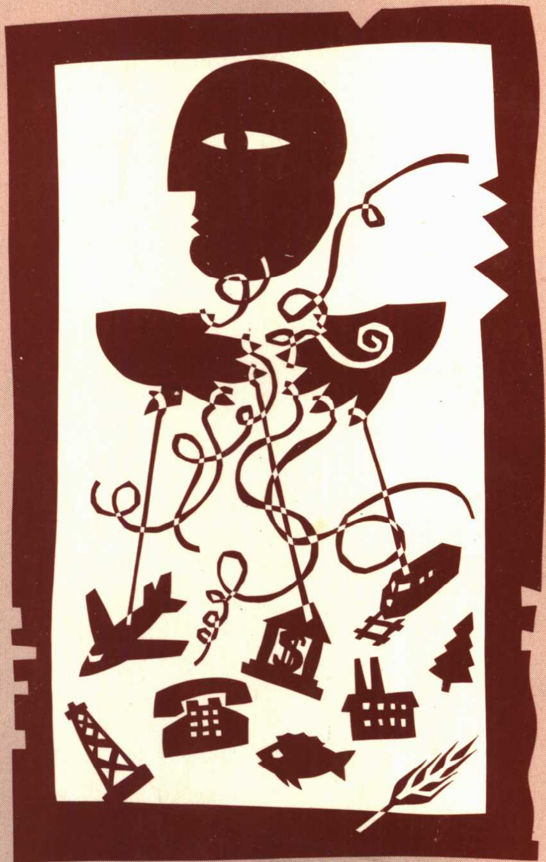
PRIVATIZATION OF PUBLIC ENTERPRISES IN LATIN AMERICA



Edited by William Glade

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PRIVATIZATION OF PUBLIC ENTERPRISES IN LATIN AMERICA

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List of Abbreviations

AFP	Administradora de Fondos de Pensiones
AHMSA	Altos Hornos de México
AID	Agency for International Development (United States)
BANADE	Banco Nacional de Desarrollo (Argentina)
BANCOMEXT	Banco Nacional de Comercio Exterior (Mexico)
BANJIDAL	Banco Nacional de Crédito Ejidal (Mexico)
BNDES	Banco Nacional de Desenvolvimento Econômico e Social (Brazil)
CAP	Compañía de Acero del Pacífico (Chile)
CBC	Companhia Brasileira de Cobre (Brazil)
CCB	Companhia Celulose da Bahia (Brazil)
CCE	Consejo Coordinador Empresarial (Mexico)
CCT	Compañía Chilena Tabacos (Chile)
CDE	Corporación Dominicana de Electricidad (Dominican Republic)
CEA	Consejo Estatal del Azúcar (Dominican Republic)

CED	Centro de Estudios para el Desarrollo (Chile)
CEIM	Compañía Exportadora Importadora de Maíz (Mexico)
CELPAG	Companhia Guatapará de Papel e Celulose (Brazil)
CFE	Comisión Federal de Electricidad (Mexico)
CGT	Confederación General del Trabajo (Argentina)
CHILECTRA	Compañía Chilena de Electricidad (Chile)
CHILGENER	Compañía Chilena de Generación Eléctrica (Chile)
CHILQUINTA	Compañía Chilena de Electricidad de la Quinta Región (Chile)
COBRA	Computadores e Sistemas Brasileiros, S.A. (Brazil)
CODELCO	Corporación Nacional del Cobre de Chile (Chile)
CONASUPO	Compañía Nacional de Subsistencias Populares (Mexico)
CORDE	Corporación Dominicana de Empresas Estatales (Dominican Republic)
CORFO	Corporación de Fomento de la Producción (Chile)
COSINOR	Companhia Siderúrgica de Nordeste (Brazil)
CTC	Compañía de Teléfonos de Chile (Chile)
CVRD	Companhia Vale do Rio Doce (Brazil)
DEP	Holding Company for Enterprises (Argentina)
ECLA	Economic Commission for Latin America (United Nations)
ECOM	Empresa Chilena de Computación e Informática (Chile)
ELECTROBRAS	Centrais Eléctricas Brasileiras (Brazil)
ELMA	Empresa Línea Marítimas Argentinas (Argentina)
EMBRAER	Empresa Brasileira Aeronáutica (Brazil)
EMBRATEL	Empresa Brasileira de Telecomunicações (Brazil)
EMEC	Empresa Eléctrica de Atacama (Chile)
EMEL	Empresa Electricidad Limari (Chile)
EMELAT	Empresa Eléctrica de Coquimbo (Chile)
ENAEX	Empresa Nacional de Explosivos (Chile)
ENAP	Empresa Nacional de Petróleo (Chile)
ENDESA	Empresa Nacional de Electricidad (Chile)
ENTEL	Empresa Nacional de Telecomunicaciones (Argentina)

