

Political Competition and Policy Adoption: Market Reforms in Latin American Public Utilities

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This article shows that political competition generates incentives that affect the pace of adoption of market reforms in the context of policy convergence. Previous work shows the effect of financial and technological pressures in promoting policy convergence and the impact of institutional constraints on shaping the pace of policymaking. Controlling for these effects, this article demonstrates the policy effects of political competition and ideological polarization even at a time when ideological policy differences seem to be fading due to policy convergence. This article studies policy adoption using duration analysis for the 18 countries of Latin America during the 1985–2000 period when most of the market reforms in public utilities were adopted.

Studies of market reforms in Latin America have typically emphasized the common financial and technological pressures that limited the ability of incumbents to impose their ideological preferences on policy adoption during the 1980s and 1990s. This article shows that, although it is true that the ideology of incumbents cannot fully explain policy adoption, political competition and the relative ideology of challengers did shape the incentives of policymakers and thus played a significant role in the adoption of market reforms. The article shows these effects on the market reforms of Latin American public utilities, which have been widely regarded as an example of policy convergence.

Market-oriented reforms in telecoms and electricity—including the privatization of assets, the liberalization of markets, and the separation of regulatory authority from operations—spread rapidly around the globe, and especially through Latin America,

during the last part of the twentieth century. In 1980 only 10% of countries had adopted market reforms in electricity and 6% in telecoms; by 1999, however, these figures had risen to 41% and 73%, respectively. By the same date, 88% of the Spanish- and Portuguese-speaking countries of Latin America—excluding noncapitalist Cuba—had adopted some market reforms in electricity, and 94% of them had done so in telecoms (Henisz, Zelner, and Guillen 2005). The rate at which market reforms in these sectors were adopted in the region stands in sharp contrast to the slow pace of their earlier nationalization, which started in the late nineteenth century and extended through the end of the 1970s.

In explaining the adoption of these policies, scholars have typically focused on external pressures, domestic economic demands, the diffusion of technocratic ideas, and the weight of institutional constraints on the capacity of decision makers. When looking at the incentives

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of policymakers, in particular, the literature has looked at partisan preferences, but has largely neglected the role of political competition in the policy process. Without denying the importance of these variables, this article explores the incentives of policymakers derived from the political competition they face. In agreement with other studies of the region, it shows that the ideology of the incumbent alone cannot explain policy adoption. But it departs from previous work by arguing that political competition plays an important role in shaping the incentives of policymakers for policy adoption. There are two main ways in which political competition affects policy adoption. First, it might threaten the political survival of the incumbent where the power differential between the ruling party and its main challenger is shrinking. Second, it creates incentives for an ideologically credible challenger to advance her/his electoral possibilities by denouncing policy adoption.

In this article, we test these arguments using data on the adoption of market reforms in Latin American public utilities. We use survival analysis to show these mechanisms at work in the adoption of public utility reforms in the 18 Spanish- and Portuguese-speaking countries of Latin America between 1985 and 2000.¹ Our findings show that the effect of political competition is stronger in electricity than in telecom and that it has a greater explanatory power for the adoption of privatization than for the establishment of regulators or market liberalization.

Public utility reforms in Latin America provide a crucial case to test the effect of political competition on policymaking. Public utilities are both capital and technologically intensive sectors, and crucial as infrastructure and public services. As a result, in the 1980s capital scarcity increased the influence of those holding rationed capital while technical complexity granted more authority to technocrats. The role of these services in infrastructure development, along with widespread underinvestment, generated a demand to increase supply and promote technological catch-up. All these conditions promoted the adoption of market reforms.

Still, the consumer base of these services includes a wide cross-section of the population, either as current consumers—who care about price and quality—or as potential consumers—who care about access—and any reform that affects, or is perceived to affect, prices is a sensitive matter. Under these circumstances, the political and institutional capacity of the incumbent becomes crucial in explaining variations in the pace of reform. However, to

date there are practically no studies that assess the effect of political competition on these reforms, despite their broad effect on the public and their potential electoral implications.

The remainder of the article is divided into six sections. The first section shows the existence of wide variation in the pace of adoption of public utility reforms in Latin America and explains it using insights from the literature on policymaking as well as our arguments about political competition. The second section presents our indicators for the explanatory variables, as well as our modeling strategy. Sections three to five present empirical results for privatization, market liberalization, and the establishment of regulators, respectively. The conclusion discusses the implications of our study for understanding public utility reform and policymaking more broadly.

Policymaking Theories and Public Utility Reform

In Latin America, the pressure for market reforms was heightened by the consequences of the debt crisis in the early 1980s, which aggravated the shortage of domestic capital and heightened fiscal deficits. The diffusion of these policies was facilitated by the common cultural and religious background of Latin American countries and by the active role of international financial institutions as a source of capital and technical advice across the region.² As publicly owned utilities suffered from underinvestment and technological delay in a context of capital scarcity, market-oriented reforms were both useful to attract investment and to generate fiscal resources through the sale of assets. Consequently, Latin America was the region with the highest proceeds from privatization during the 1990s, with 75% of the value of privatization revenue coming from utilities and infrastructure (Chong 2005, 8–9).

Yet, studies on privatization show that, despite the strong regional effect, there was still wide variation in the pace of reform across countries—and they suggest the need to look at political variables to understand this variation (Chong 2005; Chong and Lopez-de-Silanes 2004).

