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Reluctant Reformers:
Explaining Privatization in Venezuela and Uruguay

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Introduction

Venezuela and Uruguay have both resisted the regional trend toward downsizing the state and privatizing many of the industries and services previously run by the state. The 1997 Report of the Inter-American Development Bank categorizes both Uruguay and Venezuela as below the regional average on a 1995 structural policy index. Uruguay is called a "gradual" reformer, and Venezuela a "slow" reformer. With regard to the value of privatization between 1988-1995 as a percentage of GDP, the IDB lists Venezuela as eleventh and Uruguay as 22nd of 26 countries in the region. What explains this bucking of the trend by two of the region's most experienced, and at one point wealthiest, democracies?

Explanations of privatization range from economic needs to fill public sector coffers, to unyielding pressure from the international financial institutions, to political ambitions and the opportunity to rid the public payrolls of rival partisan supporters. This paper argues that a combination of institutional make-up and veto opportunities, mass attitudes toward the state, and ideology of individual leaders explain the relatively low rate of privatization in Uruguay and Venezuela.

Reluctant Reformers

Venezuela and Uruguay, while different in size, history and resources, have some important similarities. Both have had to adjust to the rise and fall of extraordinary sources of income which gave rise to extensive state involvement in the economy — Uruguay in the first half of this century with its beef, wool and leather exports, which declined in the late 1950s due to changes in the world market; Venezuela with the discovery of oil in the 1920s, the spectacular rise of oil prices in the 1970s, and the subsequent decline of prices in the 1980s and 1990s. Both have party systems undergoing realignment from domination by two multi-class, catch-all parties, to a multiparty system. Both have extensive experience with democracy — Uruguay for much of its history, with an important interruption from 1973-1985; Venezuela continuously since 1958.

Both societies have resisted the neoliberal trend, particularly regarding the reform of the state's role in the economy, even in the face of large fiscal deficits. But they have approached the deficits differently, due to differences in the underlying logic of these two systems. Uruguay's post-dictatorial governments after 1985 attempted to carry out an economic restructuring to privatize and demonopolize government enterprises. Yet, resistance from political parties, unions and pensioners thwarted these plans until well into the 1990s. Uruguay followed a pattern of gradual reform to achieve a controlled opening of the state enterprises to private competition, with a great deal of consensus-seeking, negotiation and compromise along the way.

Venezuela, on the other hand, approached its fiscal crisis with a shock program in 1989 that resulted in unprecedented mass protests and the eventual ouster of President Carlos Andres Perez in 1993. The next administration of Rafael Caldera rolled back the liberalizing reforms with a series of economic controls, until it was forced by the IMF to adopt a more orthodox liberal program in 1996. Since then, privatization has been attempted, but slowed down by Congressional, union and public resistance.

Explaining Privatization

<u>Intent</u>

The conventional explanations of privatization rely on the economic rationales of increasing the efficiency and quality of goods and services provided by state-owned enterprises, relieving the state of money-losing ventures and attracting foreign investment, or unlocking international loans and aid.[1] While Latin American economies have faced similar pressures from the debt crisis, globalization, recommendations from the multilateral banks and donors, and fiscal crises, their responses with regard to restructuring the state have varied tremendously.

More political explanations of the motivations and decisions to privatize have attempted to explain that variation. In "The Political Uses of Corruption and Privatization," Barbara Geddes (1997) adapts a Northian institutional choice framework to explain the political motivations for selling public enterprises. Assuming that politicians maximize access to office, Geddes argues that privatization can severely curtail their ability to deliver benefits, in the form of jobs and contracts, to political supporters. On the other hand, if an opposing party's loyalists have filled public sector jobs , then privatization may allow an executive to circumvent civil service laws and fire the partisan hires of previous administrations. Therefore, the first variable explaining the intent to privatize is whether the executive's party or faction occupies a disproportionate number of positions in the state enterprise sector.

This is a simple rational choice explanation that appears to hold up under statistical testing. However, upon closer examination of the two cases considered in this paper, the difficulties of measuring the variables becomes apparent. First, as Geddes indicates in her table, in the Venezuelan and Uruguayan cases, both of the major parties have enjoyed the benefits of patronage with regard to public sector employment. Thus, we would not expect either of them to support privatization. Yet, presidents from the major parties in each country have strongly pushed privatization, and in some instances, have won parliamentary majorities in favor of it. I argue instead that ideology of individual leaders and economic circumstances go further in explaining the differential motivations and efforts of various administrations regarding privatization.

[1] See Dinavo(1995) for an analysis of the goals, process and implications of privatization for development and democracy. See case studies of individual country experiences in the edited volumes by Baer and Birch (1994), Glade (1996) and Lawton (1994). See Teichman (1995) for a multifaceted explanation of the extensive Mexican privatization, including external pressure from the IMF and the worsening international economic situation.

Capacity to achieve results.