FFCC	Ferrocarriles (Mexico)
FLACSO	Facultad Latinoamericana de Ciencias Sociales (Chile)
GDP	Gross domestic product
GNP	Gross national product
IADB	Inter-American Development Bank
IANSA	Industria Azucarera Nacional (Chile)
IMF	International Monetary Fund
ISCOTT	Iron and Steel Company of Trinidad and Tobago
MAFERSA	Material Ferroviaria, S.A. (Brazil)
NAFINSA	Nacional Financiera (Mexico)
OPEC	Organization of Petroleum Exporting Countries
PEMEX	Petróleos Mexicanos (Mexico)
PETROBRAS	Petróleo Brasileiro (Brazil)
PIRE	Programa Immediato de Reconstrucción Económica (Mexico)
PSBR	Public sector borrowing requirement
SAS	Scandinavian Airlines
SEGBA	Servicios Eléctricos del Gran Buenos Aires (Argentina)
SIBRA	Eletrosiderúrgica Brasileira (Brazil)
SOQUIMICH	Sociedad Química y Minera de Chile (Chile)
TNC	Transnational corporation
USIMEC	Usiminas Mecânica (Brazil)
YPF	Yacimientos Petrolíferos Fiscales (Argentina)

Preface

Privatization, or the turning over of some government enterprises and activities to private investors, has become a key part of Latin America's drive for modernization and revived growth in the last decade of the twentieth century. Latin American governments have come to realize that they have had too large a role in the production of goods and services.

When governments try to do what the private sector can do as well or better, the state's managerial and financial resources are diverted from essential services that only the state can provide equitably to all its citizens—education, public health, and roads, among others. As Mexico's President Carlos Salinas de Gortari has pointed out, privatization is thus not necessarily a conservative's dream of shrunken government, but rather a neoliberal conception of government concentrating on what only it can do, thus doing it better. As William Glade persuasively argues in his conclusion to this volume, privatization is most successful as part of a broad program of structural reform to infuse the whole economy with competitive market forces—a set of reforms that much of Latin America now sees as a key for its economic revival and long-term growth.

With the exception of Chile, Latin American governments began the privatization process slowly and selectively, with relatively minor enterprises targeted for transfer to the private sector. In recent years, however, these governments have become increasingly committed to accelerating and broadening privatization, both as a matter of preference and as a response to fiscal realities. Labor conflicts in state-owned enterprises, inability to gain more substantial relief from the external debt service burden, the need to reduce inflationary government deficits by eliminating subsidies to unprofitable state-owned enterprises, the need to generate significant new resources to attack the massive "social deficit" resulting from nearly a decade of economic crisis and austerity budgets, and the huge capital investment needs of even profitable state-owned enterprises that are urgently in need of technological modernization—all played a part in the intensification of government efforts to privatize. Opinion polls showing broad public support for the policy—in Mexico, even for reprivatization of the banking system—undoubtedly encouraged governments to proceed.

