POLITICAL BIAS IN POLICY CONVERGENCE

Privatization Choices in Latin America

By M. VICTORIA MURILLO*

PRIVATIZATION worldwide reduced state-owned enterprises' share of global GDP from over 10 percent in 1979 to less than 6 percent by the end of the century.[1] In Latin America privatizing governments included not only right-wing regimes, such as Pinochet's in Chile, Chamorro's in Nicaragua, and Calderon Sol's in El Salvador, but also populist parties, which had long promoted and implemented nationalization. Indeed, old populist parties, previously such champions of nationalization such as MNR (National Revolutionary Movement) in Bolivia, the Peronists in Argentina, AD (Democratic Action) in Venezuela, and the PRI (Institutional Revolutionary Party) in Mexico, led the push to privatize in their respective countries.

The regional wave of privatization seems to give credence to theories of policy convergence over those of partisan policy-making. This article argues further, however, that not all governments implement privatization in the same way, even in the context of policy convergence. Although technocrats propose similar policy options in countries where

* I acknowledge the financial support provided by the Junior Faculty Fellowship, the Yale Center for International and Area Studies, the Leitner Program in Political Economy, and the Social Science Research Fund at Yale University. I thank the CEPAL in Santiago, the CIDE in Mexico City, and Universidad de San Andrés in Buenos Aires for institutional support. Previous versions of this article were presented at the 2001 annual meeting of the American Political Science Association, the David Rockefeller Center at Harvard University, the Kellogg Institute at the University of Notre Dame, the Institute for Latin American Studies at Columbia University, the Program in Latin American Studies at Johns Hopkins University, and the faculty colloquium at Yale University. For their research assistance, I thank Constanza Di Nucci, Andira Hernández, Bárbara Murphy, Pablo Sandoval, and Catalina Ruiz. For their comments, I thank Arun Agrawal, Robert Bates, Carlos Boix, Ernesto Calvo, Javier Corrales, Keith Darden, Jorge Dominguez, Eduardo Engel, Stephan Haggard, Frances Hagopian, Pauline Jones-Luong, Alvin Klevorick, Margaret Levi, Ellen Lust-Okar, Susan Rose-Ackerman, Carlos Ruffin, and three anonymous reviewers.

[1] See William Megginson and Jeffrey Netter, "From State to Market: A Survey of Empirical Studies in Privatization," *Journal of Economic Literature* 39 (June 2001). According to Nancy Brune and Geoffrey Garrett, Latin America accounted for 56.4 percent of the privatization revenue in current U.S. millions of dollars for the 1988–98 period; see Brune and Garrett, "The Diffusion of Privatization in the Developing World" (Paper presented at the annual meeting of the American Political Science Association, Boston, August 31–September 3, 2000).

World Politics 54 (July 2002), 462–93

capital dearth creates pressures for policy convergence—which follows the guidelines of international financial institutions and foreign investors—politicians build the electoral and government coalitions that make these policies possible. Politicians' preferences shape the specific institutions that will be used to implement those policies introducing a "political bias," which is contingent on the privatizing government. Hence, this political bias explains that the regional convergence to privatization may be variously implemented according to different institutional preferences. Thus, although politicians may be losing influence about whether to privatize, they still have a strong say in how to privatize.

This article analyzes the impact of this political bias by focusing on the choice of regulatory institutions and selling conditions in five Latin American cases of privatization of electricity and telecommunications. Both ideas and constituencies influence the way in which policymakers define their institutional preferences. Beliefs about economic nationalism and state intervention influence the selection of regulations at the time of privatization, whereas coalition building with political constituencies shapes how selling conditions in privatized companies will be defined.

The privatization of telecommunications and electricity provides an excellent setting in which to study this effect, as dependence on foreign investment for technological change is acute in both sectors. Moreover, some segments of these industries are natural monopolies with large sunk investments and visible rates, which generate a temptation for regulatory expropriation after privatization.[2] This combination increases the pressure for policy convergence at the time of privatization, when investors—who are well informed about regulatory practices—have more influence on governments competing for their capital. Conversely, after the realization of sunk investment, pressure for convergence should decline. Furthermore, the cases of privatization studied herein were chronologically proximate, such that policymakers had no time to learn about regulatory developments. However, the variation in

[2] "The combination of large investments in durable, specific assets and strong politicization means that utilities are particularly vulnerable to administrative expropriation of their vast quasi-rents"; Brian Levy and Pablo Spiller, "Introduction," in Levy and Spiller, eds., *Regulations, Institutions and Commitment: Comparative Study of Telecommunications* (Cambridge: Cambridge University Press, 1995), 3. Technological changes, however, have recently permitted competition in telecommunications. Competition in electricity generation is therefore spreading, although investments are high, durable, and immovable. "In the cases of transmissions and distribution, economies of scales and high sunk costs create conditions of natural monopoly, where a single network of facilities can provide transmission or distribution services more efficiently than duplicative systems"; Carlos Ruffin, "The Political Economy of Institutional Change in the Electricity Supply Industry" (Ph.D. diss., Harvard University, 2000), 113.

terms of institutional choices ranged from restrictions on foreign capital participation based on economic nationalism to the delegation of regulatory power in autonomous bodies influenced by beliefs about state intervention. They also included diverse selling conditions that subsidized core constituencies, which otherwise would have been unable to acquire the same proportion of privatized assets. The selling conditions determine the short-term beneficiaries of privatization, whereas the institutional choices shape the future functioning of the privatized industries.

The article has four sections. The first discusses the implications of Latin American convergence toward privatization. The second section focuses on the effect of the political bias of privatizing governments in shaping their institutional choices for implementing privatization of public utilities. The third section presents five case studies from Argentina, Chile, and Mexico to assess the implications derived from the political bias hypothesis. The last section concludes and discusses questions for future research.

I. Policy Convergence toward Privatization

During the postwar era state-led industrialization in Latin America was at the core of economic policy-making and aimed to accelerate economic and social development. Hirschman explained that the role of the state was heightened by the need to compensate for the late start in industrialization.[3] Latin American development ideologies, both in their national-populist and in their developmentalist versions, emphasized state intervention and public enterprises to promote economic growth.[4] State-owned enterprises were considered an efficient way to deal with externalities and were expected to serve the public interest, to reduce vulnerability to external shocks, and to promote economic development.[5]

State-led development and state-owned enterprises also served to forge political coalitions. Latin American populist parties used nationalization to build support coalitions of workers, consumers, and domes-

[3] Albert Hirschman, "The Political Economy of Import-Substituting Industrialization in Latin America," *Quarterly Journal of Economics* 84 (February 1968).

[4] See Peter Evans, *Dependent Development* (Princeton: Princeton University Press, 1979); Stephan Haggard, *Pathways from the Periphery* (Ithaca, N.Y.: Cornell University Press, 1990); and Kathryn Sikkink, *Ideas and Institutions* (Ithaca, N.Y.: Cornell University Press, 1991). The national-populist and developmentalist policies differ in their support for light (horizontal) or heavy and basic (vertical) industrialization.

[5] Sebastian Edwards, *Crisis and Reform in Latin America* (Oxford: Oxford University Press, 1995), 71.

tic business sectors. Nationalization of public utilities usually implied taking over foreign-owned assets and, thus, hurting players that were external to the domestic political system. The beneficiaries included domestic business sectors, which became suppliers or received subsidized rates to foster national production, workers who received higher salaries and benefits, and residential consumers who obtained lower prices and extended coverage of their public services. The costs of these subsidies were not felt immediately. Even when treasuries had to start covering the deficits of state-owned public utilities, tax evasion and indirect taxation—mainly through inflation—spread costs despite the concentration of benefits. Hence, nationalization was a policy asset for coalition building in Latin America.[6]

The debt crisis triggered the spread of new economic ideas in general and of privatization in particular. By the early 1990s, the failure of traditional policies in dealing with capital shortages—which were important to cover fiscal deficits, trade deficits, and debt services—exposed the crisis of the previous developmental strategies and facilitated the emergence of a new policy consensus.[7] The strain of the crisis pushed governments to take the risks implied in policy innovation and turned former advocates of nationalization into proponents of privatization.[8] Under these conditions multilateral organizations, creditors, and businesses, with their technical expertise, became more influential.[9]

[6] Robert Bates provides a theory about the use of state subsidies and state-owned enterprises to build governing political coalitions and applies it to Africa; see Bates, *Markets and States in Tropical Africa* (Berkeley: University of California Press, 1981). Barry Ames and Barbara Geddes use arguments of this type to explain the preference of Latin American politicians for allocating resources through political bargaining to provide rents to constituencies and build political coalitions. See Ames, *Political Survival* (Berkeley: University of California Press, 1987); and Geddes, *Politician's Dilemma: Building State Capacity in Latin America* (Berkeley: University of California Press, 1994).

[7] Armando Castelar Pinheiro and Ben Ross Schneider, Leslie Armijo, and Sylvian Turcotte and Philippe Faucher emphasize the financial urgency of governments in terms of fiscal revenue and credit availability in explaining Latin American privatization. See Pinheiro and Schneider, "The Fiscal Impact of Privatization in Latin America," *Quarterly Review of Economics and Finance* 34 (Summer 1994); Armijo, "Balance Sheet or Ballot Box? Incentives to Privatize in Emerging Democracies," in Philip Oxhorn and Pamela Starr, eds., *Markets and Democracy in Latin America* (Boulder, Colo.: Lynne Rienner, 1999); and Turcotte and Faucher, "How Markets and Business Power Influenced Privatization in Latin America" (Manuscript, Department of Political Science, Université de Montreal, 1999).

[8] See Karen Remmer, "The Politics of Neoliberal Economic Reform in South America, 1980–94," *Studies in Comparative International Development* 33 (Summer 1998); Kurt Weyland, "Risk Taking in Latin American Economic Restructuring: Lessons from Prospect Theory," *International Studies Quarterly* 40 (June 1996); and Susan Stokes, *Mandates and Democracy* (Cambridge: Cambridge University Press, 2001).

