Policymaking under Globalization Pressures:

Reforming Public Utilities in Latin America

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In the last quarter of the twentieth century, increasing capital mobility have heightened competition among capital scarce countries for footloose capital and thereby promoted economic policy convergence—regardless of the partisan affiliation of governments—as policymakers have emulated their competitors' policies to attract investment. Nowhere was economic pressure for policy convergence more evident than in Latin America where politicians switched to pro-market policies regardless of their prior partisan policy preferences or even electoral promises (Remmer 1998, Stokes 2001). Among the pro-market policies undertaken in the region to attract scarce capital, the speed of reforms in telecommunications (telecoms) and electricity was salient. Because these two industries had been particularly affected by technological delay and underinvestment, they experienced an accelerated pace of reform in all of the Spanish and Portuguese-speaking countries with a capitalist economy—that is, excluding Cuba. By 2003, the privatization process had started in sixteen of the eighteen countries for telecoms and in fourteen for electricity. Seventeen countries had established regulators in each sector and a majority had opened these markets to competition.

In spite of the rapid diffusion of telecom and electricity privatization in Latin America, there was variation in how these reforms were implemented across the countries of the region regarding the design of regulatory agencies, the regulation of property rights, and the manner in which assets were sold.[2] For instance, although Argentina, Chile, and Mexico privatized telecoms within a short time span, they chose different ways to sell assets, define property rights, and design their regulators. Assets were sold without modification in Chile; they were divided in Argentina and consolidated in Mexico. Chile forbade legal monopolies whereas Mexico limited competition in long-distance services and Argentina also applied these limits to local communications. Additionally, the Argentine regulatory agency was separated, independent and with considerable delegation whereas in Chile, the regulator had no separate structure or independence and very restricted discretion, and in Mexico, the agency was separated, but not independent and had intermediate powers.

The puzzle generated by this variation in the implementation of policies in sectors that were subject to strong pressures for convergence provides an opportunity to show that partisan policy preferences can lead to differences in how the same policies are implemented. Although external pressures induced reform in these sectors thereby reducing the range of policy options available, policymakers still need to decide among different institutional designs in the implementation of the same policy. When confronted with choices on new institutions for which there is no consensus, policymakers rely on their prior beliefs even on rational learning (Meseguer 2005). Prior partisan beliefs and demands from partisan supporters inform policymakers' expectations about the distributive consequences of new institutions. Because distributive expectations affect their political survival, partisan beliefs concerning the role of the state in economic development and pressures from constituencies affected by the new institutional design shape their formation of policy preferences.

After governments defined their policy preferences, policymaking still includes dealing with economic demands and going through the hurdles of the politically defined veto points. Yet, whereas the literature on policy reform has emphasized these last two aspects, much less attention has been paid to the process of preference formation within the government coalition and how it is affected by partisanship.

Because electricity and telecoms are highly exposed to policy diffusion, they are hard cases to find the influence of partisanship making them they ideal sectors to study the variation in policy implementation. Several large-N studies have shown the influence of policy diffusion on these sectors, especially on privatization and the adoption of competition. These studies show the influence of technological or financial pressures on these processes (Henisz et al. forthcoming, Jordana and Levi-Faur 2003, Levy-Faur 1999 and 2004, Murillo and Martinez-Gallardo 2005).

Moreover, Chile, Mexico, and Argentina provide good cases to compare policy implementation in these two industries because they share characteristics that should affect policy diffusion promoting policy convergence. All three were highly indebted middle-income countries that undertook these policies in the late eighties and early nineties when financial pressures were acute due to the shortage of capital inflows to the region. They shared their cultural legacies, their need for capital inflows, the predominance of US-trained technocrats in the implementation of these policies, and their reliance on the same international financial institutions for technical advice—all of which facilitate policy diffusion (Simmons and Elkins 2004, Simmons 1999, Teichman 2001). Finally, the qualitative in-depth study of these three countries permits disaggregating public utility reform into a research design that compares cases across two industries and three countries while gathering observations on three different policy dimensions. The analysis of policy dimensions serves as a mechanism to increase the number of observations and to control national-level and sector-level variables, as well as a means for understanding the different dynamics of policymaking in public utility reform.

The different segments of each industry—generation, transmission, and distribution in electricity, and local fixed lines, long distance fixed lines, and mobile in telecommunications—are not equally contestable (i.e. subject to competition) at the time of reform due to difference in technology and economies of scale. The three policy dimensions studied affect competition. The definition of property rights and regulatory authorities also involve choices regarding deregulation (i.e. reducing state intervention on markets) or re-regulation (i.e. redefining state intervention on markets) (Vogel 1996) while the partition of assets cannot be so easily linked to ideas on state regulation.

The three policies involve a range of options. The division of assets involves a decision about whether to separate or integrate assets either vertically (across segments) or horizontally (within segments) resulting in three categories: division, status quo, or consolidation of assets. This decision affects the initial degree of property concentration and the future contestability of markets. In the case of property rights, the variation ranges from deregulation of property rights (i.e. no rules on acquisition), to re-regulation of property rights either to limit property concentration either horizontally or vertically or to establish barriers to entry. This policy choice influences the subsequent evolution of property concentration and opportunities for entry to new competitors. Finally, in creating the regulatory authority, policymakers can also choose to deregulate limiting bureaucratic expansion and the discretion of the regulator or to re-regulate generating new agencies and increasing the powers of the regulator. Moreover, in the cases of delegation and bureaucratic creation, independence contributes to depoliticize a powerful agency and to pre-empt regulatory instability. Because sunk costs in these industries are high, regulatory choices affect the risk of expropriation, and thereby investment in installed capacity and the number of available providers competing in these markets (Gilardi 2002, Levy and Spiller 1995).

Variation in policy implementation along these dimensions is of substantive significance because it affects the level of competition in both industries, and thereby has a strong effect on provider returns, consumer prices, and the scope of service provision. For instance, differences in property regulation in electricity between Chile and Argentina generated a higher concentration of property in the former than in the latter, which resulted in greater price reductions for large users in Argentina than in Chile in the immediate period after the reform (Bitrán and Serra 1998, Manzetti 2001, Murillo and Finchelstein 2004). In Mexico, by contrast, the absence of a wholesale competitive market allowed small consumers to keep benefiting from subsidized prices even as generating capacity became more dependent on the private investment that demanded costly guarantees and prices from the state (Carreón-Rodríguez and Rosanvallón 2003). In telecoms, differences in property regulations led to greater competition in long-distance in Chile than in Argentina and Mexico with the subsequent benefits for consumers (Manzetti 2001). Differences in property regulations also had an impact on regional investment differences and therefore rate of change in teledensity (phones/100 inhabitants). According to ITU Statistics

Yearbook (1999), between 1990 and 1999, Argentina increased its teledensity for local communications by 122%, Chile by 203%, and Mexico by 69%.

The remainder of the paper describes and explains variation in the dimensions of the dependent variable in the three countries. Section one introduces the main argument about partisanship in policy preference formation. Sections two applies the argument to public utility reform in Latin America. Sections three and four describe the process of policy implementation in electricity and telecoms reform across all three countries. Section five summarizes the findings of the paper and the explanatory power of the main argument. The last section concludes by discussing the implications of this study for our understanding of policymaking in Latin America.

I- Explaining Policy Implementation

The insights of different literatures contribute to our understanding of public utility reform patterns, but while most of the economic and institutionalist literature emphasizes constraints on policymaking, the focus on partisanship enhances policymakers' role in the process of preference formation. The diffusion literature focuses on external pressures—either technological or financial—promoting policy adoption whereas the institutionalist literature emphasizes domestic constraints that make it difficult to establish these policies. By contrast, partisanship focuses on how policymakers define their institutional choices based on their perception of distributive consequences defined either by their own beliefs or the demands of their supporters. Once policy preferences are adopted, the policymaking process is subject to economic pressures and the limits imposed by institutions on governments' capacity for policy adoption.

In studying public utility reforms, diffusion theories emphasize technological pressures pushing all countries to reform while predicting cross-sectoral patterns of policy adoption due to inter-industry differences—the telecom revolution was broader and faster than the changes in electricity, which were mainly restricted to the emergence of combined cycle units in the 1970s.

Whereas Levy-Faur (1999, 2004) found evidence of technological pressures for reform in both sectors, Bartle (2002) argues that the financial need for the telecoms revolution was greater than in electricity, creating a stronger push toward homogeneity in the telecom sector across European nations. However, Henisz et al. (forthcoming) emphasize the role of financial pressures in the reform of both sectors in coincidence with the literature on Latin American privatization, which argues that capital scarcity was crucial for its adoption (Castelar Pinheiro and Schneider 1994, Armijo 1999). Murillo and Martinez Gallardo (2005) also find evidence of both financial and technological pressures in the rate of adoption of privatization in both industries across Latin American countries.

