Political Competition, Partisanship and Policymaking:

The Reform of Public Utilities in Latin America

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Introduction

The exploration of partisan effects in policymaking is a longstanding interest of comparative politics. Since Downs (1957), most of the literature on political parties assumes that linkages between voters and politicians should ideally be based on policy accountability, which requires clear policy differentiation (Hinich and Munger 1994). Yet, the recent literature on globalization emphasizes how increasing capital mobility reduces the influence of domestic politics on economic policy outcomes around the world by making all countries compete for footloose capital. Politicians cannot offer diverse policies to voters for fear of deleterious economic consequences (Strange 1996). The mechanisms emphasized by this literature include: competitive emulation to attract footloose capital (Simmons 1999), the leverage of international financial institutions and foreign creditors on cash-strapped countries (Stallings 1992), and the influence of experts promoting free-market ideas, which is heightened by their linkages to external actors with access to capital (Weyland 2005).

In the area of macroeconomic policies, though, there is evidence of partisan policy resilience despite globalization pressures (Garrett 1998, Boix 1998, Remmer 2002). By contrast, studies of microeconomic policies, such as reforms in telecommunications and electricity, tend to focus on financial incentives (Henisz et al 2005, Schneider et al 2005) or on technological pressures combined with institutional effects (Vogel 1996, Levi-Faur 2004, Bartle 2002). This book’s contribution is to show how partisan linkages shape policymaking even when external pressures derived from capital scarcity are high and in technically complex microeconomic areas where experts have an enormous influence. Indeed, the case studies used to illuminate mechanisms of partisan influence are based on microeconomic policymaking in two sectors—telecommunications and electricity—characterized by policy convergence around the world at
the end of the twentieth century. Furthermore, this book analyzes those processes of policymaking in a region—Latin America—where partisan differences in economic policymaking more generally were declared dead during that period.

As part of the developing world, Latin America was under dramatic external pressures to adopt market-oriented policies during the last two decades of the twentieth century. Due to the effect of the 1980s Debt Crisis on the pre-existing 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).¹ 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—and help governments refinance their external debts—facilitated the influence of free-market ideas in the policy debate during the 1980s and 1990s. Indeed, 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 policymaking and electoral politics. Fiscal deficits and macroeconomic conditions rather than partisan preferences were used to explain the adoption and pace of these policies (Weyland 2002, Stallings and Perez 2000, Corrales 2003).²

¹ Peter Hall (1993) elaborates on paradigms of economic policy ideas. Paradigms change in waves and affect “normal policymaking” until the next change in paradigm. 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.
² Johnson and Crisp (2006) show that the party of the president has no significant effect on the pace of market reforms in Latin America during the 1985-2000 period.
As democracy was also returning to the region at the time, the citizens of Latin America’s fledging democracies experienced a paradoxical combination of expanding political rights and shrinking policy choice during this period. Governments of different partisan orientation pursued free-market policies. Unsurprisingly, right-wing governments, such as Augusto Pinochet’s in Chile, Violeta Chamorro’s in Nicaragua, and Armando Calderon Sol’s in El Salvador adopted market reforms. Yet, unexpectedly, market reforms were also accomplished by populist parties, which had previously promoted state-led growth and infrastructure nationalization, such as the MNR (National Revolutionary Movement) in Bolivia under Victor Paz Estenssoro, the Peronists in Argentina under Carlos Menem, AD (Democratic Action) in Venezuela under Carlos Andres Perez, and the PRI (Institutional Revolutionary Party) in Mexico under Carlos Salinas. Hence, the decline of partisan differences in economic policymaking seemed to turn the vote inconsequential for policy outcomes in the new Latin American democracies.

The apparent convergence toward market-oriented policies went beyond macroeconomic policymaking. Telecommunications and electricity are capital and technologically intensive sectors. In a context of capital scarcity, these sectors were subject to reforms aimed at bringing private capital around the world. Private capital was sought to improve supply and technology while liberating fiscal resources through privatization, the opening of public monopolies to private investors, and the establishment of regulatory authorities to guarantee clear rules for those investors (Henisz et al 2005). Latin America was the region of the world that moved the fastest in adopting these reforms in both sectors. The influence of external economic pressures and technological developments seemed to turn these sectors into the domain of experts and foreign investors, thereby making them particularly impervious to partisan influence in
policymaking. Therefore, public utility reforms in Latin America provide a crucial case to test the effect of partisan influence and electoral choices on policy outcomes. That is, if even in two sectors of widespread policy convergence under the pressure of capital scarcity, domestic political processes derived from citizen’s electoral choices shaped policy outcomes, we should expect to find larger effects elsewhere.

This book shows that beneath the veneer of policy convergence, domestic electoral choices did shape policy outcomes through the mechanisms of political competition and partisan influence both when market-oriented reforms were established and subsequently. Thus, electoral choices were consequential both in defining incentives for incumbents and in generating different preferences for the content of policies that although carrying the same labels, had different distributive consequences. These effects explain different patterns of reform in telecommunications and electricity. Moreover, the effects of electoral competition and partisan legacies on the incumbent continued to play a role in the aftermath of market-oriented reforms despite the increasing influence of private providers.

I. **The Argument**

Briefly, political competition explains the timing or pace of market-oriented reforms whereas the partisan orientation of the incumbents shapes the nature or content of these policies. That is, the threat of electoral replacement by a credible challenger makes incumbents more likely to resist globalization pressures for adopting market-oriented policies in these sectors. In the absence of such a replacement threat, incumbents feeling fiscal pressures and demands for technological upgrading adopt market-oriented reforms, but the content of these policies vary depending on their partisan identity—to the extend that they do not rely on policy compromise
with the opposition. Because politicians have different distributive demands from their constituencies, inherited different ideological biases in interpreting technical choices, and rely on different experts, the content of policies varies even if they carry the same label, such as privatization. When incumbents have converted to the free-market creed from a state-led religion, reforms are more likely to be market controlling. When incumbents were true believers with a right wing past, reforms are more likely to be market conforming.

This book also studies policymaking after the adoption of the original reforms to assess subsequent policy feedback effects. It shows that electoral competition and partisan preferences shape policymaking by generating incentives for income redistribution between incumbent private providers and their competitors or consumers. In the post reform period, though, private providers’ bargaining power weakens the effect of partisan preferences on content. Providers’ policy influence, in turn, depends on a market structure shaped by the original reforms congealing partisan preferences, along with the pace of technological innovation in each sector.

II. The Evidence: Global Policy Convergence or Patterns of Public Utility Reform?

Telecommunications and electricity are both capital and technologically intensive sectors, and crucial as infrastructure and public services bringing light and voice to Latin American households. Capital scarcity increases the weight of those holding rationed capital while technological complexity grants more influence to those with technical expertise. The pressure for reforming these sectors was coming both from their maintenance costs to the public coffers and the widespread underinvestment in publicly owned utilities, which generated a domestic demand to increase supply and promote technological catch-up. Market-oriented reforms seemed
useful both to attract investment and technology and to generate fiscal resources either through the sale of assets or the liberation of funds for other uses.

Market-oriented reforms in telecommunications and electricity spread rapidly around the world during the last part of the twentieth century. These reforms included the privatization of assets, the opening of markets to private investment, and the separation of regulatory authority from operation, which have been the focus of the literature on public utilities (Henisz et al 2004, Levi-Faur 2003, 2004). In 1980, only 10% of countries in the world had adopted any of these reforms in electricity and 6% in telecommunications; however, by 1999 these figures had risen to 41% and 73%, respectively (Henisz et al 2005). This worldwide diffusion of free-market reforms in public utilities around the world has been explained by its positive effects on efficiency (Megginson and Netter 2001), by the influence of multilateral agencies pushing for these policies (Henisz et al 2005), and by competitive emulation (Levi-Faur 1999).

In Latin America, the majority of countries had adopted some of the three market-oriented policies in both sectors by the end of the decade. The rapid spread of reforms to Latin American publicly owned utilities is not surprising considering the levels of underinvestment and technological delay, the context of capital scarcity and fiscal strain, and the increasing influence of international financial institutions as the only sources of credit to the region since the 1980s. Particularly attractive for bankrupt governments was the possibility of meeting the demand for technological modernization and supply expansion while generating fiscal resources through the

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3 The countries in the region share a common cultural background that should facilitate policy diffusion (Simmons and Elkins 2004, Weyland 2005).
4 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).
sale of assets (Noll 1999). The consequences of these reforms were enormous not just in terms of revenue, but also supply of services. The author remembers Argentina of the 1980s, when the availability of a telephone connection determined the price of real estate due to the years of waiting line for a connection, and newspapers published scheduled electricity blackouts for people to accommodate their life 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 seem to react alike, there was 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 it earlier than others had. For instance, Chile pioneered market reforms in electricity in 1982 and had started the sale of the main utilities by 1986. In contrast, the Mexican policymakers opened electricity generation to private investment in 1992 and set up a regulatory agency in 1995. Only in 1999 did Mexican policymakers attempted to privatize electricity, but they failed in their efforts. Similarly, President Arias in Costa Rica had unsuccessfully tried to privatize telecommunications in 1988, the same year in which President Alfonsin failed to achieve a similar goal in Argentina. Yet, although Costa Rican telephones remained under public ownership, Argentina privatized them two years later.

Additionally, even when carrying the same name, reforms varied in their content. Although both Chile and Mexico privatized telecommunications, Chilean reformers explicitly prohibited monopolies, established no restrictions to foreign capital while Mexican policymakers established a fixed-term monopoly, and restricted foreign management of the privatized national

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5 Noll (1999) argues that the search for revenue triggered the privatization of infrastructure as the extra resources could be used to compensate for the cost of adjustment to other market-oriented reforms. 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).
monopoly. Even when opening their markets to private investment and privatizing almost simultaneously, Panama and El Salvador chose different rules for entry in both sectors as the former established monopolies in telecommunications and limits for property concentration in electricity whereas the latter chose no entry rules in either sector.