[9] John Williamson coined the term "Washington Consensus" to highlight the influence of ideas and multilateral organizations in policy convergence; Williamson, *The Political Economy of Policy Reform* (Washington, D.C.: Institute for International Economics, 1994). Barbara Stallings and John Ikenberry emphasize policy emulation and international influence through multilateral organizations; see Stallings, "International Influence on Economic Policy: Debt, Stabilization, and Structural Reform," in Stephan Haggard and Robert Kaufman, eds., *The Politics of Economic Adjustment: Interna-*

Fiscal crises further wore down opposition to privatization by reducing the appeal of bankrupt state-owned enterprises (whose subsidies were disappearing) for suppliers, workers, and unsatisfied consumers.

Thus, the success of privatization experiences in dealing with fiscal deficits and the lack of capital inflows provoked its diffusion to other countries as they replaced policies that had proved ineffectual. Technocrats, domestic and international, became the agents of policy diffusion, whereas investors with scarce capital provided an incentive for privatization in countries seeking foreign capital inflows.[10] Latin America as a region had the two main conditions for policy diffusion: economic competition for scarce capital (which creates the pressure for convergence) and cultural similarities (which facilitate the spread of policy ideas).[11]

The policy convergence toward privatization seems to defy partisan theories about political policy preferences mostly derived from the OECD countries.[12] Boix argues that left-wing parties prefer to raise productivity by increasing government intervention whereas conservative parties encourage the private provision of capital. Indeed, he specifically mentions privatization as an example of the different policy preferences of conservatives and socialist parties in the OECD.[13] Garrett and Iversen and Wren show a partisan effect (combined with labor organization) on

---

tional Constraints, Distributive Conflicts, and the State (Princeton: Princeton University Press, 1992); and Ikenberry, "The International Spread of Privatization Policies: Inducement, Learning, and 'Policy Bandwagoning,'" in Ezra N. Suleiman and John Waterbury, eds., *The Political Economy of Public Sector Reform and Privatization* (Boulder, Colo.: Westview Press, 1990).

[10] Ikenberry (fn. 9) coined the term "bandwagoning" to explain policy emulation with respect to privatization, and Luigi Manzetti explains privatization as "policy substitution" due to the failure of the previous strategy of public enterprises; Manzetti, *Privatization South American Style* (Oxford: Oxford University Press, 2000). Williamson (fn. 9) makes a case for the role of international financial institutions in spreading the ideas associated with privatization and other market reforms in what he labeled the "Washington Consensus." Ben Ross Schneider argues that technocrats are appointed as a signal to investors and international financial institutions, which demand the market-oriented policies; Schneider, "The Material Bases of Technocracy: Investor Confidence and Neoliberalism in Latin America," in Miguel Centeno and Patricio Silva, eds., *The Politics of Expertise in Latin America* (London: St. Martin's Press, 1998).

[11] Beth Simmons and Zachary Elkin show the effect of economic competition on capital and of religion in the diffusion of economic liberalization policies; Simmons and Elkin, "Competition, Communication or Culture? Explaining Three Decades of Foreign Economic Policy Diffusion" (Manuscript, Department of Political Science, University of California, Berkeley, 2001). Brune and Garrett (fn. 1) suggest that competitive emulation for foreign capital explains that geographic region is the strongest predictor of privatization for a sample of 148 developing countries between 1988 and 1998.

[12] Referring to the adoption of Keynesian policies, Peter Hall summarizes an array of empirical studies arguing that "the orientation of the governing party appears to have been the single most important factor affecting the likelihood that a nation would pursue Keynesian policies"; Hall, "Conclusions: The Politics of Keynesian Ideas," in Hall, ed., *The Political Power of Economic Ideas: Keynesianism across Nations* (Princeton: Princeton University Press, 1989), 376.

[13] Carles Boix, *Political Parties, Growth and Equality: Conservative and Social Democratic Economic Strategies in the World Economy* (Cambridge: Cambridge University Press, 1998), 85–90.

government expenditures and social policies in the OECD.[14] In Latin America, Kaufman and Segura-Ubiergo also find that government coalitions have an effect on social policy-making.[15] These political policy preferences seem to have succumbed to the policy diffusion of privatization in Latin America. This article argues that the political preferences of incumbent governments may not explain the occurrence of privatization but that they can explain the way in which privatization is implemented.

The Politics of Privatization: Imposition, Capture, and Partisanship

Students of the political economy of market reforms limit the role of politics in privatization to the implementation of the new policy options proposed by technocrats. They assume that the beneficiaries of nationalization are different from those of privatization.[16] Privatization is supposed to produce concentrated losses to suppliers, workers, or even subsidized consumers. On the contrary, "compared to those who gain from the status quo, the diffuse beneficiaries of the reforms may have substantial difficulty organizing," thus making privatization difficult to implement.[17] For this reason the literature on the politics of privatization focuses on its occurrence "against all odds." Executive authority to dismantle opposition from "vested interests" was considered a precondition for the success of privatization and other market-oriented policies.[18] Government authority and institutional capabilities were singled out as key factors in the implementation of privatization.[19]

[14] Geoffrey Garrett, *Partisan Politics in the Global Economy* (Cambridge: Cambridge University Press, 1998); and Torben Iversen and Anne Wren, "Equality, Employment, and Budgetary Restraint: The Trilemma of the Service Economy," *World Politics* 50 (July 1998).

[15] Robert R. Kaufman and Alex Segura-Ubiergo, "Globalization, Domestic Politics, and Social Spending in Latin America: A Time-Series Cross-Section Analysis, 1973–97," *World Politics* 53 (July 2001).

[16] Ikenberry (fn. 9), 95; and Edwards (fn. 5), 174.

[17] Stephan Haggard and Robert Kaufman, "Economic Adjustment and the Prospect for Democracy," in Haggard and Kaufman (fn. 9), 27.

[18] The degree of executive concentration of power required for reforms was never specified but it ranged from authoritarianism to "delegative democracy"—lacking checks and balances on the power of the executive according to Guillermo O'Donnell—to strong presidents with ample decree power; O'Donnell, "Delegative Democracy," *Journal of Democracy* 5 (January 1994). When Congress was included in the picture, partisan discipline in the legislature was deemed crucial.

[19] Manzetti (fn. 10) points to five key factors regarding government capabilities for privatization: a cohesive economic team, technical and administrative capabilities, bureaucratic cooperation, concentrated executive authority, and speed (p. 13). Ana Margheritis makes a case for strong presidential leadership as a key variable in explaining the Argentine privatization process in general; see Margheritis, *Ajuste y reforma en Argentina (1989–1995)* (Buenos Aires: Nuevohacer, 1999). Walter Molano and Ben Alfa Petrazzini also emphasize this variable to explain the success of telecommunications' privatization in their comparison of Argentina, Mexico, and Brazil; Molano, *The Logic of Privatization: The*

In particular, institutional executive authority exercised through decrees and a reduced number of veto points was considered important to insulating policymakers and allowing for privatization.

Yet privatization, like any mechanism of property distribution, includes concentrated rents and concentrated beneficiaries.[20] Thus, Latin American policymakers could very well rely on concessions rather than on imposition to implement privatization. In studying privatization in the region, both Teichman and Schamis find that the biggest winners from privatization were the industrial-financial conglomerates, which were supposed to be among the losers in the process.[21] In some countries of the region even supposed losers such as labor unions received concessions in exchange for their support for market-oriented and privatizing policies.[22]

Political bargaining, however, is insufficient to explain diversity in privatization. Politicians did more than distribute short-term concessions. They took advantage of the privatization process to distribute resources in a way that allowed them to constitute or reinforce political coalitions. Moreover, when implementing privatization, their prior beliefs influenced how they processed the information regarding the new state of the world and shaped their institutional preferences. The combined effect of political coalitions and beliefs generated a systematic effect in the process of implementation that I call "political bias."

II. Political Bias and Policy Implementation

Technocrats are the agents of policy innovation. Politicians become receptive to these ideas when previous policies do not provide results and as a result jeopardize their political survival. Politicians provide more than leadership for policy networks; they also provide support coali-

Case of Telecommunications in the Southern Cone of Latin America (Westport, Conn.: Greenwood Press, 1997); and Petrazzini, *The Political Economy of Telecommunications Reform in Developing Countries: Privatization and Liberalization in Comparative Perspective* (Westport, Conn.: Praeger Publishers, 1995).

[20] The literature on privatization in the former socialist countries arrives at a similar conclusion regarding the concentration of benefits from privatization. See, in particular, Joel Hellman's provocative argument about how the sequencing of reforms generates arbitrage opportunities between the reformed and unreformed sectors. These opportunities allow winners to take large rents, thus provoking their later opposition to the continuation of reforms that would reduce such rents; Hellman, "Winners Take All: The Politics of Partial Reform in Postcommunist Transitions," *World Politics* 50 (January 1998).

[21] Judith Teichman, *The Politics of Freeing Markets in Latin America* (Chapel Hill: University of North Carolina Press, 2001); and Hector Schamis, *Re-Forming the State: The Politics of Privatization in Latin America and Europe* (Ann Arbor: University of Michigan Press, 2002).

[22] Maria Victoria Murillo, *Labor Unions, Partisan Coalitions and Market Reforms in Latin America* (Cambridge: Cambridge University Press, 2001).

tions for policy change, which are usually based on political parties.[23] Politicians know that in order to keep their support coalition and signal their loyalty to it, they need to give resources to activists and constituencies. The process of coalition building is complex and encompasses more issues than the privatization of public utilities. However, politicians' influence in policy implementation is not limited to creating the "illiberal lacunae" that many authors argue were necessary for the implementation of market reforms.[24] Instead, some of the institutional choices they make will suggest different developmental paths, whose distributive consequences are different in the short term—when politicians are in office—than in the long term—when they may or may not be in office.