Accordingly, the terms of the debate over privatization in Latin America have shifted dramatically. Increasingly, the issue is no longer *whether* to privatize, or even *what* to privatize, but *when* and on *what terms*—selling price, foreign or domestic buyers, buyers' commitments to invest in modernization, and so forth. Nevertheless, important questions remain unanswered about the feasibility of large-scale privatization programs under prevailing international market conditions and about their effects on income distribution and sectoral concentration of capital in the long term.

Privatization of state-owned enterprises is an experiment-in-progress on a global scale, and only through systematic comparative analysis can the strengths, limitations, and long-term consequences of this policy be fully understood. In planning the May 1988 conference from which this book resulted, the Center for U.S.–Mexican Studies and the Institute of the Americas thus felt a need to examine a wide range of experiences in Latin America as well as in Western Europe. This volume takes a reflective, in-depth look at early experiences with privatization in six Latin American countries. The lessons drawn by the Latin American authors of these case studies and editor William Glade constitute a valuable guide to the opportunities and pitfalls in Latin America's next phase of privatization and structural reform processes, now gaining increased momentum and political support throughout Latin America.

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WILLIAM GLADE CHAPTER 1

The Contexts of Privatization

It is ironic that most of the privatization around the globe is being managed by the public sector. Seldom has it been contemplated that the privatization process itself might be privatized—that private initiative might hunt out and bid for potentially profitable investment opportunities within the ample confines of the state sector. Instead, the initiative in starting such programs, the selection of what is to be privatized, and much of the follow-up come from official agencies, aided in some instances by government-sponsored contractors and consultants.

Privatization holds special appeal in the United States, and it is the U.S. government's Agency for International Development (AID) and its client organizations that have become the policy's standard-bearers in third world countries—joined now, at a discreet distance, by the World Bank, the International Monetary Fund (IMF), and, more remotely, the Inter-American Development Bank. Like a school of fish, these national and multinational public sector institutions, and the dependent private organizations they have spawned, roam the world. The objects of their search are beleaguered governments that might prove susceptible to the financial inducements they offer for governmentally engineered change.

Privatization strategies have thus far been driven chiefly by other concerns of public policy. Foremost among these are the twin needs born of balance-of-payments difficulties: to consolidate the financial position of the public sector and to improve competitiveness of the economy. The logic of privatization stems from a larger set of policies that promote structural adjustments to give less-developed and newly industrialized economies a better shot at making their way in the world economy. Privatization looks particularly attractive in the light of today's protracted crisis brought on by excessive external debt. Governments have also felt the need to get the parastatal sector in hand so that by lowering public sector borrowing they may arrest inflation, irrespective of the level of external indebtedness. More generally, the process responds to new policy imperatives originating in the restructuring of production patterns that has taken place in the world economy over the past several years.

The Setting for Privatization

There was an isolated round of privatization in the 1960s, when Argentina returned the faltering surface transport system of metropolitan Buenos Aires to private ownership. During the same period, two state petroleum companies, Petróleos Mexicanos (PEMEX) in Mexico and the Yacimientos Petrolíferos Fiscales (YPF) in Argentina, allowed private drilling contractors to operate in the petroleum industry. Nevertheless, the movement toward privatization did not really take hold until the 1970s. In fact, the policy previously prevailing in Latin America had been to increase state control. There, the panoply of regulation was extended and the number and size of state-owned enterprises grew steadily from the 1930s through the 1970s.

The initial impetus for spreading statism was the need to cope with the Great Depression, when capitalism's future looked bleak in many parts of the world. By the close of the 1930s, the dislocations of World War II occasioned the continuation and elaboration of state interventionism, adding weight to the already visible impulse to use state power to fashion a more industrialized economy and internalize the growth dynamic. Neither of the growth stimuli that had propelled Latin America forward since the nineteenth century—export expansion and foreign investment—seemed a reliable prop for economic development. Even in the most advanced economies, Keynesianism seemed to promise a permanently enlarged economic role for the state where social democratic policies had not already carried the entrepreneurial state still farther afield.