In Geddes' framework, the capacity to carry out a privatization decision depends on a second variable — namely whether the executive's party or faction also carries a majority in the legislature and even judiciary. Since privatization decisions usually require congressional approval, we would expect this variable to be significant. In the Venezuelan case, the Perez administration (1989-93) attempts at privatization for the most part failed, even though his party carried a near majority in the Congress. The Caldera administration (1994-99) led a minority government, yet received congressional approval when he finally brought forward a privatization program. In the Uruguayan case, in no instance since the restoration of democracy in 1985 has the executive enjoyed a parliamentary majority, yet two administrations were able to get legislative approval of important privatization objectives.

If control over a legislative majority is not a sufficient predictor of the success of privatization attempts, an institutional approach that frames the veto opportunities of interest groups and parties may do so. In an analysis of social security privatization attempts, Stephen Kay (1998) uses an approach outlined by George Tsebelis, among others, to analyze how institutions create opportunities for interest group actors to shape policy outcomes and act as veto players. Some of those institutional features include the degree to which electoral and legislative systems provide incentives for party discipline, the plebiscite, and official representation in the social security bureaucracy.

In the two cases under consideration here, the institutional/veto player approach appears to be a powerful factor in explaining differential capacities to carry out privatization. Aldo Vacs (1998) argues that Uruguay's history of societal corporatism allowed the survival of autonomous parties and interest groups through the military regime that resisted the attempts of the democratic governments to continue the neoliberal restructuring begun by the military. Jorge Lanzaro (1995) explains the incrementalist approach to reform in Uruguay, which fell short of privatization, in terms of the institutional components of co-participation and the peculiar electoral system which produced at once a compromise between governability and representation, and avoided a winner-take-all view of state resources.

In Venezuela, the political parties have acted as veto players to two "outsider" presidents, even in a strongly presidentialist system. As Geddes points out, presidents nominated in party primaries that go against the will of the party establishment may end up as "outsiders" even within their party, as was the case of Carlos Andres Perez in 1989. Rafael Caldera, the inveterate party insider, became an outsider when his party refused to nominate him and he ran as an independent in 1993. Brian Crisp (1998) takes the institutional argument further in his argument that Perez failed in his ambitious attempts at economic restructuring because he abandoned the traditional consultative mechanisms in which interest groups were represented and set up new bureaucracies to bypass the existing ones.

Finally, political culture as defined by mass attitudes towards the state and the social contract appears to be an important explanatory factor. Moises Naim describes Perez' radical economic reform efforts in 1989 as "grossly out of sync with popular expectations bred by decades of pervasive state intervention subsidized by oil" (1995, 39). Janet Kelly (1996) describes an ideological and political shift in the country that was necessary before the Venezuelan airline VIASA (and telephone company CANTV) could be privatized in 1991 — a shift which turned out to be quite short-lived. Vacs (1998) describes a Uruguayan view of the social contract as encompassing such citizen rights and entitlements from the state producing a broad, persistent resistance to privatization

The Uruguayan Experience

The Uruguayan approach to economic liberalization and restructuring has been a gradual one, based on open debate, negotiation, and compromise. Uruguayans have continued to view the role of the state in the economy as a positive and important one. They have approached the problem of fiscal deficits through reforms to make the state more efficient, including bureaucratic streamlining and opening the public sector up to competition. Uruguayans have resisted, however, the wholesale privatization of large numbers of state-owned enterprises followed by other countries, such as Argentina and Mexico. Instead, partial privatizations have been carried out since 1991 in the national airline and social security; concessions have been let in natural gas and port services; and the state-owned monopolies in alcohol, insurance, and electricity-generation have been opened to competition. I will argue that the institutional structure and opportunities to veto players, as well as political culture together explain the Uruguayan incrementalism.

Institutional Characteristics

Three institutional characteristics are important for an explanation of Uruguay's relative lack of privatization: the party and electoral system, the practice of coparticipation, or shared directorships of state enterprises, and the referendum. Each of these institutional characteristics gave opportunities to veto players and affected the government's ability to carry out intended state reform.

Uruguayan policy-making style is one of parliamentary negotiation. Given the strong role of the legislature, the primary site of negotiation of reforms is between the executive and the congress. Thus, the electoral and party systems heavily determine the ability of the Uruguayan executive to negotiate a majority coalition in the legislature.

Costa Bonino and I argue elsewhere (1992) that the two traditional parties — the Colorados and Blancos — are more similar to clans or tribes than to political parties defined as associative groups based on a common philosophy, ideology or line of action. These party "tribes", which preceded the Uruguayan state, were each composed of its own party system. Each had liberal and conservative wings, each had democratic and authoritarian tendencies, and each had identifiable leftist, centrist, and rightist factions. But the traditional loyalties predominated over ideologies and impeded the foundation of "pure" liberal or conservative parties. The result is the chronic fractionalization of Uruguayan traditional parties.