Two major factors influence the institutional preferences of politicians in implementing the privatization of public utilities: beliefs and constituencies. Beliefs generate priors that influence the way in which politicians update their information to adopt the new ideas presented by technocrats. Coalitional partners generate loyalties that shape institutional preferences with certain distributive consequences. Hence, the political bias of the privatizing government influences institutional choices, such as regulatory institutions and the selling conditions of privatization, which in turn affect future resource distribution in privatized markets. (See Figure 1.)

The previous policies of the incumbent party had generated their current political beliefs and coalition allies. Earlier, beliefs about development prompted governments to implement policies that allowed politicians to constitute or reinforce their political coalitions because these policies benefited their constituencies. Conversely, these constituencies provided support for the political parties whose beliefs generated these policies. This cycle reinforced political coalitions, which tied the beliefs of politicians and activists to the policy benefits received by constituencies and which influenced the subsequent choices of politicians.[25] Because, however, these factors are contingent on the political bias of the privatizing government, they are not purely path dependent. Thus, the beliefs and constituencies of the privatizing

[23] On partisan coalitions and market reforms, see Edward L. Gibson, "The Populist Road to Market Reform: Policy and Electoral Coalitions in Argentina and Mexico," *World Politics* 49 (April 1997). Teichman (fn. 21) discusses "policy networks" with regard to privatization in Latin America.

[24] Gibson (fn. 23) and Javier Corrales claim that party concessions and the resulting "illiberal lacunae" are necessary for the occurrence of market reforms; Corrales, "A Theory on the Politics of Economic Reform in Latin America," *Comparative Politics* 32 (January 2000).

[25] See Hall (fn. 12); and on the relationship between parties, interests, and ideas, see Peter Gourevitch, "Keynesian Politics: The Political Sources of Economic Policy Choices," in Hall (fn. 12).

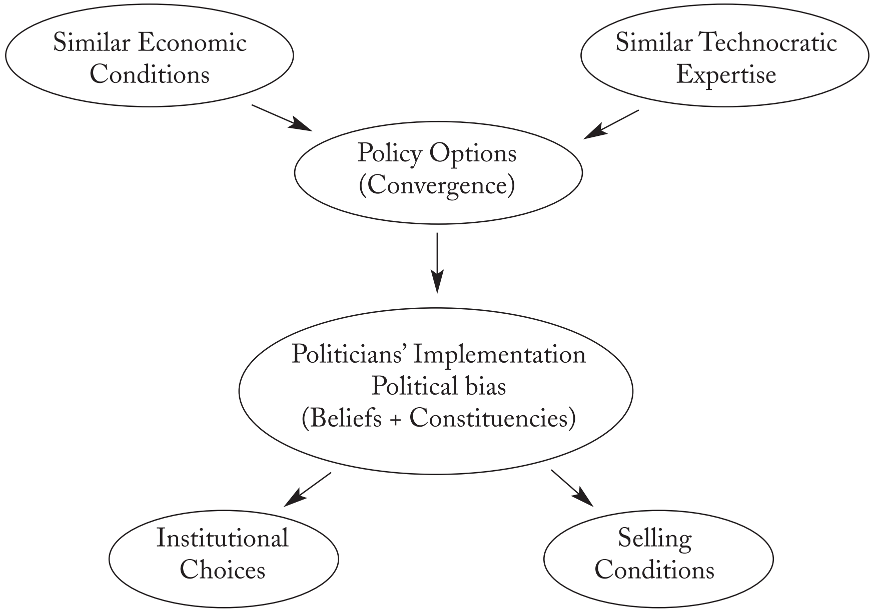

FIGURE 1

government explain the formation of institutional preferences at the time of privatization. The government in power will try to implement these preferences as policies, and their success will vary according to their capacity to sustain political coalitions and the constraints and opportunities defined by state institutions.

PARTISAN BELIEFS AND REGULATORY CHOICES

The institutions adopted at the time of privatization reflect the role of the state in privatized markets and thus the confidence that policymakers have in the liberalization of sectors that have traditionally been considered natural monopolies. The partisan beliefs of policymakers frame their adoption of technical ideas, including their attitudes toward regulation and toward market mechanisms for resource allocation.

To assess the influence of beliefs, I consider indicators that provide for some degree of consistency among previous policies, discourse at the time of privatization, and electoral statements after privatization. These indicators centered around two areas: economic nationalism and state intervention. Economic nationalism is important because it was the ideology that brought about a generalized nationalization of public utilities in the region.[26] State intervention has traditionally been used by the literature on partisan policy-making to define policy preferences.[27] Policy indicators of economic nationalism are previous policies restricting foreign investment, nationalization of foreign-owned utilities, high trade tariffs, and subsidies to promote domestic capital. Policy indicators of state intervention are the creation of state-owned enterprises, the extension of the state bureaucracy, and the regulation of labor markets.

At the time of privatization, the prior political beliefs that generated these policies influence the adoption of the new policies. If belief in economic nationalism is high, the privatization of public utilities is more likely to include restrictions on foreign ownership and management, as well as government-defined investment targets in sectors that provide fundamental infrastructure for economic development. Conversely, if belief in state intervention is high, the government is more likely to create separate regulatory agencies to regulate the privatized sector and to establish mechanisms within the executive power for the enforcement of regulation. Additionally, delegating power to regulatory agencies by making them independent of incumbents can foster longer-lasting effects in terms of the developmental goals defined at the time of privatization. Industry specialists will be better prepared to deal with the issues of industry development, and they are more likely to join agencies where their tenure is not threatened by electoral turnover.[28]

Political Constituencies and Selling Conditions

Political constituencies influence the decisions of policymakers about the selling conditions at the time of privatization. Because privatization of public utilities involves selling some of the largest assets that can be distributed and because public services have high public visibility, governments define the pricing and selling conditions to consolidate support coalitions. Therefore, the beneficiaries of privatization include unexpected winners that belong to the core constituencies of the privatizing government. That is, some of the beneficiaries of privatization

[26] José Gómez-Ibáñez, "The Future of Private Infrastructure: Lessons from the Nationalization of Electric Utilities in Latin America, 1943–1979," Working Paper (Cambridge: John F. Kennedy School of Government, Harvard University, January 1999).

[27] See Boix (fn. 13); and Garrett (fn. 14).

[28] For the argument about delegation and electoral competition, see Terry Moe, "The Politics of Structural Choice," in Oliver E. Williamson, ed., *Organization Theory: From Chester Barnard to the Present and Beyond* (Oxford: Oxford University Press, 1990). D. Michael Shafer argues that in sectors with high sunk costs, the specialization of the regulators tends to align their interests with those of the industry. If the winners of privatization are government allies, the creation of separate regulators also furthers their common interests with privatizers after the latter leave power; Shafer, *Winners and Losers: How Sectors Shape the Developmental Prospects of States* (Ithaca, N.Y.: Cornell University Press,1994).

are constant across cases and coincide with the predictions of economic theories. Foreign investors acquired assets in all cases and consumers benefited when their unsatisfied demand was met. In all cases, however, the political leverage of certain sectors within the government coalition served to gain them more favorable conditions in the purchase of privatized assets than those predicted by economic theories.[29] Hence, all governments are likely to use the distribution of resources derived from privatization to favor their political coalitions, but the beneficiaries of the process should be different, according to who the allies of the privatizing government are.

Government coalitions have different characteristics. In most democracies they are defined by partisan coalitions constituted by voters and activists. The traditional view of parties as representatives of different class constituencies is derived from the Western European experience. That view is the one assumed in the partisan theories of policy-making mentioned above. According to this literature, right-wing parties appeal to upper-class and middle-class voters, whereas left-wing parties appeal to lower-class and middle-class voters. Although most of the partisan theories of policy-making emphasize voters as constituencies, some supporters, such as activists and donors, have easier access to policymakers. In mass parties core constituencies and activists are important for fostering the support of broad constituencies by serving as channels between governments and voters and by providing resources like policy support and electoral campaigning.[30] Although the role of donors is harder to test in countries with little regulation on financial disclosure of political activities, the influence of donors on financing electoral campaigns is obvious, even if it can be demonstrated only anecdotally.

The Latin American literature views populist parties as different from Western European left-wing parties because, from their origin, they constitute multiclass alliances between the lower strata of society and some sectors of the upper and middle classes.[31] Moreover, the

[29] Whereas some of the winners take advantage of the opportunity based on their economic positioning at the time of privatization, other "unexpected" winners are not strong enough to extract concessions in all cases but only when they belonged to the government coalition.

[30] In defining class constituencies of political parties, Edward Gibson differentiates voters from core constituencies. He notes that "a party's core constituencies will be more important to the shaping of the party political agenda, particularly for high-stake issues, than noncore constituencies. They will also play a more important role in the provision of financial and ideological resources . . . its relationship with its core constituency is the most important of its capacities for becoming a viable political contender"; Gibson, *Class and Conservative Parties* (Baltimore: Johns Hopkins University Press, 1996), 10.

[31] For a view of populist parties as multiclass coalitions, see Michael Conniff, "Introduction," in Conniff, ed., *Populism in Latin America* (Tuscaloosa: University of Alabama Press, 1999). See Gibson (fn. 23) for an application of these coalitions to the studied period.

Latin American literature cautions about the weak institutionalization of party systems in the region.[32] Therefore, any analysis of political coalitions should consider both the importance of social links between constituencies and decision makers and the origins of the government—whether authoritarian or democratic—and its subsequent dependence on constituencies. Additionally, to link political constituencies with the selling conditions of privatization requires considering who among the constituencies in the government coalition are not among the expected buyers, either because they were expected to be among the losers of privatization or because they have insufficient resources to acquire assets.

In following this analysis, I assess the bias introduced by constituencies in privatization choices as they shape decisions regarding the selling conditions of privatized assets. I measure this bias with the subsidies or preferential access to the sale given to certain actors who can be traced to the constituencies of the government coalition. Favored access is granted by rules that subsidize buying instead of trying to obtain the highest possible market price. Moreover, when the government coalition includes the lower classes, the maximization of fiscal revenue can be attributable to the governmental need to commit fiscal resources to favor these poor constituencies that cannot acquire direct property through privatization. In this case privatization is part of a larger strategy of coalition building, which includes government expenditures in addition to the allocation of market resources. Table 1 summarizes how the political bias of privatizing governments is expected to affect institutional preferences.