In the aftermath of the war, the pioneering policy theory of the United Nations Economic Commission for Latin America (ECLA) accorded the state additional economic functions, at a time when development theory was still in its infancy and there were no well-established rivals to ECLA's policy prescriptions. To be sure, development advisers from the United States and the World Bank were more market oriented in their recommendations. But neither of these alternative sources had a more elaborated and venerable doctrine to offer—nor, for that matter, any long track record in underdeveloped areas on which to argue a claim of superiority. Taking the lead among its sister regional agencies, ECLA seized the high ground in the theoretical dispute and parlayed its institutional lead into a preeminent position as the formulator of development strategies from the perspective of the underdeveloped countries themselves. In an era of burgeoning nationalism, this particular form of product differentiation proved extraordinarily successful in securing buyer attachment on the part of public officials who were shopping for policies with which to chart the future.

While ECLA was coming into its own as the policy mentor for a region, and even before, expansion of public sector involvement in industrial, financial, and commercial undertakings was creating an articulate and well-placed segment of society. This "state bourgeoisie" found in ECLA's policy package a rationale for its own growth and sense of public mission. What is more, surrounding the proliferating parastatal companies were groups that had a vested interest in their operations: organized workers on payrolls that often paid little heed to redundancy, industrial and household consumers of the parastatals' frequently subsidized output (including borrowers with access to concessionary credit dispensed by government-owned banks), and supplier firms who profited handsomely from what, in effect, were captive markets. These were later joined by the partners in joint ventures with the state, who benefited from special fiscal treatment and other favors, and by the politically influential promoters of business ventures who could secure bailouts from state financial intermediaries when their investments, often financed with state credits or state-guaranteed loans, turned sour. Foreign-owned companies also profited from the protection accorded their manufactures during this period.

Considering the multitude of factors that supported the prevailing interventionist regime, it is not surprising that by the 1970s Latin America had become one of the regions most characterized by state economic guidance. Hence, when the Organization of Petroleum Exporting Countries (OPEC) oil shocks and accumulating petrodollars impelled bankers to look abroad more vigorously for clients, Latin American government agencies were able to fund a mountain of seemingly plausible investment projects, while the parastatals were lining up at the loan window to cash in on their perceived status as preferred borrowers. The ballooning of the foreign debt was, therefore, largely attributable to the region's development strategy.

Compounding the problem was the fact that the parastatal sector had, in most cases, outrun the existing capacity for legislative or executive branch oversight. Exempt from the discipline of the market, the parastatals were often exempt from the discipline of public authority as well, although they could count on sovereign authority to back their creditworthiness in the international capital market.

While this scenario of state-led growth was unfolding in the 1970s, questions surfaced about its viability for the future. The Mexican business community, not noted for its fondness for economic liberalism, first evinced a mounting unease over the untrammeled expansion of the state during the Echeverría administration (1970–1976). Contemporaneously in Brazil, no less statist in its policy style than Mexico, Congress made a first stab at imposing a surveillance scheme on the parastatals. There, too, the business community expressed its first serious doubts about the extent of "statization" in the economy.

It was in Chile and Argentina, however, that these concerns were first translated into policy. In Chile, privatization simply could not be dodged when the government that in 1973 replaced the statist Allende regime faced an immediate need to revive the production system. The situation closely resembled the circumstances that drove the government of the Soviet Union toward its New Economic Policy to repair the damage of wartime communism.

Three years later, the Argentine military, in the characteristically irresolute way economic policy has been implemented in that country, also turned to privatization. They began with a divestiture of once-private firms that the state had acquired through receivership operations.[1]

A Preview of Findings

What lessons can be derived from the varied experiences of the six countries selected for study? A full account is given in the concluding chapter of this volume, but a quick look ahead at the outset may provide a useful orientation. The first lesson concerns the critical role of policy sequencing.

Nothing serves more effectively as a prelude to privatization than establishing a general policy framework to correct the larger distortions of resource allocation. Fiscal restraint and cautious monetary policy to stabilize the price system seem to serve as the best point of departure, for with these the government begins to level the playing field. These actions create a decision-making environment in which all managers, whether in the private or parastatal sector, can begin to make systematic plans. Bringing the exchange rate into a realistic alignment is no less essential for its bearing on the whole structure of relative prices.