Finally, there was variation in policymaking after the adopted reform had introduced private providers as important policy constituencies. After privatization, both Chile and Mexico reformed their regulation of competition in long-distance communications in the mid-1990s. However, the increase in competition in long-distance communications (and decline in prices) was much larger in Chile than in Mexico because of different entry rules in each country. Moreover, even when dealing with crises in the reformed sectors, the responses varied. After having privatized, Brazil, Argentina, and Chile faced electricity blackouts at the end of the 1990s. However, whereas Brazilian policymakers decided to rely on market mechanisms for rationing, both the Chilean and the Argentine government led efforts to sanction providers and compensate consumers for the scarcity. These efforts were more successful in Argentina than in Chile because the original reforms had given more discretion and sanction power to regulators in the former than in the latter.

III. The Implications

Understanding these different policy patterns is of outmost importance both for comparative politics in general and for Latin American politics in particular. First, explaining the adoption and timing of reforms is crucial for understanding the conditions that restricted the policy impact of financial and technological pressures at their heighest. Second, differences in policy content have immediate and medium-term distributive consequences. Therefore, explaining these
patterns can uncover political influences in policy outcomes, which had been previously ignored
due to a focus on policy adoption. Uncovering political influences on policy outcomes in a
context of dramatic financial and technological pressures can illuminate the degree to which
citizens’ vote and partisan legacies shaped policymaking processes. Third, electoral and partisan
policy influences are crucial in defining policy accountability, especially in new democracies
where the literature is more pessimistic about voters’ influence.⁶ Therefore, the exposure of
mechanisms for partisan influence in cases of apparent policy convergence contributes to our
knowledge of how the vote matters even in cases when politicians were severely constrained by
financial pressures.

In addition to its theoretical contributions, this book also illuminates recent policy shifts in
Latin America. By the start of the new century, Latin American public opinion has become
unfavorable toward privatization (more than other market-oriented policies, such as trade
liberalization) (Baker 2007). The discontent with privatization has been associated with public
utility privatization (Carrera et al. 2005, Bonnet et al. 2006), and telecommunications and
electricity in particular (Baker 2007). This negative view of privatization among Latin
Americans puzzles economic analysts who emphasize its positive distributive consequences. A
recent World Bank study on Latin American infrastructure expresses this puzzle: “But the public
is at odds with the generally positive evaluation of the impact of privatization; in most cases,
efficiency has improved, and coverage and quality increased.” (World Bank 2005: v).

Privatization increased per capita penetration in telecommunications, reduced the waiting list for
main lines and the faults per main line, and increased digitalization (IABD 2001: 185-186).

Private investment in electricity expanded generation capacity, increased the security of supply,

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⁶ The emphasis on linkages based on the delivery of private goods in particular tends to discount policy
accountability by political parties in much of the developing world, or worse emphasize the perverse accountability
associated to vote buying (Kitschelt 2000, Stokes 2005).
and reduced prices for large users (IABD 2001: 165-166). Regardless of the supply and quality of services, though, Baker (2007) finds that increases in prices of both services explain negative views of privatization. Moreover, the same IADB study suggests that regulatory design explains the transfer of rents to private providers in these crucial infrastructure sectors (IADB 2001: 166, 188).

By studying policymaking in public utilities, this book offers a valuable lens through which to understand the politics of market-oriented reforms in Latin America during the 1980s and 1990s as well as subsequent changes in public policy preferences. It contributes to our understanding of policymaking when incumbents cannot follow their original policy preferences and need to find alternative mechanisms to respond to their constituencies’ demands and ideological preferences. It demonstrates the effect of political competition on the timing of market-oriented reform and the scope of the marketization process. It also shows how the partisan orientation of the incumbent explains the tools available to governments for shaping policymaking despite external constraints. This policy effect shows that even former statists turned into neoliberal policymakers in Latin America (Stokes 2001), partisan linkages shaped the content of market-oriented reforms carrying the same level. This policy effect adds to those produced by their higher credibility on the need of these policies vis-à-vis constituencies who would otherwise oppose these policies (Cukierman and Tommasi 1992) and by their linkages to potential reform opponents, which eased the reform road (Murillo 2001). Furthermore, the consequences of these diverse reform patterns are crucial for understanding not just immediate distributive effects but subsequent capacity to shape those effects, which in the case of consumers continued to be dependent on electoral competition and partisan linkages.
IV. Research Design and Roadmap

This book employs a research design that treats countries and industries as distinct units of analysis—thereby controlling for both national-level and industry-level variation—while using a combination of qualitative and quantitative data analysis. Following the previous literature on public utilities, it studies three free-market reforms: privatization, the opening of markets to private investors, and the establishment of regulatory authorities (Henisz et al. 2005, Levi-Faur 2003, Vogel 1996). Different from those studies, though, it disaggregates the analysis into the occurrence of policy adoption and policy content or nature. In so doing, I assume that all Latin American countries are suffering pressures to embark in similar reforms, but they choose whether to do it for reasons different to the degree of technological and financial pressures. Furthermore, I also compare the process of policymaking at the time of reforms (time 1) with that in the post-reform period (time 2) to study how the original choices reshaped the effect of the main explanatory variables after the adoption of market reforms. The comparison across countries, sectors, and policies allows me to control for policy-, national- and sector-specific factors that have been emphasized by the comparative politics literature on market reforms.

Moreover, this research designs contributes to our understanding of the politics of market reforms by disaggregating the study of policy outcomes not just in two sectors and three different policies in each of them, but also by dividing them into two analytical dimensions—policy adoption and policy content—and two longitudinal dimensions—original reforms and post-reform regulatory politics. This research design highlights how the explanatory power of the main variables of interests can have a different effect in each of the two analytical and longitudinal dimensions and why.
The analysis of policy adoption in chapter two is based on a dataset of every instance of privatization, market liberalization, and establishment of regulatory authorities in both the telecommunications and electricity sectors for all Latin American countries. As the study assumed that all units of analysis were under pressure to adopt market reforms, the use of survival analysis allows uncovering the factors that shaped the differences in timing across the region. The case studies of policy adoption, content and post-privatization regulatory reform in both sectors in Argentina, Chile, and Mexico are based on extensive fieldwork and seek to provide evidence while illustrating the causal mechanisms at work.

Being interested on the effect of partisan identity of reformers, along with the effect of political competition and the effect of earlier choices on subsequent policymaking, I chose Argentina, Chile, and Mexico to maximize variation in the independent variable of interest (King, Keohane and Verba 1994: 139-140). In the two decades under study all three countries experienced variation in levels of electoral competition as well as rotation of the party in power. Argentina, Chile and Mexico are three presidential middle-income Latin American countries, which are similar along economic development indicators and were early adopters of market reforms with reformers of different partisan orientation. This combination allows the possibility of studying both market reforms and subsequent regulatory changes until 2005 and different preferences of reforming incumbents. It also controls for the effect of regime differences, as only Argentina had made a full transition to democracy before the adoption of reforms in both sectors, which should affect opportunities for organizing consumers in the post reform period (Rhodes 2001).

By following the same three countries into the post-reform period, I am able to analyze the feedback effects generated by the original policies until 2005 when the region as whole is
perceived as shifting to an anti-market directions due to the financial buoyancy produced by favorable terms of trade since 2003-04. In the post-reform period, the bargaining power of the crucial policy actors should be shaped by the original institutions established at time 1, along with different levels of issue salience, and the effect of exogenous shocks—both of which have strong effects on private providers bargaining power. These effects are crucial to assess the credibility of institutional commitments emerging from market-oriented reforms (Levy and Spiller 1995), the effect of external shocks on these new institutional arrangements (Henisz and Zelner 2003), the impact of macropolitical dynamics (Baumgartner and Jones 2004), and path dependency effects derived from the original institutional choices (Huber and Stephens 2001). I rely on regime transition in Chile and Mexico to provide exogenous variation in the opportunities for raising public salience—while measuring variation across reform instances through media coverage. To assess the effects of exogenous shocks, I use the opportunity provided by external shocks in the form of electricity crises in post-reform Argentina and Chile and macroeconomic crises in post-reform Argentina and Mexico. Moreover, the longitudinal study of the three countries with different institutional settings affecting regulatory governance and different market structures emerging from the original reforms permits to test institutional effects on private providers bargaining power.

The plan of the book is the following: chapter one presents the main arguments for the period of market-oriented reforms and the subsequent period of normal policymaking respectively. The subsequent chapters provide empirical evidence for these arguments. Chapter two analyzes the effect of political competition on the adoption of three market reforms: privatization, the opening of markets to private investment and the establishment of regulatory authorities. It uses a statistical analysis of all 18 Latin American countries between 1985 and
2000, which is complemented by case studies of the three policies in the two sectors in Argentina, Chile and Mexico. Chapter three is dedicated to policy content using case studies from the adoption of the three market reforms in both sectors in Argentina, Chile and Mexico to show the effect of partisan preferences on policy content. Chapters four and five provide in-depth qualitative studies of post-privatization regulatory reform in Chile—where reforms were market conforming—and in Argentina and Mexico—where reforms were market controlling—to show the policy effects of political competition and partisanship after market reforms. Chapter six summarizes the empirical findings and assesses alternative hypotheses whereas the last chapter concludes.
Chapter 1:

**Voice and Light: The Politics of Telecommunications and Electricity Reforms**

The predominant analysis of market reforms in Latin America in the late twentieth century emphasizes globalization pressures in the form of capital shortages, imported economic ideas, and pressures derived from economic integration. This book incorporates these effects into the analysis of policymaking while uncovering the political dynamics that characterized the different dimensions of the reform process. This chapter presents the case for disaggregating policy outcomes while presenting a two-part argument on the political dynamics behind each of these categories at the time of the original reforms and subsequently. It thereby has important implications for our assessment of how democratic political process affects policymaking.