III. Public Utility Privatization in Argentina, Chile, and Mexico

The cases studied here are the privatization of telecommunications in Argentina, Chile, and Mexico and the privatization of electricity in Argentina and Chile.[33] Argentina, Chile, and Mexico, among the first Latin American countries to embark on privatization, led the way in

[32] Scott Mainwaring and Timothy Scully analyze the weak institutionalization of party systems; Mainwaring and Scully, "Introduction: Party System in Latin America," in Mainwaring and Scully, eds., *Building Democratic Institutions* (Stanford, Calif.: Stanford University Press 1995).

[33] In contrast to the telecommunications case, President Salinas did not intend to privatize electricity because of an electoral agreement with his labor allies in the electricity sector who opposed privatization. PRI ideological resistance to energy privatization was still reflected in its electoral platforms for the 1994 and 2000 presidential campaigns. This article focuses only on privatization that has already occurred, thus excluding this case.

TABLE 1
EXPECTED EFFECTS OF POLITICAL BIAS ON PUBLIC UTILITIES PRIVATIZATION INSTITUTIONS

	Partisan Beliefs	
	High Economic Nationalism	*Low Economic Nationalism*
Institutional choices on investment (I)	limits to foreign direct investment (FDI) I requirements	no limits to FDI no I requirements
	High State Intervention	*Low State Intervention*
Institutional choices on regulatory agency	industry-specific regulator autonomous regulator	no industry-specific regulator no autonomous regulator
	Partisan Constituencies	
	Populist	*Right-Wing Military*
Selling conditions	subsidies to allied labor and business, clauses to improve state resources (debt/revenue)	subsidies to military and state officials, no priority to improve state resources

the privatization of telecommunications.[34] Argentina and Chile were also at the forefront of the privatization of electricity.[35] Moreover, these three countries provide variation in the explanatory variables of interest because Chile had a right-wing military government of committed neoliberals whereas Argentina and Mexico were controlled by populist parties that had switched to market policies.[36]

In all three countries the governments in power at the time of privatization were able to transform their institutional preferences into policy. In Chile a military regime made the government more accountable to its own constituencies than to the silenced opposition. In Mexico's liberalizing authoritarian government the PRI controlled the presidency and the Congress, and the power of the president to designate his/her

[34] "Countries from the Americas were among the first to sell state-owned carriers to foreign investors, and among these, developing nations such as Argentina, Chile, and Mexico sold controlling share of incumbent carriers to strategic investors"; *Trends in Telecommunications Reforms* (Geneva: International Telecommunications Union, 1998), 9.

[35] Ruffin (fn. 2) also finds a strong regional effect for electricity privatization in Latin America for a sample of seventy-five countries.

[36] The Pedersen index measures the volatility of the vote of parties and provides some idea of the links between them and society. The party systems of Argentina, Chile, and Mexico, however, are among the most institutionalized in the region. Their lower levels of electoral volatility since their democratic transition reflect their strong links with societal constituencies; Mainwaring and Scully (fn. 32), 17.

successor reinforced party discipline.[37] In Argentina's democracy the governing Peronist party controlled the presidency and Congress by combining party discipline and political alliances with provincial parties.[38] These governments were thus able to implement their institutional preferences while adhering to the constraints imposed by their own governing coalitions and prior beliefs; at the same time, their institutional choices reflect their institutional preferences. Because of the combination of state institutions and political coalitions in power, they had no need to make major concessions to the opposition.

Partisan Constituencies and Beliefs of the Privatizing Governments

This section describes the expectations derived from beliefs and constituencies of each of the three administrations for institutional choices and for selling conditions at the time of privatization. It provides indicators that define the political bias of the privatizing governments in all three countries.

Pinochet's Chile: Low Economic Nationalism, Low State Intervention, and Right-Wing Constituencies

In Chile neoliberal policies began to take shape in 1973 in reaction to the socialist administration of Salvador Allende, which ended in a military coup in defense of "private property." The new military government followed the neoliberal ideas of a group of technocrats trained in the economics department of the University of Chicago and began the privatization with the companies nationalized by Allende.[39] The "Chicago Boys," supported by the three largest business conglomerates,

[37] Jeffrey Weldon, "Political Sources of *Presidencialismo* in Mexico," in Scott Mainwaring and Matthew S. Shugart, eds., *Presidentialism and Democracy in Latin America* (Cambridge: Cambridge University Press, 1997).

[38] Mark Jones, "Evaluating Argentina's Presidential Democracy," in Mainwaring and Shugart (fn. 37). The privatization of telecommunication was done by decree based on a law approved by the Peronists with quorum of the main opposition party (the Radical Civic Union or UCR) resulting from a pact between the outgoing president Raúl Alfonsín and the incoming president Menem. This pact moved up the inauguration date due to a hyperinflationary crisis. The privatization of electricity was approved by Congress in 1992 despite the opposition of UCR and left-wing legislators.

[39] "Privatization was not carried out because of a need to relieve the burden of state enterprises' deficits; that problem was resolved relatively quickly after the 1973 coup. Rather, the Chicago Boys were committed to a vision of a decentralized and privatized economy as morally, politically, and economically superior to the long Chilean tradition of state intervention"; Paul Sigmund, "Chile: Privatization, Reprivatization, Hyperprivatization," in Suleiman and Waterbury (fn. 9), 359–60. See also Patricio Silva, "Technocrats and Politics in Chile: From the Chicago Boys to the CIEPLAN Monks," *Journal of Latin American Studies* 23 (May 1991); and Arturo Fontaine Aldunate, *Los Economistas y el Presidente Pinochet* (Santiago: Zig-Zag, 1988).

took control of the Chilean economy in 1975.[40] Whereas these technocrats provided Pinochet with an economic program, the armed forces were responsible for his rise to power. Additionally, the *gremialistas,* a group of right-wing politicians associated with the Chicago Boys, gave Pinochet a political basis for his program. [41] Both the *gremialistas* and the Chicago Boys provided not only civilian core constituencies for the new regime and connections to the economic conglomerates but also the base for the foundation of a new political party, the UDI (Independent Democratic Union).[42]

The ideology of the Chilean government combined low support for state intervention with low economic nationalism. The Chicago Boys based their view of development explicitly on market rather than state allocation of resources.[43] Following this antistatist approach, they started privatization in 1974. Thus, whereas the Chilean state had controlled 594 companies in 1973, the process of privatization reduced the number to 43 by 1989.[44] Privatizations included previously nationalized public utilities. In addition to privatization, public employment was cut by more than 35 percent between 1974 and 1983.[45] The government also deregulated the labor market with a 1979 labor law that facilitated firing at will, restricted collective bargaining to the firm level or to groups of employees, reduced severance payments, and allowed the replacement of striking workers.[46] This administration also liberalized

[40] Eduardo Silva describes the rise of the Chicago-trained economists, supported by the three largest conglomerates (Banco Hipotecario, Cruzat-Larrain, and Matte), to the top of economic policymaking in Chile; Silva, *The State and Capital in Chile* (Boulder, Colo.: Westview Press, 1996).

[41] Carlos Huneeus shows that the civilians in Pinochet's coalition included not just the technocrats and conglomerates but also the *gremialistas* of the traditional right, whose common project with the technocrats was established at the Catholic University. The main leader of the *gremialistas* was Jaime Guzmán, the main adviser to Pinochet on legal and political issues; Huneeus, "Technocrats and Politicians in an Authoritarian Regime: The 'Odeplan Boys' and the 'Gremialists' in Pinochet's Chile," *Journal of Latin American Studies* 32 (May 2000).

[42] When Pinochet was president, the coalition was political rather than partisan. However, the coalition resulted in a revamping of right-wing parties in Chile with the creation of UDI and emergence of National Renovation out of the traditional right. If the right-wing coalition of UDI and National Renovation wins the next presidential elections in Chile, their political bias in policy-making should have similar institutional preferences but would be of clearly partisan character.

[43] Schamis (fn. 21) argues that the ideas of the Chicago Boys facilitated Pinochet's consolidation of his internal rule within the armed forces, thereby increasing their influence in defining policy-making. Their main economic program, labeled "the brick," was strongly antistatist and pro–free markets. See *El ladrillo: Bases de la política económica del gobierno militar chileno* (Santiago: Centro de Estudios Públicos, 1992).

[44] Dominique Hachette and Rulf Luders, *Privatization in Chile* (San Francisco: International Center for Economic Growth, 1993), appendix A.

[45] Ibid., 117.

[46] René Cortázar, "Chile: The Evolution and Reform of the Labor Market," in Sebastian Edwards and Nora Lustig, eds., *Labor Markets in Latin America* (Washington, D.C.: Brookings Institution Press, 1997).

trade restrictions.[47] Additionally, Decree Law 600 and Law 818 of 1974 established liberal and nondiscriminatory conditions for foreign investment, including in the financial sector.[48]

In 1985 Pinochet's finance minister, Hernán Büchi, charged with privatizing telecommunications and electricity, listed four reasons for privatization: the importance of private property as a foundation for a market economy, the gain in efficiency derived from private control, the stabilization effect of a deepening in the stock market, and the spread of ownership.[49] After the democratic transition, Büchi became Pinochet's presidential candidate. His electoral platform stated his explicit support for the market as the best method for resource allocation and his advocacy of a nondiscriminatory approach toward foreign investment.[50] Hence, the commitment of the Pinochet administration to a low level of state intervention and economic nationalism was still in effect at the end of his administration.