Two further steps are required to pave the way for privatization if one hopes to strengthen allocational efficiency in the economy. The first is to introduce a trade liberalization that reduces the distortions born of trade policy and pressures all firms producing traded goods—whether the firms are public or private—to make more efficient use of the resources they deploy. The second is to scale down, and eventually eliminate, subsidies to the parastatal sector, an objective that fiscal restraint should set in motion. This, too, is necessary to establish the price structure as a meaningful guide to resource allocation and to force parastatal managers to behave like managers in the private sector. These changes do not necessarily require deregulation. In some fields, where contestable markets are not present, as in the so-called natural monopolies, new regulation may have to be devised and imposed as a surrogate for the market.

Privatization, or reprivatization, need not await the completion of these reforms, provided that their implementation is sufficiently certain to influence expectations. But in general, the larger the enterprise to be privatized, the more judgments are likely to be colored—in the absence of clear market-favoring policies and policy expectations—by opportunities for rent seeking or by uncertainty. Further, spreading exposure to the discipline of the market is likely to curtail labor opposition to privatization when it is eventually introduced.

Although it could be argued that the foregoing measures are sufficient to induce market-constrained behavior and therefore satisfy the requirements for efficient allocation, the experience of the countries studied suggests at least two more policy desiderata. On the one hand, the process of privatization is not without cost, so institutional mechanisms that reduce transaction costs and capture the benefits of learning-by-doing are far preferable to a dispersed procedure that distributes responsibility for privatization too widely and maximizes the opportunities for institutional resistance. Vesting major responsibility in a lead institution that commands the expertise needed to manage privatization is, thus, ordinarily a crucial strategic measure. On the other hand, although privatization is normally associated with deregulation, and properly so in many instances, the Latin American experience also suggests the importance of re-regulating. New regulations may be required to strengthen the operation of the capital market, to forestall the emergence of undue concentrations of economic power in the private sector, and to install an appropriate operating framework for public utility industries.

A Preview of Country Experiences

Of the countries covered in this collection, Chile came first to privatization. It did so not so much for ideological reasons as from a practical necessity to use reprivatization to revive the economy after the debacle of the early 1970s. It also had a longer-term objective: to revamp an economy that had come to be perceived as an underachiever in the postwar expansion of the global economy and a weak performer alongside more energetic economies elsewhere in Latin America. The contrast with other economies in the region was especially galling in view of Chile's long history of orderly civilian government, its favorable resource endowment, and a population that was better educated than the regional average. To be sure, the military and their technocratic advisers draped an ideological mantle over the ensemble of policies—trade liberalization, fiscal restraint, and decontrol of prices. This made the enterprise respectable to some, but anathema to others. Yet the ideological trappings of market economics and the neoclassical paradigm had, after all, been around a very long time without attracting many followers. The interesting question, therefore, is why Chile should finally embrace privatization when the policy tradition of the country had been so different for decades. A case can be made that this development was much less attributable to political motivation than to the suspension of routine politics that allowed technocratic considerations to come to the fore.

The Chilean case is interesting for other reasons as well. As the earliest of the privatization experiments—barring some earlier random episodes such as the hugely successful privatization of urban transport in Buenos Aires during the 1960s—the Chilean experience is the one that is not debt driven. Since the inception of the program predated the problems of Latin America in the 1980s, when so many policy objectives were swamped by the imperatives of debt management, it reveals with particular clarity the complementarity of privatization with an array of other policy goals. For the same reason, as a pioneering venture that has now gone on for a decade and a half, it provides a remarkably instructive picture of the process of learning-by-doing by which economists set such store these days (faith in theoretical constructs having long since been fine tuned away). The privatization strategies now in use differ considerably from those employed at the outset of the free-market experiment, for they have been consciously modified to deal with problems encountered in the program's earlier years.