Political competition and partisan preferences shape the political dynamics of market-oriented reforms in Latin American public utilities. First, political competition influences the timing of reforms based on the fear of defection by marginal voters and the credibility of challengers to provide an alternative policy. Second, the partisan orientation of the incumbent shapes the content of adopted policies based on the incentives generated by different constituencies, ideological biases, and allied experts. In the post-reform period, electoral competition and partisan preferences generate incentives for changing the post-reform status quo to benefit marginal voters if electoral competition is high and partisan constituencies, if it is not. The bargaining power of private providers vis-à-vis consumers and their competitors explains the content or magnitude of post-reform regulatory changes. This argument suggests that citizens’ political preferences mattered for public utility policymaking despite external financial pressures.
at the time of reform (time 1) and their asymmetry of resources and information with private
providers in the post-reform period (time 2).

By analyzing the political dynamics of market-oriented reforms and the subsequent
regulatory reforms, this book assesses longitudinal changes on the explanatory power of political
competition and partisanship. It shows the stronger resilience of policy effects derived from
political competition than those resulting from partisanship, thereby suggesting some reasons
behind the weakening of political parties in the new democracies of the region. This
chronological distinction illuminates the effect of the original reforms reshaping the political
dynamics of subsequent policymaking. This chapter presents first the argument used to explain
market-oriented reforms in the first and second section, and then its modification for
understanding post-reform policymaking in the third and fourth section.

I. Disaggregating Market-Oriented Reforms as a Dependent Variable

Unlike most scholars, who tend to treat market-oriented reforms as discrete historical
outcomes, I divide the policymaking process into adoption and content. That is, whereas most
comparative studies focus on policy occurrence (even if emphasizing incremental or radical
change and diverse ways to achieve it) and changes on expenditures; this book separates
policymaking into adoption and content. It doing so, it assesses the specific political dynamics of
policymaking for adoption and content derived from their different characteristics, such as their
potential for affecting the public debate. That is, the technically complex choices involved in
policy content can be more opaque for the general population than the dichotomous choice over
policy adoption. Moreover, technical complexity requires a larger investment in expertise for
electoral challengers making it easier to organize their policy positions in a dichotomous way
than in terms of nuanced technical choices. Hence, even when choices over adoption and content are simultaneous, there is a theoretical distinction on their potential for salience and the influence of expertise on their definition.

The separation between adoption and content also has methodological reasons. Policy adoption is associated with external financial pressures and domestic demand for services. The strongest the pressures, the sooner should reform happen. The timing of the occurrence is crucial as all countries in the region suffered a simultaneous shock even if the level of these pressures varies across cases. By contrast, the effect of time on policy content is less clear, except for the fact that early comers are deprived of opportunities for policy learning from the effect of choices made by others.

The next two subsections describe the two dimensions of the dependent variable—adoption and content—as well as the possible range of values they can take at time1. Whereas the occurrence of adoption is associated with the coincidence of certain conditions at some point in time, the two categories of policy content rely on an index of institutional choices decided at the time of reform.

a) Policy Adoption

Policy adoption involves the political decision to “authorize” the reform by either the legislature or the executive (Kaufman and Nelson 2004). This book studies three free-market policies in telecommunications and electricity: privatization, the opening of markets to private investment, and the establishment of regulatory authorities separated from operation. By 2000, fifteen of the eighteen Latin American 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.

******* TABLE 1.1 HERE*******

However, and as shown in table 1.1, these countries adopted market reforms in public utilities at a different pace. Chile started to adopt these reforms in 1982 while others had not adopted all by the end of the century or dragged their feet in undertaking these policies. The timing of reform (their adoption) has important distributive consequences. For instance, the 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.\textsuperscript{7} Moreover, it is important to explain when these policies are adopted to uncover the conditions that brought some incumbents to undertake these policies and not others when experiencing similar financial pressures to do it. Because these two sectors are showcases of how globalization pressures generated policy convergence, explaining patterns of divergence against these pressures is crucial for our understanding of policymaking under financial duress.

\textsuperscript{7} 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 in these indicators.
b) Policy Content

The adoption of a policy with the same name often conceals differences in its content. Variation in content is crucial to assess the distributive intentions of policy design. In defining the content of market-oriented reforms in public utilities, a crucial dimension relates to the aim of attracting private capital and reducing state involvement into these sectors. Thus, in analyzing policy content is important to assess the effect of reforms in undermining or enhancing government capacity to control the industry (Vogel 1996, Levi-Faur and Jordana 2005). Indeed, recent studies of public utilities in the region define government regulations as a crucial factor in shaping sectoral policies in infrastructure development (World Bank 2005, IADB 2001). Moreover, the institutional choices are important in defining the credibility of the original commitment to private investors. Hence, it is important to define how the content of these reforms shapes the tools (and discretion) available for governments to deal with subsequent policymaking, including their capacity to change supply, price or quality in these crucial infrastructure sectors.

This study uses a series of indicators for building two categories based on the degree of government capacity to regulate policy outcomes: market-controlling and market-conforming. The former emphasizes the government regulatory capacity and the latter its lack of discretion in shaping sectoral outcomes. These two categories also capture an essential ideological variation on the role of states and markets that continued to organize inter-party competition at the elite

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8 The literature on welfare states in advanced democracies emphasizes different types of “content” or institutional configuration for social insurance policies based on partisan preferences of incumbents (Esping-Anderson 1990, Huber and Stephens 2001, Iversen and Wren 1998) or policy actors (Mares 2003).
9 A recent World Bank study (2005) argues that infrastructure is crucial for Latin American to close its development gap with NICs and other fast growing economies. The study argues for the need to increase investment and calls for the role of governments in regulating and promoting investment and coverage.
10 These two categories of government discretion for shaping outcomes in these industries resemble those of Vogel (1996: 17) of “undermining government control of the industry” and “enhancing government control of the industry.”
level in most countries of the region into the late nineties (Rosas 2005) and has re-emerged as a focus point of regional politics in the new century (Cleary 2006). The ideological relevance of this divide builds on the traditional coincidence between preferences for a more proactive state and support from constituencies who are more dependent on state subsidies on the one hand, and preference for a “guardian state” and better-off constituencies on the other.

****** TABLE 1.2 HERE *****

Table 1.2 summarizes the indicators used to define each ideal type of reform content. These indicators include regulations unexpected in a context of capital shortage, which shows political preferences sustained at the expenses of financial costs. These include limits to the entry of foreign capital, investment requirements imposed to new investors, regulations on entry to the new markets, regulatory discretion in setting prices for consumer and inter-provider services (i.e. transmission in electricity and interconnection in telecommunications), and regulatory powers in solving conflicts between actors in the market rather than relying on arbitration or the courts. All these conditions are likely to require a relatively large regulatory bureaucracy to administer these broad regulatory powers. Furthermore, all these indicators imply a higher degree of regulatory discretion in changing the rules of the game for investors after they had deployed their capital in sectors with high sunken costs. They also show distrust on the “invisible hand” of markets and thus characterized a market controlling content. The opposite set of indicators suggests that governments prefer to reduce their political discretion and rely on market outcomes, thereby solving market imperfections only after they occurred as expected of a market conforming content.

II. Voice and Light: the Political Dynamics of Market-Oriented Public Utility Reforms
This section presents the argument about the effect of political competition and partisanship on policymaking for public utility reform at a time when ideological differences and electoral politics seemed futile. In so doing, it takes seriously the literature on capital mobility, which points to the constraints on domestic policy preferences under capital scarcity to explain the convergence of Latin America toward market-oriented reforms in the 1980s and 1990s. It shows that even considering these pressures, political competition influences incumbents’ incentives for policy adoption whereas partisanship shapes those defining policy content. The main hypotheses derived from this argument imply that political competition should make reform adoption less likely and the partisan orientation of the incumbent should shape reforms in a market-conforming or market-controlling direction.

a) Political Competition and Citizens’ Voice on Policy Adoption

Political competition shapes incumbents’ incentives for policy adoption even considering the external constraints on policymaking emphasized by the globalization literature. That is, even amidst strong pressures constraining incumbents, political competition gives a voice to Latin American citizens in shaping incumbents’ incentives for reform adoption. This voice is especially remarkable as telecommunications and electricity reforms were showcases of policy convergence under globalization pressures; that is, explained by the influence of international financial institutions, foreign investors, and US-trained technocrats.

International financial institutions, such as the World Bank and the IMF (International Monetary Fund), promoted a policy package of free-market reforms labeled as the Washington Consensus (Williamson 1994). Even policymakers who did not prefer these policies adopted
them due to their need of funding (Vreeland 2003). Indeed, after the Debt Crisis, these institutions heightened their policy influence in the region because they were the main source of credit, their lending opened access to private capital, and their policy conditionality was included in debt renegotiation schemes, such as the Brady Plan (Edwards 1995).

The influence of technocrats and foreign investors also heightened due to capital scarcity. US-trained technocrats advocating market-oriented reforms had linkages to financial institutions and markets, which could open doors to credit (Centeno and Silva 1998, Teichman 2001) and thereby, governments’ often used their appointment to signal willingness to undertake market-oriented reforms to foreign investors (Schneider 1998). Financial investors exercised indirect leverage through credit rating institutions qualifying government bonds, which used microeconomic policies for their evaluations (Mosley 2003:17). The influence of industry-specific investors was more tenous because their incentives for policy pressure were smaller when they could choose not to enter and had not investment to defend.

Without denying the strength of financial and technological pressures for reform adoption, the effect of political competition needs to be factored into the calculation of incumbents attentive to fiscal resources. Incumbent presidents suffered the brunt of financial and technological pressures for adopting these policies because they were in charge of public budgets and state-owned enterprises, regardless of their ideological preferences for free-market policies.