Whereas technological pressures promote convergence, variation in financial exposure affects the bargaining power of domestic governments vis-à-vis the investors they are trying to attract to these capital-intensive sectors with high sunk costs. Whereas technological delay should promote reform across all countries, variation in financial exposure provides different leverage to investors seeking to impose their rent-seeking preferences on asset consolidation, barriers to entry, and regulatory agencies that will not threaten with quasi-expropriation through regulations—either because the regulators do not have discretion or if they have it, it is insulated from political pressures (Petrazzini 1995: 33-34, Levy and Spiller 1995).

In addition to investors' pressures, policymakers also have to confront the hurdles of passing policies through veto points generated by the combination of domestic institutions and the distribution of power within the polity (Haggard and McCubbins 2001). In particular, political competition generates incentives for opposition that can make use of institutions in hindering reform efforts. At the same time, their effect on potential political survival affects the calculation of policymakers in defining policy preferences (Kitschelt 2001).

Technological pressures, financial exposure and veto players explain the task faced by policymakers for policy adoption, but leave unexplained the process of preference formation by which incumbents choose among different options for policy implementation. A large literature has shown how the ideas of leaders about the way in which the economy functions inform the formation of economic policy preferences (Hirschman 1961, Adler 1987, Blyth 2002, Darden 2004). Because the studied policies involve an assessment about the degree of state intervention or retrenchment from markets, these ideas about the functioning of the economy are particularly relevant. Moreover, Hall (1989) and Sikkink (1991) emphasize the role of political parties and state institutions in facilitating the influence of ideas on the policymaking process, thus suggesting the importance of identifying which ideas matter and what are the mechanisms that give them influence over policy preference formation.

This paper focuses on the process of preference formation by incumbents who are induced to adopt policies by technological and financial pressures, which restrict their agency to the process of policy implementation. Policymakers define their policy preferences based on the distributive consequences they expect from the new institutions. In the absence of a consensus on the effects of policy options, policymakers are more likely to rely on their prior information in the interpretation of the distributive consequences of these options because these consequences weigh heavily on their political survival. They derive this information from prior beliefs and demands from their supporters. [3] Both partisan beliefs and interests are linked since the original ideology/beliefs of the governing coalition—and the policy preferences derived from them—have served to generate support from their constituencies and internal cohesion within its ranks. Thus, when incumbents adopt new policies, they have to overcome their status quo bias and, in doing so, are forced to also choose among different institutional options for implementation—in this case radically new institutions considering the Latin American tradition of state intervention and public ownership of utilities.

Due to the lack of consensus on the distributive consequences of options on public utility reform (as opposed to monetary policy), policymakers form their new policy preferences by resorting either to their beliefs about the way the economy should function or the demands of their supporters. When these consequences are obvious for their constituencies, they make the distributive calculus and inform policymakers through policy demands. When these distributive consequences are opaque for their constituencies and policymakers do not receive pressures from within their coalition, they rely on their own beliefs to assess the expected effect of institutions. That is, policymakers assess the distributive consequences of new institutions on their supporters by relying on previous ideas and experience on state regulation of markets. In these cases, partisan beliefs provide incumbents with a roadmap to interpret available options in terms of their expected consequences.

The influence of partisan interest or beliefs is expressed in debates within the government coalition. In the debate over public utility reform, policymakers confront technical debates between neoliberal technocrats who are distrustful of state regulation (and have usually received their graduate education abroad) and those technical cadres and politicians who are more *statist* in their beliefs. When incumbents are "true believers" in market reforms this debate is less salient but still present, usually with state bureaucracies (or the military) representing *statism*. When incumbents are "converts" to market reforms, the debate is more salient as it usually involves not just technical stuff but also politicians. In general, when policymakers have to decide among different options, they can rely on their prior beliefs or supporters' demands in interpreting policy options. Yet, when electoral competition (involving challenges to political survival) is growing, it affects the weigh that policymakers give to each side of the debate. Because policymakers care about political survival, when electoral competition increases, they are likely to lend their ear to the supporters of the most popular policy within their government coalition.

II- <u>Public Utility Reform in Latin America</u>

Latin American public utility reforms started in the late 1980s as part of larger packages of market-oriented policies undertaken to confront macroeconomic stress. The sale of public assets, the opening of markets to competition, and the creation of regulatory authorities modify the role of the state in shaping electricity and telecom markets, which were previously served by publicly owned companies as natural monopolies. Therefore the legacy of beliefs in favor/against state intervention in these industries—thorough public ownership or nationalization for instance—is crucial in defining how policymakers perceive the distributive consequences of new institutions. That is, the past policies of their parties regarding state intervention in these two industries provide an indicator of their beliefs on state regulation of them.

In the process of public utility reform, asset partition has immediate and concentrated distributive effects—on employers, providers to state-owned companies, and potential investors—, thus making constituencies' demands more likely. Also, when the sale of assets—linked to asset division—requires price changes to end subsidies and make the companies profitable, consumers suffering from price hikes are likely to voice their opposition. Moreover, options on asset partition cannot be as easily linked to beliefs about state intervention as choices regarding property rights and regulatory agencies. In some cases, though, nationalistic beliefs promoting the importance of domestic production of services and "national champions" can also play a role in the implementation of these policies. Whereas in the case of beliefs in favor of regulation, previous policies or attitudes toward state intervention in these industries (i.e. public ownership) provide an indication of *statist* beliefs, in this case, previous policies should have shown expressions of beliefs on "national champions" (e.g. promoting property consolidation and domestic ownership).

Whereas property rights and regulatory agencies can be linked more clearly to ideas on state regulation, their effects on consumers are less immediate and more diffused. Because the more concentrated effects of these policies are on potential providers (i.e. investors) rather than existing players, prior beliefs are likely to be more informative for policy preference formation than on asset partition. Small consumers are not usually aware of the medium term distributive implications of these policies—as opposed to the immediate price effects of canceling subsidies. For both policies, options range from deregulation to re-regulation of different sorts.

Beliefs regarding state intervention vary along a continuum in Latin America between those conservative groups, which prefer to restrict state intervention to those left-wing and populist political parties who have traditionally pushed for increasing state regulation, even if they are now constrained by external pressures pushing for privatization. Whereas the former have traditionally been suspicious of regulation and deeply committed to market mechanisms of distribution, the latter have been distrustful of markets and confident on state regulation to reach their pre-defined distributive goals.

How do the beliefs in favor/against state intervention into markets map into policy preferences regarding public utility reform? For the establishment of regulatory agencies, distrust on state intervention produces preferences for avoiding both the expansion of state bureaucracies into new agencies and the delegation of much discretion to the regulator. Yet, once the new bureaucracy is created, distrust on states generates preferences for increasing the independence from political appointees to reduce politicization of regulatory decisions. By contrast, incumbents with ideological legacies favoring state intervention—even if external pressures forced their '*aggiornamiento'*—are more likely to be associated with the creation of regulatory authorities with their own bureaucracy and high delegation of powers. If regulatory agencies are not separated, they should prefer control of regulation by powerful industry policymakers.

For the establishment of property rights, long-term distrust on state intervention maps into preferences for deregulation. That is, no need to establish rules either defining short-term legal monopolies or limits to property concentration because market mechanisms are trusted to be most efficient. By contrast, legacies of state intervention should be associated with preferences for the regulation of property rights to compensate for market failures. Regulation of public utility markets, though, can adopt either forms that restrict competition—through the establishment of monopolies of limited duration—or promote it—through limits to property concentration. Because there is not a clear consensus on the medium-term effects of competition on the efficiency of markets, policymakers who are prone to establish regulation have to face choices with different distributive implications—as rents for short-term monopolies are higher than in competitive markets. Whereas the need for fiscal resources for state consolidation can prompt policymakers to prefer limits to competition, it also true that monopolies of limited duration were easier to establish in telecoms than in electricity during the studied period. That is, most Latin American countries opened their wholesale electricity markets to competition, with or without privatization, but most privatized telecoms before allowing competition in this sector (Murillo and Martinez Gallardo 2005).

As mentioned above, it is less clear how do beliefs on state intervention should map onto asset partition except when beliefs on “national champions” promote concentration of assets on domestic hands. By contrast, supporters of competitive markets rather than state stewardship are more likely to prefer partition rather than consolidation. Otherwise, we should be more likely to map preferences on asset partition to the interest of government constituencies and their distributive demands.

In Argentina, Chile, and Mexico, the reforming governments had different beliefs and supporting coalitions, which influenced the process of policy preference formation. We should expect that right-wing Augusto Pinochet and to a lesser degree center-right Vicente Fox line up their preferences with those distrusting state intervention whereas policy implementation under Carlos Menem, Carlos Salinas and Ernesto Zedillo be more subject to legacies of state intervention within the Peronist Party and the PRI, even if these presidents converted to the free-market creed.