To explain why Latin American governments that were facing similar technological and financial pressures

¹1985 was chosen as the starting point because the divestiture of AT&T in the United States and the privatization of British Telecoms in 1984 provided strong impetus to these reforms across the world.

²Simmons and Elkins (2004) argue that cultural identity has an effect on the diffusion of economic policies. Despite differences across countries, most Latin American countries have experienced similar political dynamics in the last part of the twentieth century, from democratization to market reforms. Capital inflows also experienced a regional pattern in the 1980s and 1990s.

TABLE 1 Public Utility Reform in Latin America*

Country	Privatization Telecom (Law Approved)	Privatization Electricity (Law Approved)	Competition Electricity (Private Capital)	Competition Telecom Local	Competition Telecom Long Distance	RA Electricity	RA Telecom
Argentina	1990	1991	1991	2000	2000	1991	1990
Bolivia	1994	1994	1994	.	.	1994	1994
Brazil	1997	1995	1995	1999	1999	1996	1997
Chile	1982	1982	1982	1982	1994	1978/1985 ³	1977/1982
Colombia	1994	1994	1991	1998	1997	1994	1994
Costa Rica	.	.	1998	.	.	1996	1996
Dominican Republic	1931 ⁴	1999	1999	1990	1990	1999	1998
Ecuador	1992	2000	1998	.	.	1996	1992
El Salvador	1996	1996	1998	1996	1996	1996	1996
Guatemala	1996	1996	1996	1998	1998	1996	1996
Honduras	1995	1994	.	.	.	1994	1995
Mexico	1990	.	1992	1997	1997	1995	1995
Nicaragua	1995	1998	1997	.	.	1994	1995
Panama	1996	1997	1998	.	1996	1996	1996
Paraguay	1995	2000	1995
Peru	1993	1992	1994	1999	1999	1996	1993
Uruguay	.	.	1997	.	.	1997	.
Venezuela	1991	.	1996	2000	2000	1992	1991

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

chose to adopt these reforms at different paces, this article focuses specifically on three policies: privatization, market liberalization (opening of markets to private investment), and the establishment of regulators separated from operation. Table 1 shows the variation in the dependent variable—the timing of policy adoption—across countries, industries, and policies. The table shows not only that most countries in the region had adopted market reforms in telecoms and electricity by 2000, but also that they adopted these reforms at different speeds. By the end of 2000, 15 countries had decided to privatize telecoms (in the Dominican Republic, telecoms had been private since the 1930s) and 11 had private operators in place (including the Dominican Republic). Meanwhile, 14 countries had taken the decision to sell electricity assets and 11 had already privatized. Sixteen countries had opened the electricity market to private investment. Eleven countries had

opened the long-distance telecoms market to competition and 10 had done it for local communications. Finally, the establishment of telecoms and electricity regulators had been accomplished in all countries, with the partial exception of Paraguay and Uruguay.

Existing theories of policy adoption focus mainly on pressures and constraints on policymakers. States face financial pressures to adopt certain policies from international financial institutions (Henisz, Zelner, and Guillen 2005; Vreeland 2003), from investors through credit ratings (Mosley 2003), or from competition with other countries to attract footloose capital (Lee and Strange 2003; Simmons and Elkins 2004). In Latin America, fiscal deficits, in particular, provided a strong incentive for privatization as the sale of valuable assets helped fill the depleted public coffers of the state (Armijo 1999; Castelar-Pinheiro and Schneider 1994). Technological pressures also induced reform in these sectors (Bartle 2002) and help explain cross-sectoral, rather than cross-national, patterns of policy adoption (Levi-Faur 2003, 2004).

In addition to financial and technological pressures, the literature on policymaking has focused on the effect of institutional constraints on policy adoption, especially when reforms have a broad effect on the public, as public utilities typically do (Margheritis 1999; Molano

³Deciding which year to use for Chile was complicated by the fact that both the CNE and the *Superintendencia* have regulatory functions and they were created in different years (1985 and 1978, respectively). Moreover, the CNE had no authority over tariffs until 1982. However, we ran the regressions excluding Chile except for regulatory authority because the dataset started in 1985.

⁴Was private since 1931, when Trujillo sold it to the *Compañía Dominicana de Teléfonos* (see www.indotel.org.do).

1997; Petrazzini 1995). Since all Latin American countries are presidential, institutional studies of policymaking have centered on executive discretion—including the constraints derived from the distribution of partisan power across branches (Haggard and Shugart 2001; Mainwaring and Shugart 1997). Among these constraints, the literature suggests that the ideological distance between the president and the legislature is important in restricting the universe of possible policy coalitions and generating incentives for policy obstruction rather than compromise (Tsebelis 2002). Yet, we are not aware of empirical research that tests this relationship in the region.

The literature on partisan policy preferences also provides important insights for understanding the incentives of policymakers for policy adoption. Different political parties are expected to have diverse policy preferences—based on their constituencies' interests—and to actively pursue them (Boix 1998; Garrett 1998). Yet, work on the adoption of market reforms in Latin America has tended to emphasize a decline in partisan policy preferences. Stokes (2001) suggests that presidents pursued market reforms in the 1990s regardless of their electoral promises—with the (arguably nonpartisan) aim of achieving macroeconomic stability. Weyland (2002) argues that fiscal deficits and macroeconomic conditions, and not partisan preferences, explain the adoption of market reforms and their widespread acceptance. Stallings and Perez (2000) and Corrales (2003) use similar arguments to explain the pace of reforms in the region.