The true "parties" are really the sublemas. This peculiarity of multipartyism in a "bitribal" system generated its own adaptability in the introduction of the double simultaneous vote (DSV) in 1918, which permitted the voter to express his/her traditional and affective identity on the one hand, while on the other to choose the candidate and ideology of his/her choice. The double simultaneous vote allows for multiple party lists and presidential candidates to be represented by fractions within a single party, whose total votes are accumulated to determine the winning party. For example, in presidential elections, the party (or lema) winning the most total votes wins the presidency, and the person (and party fraction, or sub-lema) winning the most votes within that party takes office. In this way, the DSV combines a primary and a general election in one election. The person winning the presidency is often not the person with the most popular votes. Similarly, legislative lists are presented by each party fraction and are voted on by proportional representation. Therefore, a president must negotiate not only with other parties, but also with other fractions within his/her own party.

As Lanzaro (1995) argues, the DSV at once provided for representation through the party fractions, and for governability through the cumulation of votes. This logic could work in a two party system in which an executive could win a majority in the congress. However, over time the ability to unite fractions decreased as identification with the "tribe" decreased, particularly in new generations, and a third viable force -- the leftist Frente Amplio -- rose on the scene. By the 1995 vote, the electorate was split almost evenly in thirds, and reforms of the party system were being discussed. A 1996 constitutional reform was narrowly approved in a popular referendum, eliminating the DSV and instituting compulsory party primaries to choose a single presidential candidate per party six months before the elections. A run-off will now be required if no candidate wins more than 50% in the first round of the presidential race.

The second institutional characteristic is co-participation. The history of co-participation in Uruguay dates back to the civil war and agreement in 1872 when it was devised as a formula to pacify the two warring political parties. Originally entailing a sharing of territorial power through designation of opposition party department-level political chiefs, it later evolved to mean shared directorships of state entities. An explicit formula was devised to distribute the five seats on each board of directors, depending on the participating parties. During the first Sanguinetti administration (1985-90), the Frente Amplio was added to the distribution. Co-participation in Uruguay, then, has traditionally meant a sharing of the benefits of state power and resources, or a sharing of cabinet posts and associated patronage benefits, without a negotiated agreement on the government program.[2]

The third institutional characteristic is the referendum. In Uruguay, if 25% of voters in a

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[2]Author's interview with Romeo Perez, academic director, CLAEH, Montevideo, October 1991.

non-obligatory vote, or petitions signed by 10% of voters, approve a call for a referendum, then a public referendum must be held. Voting in the referendum itself is obligatory, as in regular elections, and the results can repeal a law. Each of these three institutional characteristics opened up opportunities for parties, party fractions, and interest groups to act as veto players in the privatization process, as shown below.

The Privatization Process in Uruguay

After a half-century of wealth, democratic stability, and redistributive welfare, Uruguay lost its principal European export markets and began in 1955 a long, slow slide toward economic stagnation, political polarization, and finally democratic collapse in 1973. By the time constitutional rule was restored in 1985, Uruguay had suffered economic stagnation for thirty years, punctuated with short episodes of growth.

Institutionally, the military regime represented an interruption, rather than a reform, of the political organization of the country. The pre-military 1967 constitution remained in force after the population defeated the military-proposed constitution in 1980. The same political parties and interest groups, including organized labor, reemerged essentially intact. Nevertheless, the trauma of the breakdown of democracy and subsequent human rights abuses and exile of a generation, led Uruguayans to reprioritize, no longer taking their democratic system for granted. National reconciliation became an important objective, and a military amnesty was upheld in a national referendum

The first post-military president, Julio Maria Sanguinetti (1985-90), faced an economy in recession (-17.7% GDP growth rate in 1982-84), low investment rates (less than 10% of GDP annually), high unemployment, central government deficits averaging nearly 6% of GDP each year in 1982-84, inflation of 55% and growing external public debt. But, the first priorities of the Sanguinetti administration were a peaceful transition, restoration of a normal situation, and recuperation of wage levels, with economic reform accorded a lower priority.[3] Social peace and forgiveness were the two grand themes. Nevertheless, the government enumerated its economic policy goals as: a) economic recovery and improving the standard of living; b) maintaining the momentum begun by the military toward an opening of the economy to international competition; and c) economic restructuring to privatize and demonopolize government enterprises.[4]

Although the Sanguinetti administration achieved its primary goals of restoring democracy and achieving social peace and reconciliation, it made far less progress in its economic goals of economic recovery, trade liberalization, and privatization. Without a majority in the legislature, the administration tried to reach a political compromise in which the Blancos would support the

[3] Author's interview with former president Sanguinetti, Montevideo, 1 Sept 1992.

[4] Author's interview with Ariel Davrieux, Director of the Office of Planning and Budget during the Sanguinetti Administration, Montevideo, 24 Oct 1991.

closing of the fisheries enterprise and the privatization of the national airline, presented by the governing Colorado party, in exchange for Colorado support for a Blanco party proposal to demonopolize alcohol and insurance. In the end, the deal fell through and the government did not get the votes in the legislature. Another government proposal for restructuring the national port system was tabled in 1988 because of labor conflict.[5] Therefore, while the administration supported privatization and demonopolization of state enterprises in principle, it was unable to negotiate a majority coalition in the legislature to support its proposals.