In Chile, the a high distrust on state intervention of the Pinochet administration should predict preferences on deregulation while beliefs could have influenced asset partition because the authoritarian regime limited distributive demands. Because its financial exposure was lower than in the other two countries for both reforms, investors’ influence should have been limited.

In Argentina, President Carlos Menem, who inherited Peronist legacies of state intervention, converted to neoliberalism and implemented both reforms during his first administration. Democracy promoted public debate—centered on the sale of assets rather than on the three studied policies—increasing the importance of distributive demands informing policymakers' policy preferences.[4] Moreover, the conditions for reform changed in terms of the country financial exposure, which was higher at the time of telecoms privatization than when electricity assets were sold, thus making asset consolidation and short-term monopolies more likely in the former than in the later.

In Mexico, the reforms were spread into two administrations of the PRI (Institutional Revolutionary Party), which inherited legacies of state intervention and promotion of Mexican ownership, and even into the failed attempt of center-right PAN (National Action Party) president Vicente Fox to reform the electricity sector. In Mexico, the sale of telecom assets in 1990 received more coverage than the Federal Telecommunications Laws, which regulated property rights and established the regulatory agency or the creation of an electricity regulator—both in 1995. After political liberalization resulted in high electoral competition in 1997, press coverage of reforms—in this case electricity in 1999—increased dramatically.[5] High electoral competition and democratization should have heightened the role of distributive demands on policymakers' preference formation while shifting the balance within technical debates over policy options. Finally, Mexico's higher financial exposure in 1990 than in 1999 suggests that proposals for asset consolidation and short-term monopolies should have been more likely in telecoms than in electricity.

III- Electricity Reform

This section describes electricity reform in all three countries focusing on each policy dimension and the conditions that shape the process of policy preference formation in the government as well as the effect of other variables on policymaking and the final policy outcome. For each country, it assess whether the expectations derived from the partisan beliefs and alliances inherited by governments as well as those predicted by financial exposure and political competition map into the policy preferences of policy makers and the final policy outcomes.

Chile

The authoritarian government of Chile restricted distributive demands even as it increased prices before the privatization of assets to make them attractive; consumers had no way to influence the policy process.[6] As a result, most government policy preference easily converted into outcomes as only foreign investors could turn into veto players and there was none in electricity privatization. The government run by Gen. Pinochet held neoliberal beliefs and its constituencies included the armed forces, export-oriented business, and mostly Chicago-trained technocrats.[7] All of these groups distrusted state intervention due to its association with the Socialist government of Salvador Allende, which Pinochet had finished with a military coup. In contrast, Pinochet's opposition was composed mainly of the Christian Democrats and different left-wing parties, which had previously promoted state intervention in the studied sectors.[8] The absence of democracy and the strong distrust on state intervention should led us to expect a preference against regulation of property rights and the creation of new regulatory agencies and even an influence of pro-market beliefs in favor of asset partition.

Before its reform, the Chilean electricity system was mostly represented by the Interconnected System or SIC, accounting for 80% of installed energy in the country, which was divided into two companies: Chilectra—serving the central region—and Endesa—for the rest of the country.[9] Both were vertically integrated concentrating generation, transmission, and distribution. Government preferences resulted from a debate between company managers and engineers—who supported the consolidation of Endesa and Chilectra into a large state-owned company following the model of *Electricité de France*—and neoliberal technocrats in the executive—who defended vertical and horizontal partition to generate a competitive market

(Bernstein 1995).[10] The later prevailed because Pinochet put them in charge of policymaking while building a support coalition with business (Schamis 2002).

In this case, beliefs influenced asset partition resulting in the division of the companies vertically and horizontally to create a competitive wholesale generation market for large consumers (with a demand in excess of 2MW) where an independent dispatch operator—Economic Load Dispatch Center (CDEC)—would coordinate prices. Endesa was divided into six regional distribution companies (hereafter discos), four generation companies (hereafter gencos), and one transmission company (hereafter transco) in the SIC. Chilectra was divided into one genco (Chilgener later Gener) and two discos (Chilquinta and Chilmetro) (Moguillensky 1999: 173-175). Because there was no previous experience of a competitive electricity market at the time—the design of the Chilean reforms preceded even the British privatization of electricity—international investment institutions, such as the Inter-American Development Bank and the IBRD (World Bank) opposed the reform (Bernstein 1995). Hence, beliefs were more influential than financial coercion in shaping policy preferences.

Their distrust on state intervention also brought Chilean policymakers to avoid regulating property rights for acquisition—licenses and supply obligations were not needed to enter generation and transmission monopolies were abolished. However, deregulation facilitated vertical and horizontal property concentration as Endesa buyers also purchased the transmission grid (operated as Transelec), the main discos in the area of Santiago, and the genco Pehuenche, which possessed 10% of installed capacity with deleterious effects on competition (Bernstein 1995:32, Bitran and Serra 1998).

Finally, following their dislike of state bureaucracies, Chilean policymakers did not created a separated regulatory agency, which remained located in the executive, and restricted the delegation of regulatory powers. The 1982 electricity law transformed the National Electricity Commission (CNE) into the regulator in charge of determining distribution prices. The methodology used to determine distribution prices was pre-established in the law, limiting the

CNE's discretion. Transmission fees were left to the agreement of the parties and were referred to arbitration in case of disagreement.[11] The CNE was a decentralized agency consisting of a council of seven ministers, an Executive Secretary appointed by the President, and only 24 personnel. Additionally, the regulator had no role and very limited information in the working of the CDEC.[12] Distrust of state intervention also explains the delay in establishing law 14410, which in 1985 transformed the Superintendence of Electric, Gas and Telecommunications into the Electricity and Fuels Superintendence (SEC), in charge of quality control and installations' safety. Indeed, neoliberal technocrats Sebastián Bernstein and Renato Agurto, who designed the electricity reform, claimed that they ignored the SEC because bureaucratic strengthening was not a priority (personal interviews, Santiago, March 27, 2001).[13]

Argentina

In Argentina, the Peronist administration implementing this reform was democratic—even though electoral challenges were limited by the dismal performance of their Radical rivals in the previous administration. Indeed, although the reform required a law, the Peronist control of Congress with its allies had guaranteed the passing of ten of the eleven privatization bills introduced by president Menem during this administration (Llanos 2001: 94). Peronism provided a legacy of populist beliefs linked to a tradition of state intervention in the two studied sectors despite the conversion of President Menem to neoliberalism.[14] Although reform-minded technocrats were very influential during this administration, statist beliefs persisted among party politicians as it became obvious during the tenure of two subsequent Peronist presidents: interim president Eduardo Duhalde and elected president Néstor Kirchner who all but abandoned market-oriented policies. Because Menem needed to get the support of his own legislators to pass the reform law 24,065 of 1991, partisan interest and beliefs could use the legislature to influence the process of preference formation. Moreover, the government also pre-empted Peronist resistance by controlling price hikes to avoid negative electoral effects and by including labor unions in the privatization of assets, thus showing the importance of distributive demands in the process.[15]

Prior to the 1999 reform, the electricity industry was concentrated into three vertically integrated state-owned-enterprises: SEGBA for Buenos Aires and its suburbs, Hidronor for the Northern Patagonia rivers, and Agua y Energía for the rest of the country. In the 1980s, financial deficits in these companies had led to a sharp deterioration in the quality of service, thus making both residential and large users—the latter already organized in the UIA (Argentine Industrialists Union)—concerned about electricity rationing and supportive of reform.[16]

The intra-bureaucratic debate on reform started with a proposal by Peronist professionals—who different from the technocrats had long shared Peronist beliefs on state promoted development—on limited reform with provincial ownership in generation and public ownership of transmission. However, a change in the Economic team as a result of hyperinflation gave the upper hand to non-partisan technocrats, who were true believers in the market, because they were able to reduce inflation with positive electoral consequences for the party.[17] Once in charge of electricity reform, technocrats had to persuade party leaders, the union, and managers to obtain the support of the Peronist legislative delegation for the law, thus incorporating some of their preferences into the final design of the bill.[18]

On asset partition, the preference of technocrats for division coincided with the interests of crucial Peronist constituencies, such as domestic providers, labor unions, and provincial bosses—who gained the opportunity to acquire assets thanks to the division. The influence of partisan interest was enough to neutralize the resistance of some foreign investors to partition.[19] As the industry was divided into generation, transmission, and distribution, the three companies were divided into eighteen discos, six transcos (one nation-wide and five regional), and twenty-eight gencos (ENRE 1998:16-24). An independent dispatch operator (CAMMESA or Company for the Administration of the Wholesale Electricity Market) coordinated the wholesale electricity market.[20]