This article also finds evidence pointing to the apparent death of ideology in Latin America during the 1980s and 1990s. However, it shows that relative—rather than absolute—ideology still mattered inasmuch as it influenced the incentives of challengers seeking to replace incumbents. Political competition was central to policy adoption, even in contexts where the ideology of the incumbent itself did not seem to play a role.

Recent studies on the effect of political competition on policy outcomes have been restricted mostly to the former socialist countries. Orenstein (2001) claims that political competition improved policy outcomes by facilitating learning and correction of past mistakes. Gryzmala-Busse (2003) argues that robust political competition reduces incentives of incumbents to politicize the state through patronage and crony privatization. And Frye (2002, 2006) argues that political competition, measured as ideological polarization between former-communist and anticommunist parties, generates policy swings and affects economic growth. In analyzing pension reform in Western Europe, Kitschelt (1999) suggests that the relative position of challengers generates different incentives for social democratic parties to adopt unpopular policies.

These studies combine the different effects of political competition. While Orenstein and Gryzmala-Busse focus on the replacement of incumbents, Frye and Kitschelt center on the relative ideological position of political rivals. By contrast, this article analyzes the impact of political competition on policy adoption by looking both at the incentives of the incumbent and those of her/his challenger.

Political competition shapes the process of policy adoption through three distinct, although not always separate, mechanisms. First, it indirectly affects the distribution of power in the legislature and thereby the capacity of the incumbent for policy adoption. Second, it shapes the incumbent's perception of how likely it is she/he will be replaced as a result of popular discontent with policy adoption. Third, it creates incentives for the challenger to denounce policy adoption in an attempt to increase its viability as an alternative to the incumbent.

Because the distribution of power in the legislature, and its effect on the capacity of the incumbent to reform, has been widely analyzed, we are more interested in the two direct effects of political competition that have been neglected by prior studies of policymaking in the region: the incentives generated by political competition both on the incumbent and on her/his challenger regarding policy adoption. Studies of Latin American market reforms suggest that the adoption of these policies was not related to policy preferences of incumbents but rather to macroeconomic conditions and fiscal constraints. Yet, these pressures for reform are felt by incumbents rather than challengers, who are not in charge of administering the budget. Increasing political competition shapes the perception of the incumbent regarding the electoral risks involved in policy adoption as it increases the value of marginal voters, who may be discontented with market reforms.

Table 2 shows that, according to a cross-national survey of eight countries, by the mid-1990s the Latin American public was divided in its opinion of privatization of public utilities. Indeed, the fact that privatization was the only reform included in the survey is one indicator of the public saliency of this reform, compared to regulation and market liberalization.⁵ Reasons for its saliency were its lower technical complexity, as well as the threat it represented for the political control of prices—a crucial tool

⁵Further confirmation of the higher public saliency of privatization across both sectors is given by an analysis of press coverage of market reforms in Argentina. During the period of reform discussion in telecommunications, there were 124 articles on the sale of assets, 32 on the regulatory authority, and 96 on the entry rules for private investors. In electricity, there were 111 articles on the sale of assets, 53 on the regulatory agency, and 59 on entry rules for private investors.

TABLE 2 Public Opinion on Ownership of Public Utilities in 1995 (percentage in favor; Latinobarómetro 1995)

	Electricity			Telephones		
	State	Private	<i>Don't Know/Don't Answer</i>	State	Private	<i>Don't Know/Don't Answer</i>
Argentina	37%	56%	7%	31%	63%	7%
Chile	66%	31%	3%	53%	42%	5%
Mexico	61%	32%	7%	50%	43%	7%
Paraguay	42%	43%	14%	36%	49%	14%
Peru	52%	43%	5%	46%	49%	5%
Uruguay	78%	14%	7%	76%	17%	7%
Venezuela	57%	38%	5%	56%	39%	5%

for redistribution. Although the scope of coverage and the cost of rationing are higher in electricity than in telecom, both sectors provide public services to large portions of the population, thereby increasing the public saliency of their reform. From the point of view of politicians, public saliency—and a public divided over the suitability of reform—translated into potential electoral effects. In a context of growing political competition, the electoral cost of losing marginal voters dissatisfied with public utility reform was a good deal larger.

An attentive and divided public presented opportunities for the opposition too. Political competition generates incentives for the challenger to denounce government policy to improve her/his electoral prospects—further contributing to the saliency of the issue.⁶ Yet not every challenger can use this tool credibly. The degree of ideological polarization between the incumbent and the challenger, and their relative ideological positions, affect the possibility of using these reforms for political advancement. It is hard for a challenger to build a case by denouncing policies of an incumbent who is ideologically proximate. Political parties that are close ideologically are likely to have regularly cooperated in policymaking. By contrast, ideologically polarized parties have incentives for policy obstruction, which should increase their credibility with voters when opposing market reforms.⁷ In particular, in the case of market reforms, the credibility of the challenger

⁶Political competition also provides incentives for challengers to act as watchdogs, spotting processes of crony privatization either to denounce the incumbent or to allow for their future opportunity for corruption.