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11 For instance the IMF charter grants this agency the ability to seek policy changes in the debtor countries and in the 1990s the actual imposition of conditionality and the average number of terms imposed on borrowing countries have risen (Buira 2003).
12 Callaghy (1997) notes that organizations such as the Paris Club, which organizes creditor countries, require that countries be in good standing with the IMF for starting debt renegotiation during this period.
13 Mosley (2003: 124) notes that a good investment record in developing countries is associated with the existence of privatization programs, labor market deregulation, and other microeconomic policies.
14 Frieden’s (1992:8) study of Latin American business argues that owners of fixed assets were influential in economic policymaking because they did not have the opportunity for exit available to owners of mobile capital, and thereby, invest more in pressuring policymakers. Whereas the outcome cannot be deducted from the effort, their higher incentives to invest in policy influence given their higher exit costs cannot be doubted.
As a result, the ideology of the president is not a good predictor of the adoption of market-oriented reform, even when controlling for institutional constraints (Johnson and Crisp 2003). By contrast, challengers do not suffer those pressures and can denounce these policies to build their electoral case. For so doing, though, they require both credibility as providers of an alternative policy and some assessment of the positive electoral returns from policy obstruction. Moreover, if opposing challengers have sufficient institutional space in the legislature, they should be able to halt reform or impose compromise on the incumbent—however, halting reform adoption is more attractive if the policy is unpopular or if it is popular and they would like to take on the credit after winning the following presidential election.

Political competition can affect the likelihood of policy adoption by shaping the distribution of power in the political system, by generating a potential electoral risk for incumbents, and by increasing the incentives of viable and credible challengers to block the reform. First, the institutional effect of power distribution has been widely discussed by the literature on policymaking. In particular, when the opposition controls the legislature, incumbents’ policy initiative declines rapidly and reform adoption can be subject to political compromise over its content. As a result, the larger the legislative contingent of the incumbent party, the easier should be policy adoption—as they can impose their preferences assuming party discipline in Congress. The institutional effects of political competition are stronger when the political preferences of the government and the opposition—as expressed by the ideological distance between them—are farther apart (Tsebelis 2003).

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15 Tsebelis (2003) provides a general argument based on veto power while Haggard and McCubbins (2001) applied this argument to economic policymaking in presidential systems. Cox and McCubbins (2001), in particular, consider the effects of political competition in their discussion of the political separation of purpose that complement the structural separation of powers in presidential systems, thereby generating not just the possibility of veto points but also the incentives for actors to exercise their veto power.
The other two effects of political competition center on the incentives of incumbents and
challengers rather than their institutional distribution of power. Both effects rely on the strategic
goal of maximizing electoral results in the next presidential election. Presidential elections are
crucial in Latin America because they define the head of office, the main policy direction, and
the main source of resources—including both fiscal revenue and patronage.

First, declining popular support for incumbents signals shrinking power differentials with
their electoral challengers and makes them more aware of electoral risks generated by market-
oriented policies. The negative incentives on policy adoption generated by declining electoral
support assume that shifts in power change actors’ institutional preferences (Moe 1990) and
political competition heightens the policy influence of marginal voters in winner-take all settings
(James 2000). That is, increasing political competition constitutes a powerful deterrent of policy
adoption when the marginal voters are perceived as being adversely predispose toward it.

The preferences of marginal voters towards utility reform are hard to assess due to the lack
of systematic public opinion data. However, there is some ex-post evidence suggesting
electoral costs derived from these policies. As Stokes (2001) has shown, strategic politicians
prefer to run on populist electoral platforms even when they knew that the adoption of the
market-oriented policies would be necessary after their inauguration. This behavior is explained
by Lora and Olivera (2005) in an analysis of presidential and legislative elections for all the
eighteen Latin American countries except for Panama in the period between 1985 and 2000.
They found that, in presidential elections, “the electorate is highly sensitive to one economic

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16 The earliest Latinobarometro data on ownership preferences for utilities is from 1995 and does not seem
correlated to the type of ownership at the time. By then, Argentina with privatized public services had a majority in
favor of private ownership for both sectors whereas more than half of Chilean preferred public ownership of
telephones and two-thirds of electricity after a longer experience with privatized services. Mexican were evenly
divided regarding telephones, which were private, and two thirds preferred public ownership of electricity, which
had not been privatized.
outcome—inflation—and strongly rejects the adoption of promarket policies” (23). They infer from their findings that the adoption of these policies brings positive electoral payoffs only when implemented in periods of high inflation as argued by Weyland (1999). These findings suggest that in a context of declining popular support, politicians were likely to perceive these policies as risky.

Second, challengers’ ideological preferences are not constrained by financial and technological pressures because they are not in charge of administering the budget or state-owned public utilities. Their incentives for obstructing reform adoption come from two sources: their linkages to reform losers, which affect their capacity for opposition beyond the institutional distribution of power, and their expected electoral returns. The latter depend on their electoral viability in a winner-take all presidential election and their credibility for attracting voters discontent with market-oriented policies. Lack of policy cooperation with the incumbent and being to the ideological left of the incumbent foster the credibility of challengers in providing a policy alternative to market-oriented reforms. Ideological polarization between the incumbent politicians and their challengers usually makes legislative policy coalitions more difficult because the ideological reputation of legislators tends to be reliable predictor of policy in Latin America (Johnson and Crisp 2003).\(^{17}\) Political parties to the left of incumbents are also more likely to have opposed these policies and be associated with organized reform losers, such as labor unions, who are willing to mobilize against policy adoption.\(^{18}\) Surveys of Latin American legislators in the mid-nineties show that views on the privatization of public service divide left

\(^{17}\) Frye (2005) shows that ideological polarization undermines economic policy cooperation in the former communist countries.

\(^{18}\) If labor-based or left wing parties linked to losers, such as labor unions, have an advantage in adoption these policies because they can prevent resistance from their allies, the same parties in opposition have an advantage in obstructing these policies based on the organized efforts of the same allies (Murillo 2001). Moreover, ideological positions that increase credibility can affect incumbents’ strategies when trying to adopt potentially unpopular policies (Kitschelt 2001).
and right wing representatives (PELA 2005). In nine of fourteen countries, the difference in means on their views in a thre-point scale was significative.\(^{19}\) Because viable and credible challengers have higher stakes and a louder voice in the public policy debate, they can provide new information for voters and have incentives to constrain the policy initiative of incumbents (Grzymala-Busse 2003, 2007). Furthermore, this effect can endogenously increase the public salience of policy debate and thereby raise the potential electoral costs of policy adoption.\(^{20}\)

Therefore, hypothesis 1 is that credible political competition makes market-oriented reforms less likely. This negative effect can be explained by institutional veto points, strategic pre-emption from incumbents, and mobilized challengers attempting to attract voters unhappy with market-oriented policies. As a result, market-oriented reforms should be less likely when the incumbent party does not have a large legislative contingent, when its public support is declining, and when the incumbent and challenger are ideologically polarized or the challenger is to the left of incumbents. These variables are likely to change over time even within the same presidential administration.

These indicators of credible political competition are expected to have a negative effect on policy adoption measured as the occurrence of reform, which is a dichotomous variable. Because between 1985 and 2000 all Latin American countries were suffering external pressures for adopting these policies in addition to the domestic demand for improving supply and technology, the main expectation is that reform adoption should occur regardless of the partisan preferences of governments. Yet, conditions that make reform adoption less likely will counteract these pro-reform pressures. The timing of adoption in each country is crucial to measure the impact of

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\(^{19}\) The question asked was “which of the following criteria summarizes better your view on the privatization of public services? I would privatize all public services, I would privatize only public services that are not profitable, I would privatize only those public services that do not affect large portions of the population.” The three answers were given values of 3, 2, and 1 respectively.

\(^{20}\) I thank Evelyne Huber for bringing this point to my attention.
these different factors on policy adoption. That is, ceteris paribus, the negative effect of political competition should prevent reform adoption in a given year, but as political competition changes overtime, the reform can happen at other point in time while external pro-reform pressures continued to be high. By the 2000s, the regional change in policy tide, heightened by financial buoyancy due to the improvement of the terms of trade, eroded external pressures for reform adoption.

**b) Casting Light on Policy Choice: Partisan Orientation and Policy Content**

There is a consensus on the lack of effect of the incumbents’ ideology on the adoption of market-oriented policies during the 1980s and 1990s in Latin America (Johnson and Crisp 2003, Stokes 2001). Even though governments of different ideologies adopted market-oriented reforms in public utilities, this book also shows that ideology still mattered for policy outcomes. Not only did it affect the credibility of challengers as discussed above, but it also shaped the content of reforms by casting a different *light* on how politicians see their policy choices. Two different types of political coalitions—true believers and pragmatic converts—with different partisan preferences adopted the same policies with different format. These policies were market controlling when adopted by pragmatic converts, and market conforming when reformers were true believers.

The identity of reformers—either true believers or pragmatic converts—can be inferred from their prior policies in public utilities because these provide indicators of their ideas about sector development and their linkages with organized interests, constituencies and allied experts. True

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21 Obinger and Zohlnhofer (2005) find that the partisan identity of incumbents has no effect on the amount of revenue derived from privatization in Europe whereas economic facts, such as the fiscal deficit, have significant effects. Similarly, Biglaiser and Brown (2003) find that incumbents’ ideology does not explain the adoption of privatization in Latin America.
believers are right-wing incumbents, who had not promoted state intervention in the past whereas pragmatic converts have previously supported state-led development and economic nationalism through state ownership and nationalization.

As discussed above, policymakers adopt these policies either because they prefer them or because they are constrained by financial and technological pressures regardless of their different distributive goals. Thus, differences in content help them to fulfill those diverse goals, especially when reformers need to use policy content to compensate their supporters for adopting policies they dislike.²² Policy compromise between reforming incumbents and challengers with sufficient institutional power represents a modified form of partisan influence as the preferences over content are limited by concessions for policy adoption.