SALINAS'S MEXICO: HIGH ECONOMIC NATIONALISM, HIGH STATE INTERVENTION, AND POPULIST CONSTITUENCIES

In Mexico the Institutional Revolutionary Party (PRI) was in the government at the time of privatization. Its traditional constituencies included a cross-class coalition of organized labor and peasants, along with a tacit alliance with domestic entrepreneurs and local bosses.[51] At the time of privatization Salinas was strengthening the coalition with certain sectors of this alliance, including financial capital associated with the trading of public debt, modernizing sectors in the labor movement (labeled the "new unionism"), and its own regional structure of

[47] Pinochet abolished nontariff barriers, reduced tariffs to an average of 10 percent, and cut tariff dispersion; Patricio Meller, *Un siglo de economía política chilena (1890–1990)* (Santiago: Editorial Andres Bello, 1996), 63. Conservative president Jorge Alessandri (1958–64) had already attempted a modest process of trade liberalization and state retrieval, showing the long-term commitment of the Chilean right to the market as the best method for resource allocation.

[48] Hachette and Luders (fn. 44), 104–5.

[49] Cited in Eduardo Bitrán and Raúl Sáez, "Privatization and Regulation in Chile," in Barry Bosworth, Rudiger Dornbusch, and Raúl Labán, eds., *The Chilean Economy: Policy Lessons and Challenges* (Washington, D.C.: Brookings Institution, 1994), 342.

[50] In his electoral program, Lineamientos Fundamentales del Programa de Gobierno (Santiago, 1989), Pinochet's former finance minister and presidential candidate Hernán Büchi emphasized the achievements of the military regime in terms of expanding economic freedoms and efficiency based on the development of the market economy and found no fault in the regulation and privatization of public utilities despite the criticisms in the electoral program of his main contenders; Concertación de Partidos por la Democracia, "Programa de Gobierno" (Santiago: Documentos La Epoca, 1989).

[51] Gibson (fn. 23); Samuel León, "Del partido de partidos al partido de sectores," in *El partido en el poder* (Mexico City: Iepes, 1990).

clientelist distribution to the poor PRI constituencies at the local level based on the National Solidarity Program (Pronasol).[52]

PRI beliefs combined high economic nationalism and state intervention. The PRI had previously nationalized public utilities. In fact, PRI president Luis Echeverría nationalized the telecommunications industry in 1972. The party had also promoted state intervention. President Echeverría established 160 state-owned companies, whereas his successor created 98 more.[53] The PRI had supported a highly regulated labor market since the approval of the 1931 labor law.[54] Additionally, in the early 1970s the PRI passed an investment law restricting foreign capital with the goal of promoting Mexican ownership.[55] It also established a high level of trade protection and had subsidized domestic capital.[56]

After the shock provoked by the debt crisis, PRI president Miguel De la Madrid, in a policy turnaround in 1985, began to privatize.[57] His successor, PRI president Carlos Salinas, privatized the national telecommunication company in 1990. However, both De La Madrid and Salinas assigned the state a guiding role in the allocation of economic resources. De La Madrid stated: "We have changed the doctrine of the liberal state. From a state which was a mere arbiter of particular interests, responsible solely for law and order, and basic public services, we define a state . . . with the capacity to be the rector of national, political, economic and social development."[58] According to Centeno's study of the Mexican technocratic revolution, De la Madrid and Salina's model of national development was not Chile, but Taiwan and Korea. Thus, this thinking went, "the government should not directly control the

[52] Ruth Collier and James Samstad, "Mexican Labor and Structural Reform: New Unionism or Old Stalemate?" in Riordan Roett, ed., *The Challenge of Institutional Reform in Mexico* (Boulder, Colo.: Lynne Rienner, 1995); Kathleen Bruhn, "Social Spending and Political Support: The 'Lessons' of the National Solidarity Program in Mexico," *Comparative Politics* 28 (January 1996); Carlos Alba Vega, "Los empresarios y el estado durante el Salinismo," *Foro Internacional* 36 (January 1996).

[53] Nora Lustig, "Equity and Growth in Mexico," in Simon Teitel, ed., *Towards a New Development Strategy for Latin America* (Washington, D.C.: Inter-American Development Bank, 1992), 244.

[54] This legislation makes Mexico one of the most rigid labor markets in Latin America (the fifth most rigid) according to the index presented in John Heckman and Carmen Pages, "The Cost of Job Security Regulation: Evidence from Latin American Labor Markets," *Economia*, the Journal of the Latin American Economic Association 1 (Fall 2000).

[55] Lustig (fn. 53), 244; and Gary Gereffi and Peter Evans, "Transnational Corporations, Dependent Development and State Policies in the Semiperiphery: A Comparison of Brazil and Mexico," *Latin American Research Review* 16, no. 3 (1981).

[56] Pedro Aspe, *El camino mexicano de la transformación económica* (Mexico City: Fondo de Cultura Económica, 1993), 137–39; Gereffi and Evans (fn. 55).

[57] Between 1980 and 1982 the transfers from the federal budget to the state-owned enterprises were 3.6 percent of GDP. The pressure from the fiscal deficit along with the decline in oil prices in 1981 and the end to foreign financing in 1982 brought about the decision to start privatizing; Jacques Rogozinski, *La privatización en México: Razones e impactos* (Mexico City: Trillas, 1997), 101–2, 110.

[58] Cited by Miguel A. Centeno, *Democracy within Reason* (University Park: Penn State University Press, 1994), 194–95.

economy but rather serve as an overseer that would impose the discipline, order and efficiency the system required."[59] Indeed, Salinas even coined the term "social liberalism" to incorporate the elements of continuity and change in the policy turnaround. Moreover, the PRI electoral platforms for the presidential campaigns of 1994 and 2000 still mentioned that continued public sector control of strategic sectors was necessary to maintain national sovereignty. Thus, belief in some form of state intervention and economic nationalism persisted even after the conversion of the PRI to promarket policies.

MENEM'S ARGENTINA: MEDIUM ECONOMIC NATIONALISM, HIGH STATE INTERVENTION, AND POPULIST CONSTITUENCIES

In Argentina, Peronist president Carlos Menem was in charge of privatization. The Peronist party was a multiclass coalition of organized labor, domestic industrialists, and local bosses in the less developed provinces and suburban areas of Argentina.[60] The party's traditional beliefs included a combination of high levels of state intervention and medium levels of economic nationalism. President Juan Perón had nationalized telecommunications in 1948, arguing that "telephone and telegraph services are essential for the economy and the defense of the country."[61] He had also created a nationwide public company for electric public utilities in 1947, expanded public sector employment, and established regulations that increased the rigidity of the labor market.[62] Perón supported as well protectionism and domestic capital, though he did not establish barriers for foreign capital.[63] In 1973 Peronism returned to government after years of being proscribed. Although this administration was cut short by a 1976 military coup, its policies while in office returned to state intervention. Its Three-Year Plan was based on basic industries and state enterprises leading output growth, with a priority placed on state and local companies.[64]

[59] Ibid., 195.

[60] Gibson (fn. 23); Murillo (fn. 22).

[61] Petrazzini (fn. 19), 111.

[62] During Perón's administration (1945–55) the national civil service expanded from 203,300 to 394,900; James McGuire, *Peronism without Perón* (Stanford, Calif.: Stanford University Press, 1997), 58. The IADB index mentioned in fn. 54 ranks Argentina's labor laws as more rigid than those of Mexico.

[63] "He expanded credit to industry, raised tariffs, nationalized foreign trade, and directed foreign exchange to industry through a state agency called the Argentine Institute for Trade Promotion (IAPI)"; McGuire (fn. 62), 58. Yet Perón also tried to attract foreign capital to promote the development of an automotive industry and also signed petroleum exploration contracts with Standard Oil in 1955, which were highly criticized by nationalist groups (pp. 71–72).

[64] See Federico Sturzenegger, "Description of a Populist Experience: Argentina," in Rudiger Dornbusch and Sebastian Edwards, eds., *The Macroeconomics of Populism in Latin America* (Chicago: Chicago University Press, 1990). The previous military government showed a higher level of economic

In 1989 the Peronists were back in power and President Menem embarked on privatization.[65] As in Mexico, the Peronist conversion to neoliberalism still retained some planning role for the state. According to Menem and his former minister of public works, "It is not possible to privatize public services and some of the strategic activities of the state by depriving it of the powers of police (control) and *planning* (orientation)."[66] Menem, like Salinas, coined his own term, "popular market economy," to define the adoption of neoliberal policies within the legacy of the Peronist tradition. Popular market economy was "popular" because it sought to ensure the public good by rewarding work and guaranteeing social and distributive justice while preserving state intervention, state orientation, and state planning. It was "market" because it guaranteed economic freedom, private initiative, and competition while demanding efficiency.[67] After Menem finished his two terms in office and had completed the privatization process, the 1999 Peronist electoral platform still argued for enacting regulations to promote universal coverage in water, electricity, and telecommunications.[68] Hence, the legacies of state intervention and mild economic nationalism persisted after the Peronist conversion to the market.

SUMMARY

The political bias hypothesis predicts that the three administrations should include subsidies in the selling conditions of privatization to satisfy each of their core constituencies. Additionally, their political beliefs should influence their adaptation to privatization policies by shaping their institutional choices. In Chile weak preferences for economic nationalism and state intervention should decrease the probability of the government establishing limits to foreign investment, investment targets, and industry-specific regulatory agencies with autonomy from the executive. In Mexico high levels of economic nationalism and state

nationalism by passing a "buy Argentine" law, which required that the public sector buy goods of local origin and discriminated against foreign-owned companies; Osvaldo Schenone, "Public Sector Behavior in Argentina," in Felipe Larraín and Marcelo Selowsky, eds., *The Public Sector and the Latin American Crisis* (San Francisco: International Center for Economic Growth, 1991), 15.

[65] Although Peronist legislators had opposed previous privatization attempts under a Radical president, the economic crisis reached a peak in 1989, when the GDP dropped by more than 6 percent and the annual rate of inflation surpassed 3,000 percent. Menem's electoral program did not announce his intention to implement market reforms, including privatization.