⁷For an application of this logic in the context of policymaking in the U.S. Congress, see Binder (2003).

as an alternative to the reformist incumbent is going to be higher if it is located to the ideological left of the government. Conversely, a political party to the right of the incumbent is less credible as an alternative for voters who are discontented with market reforms. In other words, it is not just right-wing incumbents with left-wing opponents who will have a hard time adopting these policies—any incumbent with an opposition to her/his left will suffer from this effect. As we have discussed, in Latin America the effect of incumbents' ideology is tempered by economic pressures and the importance of economic performance on voters' retrospective evaluations (Stokes 2001). Yet, challengers can use ideological appeals because evaluations of their performance are prospective and they do not face the financial pressures associated with being in office.

The privatization of electricity in Mexico provides an example of the impact of political competition. In 1999, facing an increasing fiscal deficit, President Ernesto Zedillo from the Institutional Revolutionary Party (PRI) sent a proposal to Congress for the privatization of electricity. However, political competition was growing. The PRI had lost control of the Lower Chamber in the election of 1997 and the presidential election the following year was expected to be, for the first time in 70 years, a very close one. Competition made PRI legislators fearful of supporting privatization and they let the proposal die in Congress. Indeed, Interior Minister Francisco Labastida, a presidential hopeful and the link between the president and the congressional party, did not support the reform. This effect was magnified as both the PRI and the PAN (National Action Party) challenger, Vicente Fox, were competing for center-left PRD (Party of the Democratic Revolution) voters to win the presidential election. Survey evidence clearly showed that the issue was electorally salient and that these voters were not likely to support electricity privatization (Magaloni and Poire 2003). As a result, both the PRI and PAN candidates promised during the electoral campaign not to privatize electricity.

Another reform stopped midstream by the force of political competition was the proposal to privatize telecommunications by Argentine President Raúl Alfonsín in 1988. In the legislative elections of 1987, the opposition Peronist party improved its position and therefore its prospects of winning the 1989 presidential election. When Alfonsín presented his privatization proposal the next year and only one-third of the population supported it, Peronist legislators opposed it and legislators of the president's party showed little enthusiasm (Llanos 2002, 65). The credibility of the Peronist opposition was enhanced by their past involvement in the implementation of statist policies, including the nationalization of

telecommunications by their founding leader Juan Perón. The Peronists won the 1989 presidential election with a solid majority and, faced with hyperinflation and a fiscal deficit that reached 12% of GDP that year, they privatized telecommunications in 1990.

In short, political competition affects the incentives of policymakers by increasing the fear that policy adoption may harm the electoral prospects of the incumbent and facilitate opportunistic behavior by challengers based on their relative ideology. The following section tests these effects, along with those derived from the literature, focusing particularly on the effect of ideology on interbranch dynamics.

Modeling Policy Adoption and Political Competition

This section presents our modeling strategy and the indicators used to measure the variables of interest. In the following sections we test our expectations about policy reform in Latin America for all three policies for electricity and telecoms. To do this, we have constructed a dataset that covers the years between 1985 and 2000 and records when the government decided to privatize, open the market to private capital, and establish regulators in each sector. Given our interest in the timing of policy adoption, we use survival analysis to explore the factors that affect the probability that a country will choose a particular policy, given that it has not done so up to that point in time.⁸ In terms of survival analysis, the individuals in our sample are countries, which are observed when they enter the sample (here the entry point is 1985) and up to their exit from the sample or *failure* (here, countries *fail* when they decide to adopt a policy).⁹

Given the nature of the data, and the limitations imposed by a small number of cases, we use a Cox proportional hazards model (Cox 1972), which allows us to model policy reform without specifying a priori the rela-

tionship between policy reform and time.¹⁰ Importantly, Cox proportional hazards models assume that the relationship between the hazard functions of two countries with a different set of covariates are related to each other through a constant. In practice, however, this is not always the case because the effect of some variables on the likelihood of policy adoption can change over time and in this sense is *nonproportional*.¹¹ Where proportionality issues arose, models were corrected by adding an interaction with time in order to estimate the direct effect of the explanatory variable and control for its effect over time (Box-Steffensmeier and Zorn 2001).

We are interested in testing the effect of political competition on policy adoption while controlling for executive capacity, the incumbent's ideology, economic pressures, and technological underdevelopment (see the appendix for a list of all variables and sources). The incentives created by *political competition* on the incumbent are measured by using power differentials between the incumbent and its main challenger in the legislature, which provides a political forum for posturing and policy obstruction. The difference in seats between the incumbent's party and the largest opposition party in the legislature, as a proportion of the total number of seats, is used to proxy the relative political power of the incumbent and the challenger.¹² We call this measure *Legislative Advantage* and expect that policy adoption will become more likely as the incumbent's relative power increases.