The Lacalle administration's goal of reforming the state was part of a broader vision of economic restructuring to strengthen the private sector and the market, and make the state more efficient. One part of the government's strategy was to reform public enterprises (referred to in Uruguay simply as reform of the state) through demonopolization and privatization.[6]

The administration presented the Law to Repeal Monopolies and the Law to Reform the State to the legislature in August and September of 1990. The first law was to eliminate government monopolies in alcohol, insurance, telecommunications and ports, by allowing private companies to compete with state enterprises in these sectors. The second law was to permit privatization of six state enterprises: the telephone company, electric company, national airline, fisheries, and ports.

The demonopolization law was approved by the Chamber of Deputies, but a political compromise limited it only to alcohol and insurance. The second law finally passed both houses in September 1991, one year after being introduced, but in a weakened state. It did not include the ports, due to intense labor and political pressure, and it allowed only partial privatization — joint ventures were to be created for most of the enterprises.

The 1991 laws to reform the state through privatization and demonopolization became stunning examples of successful legislative coalition-building, followed by defeat in a popular referendum. The Uruguayan left has learned how effective the referendum can be in pursuing a political agenda that does not win a legislative majority (Costa 1998). The Frente Amplio and the labor unions opposed the privatization bill, in particular the proposed sale of the successful telephone company. They therefore proposed a partial repeal of the privatization. A referendum on December 13, 1992 defeated five of the thirty articles of the privatization bill, and suspended the privatization of the telephone company.

During the second Sanguinetti administration (1995-2000), the government overcame another plebiscite challenge to pass a major social security reform. The 1994 elections resulted in a virtual three-way tie, with only two percentage points separating the three parties in the

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[5]Ibid.

[6]Author's interview with Conrad Hughes, Minister of Planning, 1989-90. Montevideo, 2 Oct 1991.

presidential race. Despite predictions of ungovernability and political catastrophe, Sanguinetti negotiated the most stable coalition of the post-dictatorial era with the rival Blancos. He subsequently won approval of a significant social security reform and the constitutional reforms described above.

With a population growth rate slower than that of the United States, and an extremely low worker to pensioner ratio of 1:1, Uruguay was facing a crisis of its social security system in the late 1980s.[7] In 1989, a constitutional regulation, approved by a popular referendum against the wishes of the government, established an automatic pension increase in accordance with workers' base salaries. As a result, costs for the state multiplied five times between 1989 and 1992 (FBIS, May 26, 1992). By 1996, the state was financing a deficit in the social security administration equal to 6% of GDP (U.S. Embassy Montevideo, Country Commercial Guide, August 1997).

The support of the labor confederation and the Frente Amplio for the pensioners movement marked the beginning of a powerful anti-social security privatization coalition (Kay, 1998). When the Lacalle administration managed to get congressional approval to reform the system, including a rise in the minimum retirement age and decline in benefits, the pensioners coalition repealed those reforms in a November 1994 referendum. The following year, the Sanguinetti administration relied on its negotiated parliamentary majority to pass a partial privatization of the system. The reform created a bifurcated system of traditional pay-as-you-go public benefits, and newer individual accounts. The pensioners coalition is planning another referendum to repeal the reforms during the 1999 elections.

Political Culture

In the decades of the 1960s, Uruguayans held a widespread belief based on a half-century of extraordinary wealth generated by ranching that the country was naturally rich and that, consequently, it was legitimate to demand social benefits or a high standard of living. Traditionally in Uruguay, wealth was created in the countryside and transferred to the cities. The 50% of the population living in Montevideo did not have a clear notion of the origin of the resources that permitted the generous social policies of the Batllista welfare state and an acceptable standard of living.

When the economic crisis of the 1950s broke the foundations of the welfare state, the tendency of the society, encouraged by the political elite itself, was to blame one or another sector of the political class for corrupt or inefficient behavior, and therefore causing the economic crisis experienced by the country. In this context, the economic crisis acted as a powerful factor of delegitimation of the democratic regime and its political class, facilitating behavior disloyal to the political system and conspiratorial adventures of the military and guerrillas alike. The result was a military coup in 1973.

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[7] Compare the worker to pensioner ratios of Argentina (1.6:1), Chile (1.8:1) and the United States (2.5:1). (Carmelo Mesa-Lago, "Cradle to grave crisis," *Hemisfile* March 1992).

After a decade of military rule, perceptions had changed, and people no longer took democratic rule for granted. Political leaders, Lacalle in particular, began to articulate the real scarcity of resources and necessity of austerity and structural change in order to revitalize the economy. Uruguayans became almost resigned to a slowly growing economy and tended to look back with nostalgia on the glory days of the pre-1955 era.

Difficulties in generating social consensus for reform were exacerbated by perceptions of acquired rights fueled by the half-century of a welfare state which provided generous pension, education, and health benefits; perceptions of the state as employer of last resort; and the continuation of a patronage system of distributing benefits to political supporters. Uruguayan society looks to the state as the solution to social and economic problems, not as the villain.