[66] Carlos Menem and Roberto Dromi, *Reforma del estado* (Buenos Aires: Ediciones Ciudad Argentina, 1997), 109, emphasis in the original; translation by the author.

[67] Ibid., 42–43.

[68] Partido Justicialista, "Plataforma electoral: 10 compromisos y 100 medidas para una Argentina mejor" (Buenos Aires: Partido Justicialista, 1999). Yet there were no explicit links to national sovereignty as in Mexico.

intervention should increase the probability of restrictions on foreign investment, government-defined conditions for investment, and the establishment of new industry-specific regulatory agencies with autonomy from the executive. Finally, in Argentina legacies that include medium levels of economic nationalism and high levels of state intervention should imply a higher probability that institutional choices will include modest limits to foreign investment or conditions for investment as well as the creation of new industry-specific regulatory agencies independent of the executive.

Outcomes of Privatization: Institutional Choices and Selling Conditions

This section presents the institutional choices taken by these administrations and uses the five case studies to assess the accuracy of the expectations defined in the previous section based on the beliefs and constituencies of each administration.

CHILE: NEOLIBERAL PRIVATIZATION

Following the predictions derived from its low level of economic nationalism, the Pinochet administration did not set restrictions on foreign capital in the privatization of electricity or telecommunications.[69] The 1982 electricity law established no obligation of service for generators;[70] nor did it impose investment or service targets on the new telecommunications investors.[71] Additionally, the predictions derived from its low preference for state intervention were also confirmed. The Chilean government did not create independent industry-specific regulatory agencies for telecommunications or electricity. In telecommunications it established the Undersecretary of Telecommunications (SUBTEL) as an office within the Ministry of the Economy and assigned regulatory functions to it. In the electricity sector it gave regulatory powers to a National Electricity Commission (CNE) formed by a group

[69] The 1978 Supreme Decree 423 of the Ministry of Transportation and Communications explicitly guaranteed the participation of foreigners in the industry.

[70] Juan Sebastián Bernstein, "Establecimiento de una política energética basada en el funcionamiento de los mercados competitivos y en la participación privada," Working paper (Santiago: CEPAL, 1995).

[71] The 1987 telecommunications law gave ten years before the application of maximum terms of two years to provide services in the self-defined areas of concession for providers, although they could charge customers in advance for the cost of investments necessary for the installation of the service. The pending demand for telephone services increased after privatization, in particular between 1988 and 1992; Jose Ricardo Melo, "La liberalización y la privatización de las telecomunicaciones" (Manuscript, University of Chile, 1993).

of cabinet members.[72] It did not give enforcement powers to the control agency (Electricity and Fuels Superintendence) it inherited; neither did it maintain any supervision of the independent system operator, in charge of electricity dispatch and controlled by large generators.

As expected, the selling conditions, by creating special pricing schemes, benefited the government's core constituencies, including the technocrats in the public administration and the military. Under the program of "popular capitalism," Pinochet also tried to expand ownership to create a new class of property owners that would become a supporter of the regime and thereby help avoid any reversion to the failed socialist experiment of the early 1970s. In the case of electricity the "popular capitalism" scheme benefited employees, civil servants, the military, taxpayers without fiscal debts, and especially managers of the privatized firms. The latter received shares with voting rights and paid with loans that used the dividends of the same shares as collateral. The selling mechanisms also promoted purchase by mutual funds, which were the main buyers on the Santiago stock exchange.[73] This scheme benefited a domestic business group, which included former government officials and managers of the electricity companies who formed, along with mutual funds, the corporations Enersis, Chilquinta, and Gener.[74] Additionally, it dispersed ownership among sectors (the middle and upper classes) that were likely to support the right-wing project of Pinochet in the upcoming plebiscite of 1988. These subsidies,

[72] The SUBTEL was created in 1977 and the CNE in 1978 as part of the restructuring of industries that preceded privatization. Both were part of executive ministries. The new telecommunications regulations of 1987 did not establish an independent regulator either, although the United Kingdom had already created OFTEL, providing some international experience in this area. The antiregulatory stance was maintained by right-wing legislators who hindered the efforts of subsequent center-left administrations to create separate regulatory agencies in these industries.

[73] These mutual funds had emerged from Pinochet's privatization of social security, thus linking the outcomes of both reforms.

[74] These three corporations emerged from the division of the state-owned distribution company Chilectra before privatization. Enersis also acquired control over Endesa, in charge of 60 percent generation and 100 percent transmission in the interconnected central system (SIC), which accounts for 80 percent of installed capacity in the country. Mutual funds had the majority of shares but lack voting rights, whereas the small percentage of stockholders with voting rights were mostly former government officials and managers. The head of the Enersis group, José Yuraszeck, had been in the government planning agency and was then appointed as CEO of Chilectra before its privatization. The head of Gener, Bruno Phillipi, had led the National Energy Commission in charge of electricity privatization; Graciela Moguillansky, *La inversion en Chile: el fin de un ciclo en expansion?* (Santiago: CEPAL, 1999), 190. Gonzalo Ibañez Langlois from Chilquinta collaborated with Jaime Guzmán in the drafting of the 1980 constitution. Other former government officials also joined the boards of these companies: former minister José Piñeira became the president of Chilectra, former minister Hernán Errázuriz was on the board of Enersis, and former minister Eduardo Undurraga was on the board of Entel; Schamis (fn. 21), 66.

however, were given at the expense of state revenue, which could have been used to benefit the poor, who did not qualify for them.[75]

In telecommunications the same mechanisms were used to distribute shares among the military, civil servants, and employees.[76] Mutual funds purchased 30 percent of the long-distance company in 1986 and 7.6 percent of the local company in 1987. Foreign investors also acquired 22 percent of shares in the long distance company ENTEL and 49.2 percent (along with management) in the local company CTC. Foreign investors brought capital, which was not available domestically. In both telecommunications and electricity, privatization created strong companies relative to the economy as a whole but did not contribute to maximizing state revenues.[77]

MEXICO: POPULIST PRIVATIZATION

The high level of economic nationalism in Mexico deterred the privatization of the electricity sector, which was constitutionally defined as strategic. And the privatization of telecommunications included explicit restrictions to foreign management and specific investment targets for the new providers.[78] According to Mariscal, the government was trying to create a "national champion" by restricting foreign control and by granting monopoly rights and imposing investment targets on the winner.[79]

[75] A former minister of Pinochet calculated the subsidy implicit in the privatization of electricity distribution as 32 percent for Chilmetro (Enersis), 25 percent for Chilquinta, and 22 percent for Gener; Hachette and Luders (fn. 44), appendix 2. Robert Devlin and Rosella Cominetti calculate for the sale of Endesa subsidies ranging from 7 to 20 percent for public employees, military, small investors, and company employees; Devlin and Cominetti, "La crisis de la empresa pública, las privatizationes y la equidad social," Working Paper (Santiago: CEPAL, 1994) The former head of the Mexican Privatizing Unit, Jacques Rogozinski (fn. 57), criticizes the system, arguing that the poor did not receive ownership under "popular capitalism" and explained that for that reason it was not used in Mexico (p. 122).

[76] The navy received shares in the local company CTC and the army in the long-distance one ENTEL; Melo (fn. 71), 93.

[77] In 1996 the largest twenty public companies of Chile included Endesa (second), CTC (fifth), Enersis (sixth), Chilgener (seventh), and Entel (eighteenth). Hugo Fazio, *Mapa actual de la extrema riqueza en Chile* (Santiago: Lom, 1997), 31.

[78] The privatization limited foreign capital control of telecommunications and endowed the controller of 20.4 percent of Telmex shares, labeled double A, with management voting rights requiring that 51 percent of those should be Mexican-owned. This restriction on foreign capital also gave an advantage to Mexican business sectors. The 1995 Federal Telecommunication Law also restricted foreign ownership to 49 percent.

[79] Judith Mariscal argues this point, that in addition to the fiscal arguments supporters of a national monopoly and restriction to foreign control believed in the idea of a "national champion"; Mariscal, *Reform in Mexico Unfinished Business: Telecommunications* (Westport, Conn.: Greenwood Press, 2002). My own interviews with supporters and opponents of the idea confirm this theory.

The predictions derived from the high level of preference for state intervention imply the existence of an independent, industry-specific regulatory agency independent of the executive. At the time of privatization, however, there was no regulatory agency in telecommunications. Regulatory powers remained with the secretary of communication and transport, who was part of the cabinet and had no autonomy from the government. But in 1995 the government introduced a bill passed as the Federal Telecommunications Law that created a regulatory agency for the industry (Cofetel) with broad regulatory power. Even then, the secretary of communication and transport restricted its legal autonomy by not defining a clear process for appointing commissioners with fixed tenure.[80]

Regarding the selling conditions used to build political coalitions, Salinas took advantage of the privatization of telecommunications both to reward allies and to raise revenues for enhancing his party's electoral prospects. This task was particularly urgent because Salinas was elected in 1988 amid accusations of fraud and in the face of a strong showing by the antineoliberal candidate Cuauhtémoc Cárdenas, who had left the PRI. Hence, Salinas used privatization to amass political and financial resources for improving his party's electoral performance.[81] Because his coalition included poor sectors that could not participate in the process of privatization, he supported the creation of a national monopoly to maximize fiscal revenue.[82]

Salinas included in his coalition domestic business sectors (especially the finance sector following his bank nationalization) and "modern" labor unions, while increasing his international credibility and fiscal resources to expand his popularity. According to the head of the privatiza-

[80] Personal interviews with former secretary of communication and transportation, Carlos Ruiz Sacristán, Mexico City, January 18, 2001; Undersecretary Carlos Cassassus, Mexico City, December 8, 2001; and their main economic adviser, Rafael Del Villar, Mexico City, December 6, 2001. Although the law was passed during the administration of PRI president Ernesto Zedillo, it was drafted under Salinas.

