macroeconomic conditions replaced partisan preferences as the variables explaining the pace of adoption of these policies (Stallings and Perez 2000; Weyland 2002a; Corrales 2002).

In analyzing these conclusions, and in particular the incentives and constraints on policy making in Latin America during this period, it is useful to consider reforms in electricity and telecommunications, for a variety of reasons. These two sectors combined capital intensity and technological complexity, which should have increased the influence of two mechanisms identified in the literature as crucial in the diffusion of market-oriented reforms: financial markets and U.S.-trained experts. Moreover, after the debt crisis provoked the largest recession in the region since the Great Depression, politicians found market-oriented policies attracting private investment to these crucial infrastructure sectors appealing. Meanwhile, as electricity and telecommunications services were massively consumed and had a strong potential for expansion due to unmet demand, they provided incentives both for the politicization of prices and access and for the organization of consumers. New democracies allowed elections and the organization of civil societies and thereby opened

[2] The countries in the region share a common cultural background that should have facilitated policy diffusion (Simmons and Elkins 2004; Weyland 2005).

both channels for consumers to exercise their voice. Finally, reforms aimed at increasing private participation (through either privatization or new investment) in these sectors generated new political actors – private providers – whose influence on subsequent policy making is crucial to assess the effect of market-oriented reforms on reshaping the patterns of policy making in new democracies.

In choosing to focus on public services, and electricity and telecommunications in particular, for my empirical research, I chose not to investigate other market-oriented reforms that figure prominently in the Latin American literature. Macroeconomic policies did not have such an immediate effect on the organization of new actors, such as consumers, in the newly democratized civil society, and neither did they create a clear set of new private-sector actors, as did the privatization of public utilities.[3] Pension and labor reforms were also subject to policy diffusion but only covered those employed in the formal sector (about half of the regional workforce), thereby facilitating mainly interest group political influence.[4] Health and education were already segmented between private and public provision, and therefore private providers were important policy players, but not players that had been created by market-oriented reforms.[5] Finally, the privatization of water and sanitation services was not as regionally widespread,[6] whereas gas and oil as natural resources were unevenly distributed across countries, thereby reducing the comparability of policy making while generating a more pronounced dynamic in terms of sovereignty perceptions.

Telecommunications and electricity, as capital- and technologically-intensive sectors, had become expensive items in the budgets of financially strapped Latin American states. In particular, massive consumption and heavily subsidized pricing – due to both politicized and antiinflationary policies – made it difficult for state-owned companies to cover the costs

[3] Karen Remmer (2002) provides evidence of the effects of partisanship on macroeconomic policy making in Latin America.

[4] On pension reform, see Weyland (2006) for a well-crafted argument on expertise and diffusion and Madrid (2003) for a combination of diffusion and interest group pressures. On labor reform, Murillo (2005) and Murillo and Schrank (2005) combine the effects of diffusion and partisanship through party and transnational alliances of a crucial interest group: labor unions.

[5] The volume edited by Robert Kaufman and Joan Nelson (2004) provides an excellent overview of health and education reforms in the region.

[6] See Post (2007) for an excellent analysis of water privatization in Argentina.

of not only capital investment but also operations.[7] In a context of capital scarcity, attracting private capital to these sectors was appealing for fiscal reasons, as it could stop the drainage of resources and contribute to filling the public coffers, due to the relatively high value of the assets.[8]

Governments around the world used three policies to attract private capital into electricity and telecommunications provision in order to improve supply, facilitate technological development, and reduce the fiscal burden on the state (Levi-Faur 2003, 2004; Henisz et al. 2005):

1. Privatizing by using public sale of shares, transfer of assets, or long-term concession contracts, turning previously state-run companies into privately administered companies.
2. Opening public monopolies to private capital, which generated new Greenfield investments either to supplement limited supply, as in electricity generation, or to provide new services, as in mobile telecommunications.
3. Establishing regulatory authorities to guarantee clear rules for private investors and set standards for service.

According to Henisz et al. (2005), in 1980 only 10 percent of countries in the world had adopted any of these three policies in electricity and 6 percent had adopted any of these policies in telecommunications. By 1991, however, these figures had risen to 41 and 73 percent, respectively. The diffusion of these three reforms in public utilities around the world has been explained by their theoretically positive effects on efficiency (Megginson and Netter 2001), the influence of multilateral agencies pushing for these policies (Henisz et al. 2005), and competitive emulation (Levi-Faur 1999).

[7] In the late 1980s, the electricity industry in Latin America was suffering from insufficient 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 a new investment, contributing to underinvestment by cash-strapped state-owned enterprises in a technologically dynamic sector (Noll 1999, 13).

[8] Telecommunications and electricity provided the two largest shares of world privatization revenues between 1990 and 2000, 36 percent and 16 percent respectively. In Latin America, 75 percent 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 compensate for the cost of adjustment to market-oriented reforms.

In Latin America, the majority of countries had adopted some of these three policies in both sectors by the end of the twentieth century. The rapid spread of reforms to Latin American publicly owned utilities is not surprising considering the context of capital scarcity and fiscal strain, as well as the increasing influence of international financial institutions as main sources of credit to the region in the aftermath of the debt crisis. Particularly attractive for bankrupt governments was the possibility of meeting the demand for technological modernization and supply expansion while generating fiscal resources through the sale of assets (Noll 1999). Additionally, the potential consequences of these reforms for the average consumer were enormous: for instance, in Argentina in the late 1980s, the availability of a telephone connection determined the price of real estate because the waiting list for new connections was years long, and newspapers published the schedule of daily electricity blackouts so that people could accommodate their lives accordingly.