The result is a strong resistance to change, as expressed by Ignacio de Posadas, Minister of Economy during the Lacalle administration: "The basic problem involves an issue that I consider to be the root of the problem: namely a strong cultural vein in Uruguay that resists living in the reality lying ahead, and continues sticking to an idealized past, believing that it can return to the past, and especially that the government can make the nation return to the past, which is absolutely impossible." (FBIS, 4 Nov 1994, 45).

President Lacalle cited the "very important conservative slant" of the country, as well, in explaining his failure to achieve major reforms of state enterprises, civil service labor code, and the social security system. He, however, attributed the resistance to change not only to a nostalgia for a happy past, but also to a society that "is relatively satisfied with its situation," in contrast to the major fall experienced by Argentina, for example (FBIS, 4 Nov 1994, 45).

Do polls bear out this view of Uruguayans preferring the status quo of a strong state role in the economy? Public opinion polls taken between 1988 and 1992 show a stable public opinion favoring a continued state role in the economy, with 13% favoring a private sector economy without state intervention, 18% favoring private economy with state intervention, 38% favoring a mixed economy, and 20% favoring a socialized economy (Equipos Consultores 1992).

On the issue of privatization of state enterprises in particular, a majority of respondents cited a need to make some changes in the enterprises, but only 13% wanted them completely privatized in 1992. On the other hand, a slight shift in opinion occurred between 1991 and 1992 so that by the latter date, a small plurality preferred mixed enterprises to totally public ones. Likewise, a majority favored demonopolizing state enterprises, so that private companies could compete with state companies in those sectors (Equipos Consultores 1992). These results indicate a desire for improved services, but skepticism that private capital will work in the interests of the public, and a continued faith that the state would.

The opposition to privatization of state enterprises was rooted in three major fears: that costs of services would go up, unemployment would rise, and foreign capital would dominate. These negative expectations appeared to outweigh the positive expectations of improved services and higher salaries for the workers who retained their positions. A larger interpretation of the surveys suggests that Uruguayans feared that the national patrimony would be reduced if public enterprises were sold, although this was attenuated somewhat when respondents were asked if they would favor partial or total privatization if the proceeds were spent in certain ways. In particular, majorities supported at least partial sales of state enterprises if the revenues were to be spent on public health, education, and housing, while a plurality favored privatization if proceeds were directed to the pension fund (Equipos Consultores 1992).

The Venezuelan Experience

The Venezuelan approach to economic liberalization and restructuring has been a stop and go one. The pattern began in earnest with the radical reform program introduced by Carlos Andres Perez in 1989, followed by its collapse in 1992-93. He did accomplish the privatization of a majority of the telephone company and a national airline in 1991, however. The government of Rafael Caldera (1994-1999) resorted to the interventionist measures of the past to control a deteriorating economic situation, rolling back some of the reforms of the Perez period and stalling others.

After two years, Caldera became a reluctant reformer with a new IMF austerity package called Agenda Venezuela. He boldly opened up oil exploration and production to private capital for the first time since oil nationalization in 1976, followed by the privatization of the rest of the telephone company, the state-owned steel company, and many of the banks that had been nationalized during the 1994 banking failure. Nevertheless, a planned privatization of the aluminum sector failed twice in 1998, and the planned privatization of electricity generation since 1992 failed to get off the ground due to Congress' unwillingness to approve a regulatory framework acceptable to investors.

Institutional Characteristics

In Venezuela, the potential veto players are the political parties and the labor unions tied to them, facilitated by institutions giving the parties preeminence in political life, the presidency preeminence over the legislature, and government-sanctioned labor and business associations representation in government decision-making bodies.

The Venezuelan democratic system since 1958 has been characterized first and foremost by an extraordinary party control over the political and associational life of the nation. Centralized party control was reinforced by party slate proportional representation electoral rules, party *cupulas* that control nominations and party decision-making, and party penetration of the labor unions, professional associations, and university governance. The result was a system in which representatives were accountable to the party rather than the voters, a small clique could prevent new generations of leadership from forming, and access to government resources and patronage was essential to maintaining party support.

The multiparty system at the emergence of democracy in 1958 gave way to a two-party dominant system in which AD and COPEI alternated in office until 1989. At that time, a progressive decline in the role of the "status quo" parties, as AD and COPEI are known in Venezuela, in controlling the presidential office began. The election of Carlos Andres Perez in 1989 was the first time AD repeated in office, but this time Perez acted as a virtual "outsider" from his own party, having been nominated by a party primary rather than chosen by the *cupula* and governing without consultation of the party elders. Rafael Caldera, a founder of COPEI, deserted his party when it refused to nominate him in 1993; Caldera subsequently won the elections with his new party, Convergencia. In 1998, an unprecedented situation emerged in which COPEI declined to nominate its own candidate and AD's candidate was running sixth in the polls three months before the election. Association with the status quo parties became a severe liability in the voters' minds, evidenced in the polls. The top five candidates were all independents, with the frontrunner a former coup leader.