The incentives for the challenger generated by political competition are measured using three indicators of relative ideological positioning. First, *Polarization* measures the ideological distance between the incumbent party and its main challenger in the legislature. Ideological variables are calculated using a 5-point scale, where 1 is the left-most score and 5 is the right-most score.¹³ If, for example, the incumbent is from a right-wing party with a score of 4.5

⁸Others have chosen to model the *adoption* of reforms and not their *timing* using *logit* instead of duration analysis (Henisz, Zelner, and Guillen 2005). Duration analysis allows us to explicitly model the process of policy convergence that characterized the region and to explain differences in the pace of policy adoption within this general trend. It also allows us to combine the analysis of time-varying covariates (such as growth or GDP), with the analysis of variables that tend to vary less over time, within a country (like polarization).

⁹We use robust standard errors in all the models to control for clustering within individuals, i.e., for the possibility that observations within a country are not independent.

¹⁰Using a more restrictive parametric model would imply imposing a specific structure on the relationship between time and the adoption of policy reform. These models are more efficient only when this relationship is correctly specified. In our case, we have no theoretical reason to choose a specific functional form. We use the *efron* method to deal with ties given the small number of cases and the relatively high number of ties.

¹¹We used the *stphptest* function in stata to test the proportional hazard assumptions.

¹²When the government is formed by a single party, we take the number of seats held by this party; if the government is a coalition, we use the total seats of all coalition partners. We use data on the Lower Chamber in countries with bicameral legislatures.

¹³The scores are based on party positions from Coppedge (1997) and consultations with country experts. We calculate the average ideology of the government by averaging the scores for all government parties and weighting them by the parties' size.

and the main opposition party in the legislature has a score of 3, their ideological distance is 1.5. *Polarization* is a dummy variable that takes the value of 1 when this distance is above the average of the sample and 0 otherwise.¹⁴ We expect that higher polarization reflects a lack of prior legislative cooperation between the challenger and the incumbent that facilitates the use of legislative obstruction by the challenger.

Second, we also measure the effect of the relative ideology of the incumbent and its main challenger on policy adoption. Being ideologically to the left of the incumbent should increase the challenger's credibility as an alternative for disaffected voters. Thus, *Left Opposition* is a dummy that takes the value of 1 when the ideology of the main challenger is to the left of the incumbent's. Third, an interaction between *Left Opposition* and *Right Incumbent* serves to assess whether the effect of having an opposition to the left of the incumbent on the incentives to use market reforms for electoral advancement is contingent or not on the incumbent's ideology.¹⁵ We expect the three variables—*Polarization*, *Left Opposition*, and the interaction *Right Incumbent Left * Opposition*—to have a negative effect on policy adoption.

Additionally, to test the effect of policy preferences on policy reform we measure the incumbent's ideology directly, using dummies that indicate whether the incumbent's party is right-wing, center, or left-wing. If ideological preferences matter, as argued by the partisan policy-making literature, we would expect the dummy for *Right Incumbent* to have a positive effect on policy adoption. Conversely, if the literature on market reforms in Latin America is correct, we should find that these variables have no effect.

We also include three measures of *executive capacity*. Henisz's index of *Political Constraints* measures the effect of veto players on the executive's ability to reform.¹⁶ Policy reform should be less likely where fewer constraints to policy change exist. We also include an indicator of the government's status (*Single-Party Majority*). We expect single-party majority governments to face fewer con-

straints on their ability to adopt reforms than governments that have to negotiate with coalition partners or that need to bargain with other parties in order to construct a legislative majority. The third indicator (*Distance*) measures the ideological distance between the executive and the median legislator. We expect that as the preferences of the executive and the median legislator grow farther apart, the likelihood of agreement, and thus reform, decreases.

Finally, three control variables that can affect political competition and executive capacity are included. First, the electoral cycle is likely to play a role in the president's political strategy. To see whether electoral time affects the decision to adopt a reform, we used the number of years left until the next presidential election (as presidential tenures vary in the region). This variable was never significant and is not included in the tables presented below. Second, in measuring polarization, the effective number of parties serves to control for fractionalization in the legislature. Third, since the effect of the distance between the executive and the median legislator should be tempered by the size of the government's legislative share, this variable is also included.

The analysis also includes controls for nonpolitical variables. To assess the influence of *financial pressures* on reform, we focus on the availability of foreign capital and on fiscal constraints. The size of debt service as a proportion of total exports (*Debt*) measures the leverage of foreign creditors, and an indicator of whether countries have subscribed standby agreements with the IMF (*Under IMF*) serves as a proxy for the influence of international financial institutions (IFIs).¹⁷ In telecoms, an indicator of whether the country had a sectoral loan from the World Bank is used as an alternative measure of influence from IFIs, but no similar indicator exists for electricity. Additionally, the fiscal position of the government (*Fiscal Position*)—whether the budget is in deficit or surplus—measures the need for fiscal resources. The former three variables are expected to increase the likelihood that reform will take place by imposing pressures on capital-scarce countries¹⁸ and the fiscal position should have a

¹⁴*Polarization* only considers absolute distance. We use other variables (*Left Opposition*, *Right Incumbent * Left Opposition*) to measure the relative ideological position of each party.

¹⁵Parties are coded as *Right* when they score 4 or 5 in the ideology scale. They are coded as *Center* when they have a score of 3 and *Left* when they have a score of 1 or 2.

¹⁶The index goes from 0 to 1 and measures the "feasibility of policy change," taking into account the number of independent branches of government with an effective veto over policy, whether the executive and the legislature's preferences are aligned or not (for example, occupied by the same party), and the extent to which preference in the legislature are heterogeneous. For more details, see Henisz (2002).