Even though all Latin American countries suffered similar financial pressures and domestic demands for change in telecommunications and electricity, and even though most of them seemed to react to these pressures in a like manner, there was significant variation in the pace of adoption of market-oriented reforms in these sectors across the region. Not all countries had adopted the three market reforms in both sectors by 2000, and some chose to do so earlier than others. Chile pioneered market reforms in electricity in 1982, for instance, and had started the sale of the main utilities by 1986. In contrast, Mexican policy makers opened electricity generation to private investment in 1992 and set up a regulatory agency in 1995. In 1999 Mexican policy makers attempted to privatize electricity, and they failed in their efforts. Similarly, President Arias in Costa Rica unsuccessfully tried to privatize telecommunications in 1988, the same year in which President Alfonsín failed to achieve a similar goal in Argentina. Yet although the Costa Rican state-owned telephone company remained under public ownership, Argentina privatized its own telephone service two years later.

Reforms also varied in the degree of regulatory control over market outcomes that they established. Although Chile and Mexico privatized telecommunications, Chilean reformers limited regulatory control of market outcomes by avoiding monopolies, restrictions on foreign capital, and investment conditions, thereby choosing a market-conforming regulatory content. Mexican policy makers, meanwhile, attempted to shape market outcomes by establishing a fixed-term monopoly, investment targets, and restrictions on foreign management of the privatized national monopoly, thus preferring a market-controlling reform pattern. Even when opening their markets to private investment and privatizing almost simultaneously, reformers in Panama and El Salvador had different preferences regarding the degree of regulatory control of telecommunications and electricity markets – market controlling in the former case and market conforming in the latter. Panama established monopolies in telecommunications and limits for property concentration in electricity, whereas El Salvador chose to establish no entry rules in either sector.

Finally, after the adopted reform had introduced private providers as important policy constituencies, the degree of redistribution between incumbent private providers, their competitors, and consumers based on pricing, sanctions, and rules governing investment and service varied from one case to another. After privatization, Chile and Mexico reformed their regulation of competition in long-distance communications in the mid-1990s. The increase in competition in long-distance communications (and decline in prices) was much greater in Chile than in Mexico, however, because of different conditions for investment in each country. Similarly, when dealing with crises that affected supply to consumers in the reformed sectors, national responses varied. After privatizing, Brazil, Argentina, and Chile faced electricity blackouts at the end of the 1990s. Brazilian policy makers responded by relying on market mechanisms for rationing. By contrast, the Chilean and the Argentine governments led regulatory efforts to sanction providers and compensate consumers for the scarcity. The scope of compensation consumers received was higher in Argentina than in Chile because the initial Argentine reforms had been market controlling and had thereby given more discretion and sanctioning power to regulators with which to respond.

Implications

Understanding the political dynamics of public-utility reform in Latin America has important implications for our understanding of the political economy of policy reform, distributive politics, and democratic accountability. First, this study improves our understanding of the political economy of market-oriented reforms. It shows the mechanisms by which voters shape the incentives of policy makers in new democracies suffering from capital scarcity. Explaining the adoption and timing of reforms is crucial for understanding the conditions that restrict the policy influence of financial and technological pressures, thereby contributing to a literature emphasizing the survival of domestic political dynamics despite increasing capital mobility. Whereas the literature addressing policy making amid globalization pressures emphasizes either the effects of partisan coalitions (e.g., Boix 1998; Garrett 1998) or institutional incentives (e.g., Hall and Soskice 2001), this book shows that in Latin American new democracies electoral incentives were more influential than institutional effects on policy adoption, whereas partisan coalitions shaped the content of such policy.

These findings may be related to the fragility and flexibility of Latin American institutions vis-à-vis those of advanced democracies (Levitsky and Murillo 2009). In this book, partisanship and electoral competition explains policy choices at the time of market-oriented reforms, as well as subsequent incentives for regulatory redistribution. The mechanisms generating partisan regulatory preferences include not only the distributive consequences of such policies for politicians' constituencies but also parties' ideological legacies and their delegation to allied experts. The role of allied experts, in particular, has been mostly ignored by a literature that focuses on the homogenizing effect of epistemic communities (Haas 1992).[9] The Latin American literature on market-oriented reforms considers experts mostly as agents of policy convergence (e.g., Dominguez 1996; Centeno and Silva 1998; Teichman 2001).[10]

This analysis of partisan policy making is important for the study of Latin American new democracies, which emerged in the context of an economic crisis that sharply restricted their access to capital. In Latin America, partisanship generates incentives for incumbents to devise alternative mechanisms for responding to constituencies' demands and ideological preferences when fiscal constraints limit their ability to follow their original policy preferences. The distributive consequences of partisan institutional choices contributed to easing the reform road by fostering the capacity of unlikely reformers to pursue market-oriented reforms against the expectations of their own core constituencies (Cukierman and Tommasi 1998) while sustaining their linkages to potential reform opponents (Murillo 2001).

9 Studies of earlier periods have looked at the role of experts in generating partisan incentives. See, for instance, Blyth (2002) on the building of social democratic policy options in Sweden since the 1930s.

10 See Babb (2001) for a more nuanced view of expertise and ideology.