Electoral reforms to allow for some directly-elected representatives, plus direct election of governors and mayors since 1989, have begun to erode the centralized control of the two major political parties. Voter alienation put the nail in the coffin of the so-called Punto Fijo system characterized by explicit and tacit pact-making between AD and COPEI. In a realigned multi-party system, presidents could no longer count on a majority in Congress. As Geddes noted, while "outsiders" may be more motivated to carry out policy change, including privatization, their position as a minority government decreases their capacity to carry out their decisions.

In addition to the party-mediated politics and pact-making, however, Venezuelan politics have also been characterized by a neocorporatist style of participation for state-sanctioned socioeconomic actors in policymaking. The governing parties created important stakes in the system for interest groups, as representatives of business and labor sat on numerous government commissions and boards governing state enterprises, though often with more symbolic than substantive influence.

The Privatization Process

Venezuela came quite late to the neoliberal bandwagon, cushioned by cyclic oil revenues that allowed the country to deny the structural problems of its oil-dependent and overly protected economy. By the 1989 inauguration of Carlos Andres Perez for his second time in office, the situation could no longer be ignored. Perez inherited a fiscal deficit equal to 7.7% of GDP, the largest current account deficit in history, capital flight of $30-80 billion, and a poverty rate of over 53%.

Perez shocked the nation with his announcement of a radical reform package of neoliberal restructuring called the *Gran Viraje.* After a rocky start with the *Caracazo* riots one month into his administration, the government successfully liberalized trade, exchange rates, foreign investment regulations, interest rates, and prices. It eliminated fiscal and trade deficits and achieved nearly 10% growth in 1990. It announced plans to privatize 86 of the 360 state-owned companies, and succeeded with 2 large banks, 51% of the telephone company, and 60% of the national airline in 1991. The latter two did not require special legislation to privatize. The administration also began to open up the energy sector by inviting private investment to develop marginal oilfields, and joint ventures in the petrochemical and gas industries.

But although successful with the short-term stabilization measures that could be carried out by executive action, the Perez administration failed to generate popular support and parliamentary approval for his proposals for far-reaching structural adjustment and microeconomic reform: tax reform, financial reform, sustained privatization, social security and pension fund reform, and labor legislation changes. Instead, neoliberal restructuring was perceived by a highly organized political system as a hostile attack by an isolated executive and his technocratic team, who made little effort and little headway in selling structural adjustment policies politically, even to the president's own party (McCoy and Smith, 1995).

A middle class and working class sliding into poverty did not perceive any real benefits from the high growth rates, and the population increasingly blamed the government's inability to control inflation, provide basic services and improve the standard of living on rent-seeking bureaucrats long reaping rewards in exchange for favoritism to specific groups. The window of opportunity for continued reforms, including privatization, closed in 1992 as popular disillusionment fed two military coup attempts, and a vociferous attack by political and economic opponents of the president ultimately resulted in his removal from office on charges of corruption in May 1993.

No new efforts at privatization occurred from 1992 to 1996, first because of the political uncertainty surrounding the coup attempts and interim government, and second because of the election of Rafael Caldera on the promise of reversing the Gran Viraje. The ideological shift was clear. Faced with even more severe governability problems than Perez, with a minority party in Congress and a severe banking failure upon taking office, Caldera declared a state of economic emergency that gave him the power to govern by decree to restore economic stability. He used his executive powers to impose price and exchange controls, and proceeded to veer between interventionist state measures and a return to moderately orthodox stabilization programs over the next two years.

By mid-1996, it became clear that the non-orthodox approach was not working, and the government announced a new IMF-sanctioned program called Agenda Venezuela. The stalled privatization program took off again, with the rest of the telephone company auctioned off to private shareholders, a number of banks that had been taken over by the state during the 1994 crisis were sold, and the sacrosanct oil sector opened to private capital in exploration and production (approved the previous year). Further privatizations were planned for shipyards, hotels, cement, electricity, and the debt-ridden state-owned steel and aluminum complexes.

The state-owned steel and aluminum companies were located in the state of Bolivar, the site of active independent union challenges to the party-dominated labor confederation, CTV in the 1970s and 1980s. The political party that rose out of that independent labor movement, the Causa Radical, elected its candidate governor to the state in 1989, and gave him strong backing in the 1993 presidential elections. Unions in the steel and aluminum companies had actively feared and resisted privatization since 1990, as the Perez administration began to restructure the companies to try to eliminate their debts and prepare them for privatization. In 1997, the steel company overcame union opposition by requiring the purchaser to keep three-fourths of the employees on the payroll for at least one year and 20% of the company to be be reserved for workers (as was the case with Viasa). It was sold in December of that year.