¹⁷We are following Vreeland (2003, 17–18) in using country-years in which a country has entered an IMF agreement because the influence of international financial institutions is not given only by explicit conditionality but also by its technical assistance, the influence they grant to domestic advocates of reform, and their impact in signaling good behavior for other creditors, which can be more important than the amount of the loan (Teichman 2001).

¹⁸It is important to note that we have lagged the financial variables one year to reflect the assumption that financial decisions by the government are made taking into account last year's resources. We have lagged *Fiscal Position* two years to take into consideration that

negative effect, especially on privatization, which generates revenue for the Treasury.

Technological pressures are measured using *Teledensity* (number of telephones per 1000 inhabitants) and *Electricity Consumption per Capita* as approximations of the need of reform as a means of catching up technologically and expanding coverage. We expect pressure for policy adoption to be inversely related to the density of services in each sector. In electricity, economic growth (*Growth*) should be positively related with electricity demand—as it reflects the energy needs of large users. Technological pressures should have a positive effect on policy adoption, but a weaker effect on the establishment of regulators, which has no immediate impact on supply or prices.¹⁹ Finally, we include GDP per capita lagged one year to control for the wealth of the country.²⁰

The following sections present the results on the hypothesized effects of these variables on all three policies in both industries. To isolate the political effects of main interest, we first present models with economic factors—financial and technological pressures—and subsequently add measures of executive capacity and political competition.

Privatization of Telecoms and Electricity

This section analyzes the conditions that influence the adoption of privatization in both sectors.²¹ In line with the

we are lumping all reforms in a given year, whether they took place in January or December, and because a delay could have occurred between the perception of depleted fiscal accounts at the end of the year and the decision to sell assets to fill them. We include *Fiscal Position* in all privatization models because a large literature links privatization with fiscal needs.

¹⁹Workers of privatized companies also have large stakes in the reform and should influence the policymaking process as shown by qualitative studies of privatization in the region (Murillo 2001). However, there is no reliable yearly data on unionization, either at the sector level or at the national level, to permit a test of labor influence.

²⁰To measure how diffusion diminishes the cost of policy adoption for latecomers, Kogut and Macpherson (2004) and Levi-Faur (2004) use the number of previous privatizations. By using event history analysis we model the dynamic aspect of reform—the factors that affect whether a country is an innovator or a follower—but we do not include the number of previous privatizations in the region because this variable is perfectly collinear with the country variable. See Meseguer and Gilardi (2005) on measuring diffusion.

²¹We are interested in the political decision to adopt privatization rather than the actual sale of assets, which is affected by available capital and technical issues. Consequently, we focus on the group of countries that had decided to privatize by the end of 2000, even if they were still in the process of implementing the sale of assets.

literature on privatization in Latin America, we expect external pressures—especially fiscal deficits—to influence policy adoption. We also expect that political competition should make this reform less likely in both sectors as challengers can use it to build a case against the incumbent, especially in a context of higher public saliency.

Telecoms

Table 3 shows the effect of external financial pressures on the privatization of telecoms. The positive effect of being under an IMF agreement is not robust across all models, but the indicator of World Bank telecoms loans is significant and positive. One potential problem with this variable is that it measures the World Bank's incentives for reforming the sector, but it could also be an indicator of the Bank rewarding the prior intention of policymakers. In either case, though, it reflects that the World Bank is involved in the policy process—either promoting reform or as an ally of domestic reform advocates. The effect of other financial variables is less clear. Although the effect of fiscal deficits in the decision to sell public assets has the expected direction, it is not significant. Neither is the effect of external debt service.

The effect of *teledensity* (the number of telephones per 1000 inhabitants) is nonproportional. Controlling for time, a higher teledensity is associated with an increase of around 16–18% in the likelihood of privatization at the outset of the period, but this effect becomes significant and negative as time goes by.²² This result suggests that technological pressures hit the countries with a higher teledensity first and, as their example takes hold, the less developed countries are more likely to reform in order to catch up. For similar reasons, GDP per capita has a positive effect at the beginning of the period, but it becomes significantly negative with time.

Turning to political variables, executive capacity has a weak effect on the privatization of telecoms. The distance between the executive and the median legislator does have a significant negative effect and the effect is substantively large: controlling for the government's legislative share, a one-point increase in this distance translates into a reduction in the likelihood of privatization of over 60%. However, the other measures of executive capacity are not significant. By contrast, the results for

²²In interpreting the magnitude of the effects, it is important to keep in mind that the hazard rate refers to the probability that a country will adopt reform at time t , given that it has not done so to that point. Thus, changes in the hazard rate associated with changes in the independent variables should be interpreted as an increase (decrease) in the instantaneous probability of reform.