As expected the influence of partisan beliefs was more relevant on property rights and the regulatory agency than on asset partition. The proposed bill was proactive regarding the regulation of property rights. Since Argentina had reduced its financial exposure, the bill restricted property concentration. It regulated property acquisition by forbidding transcos from purchasing distribution assets (art.32), giving the regulator power to oversee ownership changes that might lead to either horizontal or vertical integration, even if maintaining low barriers to entry—including security, environmental, and dispatch rules for generation. Indeed, the government forbade the purchase of more than 10% of the installed capacity at the time of asset privatization (*Ambito Financiero*, May 13, 1992) to avoid horizontal concentration even at the expense of fiscal revenue.[21]

The influence of Peronist belief legacies was even more visible in the legislative debate over the regulatory agency when Peronist legislators successfully imposed their legislative control to resist the demands of industrialists and right-wing legislators for reducing regulatory discretion while they also increased the politicization of the agency by establishing legislative overseeing of appointments and provincial participation in its board.[22] The regulatory authority proposed (and approved) was separated and possessed a relatively large bureaucracy as well as a broad mandate (art. 54). The National Agency for the Regulation of Electricity (ENRE) regulated distribution in the area of Buenos Aires (other regulators were established in the provinces), established transmission fees and access, determined thresholds of consumption for large users, oversaw property acquisitions, defended consumer rights, promoted competition and long-term investment, etc. (ENRE 1998: 8-10.) Its budget was financed by the industry and it employed nearly one hundred people while appeal resolution was granted to the Secretary of Energy rather than the judiciary. Moreover, the proactive state retained representation and veto power through the Secretary of Energy, who sat on the board of CAMMESA, which was equally divided among representatives of the gencos, transcos, discos, and large users (Decree 1192/92). Yet, its five directors (appointed by the president with Congressional agreement) had fixed and staggered terms increasing regulatory independence, suggesting that technocrats wanted to reduce the politicization of this strong regulator to attract investors to a country whose bonds were still selling at 27% of face value in secondary markets.

Mexico

Different from the other two countries, the conditions behind each attempt at electricity reform in Mexico encountered a more competitive electoral scenario with further incentives for crucial actors to veto this policy. Additionally, Mexico suffered the strongest pressures of all three countries for policy diffusion due to its economic integration with the US in the North American Free Trade Agreement (NAFTA) and subsequent US pressures for liberalization of its electricity industry. This reform lingered along three administrations: two from the PRI administrations and one of the PAN. The PRI inherited statist belief legacies, which had been institutionalized in the party by-laws for electricity (art.36).[23] As in Argentina, technocrats were influential during the PRI administrations of both Salinas and Zedillo—who were technocrats themselves—but *statist* beliefs persisted within the party ranks as it became public when the PRI lost the presidency in 2000. While the PRI support coalition was similar to that of Peronism, it historically included a broader range of business and a larger concern for price effects on consumers.

Prior to the reform, the Mexican electricity industry was dominated by two publicly-owned companies—Federal Energy Commission (CFE) and Luz y Fuerza del Centro (LyF)—vertically integrated from generation to distribution and covering two different geographical regions. Partial reform started in 1992, when the pressure of NAFTA conditions brought President Salinas to pass a decree allowing private investors in self- and co-generation, which could sell their excess production up to 20MW only to CFE.[24] The following year another decree created an advisory body: the Energy Regulatory Commission (CRE) to coordinate this process. Another step was taken in 1995, when a PRI-controlled Congress approved a bill introduced by

President Zedillo to separate the CRE from the Secretary of Energy, making it a decentralized regulatory agency with its own bureaucracy and budget as well as technical autonomy. In this case, the establishment of a regulatory agency preceded privatization, asset partition, and the opening of the wholesale market to competition. In the legislative debate over the CRE, the different partisan beliefs of incumbent PRI and opposition PAN legislators became visible. Whereas the former supported the creation of the regulator to monitor sectoral development, the latter expressed their distrust of state intervention by trying to limit regulatory discretion through proposals that would have increased the transparency of its procedures.[25] The PRI imposed its majority. The CRE was given considerable powers—including supply and sale to public service consumers, private generation, import and export of electricity, and transmission of services to public service agencies—considering the small degree of private activity in the industry at the time (Carreón-Rodríguez and Rosanvallon 2003).

The reform stalled in this re-regulatory stage, though, because PRI legislators did not favor privatization of electricity, as became evident when President Ernesto Zedillo proposed it in February 1999. The bill proposed the partition of assets, but it kept state-ownership of transmission and of hydroelectric and nuclear generation to include PRI nationalistic beliefs.[26] Also, it established the regulation of property rights to prevent property concentration as expected from its lower financial exposure. Yet, PRI politicians disagreed with both asset partition and privatization.

Electoral competition—heightened by the PRI defeat in the 1997 midterm elections—gave more leverage to PRI legislators who were concerned about political survival as public opposition to privatization was mounting based on distributive demands. [27] PRI legislators broke the long-standing rule of party discipline to the president because they were afraid of losing the 2000 presidential election whereas the president had relinquished his power to select the party candidate by establishing primaries. Already in early February, dissenting voices within the PRI became public.[28] Indeed, even Francisco Labastida, the PRI presidential candidate for 2000 and

Secretary of Government under Zedillo—in charge of relations with the PRI legislative blocs—opposed the reform.[29] In this case, partisan beliefs—as defined in PRI by-laws—and partisan interest—electoral survival based on the distributive effects of privatization on consumers—coincided in explaining the PRI position.[30] Electoral competition decreased the power of technocrats and increased the influence of party politicians because the former proved unable to sustain political survival for the later.

Although the PAN presidential candidate Vicente Fox had supported the reform as expected from the partisan beliefs of his party (*La Jornada*, February 4, 1999), his need to build a broad coalition to achieve the presidency in a three party system brought him to promise not to privatize electricity during his electoral campaign.[31] Both PRI and center-left PRD (Party of the Democratic Revolution) voters held more negative views toward electricity privatization than center-right PAN votes. Because the issue influenced voting behavior in the 2000 campaign, we can infer that Fox strategically changed his position to build the broad coalition that brought him to the presidency (Magaloni and Poire 2004: 294, 299-300).

After winning the 2000 election and pre-empting his lack of legislative control, President Fox tried to liberalize without privatizing CFE and LyF.[32] Yet, neither asset partition, nor the opening of competition succeeded at the time of this writing. He decreed that self and co-generating plants could sell up to 50% and 100% of their capacity, respectively, to the CFE instead of their prior 20MW limit, but the Supreme Court ruled the decree unconstitutional for bypassing the legislature in modifying the Law of Public Energy Service. Without a legislative majority, Fox unsuccessfully tried a compromise with opposition parties to create a competitive wholesale market for private gencos and large users—thus ending the state monopoly—in 2002.[33]

In a competitive electoral environment, the three main Mexican parties aligned their policy preferences according to their beliefs and the distributive consequences dictated by them. Existing private investors in generation[34] (through the Mexican Association of Electric Energy) and large users (through business associations) supported the full opening of generation to private investment and the creation of a competitive wholesale market, which would have reduced their energy costs.[35] By contrast, subsidized small industrialists, represented by Canacintra; agricultural users; and residential consumers (i.e. public opinion) rejected any reform for fear of its immediate price effects. [36] Thus, *statist* PRI and PRD legislators defended the interest of subsidized consumers by resisting competition while pro-market PAN legislators represented the interest of large users by supporting the reform.[37]

On the regulatory agency, whose creation followed our expectations on partisan beliefs, subsequent proposals continued to show this influence on policy preferences. Zedillo's failed proposal—although drafted by technocrats—would have increased the powers delegated to the CRE, allowing it to establish regulations for competition to limit vertical and horizontal integration, regulate prices, monitor compliance with regulations, grant permits and concessions, establish quality standards, approve investment plans in transmission and distribution, and resolve disputes (Secretary of Energy 1999: 51).[38] In the 2002 debate, PRI legislators demanded higher regulatory discretion and increasing financial autonomy for the CRE. They sought to increase its discretionary powers in defining electricity prices and in determining the methodology for calculating energy exchanges, assessing proposals for generation, soliciting bids for the production of complementary energy, and imposing administrative sanctions (Gil Elorduy 2002: 32).

In sum, the authoritarian Chilean regime enhanced the role of beliefs on policy preferences while facilitating their conversion into outcomes. In Argentina, the Peronist control of Congress facilitated the conversion of the government bill into law after the policy preferences included demands from partisan allies on asset partition and the influence of partisan beliefs on the regulation of property rights and the establishment of a regulatory authority. In Mexico, only the regulatory agency was established before the hike of electoral competition when government bills could easily be converted into law and its structure reflected the legacy of regulatory beliefs from the PRI.

IV- Reforming Telecommunications

This section describes the process of telecoms reform in all three countries. Investors had more leverage over policy making in telecoms than in electricity in all three countries because Argentina and Mexico were more financially exposed while Chile was facing a democratic transition. Whereas expectations on partisan beliefs are similar to those of the previous reforms, higher investors' leverage should have increased their ability to obtain rents through asset consolidation and short-term monopolies while achieving a regulatory structure that pre-empted future expropriation.