Partisan preferences over content are derived from the different constituencies, ideological beliefs, and technical cadres resulting from the pre-reform policy preferences of incumbent political coalitions. Different governments have different constituencies with diverse distributive preferences and policy demands.²³ Constituencies’ policy preferences depend on the effect of public utility reform on them. Upper class voters, including large users, favor reform adoption because they benefit from price rebalancing to make these sectors competitive as they withstand the cost of cross-subsidies at the expenses of quality and technological upgrading.²⁴ Middle class voters include residential users with access at subsidized prices that may be hurt by price rebalancing or price hikes needed to pay for new technology, but these voters may also be

²² In the case of pragmatic converts whose constituencies had supported state intervention in the past, compensations are crucial for keeping partisan loyalties and they affect the process of market reforms as shown by Gibson (1997), Gibson and Calvo (2001), Kessler (1998), and Murillo (2001), among others.

²³ The literature on partisan policymaking in the advanced countries (Garrett 1998, Boix 1998, Huber and Stephens 2001) as well as that of Latin America (Remmer 2002, Kaufman and Segura-Ubiéro 2001) infers partisan effects on economic and social policies based on who are the constituencies of the incumbent party.

²⁴ Price rebalancing, which ends cross subsidies and relates prices to cost, is necessary to introduce competition among private providers in these sectors. Due to heavy subsidies to residential users in the pre-reform period, it implies increasing prices for residential users and those using local telephone service and reductions for large users and those using long-distance telephone service.
willing to pay for access or quality even if price effects are large relative to their income. Lower class voters usually do not have access to service, especially for telecommunications, and should thereby pay less attention to these policies. If they have positive expectations for access, their views of reform should be positive only if access is not expected to be limited by prices too high for their income.\textsuperscript{25} Hence, middle class voters are likely to be the marginal voters facing a trade-off of price for access/quality that can make them crucial at times of increasing electoral competition.\textsuperscript{26}

Constituencies are loyal to parties based on prior policies with positive distributive consequences for them. These policy preferences also generate ideological legacies and linkages with allied experts. At the time of reforms, constituencies shape the distributive preferences of politicians while ideology and allied experts help to deal with uncertainty over the potential consequences of policy choices. The effects of ideology and allied experts on dealing with uncertainty contrast to those of “mimesis”—a response to uncertainty emphasized by Powell and Di Maggio (1983)—or even social learning—which requires the passage of time to assess

\textsuperscript{25} Peru is the only country with comparable longitudinal evidence on public opinion divided by class regarding the privatization of state-owned companies running electricity and telephone services based on surveys from Apoyo. In 1988, the evaluation of these publicly-run services showed some class bias as the middle classes were the less happy with electricity services and the poor were the less happy with telephones suggesting that the former were concerned with quality and the latter with access (Apoyo 1988). Right before privatization, in 1991, when asked whether the state should own companies producing services, such as electricity, water, and telephone, more than two thirds of the low middle classes and the poor were favorable whereas only a third of the rich and half of the upper middle class were (Apoyo 1991). By 1992, more than three quarters of the rich and upper middle classes favored the privatization of electricity and telephones. Support had grown to around two thirds for the low middle class and about fifty percent for electricity and forty percent for telephones among the poor (Apoyo 1992). These class-based differences seemed based on expectations as there was no class bias on the negative evaluation of either service, which reached 86% for electricity and 56% for telephones (Apoyo 1992). After the privatization of both services in 1994, the pre-privatization class bias continued. In 1996, the poor and lower middle class were much more likely than the rich and upper middle classes to be dissatisfied with telephone services although the rich were slightly more likely to be dissatisfied with electricity—suggesting that access for the former and quality for the later were not solved as expected by privatization (Apoyo 1996).

\textsuperscript{26} Post-privatization surveys of the early 2000s show that middle classes were the most discontent sector with public utility privatization in Latin America (Baker 2007, Bonnet et al. 2007). Surveys performed in Argentina and Chile during 2007 show that when asked about their evaluation of the privatization of electricity and telecommunication service without framing, the middle classes—measured as the third of respondents in households headed by people with secondary education or some vocational education—are the most likely to be unhappy in both countries (CITE own survey).
effects. The novelty and technical complexity of public utility reform generate uncertainty about the medium and long-term effect of institutional choices over performance (e.g. prices, coverage, quality). As a result, politicians updated their information about the expected distributive consequences of public utility policy choices relying on their ideological legacies and delegation to experts they trust.

Ideological legacies provide politicians with prior rules to interpret the distributive consequences of new choices even if those are derived from a new menu of options available generated by market-oriented reforms. Ideological legacies help politicians interpret policy choices presented by experts while generating preference for institutional forms similar to the ones they perceived as having worked in the past. As a result, policymakers have different interpretation for the same facts or diverse expectations about the effects of the same institutional choices. Beyond the clues provided by ideological legacies, politicians delegate to experts the definition of technically complex choices presented to them. Experts share epistemic communities increasing the homogeneity of their policy views, which makes them ideal as agents for policy diffusion. Yet, experts internalize the expected distributive effects of policy choices because in the absence of civil service, they are dependent on political appointments for their tenure. As a result, politicians delegate to allied experts whose distributive goals they trust

27 Fiske and Taylor (1991) described the importance of “schemas” as cues for understanding new situations and processing new information in social cognition. Schemas are derived from prior interests, experience, and practices, which in the case of politicians should be related to their prior political experience. Lodge and Hamill (1986) show the effect of partisan schemas in processing information and argue that they enable individuals “to make inferences from incomplete data” and “provide the basis for making more confident decisions and predictions” (p.506). Therefore, partisan schemas should be useful in interpreting the distributive consequences of novel policies with uncertain effects in telecommunications and electricity.

28 According to Haas (1992: 3), “an epistemic community is a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain”, its members shared normative and causal beliefs, notions of validity, and a common policy enterprise.
based on prior linkages established in political think tanks, prior administrations, or other shared experiences.29

The two political coalitions have different constituencies, ideological legacies, and allied experts. The core constituencies of true believers are upper and middle class voters, making this coalition more favorable to market-oriented reforms than pragmatic converts whose core constituencies are poor and middle class voters. True believers are more likely to have a preference for price rebalancing according to costs, which favors large users and promotes competition, investment following market demand, because they would benefit from service to the most affluent consumers and improved quality and technology for middle class users as well, but they should not be favorable to subsidies for poorer users. By contrast, pragmatic converts are more likely to prefer subsidized prices for poorer users and middle class residential users, even at the expense of competition, as some of these consumers are not so attractive for providers. They are also likely to prefer coverage expansion to less privileged sectors where demand driven incentives are insufficient to attract investment.

The policy preferences derived from constituencies’ demands are consistent with those derived from their ideological legacies as process of redistribution from richer to poorer users had previously relied on state intervention. True believers’ ideological legacies should make them distrustful of state redistribution generating preferences for low regulatory powers and discretion (to reduce the consequences of political capture), limited bureaucracies, and maximization of market incentives for investment. Pragmatic converts’ ideological legacies

29 Politicians are more likely to delegate to experts 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 (2007) 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.
derived from a previous successful use of the state for redistribution to their constituencies should make them favor high regulatory powers and discretion, larger bureaucracies, and politically defined goals for market outcomes.\textsuperscript{30}

In sum, true believers should favor no rules on entry, no investment conditions, no universal service obligations, no discrimination to foreign investors, and a regulatory authority with limited powers and discretion, funding and personal. That is, they should prefer a market conforming content for the reforms. By contrast, pragmatic converts are more likely to prefer the establishment of rules on entry to promote coverage expansion or lower prices, investment conditions to promote access, universal service obligation to subsidize unattractive users, larger regulatory powers and discretion, a larger bureaucracy and discrimination to foreign capital; that is, a market controlling content. Therefore, \textit{hypothesis 2 is that based on the effect of constituencies, ideological legacies, and allied experts, pragmatic converts should prefer a market controlling content for the reforms and true believers, a market conforming one} (figure 1.1).

\textbf{******* FIGURE 1.1 HERE ********}

These institutional preferences may reduce the credibility of pragmatic converts vis-à-vis private investors. If they internalize these rules into making smaller investments, it may affect pragmatic converts’ fiscal goals in undertaking these reforms.\textsuperscript{31} However, there is ample evidence of contract renegotiation in infrastructure after market reforms as well as non-compliance on both sides suggesting that investors may forecast subsequent changes in rules and

\textsuperscript{30} By increasing regulatory discretion, these institutional preferences, should reduce the credibility of pragmatic converts new commitment to the market creed. Because pragmatic converts adopt reforms based on fiscal incentives and these institutional choices should entail price cuts in the sale of assets, they only make sense by including political preferences over institutions.

\textsuperscript{31} Laffont and Tirole (1993) provide a good summary of the transaction cost literature, which looks at how the design of regulatory institutions should influence the incentives of investors. The emphasis on adequate regulatory design was important to explain the reform of regulatory institutions in the US during the first half of the twentieth century (Gomez-Ibanez 2003: 48-49).
be prepared to undertake a relational approach to governments.\textsuperscript{32} [Additionally, investors they may be looking to rely on bilateral investment treaties rather than on domestic regulatory institutions.] In that case, the original rules on market entry, capital restrictions, and conflict resolution among providers are crucial to influence the number and type of first entrants and how they define preferences and organize collective action at time 2 as discussed below.