Aluminum and electricity privatizations, on the other hand, were delayed. Although Congress approved the privatization of the aluminum company (with the opposition of the Causa R), it also added restrictions that apparently scared off the bidders (FBIS-LAT-98-080, March 21, 1998). The attempted auction failed twice in 1998 as bidders backed out in reaction to the high minimum bid price, the strength of the unions and a labor strike in March, higher than expected electricity rates, and high operating costs (EIU, 2nd quarter 1998 Forecast, p. 17). Ironically, a poll conducted among workers a few days before the second failed attempt showed a rapid learning process and shift in attitude. The poll indicated that by June 1998, three-fourths of workers believed that privatization would have a positive impact, and that without privatization, there would be a significant decrease in personnel.(FBIS-LAT-98-179, June 28, 1998). Workers foresaw significant lay-offs in the debt-ridden company as an inevitability if private investors were not found to provide an infusion of cash.

Several electric generation plants planned for privatization have been put on hold awaiting a new regulatory framework from Congress since 1993. Investors fear that without a clear framework, rate hikes will be politicized, as they have been throughout the Caldera administration, with electricity rate freezes used for political purposes, the most recent one in April 1998, leading up to the elections.

Throughout the stop-and-go cycles of privatization attempts in Venezuela, then, the executive has had to deal with the potential veto power of parties in Congress when legislative approval was needed, and of unions when labor peace was required. Even when Congressional approval came, the conditions it attached, or the regulatory frameworks it failed to provide, scared off potential investors and delayed privatization. Union acquiescence was accomplished in the successful privatizations by guaranteeing jobs, compensation, and/or shares of the company as part of the privatization stipulations. However, ideological factors meant that the motivation to privatize differed greatly between the Perez administration, with a great deal of zeal, and the Caldera administration, the reluctant reformers.

<u>Political culture</u>

Venezuelan political culture is defined in large part by the rentier state, which has maintained social peace and political stability by distributing externally-derived rents from oil profits, rather than relying on domestic taxation. In this way, the state has ameliorated social conflict and gained legitimacy from the hopes for social mobility and improved standards of living provided by oil wealth. The rentier state and the practice of protection, subsidies and price controls from 1960-1980 also produced a culture of entitlement — a widely-held belief that oil is the national patrimony, that the country is rich, and that each individual deserves their fair share. When oil prices declined and debt grew in the 1980s, the population began to blame their deteriorating living standards on corrupt elites siphoning off the national patrimony, rather than the need to restructure their economy. Politicians became scapegoats and dissatisfaction with political parties and the governments they ran grew.

Despite evidence of the unsustainability of the paternalistic state, polls indicate thatVenezuelan attitudes toward the roles of the state and the market are slow to change. In a 1971 public opinion poll, respondents across all socioeconomic lines answered that the most important job of a national government was to provide work for all citizens. A study designed to measure attitudes toward the private sector and "statism" found that respondents overwhelmingly preferred the latter (Templeton, 1995, 104).

On the eve of Perez' inauguration, in January 1989, the public seemed divided over the relative merits of the public and private sectors, giving the president room for maneuver. Venezuelans across the board were generally supportive of foreign investment as a means of economic development, and believed that Venezuelans would benefit more than foreigners. Thus, respondents appeared open to the possibilities of private enterprise and foreign investment. Three years later, however, after inflation, deterioration of services and employment, and little perceived benefits of the spectacular economic growth, 75% of respondents declared they disagreed with Perez' policies. (Myers, 1995).

In another 1992 poll, respondents were asked to position themselves as pro- or anti-market on a range of issues. Despite criticisms of the government for failing to deliver, the majority was in favor of state ownership (61%), subsidies (70%) and controls of prices, foreign exchange, foreign investment and imports. With the exception of foreign investment controls, however, these views varied by income level with the lowest levels holding the most anti-market views (Templeton, 1995, 104). All of these polls indicate that in 1989, the Perez administration may have the opportunity to sell the population on the need for reform, but that it failed to do so. The consequent economic and political instability over the next three years led the population back to its traditional statist attitudes.

By 1996, after several years of unsuccessful state intervention in the economy, a poll showed the complex opinions of a society experiencing both easy wealth and a very skewed income distribution. In this case, they acknowledged the convenience of privatization, but at the same time did not want the state to lose control over the economy. They shared the general idea that competition was good, but also wanted better wealth distribution (FBIS-LAT-96-097, 6 May 1996).

Conclusions

Geddes provided a simple and tempting explanation of the intent to privatize in her argument that partisan control over public employment determines the motivation for political leaders to sell state enterprises, and that control over legislatures determines the capacity to carry out the decisions. Yet in the cases of Uruguay and Venezuela, with histories of bipartisan control over public employment, this factor doesn't explain either the varying intent or the capacity to privatize. Instead, I've argued that ideology and economic circumstances go further in explaining intent, and institutional context and veto opportunities for players, along with political culture, better explains the limited capacity to implement privatization decisions.

Intent. In the Uruguayan practice known as "coparticipation", positions on the boards of state enterprises are distributed between the major parties in an effort to share the benefits of state resources and patronage. Therefore, according to Geddes' logic, all parties should have an interest in maintaining state enterprises. In fact, all of the parties have been reluctant to privatize, but when the executives have cajoled a parliamentary majority of the two traditional parties into supporting limited reform of the state, it has been the leftist Frente Amplio, along with the labor unions, that has most vociferously opposed it.