Chile

As discussed above, the Chilean military government put down distributive demands while increasing prices to end cross-subsidies.[39] Hence, beliefs should be influential on shaping policy preferences, which are likely to become outcomes except if confronted with investors' bargaining power.

Prior to reform the Chilean telecommunication system was composed of three state-owned companies: CTC (Chilean Telephone Company), providing local and domestic long-distance communications; ENTEL (National Company of Telephones), providing domestic and international long-distance services; and Telex-Chile, providing telex and telegraphic services.[40] As in electricity, neoliberal technocrats proposed the partition of CTC to facilitate competition, but the military and foreign investors opposed it. Because the public bid for CTC took place in the year of the plebiscite on democratic transition, the government was pressed to finish privatization before the change in regime increasing the leverage of foreign investors, who were successful in preventing the partition.[41]

Although investors overrode government preferences on partition, they could not do it on property rights. Sustaining "the principle of state subsidiarity," policymakers resisted investors' demands to consolidate assets or establish monopolies.[42] This preference for deregulation was also expressed on Supreme Decree 423, which forbade monopolies in telecommunication concessions and imposed the obligation of interconnection for public services (Ministry of Transportation and Telecommunications, 1978), and the General Telecommunications Law (Law 18.168) of 1982, which reaffirmed the ban on monopolies (art.13) and the obligation of interconnection (art.25).[43]

On the regulatory agency, former Undersecretary of Telecommunications Gustavo Armas argues that government's distrust of state intervention and its intention to deregulate explain the preference against the establishment of a separated telecoms regulatory agency and for limiting regulatory powers in dealing with interconnection—including the resolution of conflicts—and ownership concentration (personal interview, Santiago, March 22, 2001). As a result, the regulatory authority was granted to the Undersecretary of Telecommunications (SUBTEL) in the Ministry of the Economy (DFL No.1 of 1987). SUBTEL's discretion was limited (for instance, a pre-established methodology based on long-term incremental costs was imposed on its calculation of regulated prices), and the president appointed its undersecretary without a fixed term. As in electricity, this limit to its independence was less important considering its little discretion.

<u>Argentina</u>

The 1990 telecoms reform was achieved by a democratic administration, which faced little electoral competition as President Menem was inaugurated six month in advance due to a hyperinflationary crisis, which had forced his predecessor to resign in 1989. Since 1984, the deficits of Argentina's publicly-owned telecoms monopoly—ENTEL (National Company of Telecommunications)—had dramatically deteriorated its services; by 1989 the completion success rate for local calls was a mere 49%, while the success rate for long distance calls was only 30%—the international standard was 95% and 85%, respectively (Petrazzini 1995:58-59).

Therefore, as in electricity, both residential and large users supported its privatization in 1990. Since 1984, the deficits of Argentina's publicly-owned telecoms monopoly—ENTEL (National Company of Telecommunications)—had dramatically deteriorated its services; by 1989 the completion success rate for local calls was a mere 49%, while the success rate for long distance calls was only 30%—the international standard was 95% and 85%, respectively (Petrazzini 1995:58-59). Therefore, as in electricity, both residential and large users supported its privatization in 1990. Democracy increased distributive demands prompting the government to restrain price hikes—thereby keeping cross-subsidies—to keep the support of Peronist politicians.[44] The maintenance of cross-subsidies and the weak financial position of Argentina—its bonds were assessed at 15% of face value in secondary markets—increased the leverage of potential investors, who demanded compensatory rents.

As in electricity, the intra-bureaucratic debate about the partition of ENTEL professional with long-term partisan links who sought to maximize investment goals and fiscal revenue—amidst hyperinflation and fiscal collapse—from the more neoliberal technocrats, who sought competition by comparison.[45] Foreign investors took advantage of Argentina's financial exposure demanding the separation of local from long-distance, opposing its regional division, and insisting on the establishment of monopolies.[46] Domestic companies, such as Bridas, Macri, and Pescarmona, favored regional partition, vertical integration, and monopolies to maximize their opportunity to participate in the privatization of smaller assets, which generate rents while keeping cross-subsidies as demanded by politicians.[47] In the end, the government included domestic companies while trying to maximize revenue by dividing ENTEL into two regional companies (horizontal partition), each of which was vertically integrated (vertical consolidation).[48]

As expected from PJ statist beliefs—and coincident with investors' demands—, the government decided to regulate property rights explicitly to foster sectoral development.[49] It established seven-year local and long-distance monopolies in each of the two regions, which were tied to investment and service targets; if these targets were met, the seven-year monopoly would be extended for three more years.

Similarly, the regulatory authority—the National Telecommunications Commission (CNT)—was created as a separate bureaucracy with broad power and its own budget derived from an industry tax of 0.5 percent on telecommunications revenue and fees for use of the radio-electric spectrum. Delegation to the CNT was high as it could grant and revoke licenses and permits, control property concentration, decide on the extension of exclusivity, approve prices in cases where rates must follow licensing guidelines, resolve inter-company conflicts (including interconnection), as well as oversee investment plans, quality of service and interconnection networks (decree 1185/90). The president appointed CNT directors, but their fixed terms did not overlap with the President's term, thereby increasing CNT's formal independence to prevent investors' fear of regulatory expropriation.[50] Yet, because it was created by decree, President Menem could easily change its structure as he did in two occasions.

Mexico

The telecoms reform in Mexico was accomplished in two stages. President Salinas privatized in 1990, thereby deciding asset partition and property rights, while President Zedillo established the regulatory agency and new property rights after the expiration of the five-year monopoly in long-distance. Since 1982, the deficits of the vertically integrated state-owned telecoms monopoly, Telmex (Mexican Telephones), had deteriorated its services, which were further damaged by the 1985 Mexican earthquake. As a result, unsatisfied demand reached 60% during the 1980s and private businesses were installing private digital networks by 1990 (Mariscal 2002: 71). Yet, the public was not supportive of the reform[51] and distributive demands were limited by the restrictive nature of the regime, restrain over price hikes, and the lack of legislative debate—due to the method of nationalization, the privatization of Telmex was a prerogative of the president. [52] As a result, the debate over policy preferences was limited to the executive and after it was solved, preferences were converted into outcomes.

The debate included the discussion over asset partition. Contra Petrazzini (1995), both foreign investors and the technocratic bureaucracy in charge of trade supported its partition. In contrast, domestic business and the labor union opposed it—as did the Treasury concerned about Mexico's financial standing. According to Mariscal, the partition failed due to Mexico's financial exposure—Mexico's debt was selling at 43%of its value in secondary markets in 1990—combined with opposition from crucial allies and beliefs regarding the need for a "national champion" based on previous policies of "Mexicanization."[53] These beliefs tipped the balance in favor of consolidation, which coincided with the interest of domestic business and the labor unions—there were no layoffs. Indeed, the government also relented when the buyers of Telmex demanded the right to purchase the state-owned microwave network to guarantee their monopoly over long-distance communication (Mariscal 2003: 50-56).[54] In this case, partisan beliefs and interests overlapped in explaining the policy preference. This interpretation coincides with Centeno's (1994: 194) view of Mexican PRI technocrats in general and Salinas in particular. He argues that Salinas' technocratic elite "did not believe that the market, left to its own devices, would resolve all problems through invisible hands" and they were committed to a central role for the state in directing the economy as in Taiwan or Korea.

Statist beliefs coincided with the regulation of private property in the form of legal barriers to entry in long-distance for five years to enforce investment commitments while also increasing the value of sold assets and thus favoring the returns for a financially exposed country. The importance of beliefs in explaining the regulation of property rights was reinforced when a PRI-dominated Congress passed the Federal Telecommunications Law in 1995. Despite US pressures—heightened by US financial support to Mexico during the 1994 crisis—demanding the liberalization of the market, the law established barriers to entry in the newly opened long distance market in the form of investment conditions in at least three states following the preference of PRI legislators and the PRI policymaker in charge of reform.[55]

Finally, as the statist belief legacies of the PRI would predict, the regulator—the Secretary of Communications and Transportation—retained high regulatory discretion even if a separated agency was not created until 1995. In 1995, the Secretary of Communications and Transportation Carlos Ruiz Sacristan drafted the decree creating the COFETEL (Federal Telecommunications Commission), which was to produce technical plans and auction the use of the radio-electric spectrum, among other functions, thereby retaining high regulatory discretion in the Secretary.[56] Moreover, the president appointed Cofetel's commissioners without fixed tenures and thereby with little independence despite the demand of foreign investors for regulatory independence. Despite Mexico's financial exposure in 1995, the establishment of a regulator after privatization generates strong distributive demands from existing providers—in this case a nation-wide monopoly that had restrained price hikes during the 1995 crisis.[57]

In sum, the telecoms reform in Chile showed the predominance of neoliberal beliefs in the definition of government policy preferences. These preferences were only overridden by foreign investors' in the case of asset partition due to the tight calendar imposed by democratic transition. In Argentina, partisan interests were influential in explaining preferences over asset partition and beliefs in defining preferences over property rights regulation and the regulatory agency. For these later policies, though, the financial exposure of Argentina increased the leverage of foreign investors who had to be enticed into buying the assets. In Mexico, partisan interests and beliefs—legacies of "Mexicanization" in the form of a "national champion"—overrode foreign investors preferences in tipping the balance of the technocratic debate over asset partition. Beliefs were influential in explaining the regulation of property rights—which along with Mexico's financial exposure accounts for the long-distance monopoly and investment requirements after 1995. Yet, whereas partisan beliefs account for the high regulatory discretion in telecoms, they cannot account for the weak structure of Cofetel.