This argument about partisanship has further testable empirical implications. Partisan preferences should also appear in the distribution of privatization gains, with subsidies targeted to the core supporters of each coalition. Moreover, pragmatic converts should experience contradictory pressures to appoint neoliberal technocrats, either as preachers of the new creed or signals of their own commitment to the new religion, along with their own allied experts. Therefore, if the hypothesis is right, we should also observe that tensions between neoliberal and allied experts should generate intra-administration conflict over policy choices when reformers are pragmatic converts rather than true believers.

c) \textit{Voice, Light, and Policy Feedback Effects}

These two hypotheses take into consideration that market-oriented reforms to Latin American public utilities were adopted under external pressures and therefore the policy initiative of domestic policymakers was constrained by global forces. When external financial and technological pressures prevailed, political competition explained the pace of policy adoption and partisanship, its content—market conforming when true believers were in charge and market controlling when pragmatic converts were responsible for these policies. In the post-

\textsuperscript{32} The World Bank (2005: 17-19) summarizes studies of contract renegotiation in Latin America that suggest opportunistic behavior on the part of both new operators and governments. Gomez-Ibanez (2003) also points to the importance of mutual incompliance. Post (2007) makes the case for using a relational approach in understanding the interactions between investors and government during and after the privatization of water and sanitation, suggesting that their interaction goes beyond the specific sector.
reform period, the external incentives for adopting market-oriented reforms declined because the fiscal returns derived from regulatory change were not as large as those derived from privatization or opening markets to private investment. Moreover, at the turn of the century, international financial markets ceased to reward the adoption of market-oriented reforms due to a succession of financial crises in the emerging economies of East Asia, Russia, and Brazil. Finally, by 2005, the wave-like character of political process in the region turns against market-oriented reforms following the improvement in terms of trade started in 2003-04, which reduced capital scarcity.

In the post-reform period, thus, external pressures for policy adoption over domestic politicians declined. However, the original reforms have two important feedback effects for subsequent policymaking in these sectors. They created private providers, who have a stake in sustaining the status quo regardless of politicians’ preferences, and they established regulatory institutions, which along with technological development, shape the bargaining power of private providers in relation to consumers and the state. Due to these effects, the incentives generated by political competition and partisanship explain the intention of changes to the status quo—regulatory transfers of private providers’ income—but the magnitude or content of such modifications depends on the bargaining power of incumbent private providers. That is, domestic capital replaces external capital as a constraint on political incentives and its effect is to sustain the status quo (created by market-oriented reforms) rather than to modify it (promoting the adoption of market-oriented reforms).
III. Post-Reform Policymaking in Public Utilities

By analyzing post-reform policymaking in public utilities, this book seeks to assess the political consequences of market-oriented reforms. First, whether their adoption contributed to the depoliticization (or commodification) of public utility markets, which should have started to be run by demand and supply pressures rather than political pressure or increased the salience and transparency of policymaking and thus the potential for public controversy.33 Second, in assessing the effects of market-oriented reforms, it seeks to identify which of the feedback effects they generated modify subsequent processes of policymaking and how. These two questions have theoretical value in defining whether market-oriented reforms generated critical junctures for policymaking, and if they did, which were the mechanisms of reproduction for the new political configuration they established.34

a) Regulatory Reform as a Dependent Variable

Regulatory changes affecting the income of incumbent private providers are crucial to assess post-reform politics in public utilities.35 These regulatory changes can affect prices, sanction costs for failing to achieve quality targets, costs of intermediate services, such as transmission (electricity) or interconnection (telecommunications), costs of entry into these markets, etc. In all cases, these measures redistribute income between incumbent private providers and their

33 Schamis (1991) provides a good summary of the view that market oriented reform in Latin America sought to depoliticize markets to reduce political pressures on states. Post (2007) makes a case for their effect in increasing the potential for controversy in the privatized sectors by increasing information transparency and politicians incentives to denounce companies that are not run by their appointees.

34 Both Thelen (1999) and Mahoney (2003) suggest that searching for the mechanisms of reproduction that generate positive feedback effects is the best way to identify critical junctures. Greif and Laitin (2004) similarly propose to identify quasi-parameters whose values are affected by the working of the established institutions, which make the institution either self-reinforcing or self-undermining.

35 Regulatory redistribution is a better indicator of post-reform changes to policymaking than analysis of changes in regulatory structure because the novelty of institutions needed to support a shift to markets in infrastructure sectors makes them more fragile in the developing world than in advanced countries (Victor and Heller 2007: 12).
competitors or consumers and thereby, have an impact on providers’ bottom line. The redistribution of incumbent providers’ income can benefit either competitors or consumers. Direct transfers to consumers are usually the result of regulatory expropriation that can be targeted to all consumers or particular groups (of policymakers’ constituencies). Transfers to competitors result from regulation establishing conditions for effective market competition—especially preventing ex-ante market concentration. Although transfers to competitors can produce lower consumer prices, these cannot be manipulated and usually benefit large consumers—who are more attractive for private providers—and are thereby, less attractive in electoral terms.

Following the same research strategy as in time 1, this book disaggregates regulatory reforms into two dimensions. The theoretical reason for this analytical distinction is to separate the components of the policy based on its potential for public salience, which is higher for the announcement of the reform and its distributive intentions, and technical complexity, which is higher for the small print on the final magnitude of the reform. In practical terms, continuing with this analytical distinction permits a better assessment of the explanatory power of political competition and partisanship in the pre-and post-reform period by comparing their effects in two dimensions that are theoretically similar: adoption/directionality and content/magnitude. In so doing, it also allows the identification of mechanisms that explain variation in political effects on policymaking between both periods.

The following table divides each reform instance depending on whether it involves transfers between incumbent providers and consumers or competitors and their direction. Because the status quo benefits incumbent private providers, the majority of these reforms should be detrimental to incumbent providers.
In the comparison between both periods, it is remarkable that the adoption of market-oriented reforms implied a single directionality—away from state intervention, but subsequent regulatory reforms are less predictable and therefore the direction of the change—whether the transfer is between incumbent providers and consumers or competitors—provides an indicator of the distributive intention of policymakers. Additionally, whereas content at time 1 involved rules that define the subsequent number of providers and their bargaining power, at time 2 it defines the final magnitude of regulatory transfers (including cases when providers bargaining power is sufficiently high to improve their status quo suggesting industry capture).

IV. Voice, Light, and Power in the Post-Reform Period

The comparison between both periods is important to assess the effects of electoral politics after market-oriented reforms have reshaped policymaking in the two studied sectors. In the post-reform period, electoral competition and partisan coalitions continue to provide two important mechanisms to aggregate distributive preferences. When electoral competition is high, the preferences of marginal voters prevail and when it is low, those of partisan constituencies become more influential. Whereas financial and technological pressures constrain the effect of partisanship at time 1, private providers’ bargaining power hinders its effect at time 2. I present here first the policy effect of electoral competition and partisanship and then analyze those derived from providers’ bargaining power.
a) **Political Competition and Partisanship in Post-Reform Policymaking**

Political competition, which varies with regime features and electoral arrangements, continues both to shape the distribution of institutional power in the political system and to affect the policy incentives of incumbents and challengers. The effect on institutional power distribution continues to be the same as in time 1—and can affect not only incentives to adopt a regulatory reform but its final form through the legislative process. Its effect on incumbents and challengers also persists. Incumbents become concerned about losing marginal voters and challengers try to raise the public salience of public utility regulations to attract those marginal voters—thereby, reducing their information costs. That is, both incumbents and challengers become concerned about marginal voters who tend to be in the middle class.

In the pre and post-reform periods, the policy incentives generated by political competition are driven by the preferences of marginal voters. Marginal voters are more likely to be middle-class residential consumers because they can join either the poor or the rich in political coalitions of pragmatic converts or true believers respectively. Additionally, middle classes are likely to have access to telecommunications and electricity services, but suffer from the income effects of their relatively high prices. By contrast, poor and rich voters are more likely to be loyal to either pragmatic converts or true believers coalitions and be less affected by these services due to the lack of access or reduced effect of prices on their income respectively. Moreover, as discussed above, the post-1998 public opinion evidence shows that discontent with public utility reform in Latin America is the highest among the middle classes.

When electoral competition is high, all politicians should try to avoid losing marginal voters and thereby support regulatory transfers to consumers—whether they are incumbents or
challengers, reformers or non-reformers. Electoral competition is less likely to provoke transfers to competitors because their distributive effects will affect consumers indirectly and are less likely to have short-term electoral effects because large rather than residential consumers are the first to perceive income effects. In sum, in the post-reform period, the voice of consumers and their ability to gain distributive benefits through regulatory change is amplified by political competition. However, whereas at time 1 this effect sustained the status quo against market-oriented reforms, at time 2 it generates incentives for modifying it toward regulatory redistribution. As a result, the modified hypothesis 1 for the post reform period is: political competition creates incentives for policymakers to adopt regulatory reforms generating transfers from providers to consumers.

**** FIGURE 1.2 HERE ****

As in the pre-reform period, partisan effects are more likely when electoral competition is low because politicians care about their own constituencies rather than marginal voters (figure 1.2). Prior linkages with constituencies, ideological legacies, and allied experts—derived from the pre-reform public utility policy preferences—continue to drive partisan preferences. Hence, true believers should prefer to benefit providers (either incumbent or competitors) and pragmatic converts, consumers. However, partisan effects at time 2 vary depending on credibility effects conditional on policymakers’ role in the original reform process. Reformers, who have associated their administration to the success of market-oriented reforms, have their financial and electoral credibility tied to the success of market reforms and thereby, to incumbent providers. Hence, reformers should be more likely to side with providers (and defend the status quo) and

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36 In a study of US public utilities, Holburn and Spiller (2002) find an institutional effect of consumer policy influence. When consumer advocates are included in public utility commissions or when commissioners are elected by voters, redistribution of providers’ rents to consumers through lower prices is more likely to take place. Elected commissioners are more likely to benefit residential users and consumer advocates, large users, thereby suggesting that electoral incentives favor residential users.
non-reformers with competitors or consumers to differentiate themselves, as described in figure 1.2.

For former nationalist, the process of conversion to the market can also affect their policy preferences to favor their loyal constituencies. Former statists who were out of power, and thereby not pressed by financial duress, had the choice of either retain their beliefs or become pragmatic converts. A conversion to the market creed, which took place out of power rather than under financial duress, suggests less pragmatism than otherwise. Hence, pragmatic converts who were not reformers should be more trustful of market mechanisms—such as competition—to benefit their consumer constituencies than those that converted under financial duress. By contrast, statist who did not convert (and thereby did not reform) should prefer to benefit consumers mainly through regulatory mechanisms; that is, through the proactive action of the state.