TABLE 3 Privatization Telecom (Adoption of Privatization Law)*

	Economic Factors			Executive Capacity			Political Competition		
Under IMF	2.615 (1.77)*	0.940 (0.14)	4.523 (2.41)**	2.773 (2.03)*	2.625 (1.76)*	3.193 (1.58)	3.465 (1.74)*	32.410 (3.08)**	2.544 (1.85)*
Debt	1.003 (0.33)	0.998 (0.15)	1.001 (0.05)	1.001 (0.14)	1.003 (0.36)	1.005 (0.44)	1.000 (0.04)	1.001 (0.05)	1.003 (0.32)
World Bank Loan		5.267 (3.67)***							
Teledensity	1.160 (3.53)***	1.185 (3.50)***	1.167 (3.32)***	1.151 (3.11)***	1.159 (3.50)***	1.187 (3.75)***	1.163 (2.76)***	1.250 (4.91)***	1.144 (3.12)***
Teledensity * LogT	0.930 (3.91)***	0.924 (3.84)***	0.927 (3.74)***	0.934 (3.26)***	0.930 (3.85)***	0.920 (4.12)***	0.928 (3.15)***	0.936 (5.11)***	0.936 (3.51)***
Growth	2.267 (1.10)	3.259 (1.30)	2.042 (0.96)	1.879 (0.79)	2.270 (1.11)	1.856 (0.92)	1.834 (0.80)	4.603 (3.35)***	2.402 (1.08)
Growth * LogT	0.621 (1.41)	0.511 (1.64)	0.652 (1.27)	0.680 (1.05)	0.621 (1.42)	0.691 (1.20)	0.694 (1.06)	0.445 (3.60)***	0.603 (1.33)
Fiscal Position	1.173 (1.07)	1.068 (0.52)	1.198 (1.16)	1.198 (1.30)	1.177 (1.05)	1.171 (0.94)	1.186 (1.04)	1.199 (1.59)	1.167 (0.99)
GDP per Capita		1.006 (4.28)***							
GDP per Capita * LogT		0.997 (4.72)***							
Distance			0.386 (1.66)*						
Government Share			0.367 (0.53)						
Single-Party Majority				1.566 (0.65)					
Political Constraints					0.891 (0.08)				
Right Incumbent *						0.408 (1.70)*			
Left Opposition							0.391 (1.98)**		
Left Opposition							3.719 (0.92)		
Legislative Advantage								0.027 (4.65)***	
Polarization								0.764 (1.82)*	
Effective Number of Parties									1.652 (0.77)
Right Incumbent									1.290 (0.22)
Center Incumbent									1.38
Observations	151	147	151	151	151	137	137	137	138

*Robust z statistics in parentheses; * significant at 10%; ** significant at 5%; *** significant at 1%.

Note: Effective Number of Parties and Growth are not significant if Fiscal Position is not included, but all results reported in the article hold when Fiscal Position is excluded.

political competition are quite strong. As expected, if the incumbent is from a right-wing party and the main challenger is to its ideological left, the chances of reform are reduced by over 60%. *Left Opposition* is also significant, reducing the chance of privatization by over 60% and suggesting that the effect of political competition stands, regardless of whether the incumbent is associated with a right-wing party or not. Finally, controlling for the number of parties in the legislature, the measure of *Polarization* is also significant, reducing the likelihood of privatization by over 90%. Despite the impact of the relative ideology of the incumbent and the challenger on the privatization of telecoms, the ideology of the incumbent alone has no significant effects.

Electricity

In the privatization of electricity, there are no significant effects derived from either the debt service or being under an IMF agreement, and there is no direct measure of electricity loans available like the one available for telecommunications. However, Table 4 shows that fiscal deficits do matter. As in telecoms, fiscal deficits make the decision to privatize electricity more likely, but the effect is significant in electricity. The likelihood of reform becomes 60% less with a one standard deviation increase (3.9 percentage points) in the deficit.

Electricity consumption per capita also has a significant effect on the likelihood of privatization. However, as in the privatization of telecoms, this effect is nonproportional. Table 4 shows that the direct effect (at $t = 0$) of electricity consumption on the likelihood of privatization is positive. However, this effect becomes significant and negative, indicating that around 1994 a higher level of electricity consumption translated into a smaller likelihood that privatization would occur.²³ As in telecoms, it seems that countries with higher per capita consumption were more likely to adopt privatization at the start of the period, but poorer countries were more likely to do it later on in an effort to catch up.

Results show that executive capacity has a stronger effect on the decision to privatize electricity than on the decision to privatize telecoms. Henisz's political constraints index has a significant effect on the probability that privatization laws will be approved, although this effect is not robust to model specification.²⁴ The ideological distance

²³The effect of electricity consumption if we do not add an interaction with time is negative. We used electricity losses as an alternative measure, but it was never significant, and we did not include the results in our tables.

²⁴The index has a correlation of .34 with electricity consumption and is not significant when we exclude electricity consumption from the model.

between the executive and the median legislator also has a significant negative effect: when distance increases by one point, the likelihood that a privatization law will be passed decreases by 80%, controlling for the share of seats held by the government. Lastly, as in telecoms, single-party governments are no more likely to privatize than other governments.

The measures of political competition have the expected effects. The president's legislative advantage has a significant positive effect: increasing this advantage by a standard deviation makes privatization over 2.2 times more likely. Clearly, this advantage reduces the risk that challengers will use policy reform to improve their electoral prospects. Although, as in telecoms, we do not find a significant effect derived from the ideology of the incumbent, we do find effects derived from the relative ideological positions of the incumbent and her/his main challenger. Both *Polarization* and *Left Opposition* have significant effects with the expected sign. Controlling for the number of effective parties in the legislature, polarized governments are nearly 80% less likely to privatize than governments that are not polarized. When the incumbent is from a right-wing party and the opposition is to its left (*Right Incumbent* * *Left Opposition*), privatization is nearly 80% less likely. This effect remains whether the incumbent party is right-wing or not, as shown by the effect of *Left Opposition*, which reduces the hazard of reform by nearly 90%.