V- Patterns of Policy Implementation

In studying reform implementation in two industries strongly affected by policy diffusion, this paper emphasizes the intra-industry variation that cannot be explained by technological pressures. In telecoms, especially, all three countries reformed within such a short time span that technological change could not explain variation in policy implementation. In all three countries, technocratic policy networks served as agents of diffusion,[58] but in all three partisan beliefs and interests of constituencies produced different patterns of policy implementation. Beliefs legacies—based on prior policy preferences—affected the process of policy learning by policymakers due to the absence of a consensus on the effects of alternative institutional options. Reforming government included "true believers" and "converts" into the market creed. In the process of conversion, prior economic beliefs inform decision making when various options are involved in policy implementation. The influence of prior beliefs (and alliances) in the conversion to pro-market policies in both Argentine Peronism and Mexican PRI explains why as electoral competition increased the cost of adopting these policies both parties stared a return to their *statist* roots.

The influence of partisan beliefs was higher in the establishment of regulatory agencies and the regulation of property rights—in the Mexican telecoms regulator, though, the existing provider was a crucial player. Asset partition was more subject to the influence of partisan interests in Argentina and Mexico (where beliefs also supported the winning preferences) whereas in Chile the absence of democracy left it also at the influence of beliefs and foreign investors.[59] The following table summarizes the preferences predicted by my argument on partisanship and the actual preferences of policymakers in all three countries, across both sectors, and along the institutional choices involved in the three policy dimensions. Most of the predicted preferences were actually adopted.

*********** TABLE 1 HERE ***********

Beyond partisanship, either the electorate or foreign investors shifted the debate over policy preference formation within the government in the studied cases. Electoral competition affected debates within the government by giving preeminence to different groups according to their ability to enhance the political survival of policymakers. In Argentina, technocrats' solutions to control inflation gave them an upper hand in the design of electricity reform, especially when their preference for asset partition coincided with the partisan interests of Peronist constituencies. In Mexico, the electoral defeat of the PRI in the 1997-midterm elections reduced party discipline to their technocratic president and hindered electricity reform by increasing the leverage of party politicians. In Chile, by contrast, the role of electoral competition was minimal and only contributed to enhance the leverage of foreign investors opposing the partition of CTC when the threat of democratic transition approach.

Whereas electoral competition tipped the balance in the debate within the government, financial leverage overrode pre-existing preferences. Moreover, whereas technological pressure could not predict the variation in policy implementation, financial exposure at the time of reform explained the preference for regulation to create rents in telecoms in Argentina and Mexico.[60] Yet, mapping financial exposure—measured by sovereign risk or by the value of government bonds on secondary markets—to outcomes does not explain policy implementation in all cases—assuming that foreign investors prefer consolidated assets, regulation of entry, and separated and independent regulatory agencies with limited discretion. Based on the combination of the value of their sovereign foreign debt notes (as a percentage of the face value in comparison with the average for LDCs) and Moody's rating of government bonds, investors' leverage should have been the highest in Argentina's telecom reform (1990), followed by Argentina's electricity reform (1992), then Mexico's telecom reform (1990-1995), Chile's two reforms (1986-88), and finally, Mexico's failed electricity reforms (1999 and 2002).[61] However, the Argentines divided ENTEL whereas the Mexicans consolidated Telmex. Similarly, the Chilean government limited regulatory discretion in telecoms to a greater extent than Peronist and PRI administrations even though the latter two were in weaker financial situations. In these cases either partisan interests (aligned with domestic investors) or partisan beliefs overcame the expectation derived only from financial exposure and its effect on the leverage of foreign investors.

While technological or financial pressures can explain policy adoption but fail to explain policy implementation, the argument on partisanship also has limits in explaining policy preferences. It cannot account for the reduced powers of the Mexican telecoms regulator, which are explained by the influence of the monopolistic provider. Neither can it account for the formal independence of the two Argentine regulators, which is explained—as it is the lack of partition of the Chilean CTC—by external financial pressures. Finally, it cannot explain Zedillo's preference to divide electricity assets, but it does predict the subsequent lack of support from his own party to that proposal.

VI- Conclusion

In analyzing policy innovation, most studies focus on the constraints and incentives defined by technological changes and institutional frameworks on policy adoption while the preferences of policymakers remain under-theorized. In understanding of Latin American policymaking, the literature has moved from taking the preferences of domestic economic players as imposed on policymakers (Frieden 1991) to focusing on the economic conditions that prompted politicians to adopt the same policies defined by a "Washington consensus" regardless of their original policy preferences (Williamson, 1994, Remmer 1998, Weyland 2002, Stokes 2001). The role of policymakers was reduced to obtaining the adoption of those externally defined policies, either by achieving partisan discipline (Corrales 2002) or building support coalitions with concessions to compensate losers (Murillo 2001, Gibson 1997) or to create winners (Schamis 2002, Kessler 1998). The agency of policymakers did not include their role in policy preference formation, either by focusing on the interest of their supporters or their perception of those interests as shaped by their partisan beliefs.

To analyze the role of partisan beliefs and interests, this paper focuses on two industries—telecoms and electricity—which have been subject to strong pressures for policy diffusion and thereby are unlikely candidates for showing traces of partisanship. In the implementation of three dimensions of these reforms in three countries, this paper shows that partisan beliefs and interests influenced policy implementation with the former playing a stronger role when the policies are more easily linked to state regulation of markets facilitating their assessment over distributive expectations. Because the mechanisms for policy preference formation are defined in debates within the government coalition and political survival was a crucial incentive in policy adoption for "converts" to these reforms, electoral competition can easily tip the balance in internal debates over policy preferences. Financial exposure also gives incentives for increasing the incentives to revenue maximization through the creation of rents, which can be distributed to partisan allies. Yet, neither financial exposure, nor technological pressures explain the process of preference formation and need to be complemented by partisan beliefs and interests.

Whereas the role of partisan interests in policy preference formation has previously been analyzed (e.g. Garrett 1998, Boix 1998), the study of partisan beliefs as opposed to other ideas on policymaking remains understudied.[62] Partisan beliefs influence preference formation for "true believers" and "converts"—who need to make policy choices. The process of preference formation includes debates within the government coalition regarding different options of policy implementation. In those debates technocrats presents politicians with new ideas to choose from. The weigh of those carrying more neoliberal views or those with different beliefs legacies in the debate will be tipped by which of their option resonates more with policymakers limited by their financial capacity and fear of political survival.

If even in areas of great external pressures for policy diffusion, such as the telecom and electricity, the beliefs of policymakers play a role on policy implementation, we should expect that beliefs play an even stronger role in defining distributive implications of policy adoption in other areas. This effect suggests that in the context of regional policy convergence, partisanship influenced policy implementation in the absence of a consensus on specific policies. Moreover, the emphasis on partisan beliefs also explains why "converts" have easily returned to more *statist* policies preferences when neoliberal reform ceased to produce electoral returns. Policymakers did not abandon their socialization into these beliefs but adopted new views that provided instruments for political survival in the short term. The conversion was pragmatic for large sectors of the PRI and Peronist party. As a result, the majority of the PRI after 2000 and the Peronist party after 2001 returned to more *statist* policy preferences, as it became obvious in discussing the electricity reform in Mexico.

The study of beliefs implies investigating whether the preferences inferred from the partisan beliefs and interests of constituencies and those adopted coincide while also relying on actors' account of why did they made those choices. The combination of inferred expectations along with outcomes and actors' justification in a comparative research design that allows for holding constant alternative variable provides valuable information on the role of beliefs on policymaking. This paper shows that partisan beliefs and interests shape policymaking in telecoms and electricity in three countries and along three dimensions. That is, most of the observations in this study conform to the predictions of the argument. Based on these findings, this paper calls for broadening the focus of research on policymaking to include the study of partisan beliefs and interests in the process of preference formation.

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ENDNOTES:

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[2] Levi-Faur (2004:16-17) shows that Latin American countries exhibit more variation in terms of the establishment of independent regulatory agency and the opening to competition than European countries in both telecoms and electricity.