[81] Although Cárdenas was the candidate of the FDN (National Democratic Front), his positions still commanded PRI support. Salinas thus had to demonstrate the electoral popularity of his promarket policies to his own party activists. According to Kessler, Salinas also used the financial resources of banking privatization for social policies that would give him electoral returns; see Timothy Kessler, "Political Capital: Mexican Financial Policy under Salinas," *World Politics* 51 (October 1998). The instrument was the National Solidarity Program (Pronasol), which was targeted at competitive districts. The returns of Telmex's sale in 1990 were 1.19 percent of GDP and were used to pay internal public debt, thus liberating resources for social spending. Rogozinski (fn. 57), 150; Mariscal (fn. 79), 74.

[82] In addition to the nationwide local concession, TELMEX was given a nationwide mobile concession, a long-distance monopoly until 1997, and the microwave company Telex of Mexico, thus increasing the value of the company. According to personal interviews with the officials involved in the sale both in the secretary of finance and in the secretary of communications and transport, the maximization of fiscal revenue explains this arrangement.

tion unit, the privatization of telecommunications was used to maximize revenue, to open the international financial markets for Mexican companies, to include workers in the process, and to assure Mexican ownership of the company.[83] In the case of Telmex, a new domestic financial group (CARSO), in association with Southwestern Bell and France Telecom, won the bid and retained management rights. This purchase strengthened a new business group, which would become the largest in Mexico since the Salinas administration.[84] Additionally, the subsidized employee-owned shares (4.4 percent) were syndicated and administered by the union until their total payment and the rest of the shares went public in the following years.[85]

ARGENTINA: POPULIST PRIVATIZATION

Regarding institutional choices, the medium level of economic nationalism inherited by the Peronist party explains why the privatization of telecommunications and electricity did not include limitations to foreign capital or management but did establish investment targets. Government-established investment conditions were based on satisfaction of pending demand and investment targets in telecommunications. Enforcement of these conditions was linked to the extension of the fixed-term regional monopoly granted to the winners of the bid. In electricity the government established quality standards for the new investors.

As predicted by the Peronist party's preference for high levels of state intervention, the government established by decree an autonomous regulatory agency for telecommunications. The appointment of its board was competitive, members served for fixed terms that did not overlap with those of the government, and the agency's budget was derived from industry taxes.[86] As the agency was created only during the bidding process, its operation was delayed. In electricity the privatization law of 1992 also created an autonomous regulatory agency with a con-

[83] Rogozinski (fn. 57), 126.

[84] CARSO CEO Carlos Slim ranked as the fifty-fourth wealthiest person in Mexico during the 1980s; by 1999, according to Forbes magazine, he had become the wealthiest person in Mexico and Latin America and the seventeenth wealthiest in the world; Mariscal (fn. 79), 75. Originally a broker, his fortune grew by selling dollar-denominated government bonds during the 1980s.

[85] The union leader Francisco Hernandez Juarez was a supporter of privatization and a close ally of Salinas. Murillo (fn. 22), 117–19; Judith Clifton, *The Politics of Telecommunications in Mexico* (London: Macmillan Press, 2000), chap. 5.

[86] In spite of the autonomous institutional design described by Santiago Urbiztondo, Daniel Artana, and Fernando Navajas, the agency was often put into receivership due to regulatory conflicts with the executive in the postprivatization period; Urbiztondo, Artana, and Navajas, "*La autonomía de los entes reguladores argentinos: Aguas y cloacas, gas natural, energía eléctrica y telecomunicaciones*," Working Paper no. 340 (Washington, D.C.: Inter-American Development Bank, 1998).

tested process for presidential appointment of directors (congressional agreement was required); there, too, terms were fixed and did not overlap with those of the executive. The agency also had its own budget financed by the industry. Additionally, the secretary of energy retained veto power over the independent system operator in charge of electricity dispatch, which included all the actors in the system (generation, transmission, distribution and large users).

Menem used selling conditions for coalition building, as well as for reducing outstanding financial obligations by swapping debt for privatized assets. He thereby increased Argentina's international credibility.[87] Financial credibility facilitated borrowing to fund Menem's electoral coalition, while selling conditions benefited allied domestic business, labor unions, and provincial bosses.[88] The national telecommunications monopoly was divided for its sale into two vertically integrated regional monopolies.[89] Sixty percent of each company's shares was sold to consortia of foreign operators, former state suppliers, and banks holding Argentine sovereign debt. Employees received 10 percent of shares at long-term subsidized prices. The trust fund in charge of buying the bloc of shares until its purchase by employees was administered by the union. In addition, cooperatives in the provinces received 5 percent of shares, and the rest went public in the following years.[90]

Within the electricity sector foreign companies and former state suppliers bought most of the generation, distribution, and transmission companies. In addition to the 10 percent share for workers, which was also administered by the union, the labor union acquired four small

[87] The tender terms included a bid for sovereign debt besides the cash requirements. This debt swap contributed to improve the credit rating of Argentina and facilitate its access to private capital markets.

[88] The value of sovereign bonds in secondary markets had grown from 12 percent in 1989 to 70 percent its nominal value in 1994; *Statistical Abstract of Latin America* 29, 31 (1995), pt. 2. By contrast, the public foreign debt increased from 61.3 million dollars in 1991 to 99.7 million dollars in 1995, when Menem ended his first term, and 148.2 million in 1999, at the end of his second term. These funds, in addition to the revenue from privatization, paid for the increase in provincial expenditures and personnel, which sustained Menem's political coalition. See Werner Baer, Pedro Elosegui, and Andrés Gallo, "The Achievements and Failures of Argentina's Neo-Liberal Economic Policies," *Oxford Development Studies* (forthcoming); and Edward Gibson and Ernesto Calvo, "Federalism and Low-Maintenance Constituencies: Territorial Dimensions of Economic Reform in Argentina," *Studies in Comparative International Development* 35 (Fall 2000).

[89] Each company was granted half of the country for local communications, and they shared a common company for long distance (Telintar) and another for mobile communications (Miniphone) until the opening of the market. Their monopolies were established for seven years with three additional years if the companies complied with investment targets.

[90] Law 23,696 of 1989 and decrees 59 and 62 of 1990 established transfer of companies to the provinces, as well as subsidies for cooperatives, for programs of employee-owned stock, user-owned stock, and for producers of products or services in the industry of the state-owned company. The union charged a fee for the administration of workers' shares.

generators and two regional transmission companies and provincial cooperatives also entered the generation sector.[91] In both industries the largest domestic groups—which had grown under the shelter of state subsidies—bought privatized assets (for example, Techint, Perez-Companc, Clarin, Astra) and used them to increase their economic power.[92] In both industries provincial cooperatives received subsidies, adding another original member of the Peronist coalition to the beneficiaries of public utility privatization.[93]

Institutional Choices and Selling Conditions: Political Bias and Alternative Theories

The institutional choices defined in the five cases of privatization studied herein followed patterns similar to those predicted by the political bias of the governments involved. In all cases selling conditions followed coalition-building goals, and prior beliefs shaped the adoption of new policies, even in the cases of administrations that had changed their traditional policy preferences by shifting from a statist to a promarket orientation.

One finds the impact of political bias on institutional preferences expressed in the decision on how to privatize rather than whether to privatize. Thus, although the role of prior beliefs did not impede policy adaptation for governments with different prior beliefs, it did hinder convergence on the same patterns of policy implementation. (Because right-wing and populist governments inherited different economic beliefs, even as all moved toward privatization in a process of policy convergence, there were different patterns of policy implementation.) Table 2 summarizes the empirical evidence derived from the five case studies on the political bias produced by prior beliefs on the adoption of institutional choices at the time of privatization.

The table shows that the case studies followed patterns similar to those predicted by the political bias hypothesis presented in Table 1. In Chile low levels of economic nationalism led to no restrictions on for-

[91] Murillo (fn. 22), 160–64.

[92] The Argentine companies diversified to various industries in addition to public utilities. In the studied privatizations, Astra participated in electricity, Techint in telecommunications and electricity, Pérez Companc in telecommunications and electricity, and Clarin in telecommunications. The former three had been traditional state suppliers, whereas the last one originated in a newspaper that had received subsidized paper from the state. The thirty conglomerates emerging from privatization (mostly transnational) represented 17.7 percent of sales and 34.3 percent of benefits of the largest two hundred companies in 1995. Within those, the nine domestic conglomerates that participated in privatization accounted for only 4.3 percent of the sales, but 14.6 percent of benefits; Daniel Azpiazu, "Elite empresaria en la Argentina," Working Paper no.7 (Buenos Aires: Flacso, 1997), 53.

[93] For the role of the provincial bosses on the Peronist coalition, see Gibson and Calvo (fn. 88).

TABLE 2
PRIOR BELIEFS AND INSTITUTIONAL CHOICES (OUTCOMES)

	Chile		Argentina		Mexico
Beliefs and outcomes	Telco	Elect	Telco	Elect	Telco
Belief on economic nationalism	low	low	medium	medium	high
I choices: restriction to FDI	no	no	no	no	yes
I targets or service demands	no	no	yes	yes	yes
Belief on state intervention	low	low	high	high	high
Regulatory choices: separated industry-specific regulatory agency	no (ministry office)	no (inter-ministry commission)	yes (CNT)	yes (ENRE)	yes (late) (Cofetel)
Autonomy of agency (appointments-budget)	no	no	yes	yes	no (no fixed terms)

eign capital and the absence of investment targets. Additionally, beliefs that rejected state intervention resulted in the absence of industry-specific regulatory agencies with autonomy from the executive. These institutional choices applied both to telecommunications and to electricity. In Mexico high levels of economic nationalism explain the restrictions on foreign investment and the establishment of investment targets in telecommunications. Prior beliefs of high levels of state intervention coincided with the creation of an industry-specific regulatory agency for telecommunications, although the prior beliefs cannot explain the delay in its establishment or the fact that its autonomy was curtailed by appointment procedures. In Argentina medium levels of economic nationalism were expressed in the absence of restrictions on foreign capital accompanied by investment targets in telecommunications and quality targets in electricity. Prior belief in high levels of state intervention explain the establishment of autonomous industry-specific regulatory agencies whose powers include overseeing property concentration in both industries.