As summarized in figure 1.2, true believers who had been reformers are likely to keep their links with the beneficiaries of the original rules. If they had not reformed, they should be more likely to favor competitors than consumers—especially because true believers trust markets as the best distributive mechanism. By contrast, pragmatic converts who had been reformers have linkages to incumbent providers who accepted their political conditions when entering these markets. Thus, they should favor transfers to incumbent providers in return for access or price benefits to consumers—at the expenses of competitors—because they prefer regulatory to market mechanisms of distribution. Finally, non-reformer pragmatic converts should favor transfers from incumbent providers both to consumers and to competitors—due to the combination of credibility and conversion effects.
In short, hypothesis 2 on partisan effects on policy content is adapted in the post-reform period (figure 2.1) to: *True believers should prefer transfers to incumbent providers if they were reformers and to competitor providers if they had not reform. Pragmatic converts should prefer transfers to incumbent providers (in return to access or price advantages for consumers) if they were reformers, and to consumers and competitors if they had not reform.*

Partisan effects are constrained on the final content of regulatory reforms by private providers’ bargaining power to defend the status quo due to their high stakes and large resources. At time 1, capital scarcity heightened the policy influence of international financial institutions and financial markets. These policy actors cared mainly about revenue and had limited information about technically complex choices involved in public utility reform, thereby giving leeway to allied experts in choosing different policy content. At time 2, as regulatory reforms have strong effects on their bottom line and their expertise is large, private providers pay attention to the small print and try to limit partisan effects through capture of allied experts and lobbying (if not corruption).

In understanding the effect of experts on public utility regulatory reform, it is important to remember that differently from advanced countries, the effective independence of regulatory agencies is reduced in Latin America. In the advanced countries, the independence of regulatory agencies is both formal and effective, politicization is low and experts are crucial in defining regulatory initiative. Explanations of regulatory reforms through experts and social learning are

37 The lack of consensus on regulatory options is highlighted by a 2001 analysis of a decade of infrastructure reform, which concludes that although regulation are crucial in the electricity sector, it is unclear how to achieve the right ones and make them enforceable whereas in telecommunications, “traditional regulatory definitions and boundaries are out of date” due to technological development (IADB 2001: 178 and 187).

38 Thatcher (2002a, 2002b) and Gilardi (2002) show the prevalence of regulatory autonomy in European public utilities. The latter explains their delegation to independent regulatory agencies on the need for credibility in these sectors due to their opening to competition and private investment. Eising (2002) argues that EU institutions provided opportunities for policy learning to experts and policymakers so as to endogenously change their preferences on electricity liberalization in Europe.
less persuasive due to the weak effective independence of regulatory agencies in Latin America.  

The policy effect derived from expertise, thus, changes between both periods. The lack of effective civil service at time 1, politicize the nature of experts tenure generating partisan incentives for policymakers in deciding to whom would they delegate choices of reform content. At time 2, the continued weakness of the state continues to shape experts’ incentives. However, the existence of private providers allows them to choose between jobs in the public sector—through political linkages—or in the private sector—with regulated companies. Thus, the partisan effects produced by allied experts are weakened by the emergence of private providers who can influence the career opportunities of experts.

Political institutions are also crucial in assessing the impact of partisan preferences as veto players can pre-empt regulatory reform or force compromise over its content. However, regardless of the partisan distribution of power in political institutions in the post-reform period, providers’ pressures can break partisan discipline and produce outcomes different from those derived from measuring political veto players, even when institutions define the venues for the erosion of partisan discipline, such as legislative lobbying or expert capture.

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39 Expert-based arguments for reform emphasize mistakes or loopholes in the original regulation and the importance of regulatory learning in the process. See for instance, Basañez et al (2002) and Legisa (2002) for electricity in Chile and Argentina respectively. In comparing regulatory agencies in Europe and Latin America, Levi-Faur (2004: 19) finds that policymakers in the later region are reluctant to grant independence to separated regulatory agencies in both electricity and telecommunications.

40 Moe and Caldwell (1994) make a general argument about different patterns of policymaking in presidential and parliamentary regimes. Cox and McCubbins’ (2001) and Shugart and Haggard’s (2001) general arguments about the role of institutional constraints on policymaking in presidential systems are applied by Heller and McCubbins (2001) and Haggard and Noble (2001) to electricity regulation.
b) Providers’ Bargaining Power: Industry Capture or Obsolescing Bargain?

In understanding post-reform policymaking, two feedback effects generated by the original market-oriented reforms in public utilities are important to explain the reshaping of the policy arena. First, the creation of private providers generated a crucial actor with a stake in keeping the status quo. Second, the choice of original reform content (market-conforming or market-controlling) generated different institutions, which along with technological change, affects private providers’ bargaining power vis-à-vis consumers and competitors.

The creation of private providers is important because public utilities’ technical complexity, asset-specific investment, economies of scale, scope and density, and mass consumption help the concentration of providers and the dispersion of users. As a result, the stakes, resources, and capacity of collective action of providers should be larger than that of consumers, thereby favoring industry capture of the regulatory process.\(^\text{41}\) That is, consumers are harder to organize to defend their diffused interest because their small individual stakes promote free-riding. Yet, providers’ capacity to aggregate their preferences and organize collective action is affected by disagreements between incumbent providers and competitors. Furthermore, these relationships are shaped by the choice of the original reform content and the pace of technological innovation in each sector.

The original reform content—market conforming or market controlling—along with the different path of technological development of each sector affects the capacity of incumbent private providers to aggregate their preferences. Because the pace of technological development for alternative networks is faster in telecommunications than in electricity, the original

\(^{41}\text{Stigler (1971) started off the economic theory of regulation explaining industry capture. Pelzman (1976) broaden its implication by showing that actors other than providers could be part of the dominant distributive coalitions in regulatory policymaking. Noll (1989) summarizes its political economy applications for understanding public utility regulation.}\)
institutional choices have a diverse sectoral effect on incumbent providers’ relationship vis-à-vis their competitors. This technological difference shapes how these institutions affect private providers’ capacity for coordinating common preferences and collective action. Market controlling reforms hindered competition in telecommunications because technological innovation allowed the emergence of alternative networks that did not exist at the time of reform and were not taken into account by the original rules. In so doing, market-controlling reforms strengthened the policy influence of telecommunications’ incumbent providers vis-à-vis their competitors in the post-reform period. By contrast, in electricity, where the speed of technological innovation was slower for the development of alternative networks, market-controlling reforms strengthened weaker players and constrained the policy influence of the main incumbents. As a result, the main incumbent providers in telecommunications were more influential in the regulatory process where reforms had been market controlling and in electricity where reforms had been market conforming. Moreover, market conforming reforms reduce government discretion to change regulations and thereby, its capacity to redistribute incumbent providers’ income, and thus heightens providers’ bargaining power vis-à-vis consumers whereas market controlling reforms have the opposite effect. That is, they facilitate the implementation of consumer preferences vis-à-vis providers if those preferences prevail in the policy process.

42 In comparing technological effects on market oriented reforms in infrastructure, a recent study states: “Telecommunications offers the most striking success with reform of a network industry—thanks to a variety of technological innovations that have eased the entry of new competitors and created new products… Electricity is proving to be among the trickiest of all network industries for reformers. The network effects of large power grids, along with the massive economies of scale in modern central power stations, create high barriers to entry that (until recently) had made electricity the epitome of natural monopoly. The prohibitive cost of storing electricity requires that all power systems be managed literally at the speed of light—a characteristic of systems that many had thought would require synchronized central management rather than the looser an decentralized coordination that are the hallmark of most markets.” (Victor and Heller 2007: 2). In his study of electricity and telecommunications in the European Union, Levi-Faur (1999) emphasizes the effect of different technological characteristics in each sector in the pace of liberalization under EU directives.
In sum, the effect derived from the original reform content suggests that transfers to competitors should be more likely under market conforming reforms in telecommunications and to consumers under market controlling reforms in electricity. Market conforming reforms in electricity and market controlling reforms in telecommunications should benefit incumbent providers. As shown in figure 1.3, hypothesis 3 is: Market controlling reforms will only promote transfers to consumers in electricity whereas transfers should go to incumbent providers in telecommunication. Market conforming reforms will only favor transfers to providers in electricity, but will favor competitors in telecommunications.

As discussed above, the effect of institutions can be endogeneized by strategic investors who will limit their exposure when fearing future regulatory expropriation. Because capital is scarce at the time of reform, policymakers should try to establish a credible commitment based on the predictive stability of its regulatory governance. Thus, Levy and Spiller (1996: 3-4) argue governments should choose regulatory institutions trying to maximize the credibility of their commitments based on their capacity to constrain future arbitrary government action even at the expenses of flexibility.43 However, the ample evidence of contract renegotiation and the shifting nature of effective veto points depending on the distribution of power imply that the crucial effect of the original rules was defining the nature and number of the first entrants, and thus their incentives for collusion and competition, which were further heightened by the different pace of technological development.44 That is, institutional effects should be stronger in defining providers’ relations—between incumbents and competitors—than between them and consumers, where pressures for regulatory instability are more likely to be affected by public salience.

44 Like Hellman’s (1998) argument, I am emphasizing first move advantages but my causal mechanism is not elections but the effects of regulatory rules and technology on providers’ capacity for collective action.
Public salience reduces the bargaining power of private providers and facilitates regulatory change by making consumers aware of their stakes and facilitating their mobilization. By heightening the potential electoral consequences of regulatory change, public salience affects politicians’ incentives even in the absence of increasing political competition. The importance of public salience was pointed by Baumgartner and Jones (1993, 2005), who argue that most citizens are indifferent to the policy process in the absence of high personal stakes and politicians do not pay attention to issues until their potential electoral consequences become evident for them. Issue salience heightens the cost of policymakers to side with providers and facilitates the formation of broader coalitions that can weaken providers’ policy influence.