[3] I use beliefs or ideology as a worldview that shapes how people perceive different ideas and the policy options they support and selects those more consonant with these perception as their preferences to make a decision between available options.

[4] An analysis of all newspapers—using the archives of *Clarín*—between July 1989 when Menem was inaugurated and June 1990 when the privatization bids for telecoms took place, shows 124 articles on the privatization but only 32 on the regulatory authority and 96 addressing the division

of assets or property rights. A similar analysis for electricity, between September 1989 when the Minister of Public Works first announced the intention to privatize and August of 1992 when the privatization process started, shows 129 articles referring to the privatization of SEGBA and Agua y Energía, 56 on the regulatory authority, and 61 on the other two categories involving competition.

[5] A search of all major newspapers covering the 1990-99 period—*La Jornada, El Universal, Uno más Uno, Financiero, Proceso, El Nacional,* and *El Excelsior*—shows that the telecom debate was discussed in 52 articles between the announcement of telecoms privatization in June 1989 and its realization in November 1990. In 1995, the debate over the Federal Telecommunications Law received coverage in 40 articles (February-June), whereas the debate over the creation of an energy regulatory authority was discussed in only three articles (April-September). In contrast, in 1999, 277 articles covered the debate over the failed electricity reform.

[6] The abolition of cross-subsidies raised the residential price of electricity by more than 700% between 1974 and 1982 although it came down 30% by 1988 (Spiller and Viana Martorell 1996:120).

[7] Silva (1991) and Fontaine Aldunate (1988) discuss the dominance of neoliberal technocrats in most areas of Pinochet's administration after the initial failure of more traditional policies due to the increase in oil prices and decline in copper prices in 1974 and Schamis (2002) discusses how Pinochet used these ideas to reinforce his personal rule vis-à-vis other competitors in the Armed Forces. Silva (1991) traces the neoliberal beliefs of policymakers to an academic exchange program between the Catholic University of Chile and the University of Chicago between 1955 and 1965. Huneeus (2000) emphasizes the common roots of Pinochet's civilian cadres in their student activism at the Economics and Law Schools of the Catholic University to explain their common ideology.

[8] Whereas the left-wing government of Salvador Allende nationalized the electricity company Chilectra in 1970 and the telecom company ITT in 1971, the government of a center-left Popular Front coalition also including the Socialists created the state-owned electricity enterprise Endesa to serve the interior of the country in 1943. Additionally, in December 1964 Christian Democratic President Eduardo Frei decreed the creation of the state-owned company for long-distance telecommunications Entel (Melo 1998).

[9] The rest of the country includes the Northern Interconnected System or SING and two separate systems in Patagonia (Inostroza 1995).

[10] Sebastian Berstein, who was the architect of the reform, argues that because this reform followed the 1983 crisis that had weakened neoliberals within the government, technocrats were confronted with this opposition to partition from within the companies (personal interview, Santiago, March 27, 2001).

[11] The 1959 electricity law established a Tariff Commission—composed of representatives of the president, the companies, and consumers and perceived as amenable to the latter—to define prices. Instead, the 1982 law was very specific about the use of long-term incremental marginal costs to define rates and established a limit of 10% difference from the wholesale market price to restrict the discretion of the regulator (Spiller and Vianna Martorell 1996:16).

[12] The CDEC board was controlled by operators that accounted for at least 2% of the total generation, which were Endesa, Chilgener, Pehuenche, and Colbún, transforming the board into a "large generators' club" (Mines Ministry's Supreme Decree 6 of 1985).

[13] Consequently, the SEC was granted a very limited budget and its personnel was immediately cut after its establishment (Inostroza 1995).

[14] Juan Perón himself established the legacies of populism and state intervention in the two studied sectors; he nationalized telecoms (1948) and created the state-owned company of electricity Agua y Energia (1947) during his first presidency, although a Radical administration

nationalized the distribution of electricity in the area of Buenos Aires (SEGBA). See Petrazzini (1993) for telecoms and Sabato (1971) for electricity.

[15] The abolition of cross-subsidies did not produce high price hikes because the government abolished taxes for for about 10% of residential prices. Moreover, price increases in 1989 and 1990 were hard to track due to hyperinflation and prices decreased in 1991, before privatization started (Bastos and Abdala 1995:36, Arza 2003:102, Fiel 1999: 484). The Peronist coalition included labor unions and domestic business—in particular in the manufacture and sectors that had been protected by the state. Menem included kept these sectors in his support coalition even if implementing pro-market reforms that hurt their concentrated interest (Etchemendy 2005, Murillo 2001).

[16] Industrial consumers accounted for 48.2% of the electricity sold in 1990 (Bastos and Abdala 1995:30) and their representatives claimed that electricity costs accounted for 20% of their input expenses, as taxes on self-generation had made alternatives to public provision too expensive (*Clarín*, August, 28, 1991). The outage risk forecast for 1992 was an almost certain probability of direct supply cuts to consumers of around 160GWh monthly—equivalent to the amount of power used by the Buenos Aires metropolitan area in four days (Bastos and Abdala 1993: 80).

[17] Former Economy Minister Domingo Cavallo who was the head of the technocratic team in charge of economic reforms argued that hyperinflation made possible the privatization of electricity because he had linked privatization and other reforms with the successful stabilization program for public opinion (personal interview, New York, May 6, 2003).

[18] Personal interviews with former Undersecretary of Energy and chief regulator Juan Legisa, (Buenos Aires, August 1998), former Secretary of Energy Carlos Bastos (Buenos Aires, December 19, 2000) and former Minister of the Economy Domingo Cavallo (New York, May 6, 2003).

[19] Unión Fenosa, Eléctricité de France, and Endesa of Spain, as potential investors in the distribution for the Buenos Aires area, opposed the division of SEGBA (Informe Industrial, 1990: 30-31.)

[20] Cammesa defines prices based on marginal costs and seasonal demand.

[21] This rule prevented the Chilean company Gener from buying Central Costanera, which was thus sold at a lower price than the price Gener paid for the other large genco in Buenos Aires.

[22] PJ provincial legislators imposed congressional approval of the budget and provincial proposal of ENRE directors as well as a National Energy Fund to subsidize users in provinces with higher energy costs and to promote energy development in the interior of the country (art.70). The Peronist legislative majority in the Lower Chamber successfully defended the authority of the Secretary of Energy to grant permission for energy trades and to exercise veto power through the independent dispatch operator as well as ENRE's power to define thresholds for large users (See Diario de Sesiones, Lower Chamber, pages 4381,5031-2, 5061, 5063 of November 13 and 14, and December 4-6, 1991).

[23] The PRI had nationalized telecoms—by acquiring a majority holding of the company in 1972. It also created a public electricity company in 1937 and passed a 1960 constitutional amendment establishing a public monopoly over energy while nationalizing the remaining private electricity company.

[24] According to PRI Senator Manuel Barlett, the PRI only accepted the reform for party discipline despite internal opposition (personal interview, Mexico City, October 9, 2002)

[25] PAN legislators suggested the establishment of collective decision making on the CRE board and the inclusion of public audiences as general rules. They also proposed a public registry of internal discussions and administrative decisions and the use of arbitration for disagreements between users and the regulator, which were rejected by the PRI majority (See Diario de Debates de la H. Cámara de Diputados, Legislatura LVI, 2nd year, No.11, October 8 and 10, 1995 and

Diario de Debates de la H. Cámara de Senadores, Legislatura LVI, 2nd year, No. 12, 13, 14, November, 19-24 and 26, 1995).

[26] Personal interview with former Secretary of Energy Luis Tellez (Mexico City, December 8, 2000).

[27] In 1995, over fifty percent of the population opposed the privatization of CFE according to a national survey (CIDE, REC30895.PRG, August 29, 1995). By 1999 most people thought that electricity prices would not decline with privatization (*El Universal*, April 23, 1999, p.19).

[28] *El Universal* of February 6, 1999 reports that the PRI of Aguascalientes state denounced the reform whereas *La Jornada* of the same date reports that the PRI national representative of the popular sector opposed the reform. More importantly, PRI representatives in the Lower Chamber announced they would not discuss the bill until the opening of the second legislative period in September (*El Universal*, February 17, 1999).

[29] Both Francisco Labastida and the PRI leadership in Congress opposed the reform (confirmed by confidential interviews with two members of Zedillo's Cabinet and a PRI Senator, Mexico City, October 2002 and February 2004).

[30] In a press conference, then PRI president Dulce María Saurí Riacho said on February 1st, 2000 that PRI presidential candidate Labastida opposed the privatization of electricity following PRI by-laws (www.pri.org.mx/05.infomacion/textos_doc/documentos/2000/febrero2/febrero2000.htm).

[31] The PAN had already presented a proposal for electricity privatization in the Senate.

[32] In a personal interview, PAN Senator Rodriguez Prats said that the PAN would have preferred to privatize electricity assets but it could not, due to Fox's electoral promise (Mexico City, October 10, 2002).