In Venezuela, about 360 public entities were created during the democratic period (Crisp, Levine, Rey 1995). Although both parties who have held the executive branch created these entities and continued to enjoy the access to public employment, Accion Democratica created by far the most, by virtue of being in office for more periods. Yet it was an AD president that tried to introduce the most radical privatization program. In addition, a practice of incorporating labor and business organizations in the directorships of the state enterprises has given these interest groups an explicit role and point of access to government decision-making through the executive branch, which also drafts most legislation in Venezuela. Not surprisingly, resistance to privatization in Venezuela has come from both the political parties and the labor unions.

If the identity of partisan control over public sector hiring does not explain the differential motivations and efforts of various administrations regarding privatization, ideology and economic circumstances seem to go further in doing so. In Venezuela, the second administration of Carlos Andres Perez (1989-93) was the exact reversal of the first (1974-78), during which he nationalized oil and iron ore and created literally half of the total public entities established in the last forty years. By his second administration, Perez had actively learned from the changed international environment and consequences of moving from oil boom to bust, and changed his personal orientation towards the political economy of the country. He came into office not as a nationalist/populist, but as a reformed market promoter, determined to restructure the Venezuelan economy. His shock program did in fact shock the nation, and the revulsion to it eventually led to his ouster on charges of misappropriation of public funds in 1993.

Rafael Caldera, on the other hand, entered his second term in office (1994-99) little changed from his first term (1968-73), yet with the economic situation even more stark. He was a strong believer in a social market approach and resorted to renewed price and exchange controls and nationalization of failed banks during the worst financial crisis of the country's recent history. It was only after he was pressed by the IMF and the obvious failure of his initial interventionist strategy, that he adopted a market-oriented approach in 1996 and embraced the concept of privatization, though still with limited success.

In Uruguay, the first term of Julio Maria Sanguinetti was devoted to social peace, national reconciliation, and wage recuperation. Economic restructuring to privatize and demonopolize government enterprises were part of the strategy of improving living standards, but the economic reforms were secondary to the major goals of the administration. The election of the more conservative Luis Alberto Lacalle in 1989 brought in a stronger ideological commitment to privatize and demonopolize the public sector, but with very limited success. Finally, the second term of Sanguinetti (1995-99) resulted in a more determined effort by the administration to achieve privatization.

Capacity. In the Venezuelan case, the institutional context of a party-dominated system and a secondary neocorporatist policymaking style provided veto opportunities to both politicla parties and interest groups. Tthe Perez administration (1989-93) attempts at privatization for the most part failed, even though his party carried a near majority in the Congress. The Caldera administration (1994-99) led a minority government, yet received congressional approval when he finally brought forward a privatization program. Part of the explanation lies in that Perez personally, did not enjoy his party's support and he governed almost in isolation of the party in a technocratic executive cocoon. Therefore, despite high party discipline of the governing party, Perez could not mobilize his party to support his program, and it in fact acted as a veto player against his programs. Caldera, on the other hand, chose not to continue the economic restructuring program initially, but when he did in 1996, he was able to negotiate coalitions in Congress to support it, though in a qualified manner. Both administrations had to overcome union resistance.

In the Uruguayan case, three institutional components provided important veto opportunities to players: the party and electoral rules, the practice of coparticipation, and the referendum. In no instance since the restoration of democracy in 1985 has the executive enjoyed a parliamentary majority, yet two administrations were able to get legislative approval of important privatization objectives. Lacalle was able to get two wide-ranging laws approved on demonopolization and privatization by cobbling together ad hoc coalitions. It was a popular referendum led by the leftist party and labor unions that subsequently derailed the first planned privatization -- the telephone company. The second Sanguinetti administration negotiated a much more stable coalition government with the rival traditional party, and subsequently achieved an important reform of the social security system, yet was challenged by popular referendums as well.

In Uruguay, then, the veto player opportunities arose from the institutional context as the left has learned how to use the plebiscite to advance its causes when its minority status in the legislative arena fails to do so. Party participation in state enterprise boards gives political parties another route to influence (and block) public policy.

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In conclusion, what does this analysis portend for the future of economic restructuring in these two societies? Uruguay has remained faithful to its parliamentary negotiating style of decision-making, becoming a gradual reformer in the Uruguayan model of reforming the state without a wholesale shift of its roles to the private sector. The reforms are incremental, but because they are built on consensus and compromise, they will have the greater likelihood of sustainability and popular support.

Venezuela has been undergoing a wrenching process of political transformation of its democratic system, from a highly centralized and party-dominated system, to a more decentralized and multi-faceted one. The transformation itself is messy, and the outcome unclear. The desire for change among Venezuelans as they face the 1998 elections is palpable — the question is whether that change will be radical or moderate. The approach to economic restructuring has been wrapped up in this underlying political transformation, and will continue to be so through the 1998 elections.

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