Increases in public salience can respond to political competition as discussed above, to the effort of consumer organizations, or to exogenous shocks, such as crises in the supply of services or devaluations that affect the relative costs of providers and consumers. First, challengers can raise public salience in the context of increasing electoral competition. In those cases, the effect of the former cannot be distinguished from that of the latter. Second, consumer organizations led by political entrepreneurs can endogenously affect the levels of public salience to promote consumer mobilization by using judicial or media strategies. According to Rhodes (2001), this mechanism of consumer influence based on the existence of an organized civil society requires a regime open to citizen self-organization. Hence, the existence of consumer organizations and the openness and structure of the political system to their strategies are crucial for public salience to affect the policy process. Third, exogenous shocks—microeconomic crises of supply or macroeconomic crises affecting relative costs—should also increase the salience of regulatory

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45 As argued by Pierson (1994: 21), “the visibility of effects can also be diminished by increasing the complexity of reforms;” therefore, experts’ and industry influence should be highest when consumers’ is lowest.  
46 Rhodes (2001) argues that public utility privatization was crucial in explaining the organization of consumers in Latin America. She adds these groups used media and judicial strategies for influencing the policy process, and especially for shaping the definition of pricing rules in public utilities.
reform and, at the same time, the stakes of individual consumers. According to the literature on foreign investment, the effect of crises on public utility private providers’ policy influence should be larger when their capital is foreign rather than domestic. This difference can be explained by the effects of the “obsolescing bargain”, the dissonance in their legitimacy considering domestic norms of fairness, or the impact of their lower diversification to other areas of the economy on its tolerance to regulatory expropriation in infrastructure.47

Public salience is more susceptible to change than institutional and technological conditions to explain variation in regulatory outcomes. Thus, whereas the coincidence of interest in the government and providers’ bargaining power generates scenarios that facilitate certain regulatory outcomes, these effects should vary depending on levels of public salience. Additionally, variation in the effect of public salience depending on its origin—electoral mechanisms, civil society organization or exogenous shock—provides crucial information about the causal mechanisms that increase consumers’ voice at the expenses of providers.

Due to the effect of public salience, providers’ bargaining power is more likely to affect the content or magnitude of reform rather than on its original intention. Whereas it is easier to increase public salience on the reform and its intention, the technical complexity of its fine print is harder to explain to the public (and therefore residential consumers). Moreover, technological complexity increases the asymmetry of resources between providers and consumers whereas

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47 According to Vernon (1971), the “obsolescing bargain” is can be explained due to a time inconsistence on policymakers’ incentives. Investors’ bargaining power is high before deploying their capital when developing countries are suffering from financial and technological scarcity. Afterwards, their bargaining power declines, as they cannot move their sunken capital to achieve returns on their investments. Henisz and Zelner (2005) argue that crises weaken the legitimacy of the rules adopted to attract foreign investors by generating conflicts with domestic norms of fairness. Crises provide a focal point for opponents of the adopted rules to question the legitimacy of the original institutions and build broad coalitions for regulatory reform. Finally, Post (2007) argues that domestic investors are more tolerant to regulatory expropriation in infrastructure because they are diversified to other sectors in which they can obtained regulatory compensation from the government while they cannot resort to international arbitration like foreign investors.
lower salience facilitates providers’ influence by making lobbying on politicians and expert capture more likely.

V. Summary and Implications

This chapter presents a two-part argument on public utility policymaking along with the rationale for disaggregating policy change as dependant variable to understand both the market-oriented reform and post-reform periods. The argument for explaining the original market-oriented reforms in telecommunications and electricity illuminates the diverse political dynamics underlying beneath a process of apparent policy convergence driven by technological and financial pressures. It introduces the policy effects of domestic electoral politics by focusing on both the relative level of political competition and the partisan orientation of incumbents. The distributive logic behind the argument emphasizes the importance of marginal voters when political competition is high and the effect of pre-existing partisan linkages when it is low. It underscores the primacy of political survival for politicians as well as their room for partisan distributive preferences even in shaping the content of policies imposed on them by external financial and technological pressures.

In the post-reform period, political competition generates incentives to transfer income to consumers when is high. When electoral competition is low, partisan preferences prevail and their effects depend on pre-reform partisan constituencies and ideological legacies—as well as their role in the original reform process. Whereas political dynamics based on incentives for political survival are crucial in explaining policy initiative, providers’ bargaining power vis-à-vis consumers and competitors explains the final content of regulatory changes. That is, politicians
are constrained by the leverage of financial capital in the pre-reform period, and by the bargaining power of industry-specific investors during its aftermath.

This argument provides scenarios that define the likelihood of policy influence by different actors and in so doing shows that citizens have a voice in the policy process even in sectors with high technological complexity. They exercise a voice through electoral pressures and through partisan linkages that cast a biased light in how policymakers see their technical options. Both mechanisms act at the time when external financial and technological pressures reduced the policy initiative of politicians as well as in subsequent policymaking when private providers became influential in the policy process. Hence, political processes are crucial for consumer influence as citizens both at time of the original market-oriented reforms (time 1) and subsequently (time 2).

Partisan preferences shaped the content of reforms adopted under external financial and technological pressures. Afterwards, these partisan preferences were congealed in the original institutional choices defined at time 1. These choices, along with different paces of technological innovation, subsequently shape the power of private providers. These institutional effects are mainly experience through their impact on actors’ bargaining power rather than on the impact of regulatory institutions on the stability of regulatory commitment and that of political institutions in defining veto points for policymaking.

Finally, the argument presented here suggests the value of disaggregating the dependant variable both at time 1 (reform) and time 2 (post-reform) for understanding the political dynamics of policymaking. It is only by distinguishing different dimensions along the policy process that is possible to capture the different explanatory power of the same independent variables for each of them as well as the longitudinal evolution of their explanatory power. The
main independent variables define different political dynamics in each period. Partisan preferences, which are crucial in defining reform content at time 1 become more prominent in explaining policy initiative at time 2. Meanwhile, political competition generates incentives for policy adoption in both periods.
### Table 1.1 Public Utility Reform in Latin America*

<table>
<thead>
<tr>
<th>Country</th>
<th>Privatization Telecom (law approved)</th>
<th>Privatization Electricity (law approved)</th>
<th>Competition Electricity (Private Capital)</th>
<th>Competition Telecom Local</th>
<th>Competition Telecom Long Distance</th>
<th>RA Electricity</th>
<th>RA Telecom</th>
</tr>
</thead>
</table>

* We only include reforms that happened before 2000, when our dataset ends.

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48 Deciding which year to use for Chile was complicated by the fact that both the CNE and the Superintendencia have regulatory functions and they were created in different years (1985 and 1978, respectively). Moreover, the CNE had no authority over tariffs until 1982. We decided to use 1985. However, we also ran the regressions excluding Chile (since we do not have data for 1978 or 1982). The results are practically identical.

49 Was private since 1931, when Trujillo sold it to the Compañía Dominicana de Teléfonos (see www.indotel.org.do).
### TABLE 1.2 TYPES OF POLICY CONTENT

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Market conforming</th>
<th>Market controlling</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Limits to foreign capital</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>2. Investment requirements</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>3. Rules to entry these markets</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>4. Regulatory discretion for setting prices (for consumers, for inter-providers services)</td>
<td>Limited</td>
<td>High</td>
</tr>
<tr>
<td>5. Regulatory powers for solving market conflicts (with consumers, with other providers)</td>
<td>Limited</td>
<td>High</td>
</tr>
<tr>
<td>6. Bureaucratic expansion</td>
<td>Limited</td>
<td>High</td>
</tr>
</tbody>
</table>
Figure 1.1. Political Dynamics of Market Reforms (Time 1)

- **INCUMBENT FACES POLITICAL COMPETITION**
  - **YES**: NO REFORM
    - INCUMBENTS ARE CONVERTS → Market controlling
  - **NO**: REFORM
    - INCUMBENTS ARE TRUE BELIEVERS → Market conforming
Table 1.3: Studied Regulatory Reforms (time 2)

<table>
<thead>
<tr>
<th>Providers win</th>
<th>Providers lose</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Between incumbent providers and consumers</strong></td>
<td></td>
</tr>
<tr>
<td>1. Decree 2585/92 (telecom-Arg)</td>
<td>1. Law 25,561/02 (telecom/electricity-Arg)</td>
</tr>
<tr>
<td>2. Decree 92/97 (telecom-Arg)</td>
<td>2. Resolution 292 (electricity-Arg)</td>
</tr>
<tr>
<td>3. Telecom Development Fund (telecom-Chile)</td>
<td>3. Telecom Development Fund (telecom-Chile)</td>
</tr>
<tr>
<td>5. Law 19,613 of 1999 (electricity Chile)</td>
<td>5. Law 19,613 of 1999 (electricity Chile)</td>
</tr>
<tr>
<td><strong>Between incumbent providers and competitors</strong></td>
<td></td>
</tr>
<tr>
<td>1. Decree 264/98 (telecom-Arg)</td>
<td>1. Decree 264/00 (telecom-Arg)</td>
</tr>
<tr>
<td>2. Federal Law of Telecommunications (telecom-Mx)</td>
<td>2. Expansion of Transmission (electricity-Arg)</td>
</tr>
<tr>
<td>4. 1997 Administrative Reform (electricity-Chile)</td>
<td>4. 1997 Administrative Reform (electricity-Chile)</td>
</tr>
<tr>
<td>5. Short Law of 2004 (electricity Chile)</td>
<td>5. Short Law of 2004 (electricity Chile)</td>
</tr>
</tbody>
</table>
FIGURE 1.2: Predictions derived from Political Competition and Partisanship

Post-Reform Status Quo

Policymakers

TRUE BELIEVERS

Had policymakers reformed?

Transfers to incumbent providers

PRAGMATIC CONVERTS

Transfers to competitor providers

Transfers to competitors & consumers

Transfers to consumers

high political competition

low political competition
FIGURE 1.3: Different Predictions on Derived from Providers’ Bargaining Power