[33] Personal interview with Fox's Undersecretary of Energy Planning Armando Jiménez (Mexico City, October 7, 2002).

[34] By August 2001, more than twenty bids had been won by private holdings to produce energy under purchasing power agreements with the CFE including both domestic and international capital, such as AES, Iberdrola, Unión Fenosa, EDF, and Alstom.

[35] For instance, the Concamin (Association of all Industrial Chambers), worried about electricity costs and poor quality, supported the reform (personal interview with Rafael Hernandez, Vice-President of the Energy Committee in Concamin, Mexico City, February 16, 2004)

[36] According to a national survey of 1000 individuals, 64% were against the privatization of electricity assets and only 22% in favor while 63% believed that electricity prices would go up with privatization (Parametría, June 2002).

[37] According to a 2001 survey by *Reforma* of 130 national legislators, partisanship divided their preferences on electricity reform. Most of the PAN legislators supported private investment (85.5%) whereas only a minority supported it in the PRI (36.4%) and the PRD (23%). Opposition was very limited in the PAN (11%), but high in the PRI (62%) and the PRD (62%). PAN Senator Rodriguez Prats claimed that stopping the reform meant hurting the main 500 companies of Mexico, which could become large users in a wholesale market and accounted for 20% of total electricity demand (personal interview, Mexico City, October 10, 2002).

[38] Indeed, the Vice-President of the Energy Commission in the business association Concamin argue that Zedillo's proposal gave too much regulatory discretion to the CRE (personal interview with Rafael Hernandez, Mexico City, February 16, 2004).

[39] Residential prices increased by 33% (their fixed costs increased 84%) while commercial and large users' prices dropped by 22% and 59%, respectively, between 1981 and 1988 (CTC Oficio No.2877, December 19, 1988, cited by Melo 1993:123-124.)

[40] Two small public companies provided local service in Patagonia and three small private companies provided it to certain areas of Santiago and the central region.

[41] Personal interviews with former undersecretary of telecommunications Gustavo Armas (Santiago, March 22, 2001) and reform architect Renato Agurto (Santiago, March 27, 2001). Indeed, there were only two bids: a very low one from Telefonica of Spain and the winner from Bond, which had no technological experience.

[42] Personal interviews with Armas (Santiago, March 22, 2001) and Agurto (Santiago, March 27, 2001).

[43] The emergence of small private companies was based on unmet demand by CTC and promoted by the military government, which retained CTC investment in wealthy areas while forcing public companies to provide interconnection (Melo 1993: 77).

[44] The government had to reverse a 433% increase in prices planned for May 1990 due to popular protests supported by Peronist and Radical politicians (Arza 2003: 103, Petrazzini 1995: 84-86).

[45] Former Ministry of Public Works Roberto Dromi justified the monopolies to promote investment (personal interview, Buenos Aires, August 20, 1998). Ing. Maria Julia Alsogaray proposed the partition to promote competition by comparison (*Mercado*, N° 873, 28 de julio de 1990). The former was part of Menem's Peronist professional cadre from La Rioja, whereas the latter was a technocrat from a right-wing liberal party.

[46] Personal interview with Ing. Raúl Parodi, former official of the Secretary of Communications during privatization (Buenos Aires, February 8, 2000) and *El Cronista Comercial,* August 16, 1989.

[47] *Clarín* August 18, 1989, *Ambito Financiero*, September 13, 1989, and *Clarín*, September 17, 1989. The tender terms included a provision to facilitate the participation of domestic investors, the labor union, and provincial cooperatives to please PJ allies (Murillo 2002).

[48] While the original government decree established the division of the company into three parts, a study of financial viability by Coopers and Lybrand suggested that the final division into two

areas, each of them including Buenos Aires, was more effective in maximizing revenue and future competition.

[49] Personal interview with former Minister of Public Works Roberto Dromi (August 20, 1998).

[50] According to Raul Parodi, former vice-president of the CNT, World Bank pressures and the intention to attract investors were crucial in the definition of the CNT structure (personal interview, February 8, 2001).

[51] A 1995 national survey shows that more than half of the population (55%) opposed the privatization of telecoms after it had happened (including a similar proportion among PRI voters) although 44% agreed that the service improved with Telmex privatization (CIDE, REC30895.PRG, August 29, 1995).

[52] The state had acquired a majority share holding with no legislative intervention; the Law of State Owned Enterprises establishes that in Companies of Majority State Participation—where the state owns at least 51% of the stock, but does not fully own the company—the Executive has the right to transfer, sell, dissolve, or liquidate the company (art.32). The sale or transfer is to proceed in the Stock Market under the control of the Ministry of Finance (art. 48).

[53] In a personal interview, Carlos Cassasus, former Telmex manager, Under-Secretary of Communications, and head of the regulatory agency (Mexico City, December 8, 2000) explained the lack of partition based on the pressure from the Treasury, the demands of future buyers, the need to avoid layoffs, and the intention to create a "national champion." It resonates with PRI's earlier policies of "Mexicanization," prior to nationalization. In this process foreign private owners were first pressed to merger into a single monopoly and then to sell to Mexican nationals (Székely and Del Palacio 1995: 46-48, Petrazzini 1995: 107-109).

[54] Additionally, the privatization included the only nation-wide concession of mobile, which already had private providers in the area of Mexico City.

[55] These conditions followed demands of PRI Senators and the preferences of then Secretary of Communications Carlos Ruiz Sacristan for promoting investment (personal interviews with Ruiz Sacristan, Mexico City, January 18, 2001 and Carlos Cassasus, December 8, 2000).

[56] Ruiz Sacristán wanted to retain regulatory discretion on the Secretary according to personal interviews with Ruiz Sacristán (January 18, 2001) and with Cofetel first director Carlos Cassasus (December 8, 2000).

[57] Ruiz Sacristán claimed that US investors trying to enter the Mexican market demanded an independent agency but TELMEX opposed it (personal interviews, Mexico City, January 18, 2001). A high technical official in charge of drafting the law claimed that Telmex influence on the design of the regulator was crucial (confidential interview, Mexico City, January 2001).

[58] Teichman (2001) documents the policy networks for Chile (67-84), Argentina (111-126), and Mexico (135-143). See also Centeno and Silva (1998).

[59] In all three countries the sale condition benefited government supporters, including in Chile (Schamis 2001, Murillo 2002, Moguillansky 1999).

[60] Indeed, these barriers to entry were higher in Argentina, where barriers to entry existed in both long-distance and local communications and a longer monopoly period was established, as expected by Argentina's greater financial exposure.

[61] In 1990, Argentina's debt was worth 15% of its face value whereas the LDC average was 33%; Moody's rating for Argentina was B3 for May 1989. By 1991, its debt value had improved to 27% (with an LDC average of 41%) but its Moody's rating was already B1. In 1990 Mexico's foreign debt was worth 43% of its face value (as opposed to 33% on average for LDC) and its Moody's rating was Ba2 (as it was in 1995); by 1999 (Zedillo's failed electricity reform) the ratings remained the same and only declined slightly by 2002 to Baa2 (Fox's attempt to reform electricity). Although there aren not Moody's ratings for that period, only three years after its deepest recession in 1986 Chile's foreign debt was already worth 62% of its face value when the

LDC average was 52% (Ffrench Davis 2003: 149 and http://www.moodys.com/moodys/customer.)

[62] Important exceptions are Hall (1986) and Blyth (2002) on the role of political parties as the carriers of policy ideas.

Table I: Partisan Preference on Public Utility Reform

		Argentina's Peronist Party		Chile's Pinochet		Mexico's PRI	
	Dimensions	**Predicted**	**Actual**	**Predicted**	**Actual**	**Predicted**	**Actual**
Telecom	**Asset partition**	Division	Division regional	Division	Status quo	Consolidation	Consolidation
	Property rights	Re-regulation	Re-regulation	Deregulation	Deregulation	Re-regulation	Re-regulation
	Regulator	-Delegation -New agency -Politicized (re-regulation)	-Delegation -New Agency -Formally independent	-Little discretion -No new agency (deregulation)	-Little discretion -No new agency	-Delegation -New agency -Politicized (re-regulation)	-Little delegation New agency Politicized
Electricity	**Asset partition**	Division	Division	Division	Division	Status quo	-Division 1999 -Status quo 2002
	Property rights	Re-regulation	Re-regulation	Deregulation	Deregulation	Re-regulation	-Re-regulation 1999 -Re-regulation 2002
	Regulator	-Delegation -New agency -Politicized (re-regulation)	-Delegation -New Agency -Formally independent	-Little discretion -No new agency (deregulation)	-Little discretion -No new agency	-Delegation -New agency -Politicized (re-regulation)	-Delegation -New agency -Politicized
Correct predictions			8 of 10 outcomes		9 of 10 outcomes		8 of 10 outcomes

Note: the highlighted observations are those that do not conform to the predictions of the argument.