As predicted by the political bias hypothesis, the selling conditions in privatization were used for coalition building. The governments took this opportunity for property redistribution to benefit their core constituencies and sustain their support coalitions. As a result, the winners that emerged were not always those expected by economic theories of privatization. In Chile there emerged new economic conglomerates, such as Enersis, Gener, and Chilquinta, made up of former managers, government officials, and the military. In Argentina the privatizing coalition included the old state suppliers, foreign investors (creditors and operators), and labor unions, as well as provincial cooperatives. In Mexico the privatization of telecommunications included domestic business and the labor union. In both Argentina and Mexico populist governments also used privatization to raise state resources that could serve to fund their political coalition by including their lower-class constituencies.

As shown in the empirical description, the patterns of institutional choices and selling conditions in the five cases of privatization studied here correspond to the predictions of the political bias hypothesis more than to those of alternative explanations based on policy diffusion, technology, regime, and state capture. Selling conditions in the five cases related to the goal of fostering political support from core constituencies, and legacies of previous beliefs influenced the adoption of new institutions at the time of privatization. Policy-making theories based on policy diffusion, technology, regime patterns, or business capture of the state cannot provide a better account for these institutional choices.

According to policy-diffusion theories, the competition for foreign capital should have further increased the incentives for regulatory convergence among competing countries of the same region within the same industry. They therefore predict no limits on foreign direct investment and homogenous regulations within each industry across all three countries. Arguments based on the different levels of technological change in both industries should also predict no limits on foreign direct investment and similar regulatory patterns within each industry.[94] Neither theory would predict subsidies in the sale of assets, although the role assigned to the fiscal deficit pressures in diffusion theories would have predicted mechanisms to maximize revenue in all cases.

For their part, regime theories would lead us to expect different political regimes to implement economic policies differently. At the time of privatization Chile, Mexico, and Argentina had different political regimes—military authoritarianism, liberalizing civilian authoritarian-

[94] Diffusion and technology arguments assume an effort to improve efficiency by attracting capital and taking advantage of technological changes. Thus, they resonate with the "public interest" theories of regulation based on the solution of market imperfections to improve economic efficiency. See, for instance, William Baumol, Elizabeth Bailey, and Robert Willig, "Weak Invisible Hand Theorems on the Sustainability of Monopoly," *American Economic Review* 67 (June 1977).

ism, and democracy, respectively. Authoritarian regimes better insulate technocrats, allowing them to implement privatization with fewer concessions. Thus, they should be less likely than democratic regimes both to establish limits to foreign direct investment and to give subsidies in the sale of assets. Conversely, authoritarian governments should be more likely to establish autonomous industry-specific regulatory agencies to avoid future political swings after the transition to democracy.[95] Finally, capture theories perceive every government as captive to the strong business interests that had supplied state-owned enterprises and taken over assets once the public coffers were depleted.[96] Hence, they predict that powerful economic conglomerates will be able to impose institutional choices and selling conditions on weak governments. According to these theories, limits to foreign investment should favor domestic capitalists whereas autonomous industry-specific regulatory agencies should facilitate capture. Selling conditions should also establish subsidies to enhance the capacity of strong domestic business to acquire privatized assets. Table 3 compares the predictions of alternative explanations and the political bias hypothesis with the outcomes of the five case studies regarding institutional choices in the implementation of public utility privatization. It shows that the political bias hypothesis has a stronger explanatory power than alternative theories for the five case studies analyzed in this article.

IV. Conclusion and Implications

This article shows that despite the policy convergence toward privatization of public utilities in Latin America, there was variation in its implementation. The political bias of the privatizing government influenced this variation by shaping the choice of institutions and selling conditions. Both dimensions have a strong effect in the postprivatization scenario because they affect the power distribution of actors in the new privatized markets and their ability to influence subsequent regulatory changes.

This argument builds upon a growing literature on the politics of

[95] Delia Boylan explains the logic of "institutional insulation" as a strategy taken by authoritarian rulers to ensure policy continuity after they leave office; Boylan, *Defusing Democracy: Central Bank Autonomy and the Transition from Authoritarian Rule* (Ann Arbor: University of Michigan Press, 2001). This argument resonates with Moe's (fn. 28) view of insulation as a protection from future policy change in contexts of high party competition.

[96] Schamis (fn. 21). His argument resonates with the literature on regulatory capture started by George Stigler, "The Theory of Economic Regulation," in Stigler, ed., *Chicago Studies in Political Economy* (Chicago: University of Chicago Press, 1988).

TABLE 3
ALTERNATIVE THEORIES EXPLAINING INSTITUTIONAL CHOICES AND SELLING CONDITIONS

	Predictions		
Theories	*Limits to FDI*	*Industry-Specific Regulatory Agency*	*Selling Conditions*
Diffusion	none	same patterns in each industry across 3 countries	maximization of revenue (fiscal deficit)
Technology	none	same patterns in each industry across 3 countries	no subsidies
Regime	less likely in authoritarian regimes (Chile, Mexico)	more likely in authoritarian reimes (Chile, Mexico)	subsidies more likely in democracies (Argentina)
Capture	all cases	all cases	subsidies to domestic capitalists
Political bias	high economic nationalism (Mexico > Argentina)	high state intervention (Argentina, Mexico)	subsidies to different actors depending on political coalitions (including monopolies to maximize revenue for populist coalitions in Argentina and Mexico)
Outcomes	Mexico > Argentina, none in Chile	Argentina > Mexico, none in Chile	in all cases, depending on government coalitions + monopolies in telecommunications in Argentina and Mexico

privatization. It differs from previous work, however, in that it does not restrict political influence to policy preferences for privatization. Nor does it limit it to the successful implementation of a technically defined policy based on executive authority, fiscal crisis, or concessions to fend off political opposition. By focusing on implementation, the article defines this influence in terms of the different dimensions of the privatization of public utilities. In doing so, it explains the different choices of privatizing policymakers in Chile, Argentina, and Mexico. Moreover, the political bias of privatizing governments explains the formation of diverse institutional preferences contingent on the privatizing government, which are left unexplained by alternative theories based on convergence in the competition for foreign capital, regime differences, state capture, or industry-specific technologies.

The political bias hypothesis involves cognitive and strategic dimensions that help to explain the origins of institutional preferences for policymakers. Prior beliefs influence how policymakers adopting new policies process information about the world. While they do not distort information so as to produce "selective perception," they also do not discard all of their prior beliefs because these are related to their own socialization and to that of their core constituencies, who indirectly affect their survival in office.[97] The different starting points provided by the political beliefs of policymakers and their allies explain the differences in implementation of the policies shaped by external pressures by investors or international institutions and internal influence of technocrats for policy diffusion.

Additionally, beneficiaries of privatization are not limited to those defined by economic or political efficiency; they depend on the political constituencies of the government. The effect of political bias, both through beliefs and through constituencies, generates preferences for different institutional choices. The institutions that emerge from those choices then later influence the interactions of current and future actors in privatized markets. Once institutional choices are taken, some roads are closed. Nonetheless, the institutional choices are not locked into the path dependency of domestic institutions, because they are contingent on a process of preference formation, which in turn depends on the political bias of the privatizing government. Hence, political bias explains the variation in institutional preferences at the time of public utility privatization across similar cases, which seem all to be moving in the direction of policy convergence.

This argument has several implications for pursuing new avenues of research. First, if political incentives explain policy choices undertaken at the time of privatization, these incentives should have an influence on the policy alternatives available for political parties competing with privatizers. Electoral competition should provide incentives for alternative policy options in response to demands generated by asymmetric markets. Electoral competitors of privatizing governments should seek to attract new investors and consumers to their coalitions by promoting regulatory reforms that reduce the gains of incumbent companies. Yet after privatization, the demands of providers and consumers, along with technological change and the constellation of coalitions in the

[97] Alan Gerber and Donald Green discuss the debate between Bayesian learning and selective perception and find more support for the former than for the latter. However, they do not discard the effect of different starting points on the opinions of voters. For instance, Democrats and Republicans systematically have different levels of presidential approval rates even if they all move in the same direction; Gerber and Green, "Misperceptions about Perceptual Bias," *Annual Review of Political Science* 2, no. 1 (1999).

state institutions, should define the limits of what policymakers can do to follow their political incentives and ideological orientations.[98]

As predicted by the political bias hypothesis, governments that succeeded the privatizing ones in the three countries studied committed to regulatory change in the privatized industries. In Chile the democratic transition brought to power a center-left coalition that defended the interests of consumers and new entrants (at the expense of the original beneficiaries of the privatization process) by promoting regulatory change in telecommunications in 1994 and in electricity in 1999. In Argentina the coalition between the centrist UCR (Radical Civic Union) and center-left FREPASO (Front for a Country with Solidarity) also promoted and implemented changes in telecommunications. A new regulation established in 2000 facilitated competition and thus benefited consumers and new entrants at the expense of the original beneficiaries of privatization. In Mexico the center-right PAN (National Action Party) administration has proposed a new law to Congress that would facilitate competition in telecommunications and abolish the investment requirements established for new investors in the previous law.[99]

Finally, the importance of telecommunications and electricity for economic development and public satisfaction suggests the political salience of these industries. These are industries where the assets are relatively valuable for distributing gains among constituencies. These features seem to limit the applicability of the notion of political bias to other policy areas of high political importance and distributive consequences. Further research into other countries' economic policies is necessary to assess the scope of the political bias hypothesis in explaining preference formation for policy-making.

[98] These implications are consistent with the view that regulatory votes in the U.S. Congress are more influenced by party and ideological scores than by interest groups; Roger Noll, "Economic Perspectives on the Politics of Regulation," in R. Schmalensee and R. D.Willig, *Handbook of Industrial Organization* (Amsterdam: Elsevier Science Publisher, 1989.)

[99] "Plantean acotar el dominio de Telmex," *El Universal*, April 23, 2002.