In sum, the results show that political competition had an important effect on the adoption of privatization—the most publicly salient of the three policies. These effects hold even in the context of some financial incentives on the incumbent that increase the likelihood of privatization—through World Bank loans in telecoms (which could also be measuring rewards for prior reform intention) and fiscal deficits in electricity. Additionally, political variables are also important in determining the timing of privatizations. First, executive capacity matters, and in particular the ideological distance between the president and the median legislator, which is significant for both sectors. Second, political competition, which includes the relative ideology of the incumbent and her/his main challenger and the level of polarization, also has significant effects on both sectors.²⁵ Lending credence to the idea that privatization was driven by pragmatism

²⁵We also constructed an alternative measure of ideology based on whether the incumbent political parties participated in the nationalization or creation of state-owned companies in telecommunications or electricity in the past. In both sectors, this variable has a significant positive effect on the hazard rate for the adoption of privatization. This result suggests a Nixon-goes-to-China effect that adds further credence to the idea that relative ideology played a role in the decision to privatize.

TABLE 4 Privatization Electricity (Adoption of Privatization Law)*

	Economic Factors			Executive Capacity			Political Competition		
Under IMF	0.465 (1.11)	0.600 (0.93)		1.004 (0.26)	1.005 (0.30)	1.004 (0.22)	0.990 (0.39)	1.000 (0.01)	1.002 (0.13)
Debt	1.009 (0.54)	1.008 (0.64)		1.014 (3.15)***	1.017 (4.02)***	1.014 (2.96)***	1.014 (2.68)***	1.013 (2.45)**	1.014 (3.30)***
Electricity Consumption	1.015 (3.03)***			0.994 (3.13)***	0.992 (3.59)***	0.994 (3.05)***	0.993 (2.98)***	0.994 (2.69)***	0.994 (3.30)***
Electricity Consumption * LogT	0.993 (3.00)***			0.475 (1.72)*	0.552 (1.52)	0.282 (2.87)***	0.121 (3.38)***	0.502 (1.67)*	0.322 (2.69)***
Growth	0.578 (1.20)	0.896 (0.17)		1.379 (1.85)*	1.310 (1.74)*	1.723 (2.97)***	2.438 (3.96)***	1.365 (1.95)*	1.627 (2.80)***
Growth * LogT	1.273 (1.33)	1.051 (0.20)		0.809 (1.94)*	0.818 (1.98)**	0.734 (2.25)**	0.677 (2.77)***	0.688 (2.63)***	0.795 (2.03)**
Fiscal Position	0.791 (2.32)**	0.814 (1.93)*							
GDP per Capita	1.000 (1.01)								
Distance		0.206 (2.24)**							
Government Share		0.107 (1.22)							
Single-Party Majority				0.711 (0.32)					
Political Constraints					0.036 (2.44)**				
Right Incumbent * Left Opposition						0.213 (2.07)**			
Left Opposition							0.105 (2.58)***		
Legislative Advantage							38.035 (2.29)**		
Polarization								0.216 (2.43)**	
Effective Number of Parties								1.506 (1.94)*	
Right Incumbent									0.385 (1.34)
Center Incumbent									0.727 (0.31)
Observations	198	198	183	198	198	183	183	184	198

*Robust z statistics in parentheses; * significant at 10%; ** significant at 5%; *** significant at 1%.
 Note: *Political Constraints* is below significance if we exclude *Electricity Consumption*.

rather than by sheer ideological conviction, the results show that the ideology of the executive alone does not matter for policy adoption in either sector. However, results also indicate that it is harder to privatize if the main challenger is to the left of the incumbent party—and that this effect exists whether the incumbent is right-wing or not.

Market Liberalization

In telecoms, market liberalization, which opened markets to private investors beyond those buying privatized assets (and allowed them to compete for the same customers), was often scheduled at the time of privatization. In this sense, the opening of the telecoms market to private investment cannot be taken as an independent decision. Instead, in most countries, when privatization laws were adopted, legal monopolies were also established in order to increase the value of assets, promote investment, and smooth the end of cross-subsidies. Thus, the empirical analyses shown in Table 5 are limited to the opening of electricity markets to private investment, which did not always coincide with the sale of assets in the sector, and typically included different investors than the ones that purchased state-owned assets. As before, survival analysis is used to estimate the factors that affect the likelihood that a country will adopt this policy.

Remarkably, political competition has some influence on the adoption of this policy, although not as much as on privatization, but we do not find significant effects on other variables. We do not find effects derived from economic or technological pressures or even from measures of executive capacity—which may be explained by the fact that in many countries this decision was made by a unilateral presidential decree or through changes in concession rules rather than by an act of Congress. Perhaps this same reason explains why right-wing incumbents were nearly four times more likely to adopt this policy than their left- or center-leaning counterparts, whereas the relative ideological position of the challenger is not significant.

Two other measures of political competition were significant (see Table 5). The effect of competition on the incumbent's incentives is clear from the significant positive effect of *Legislative Advantage*, whereas the negative effect of ideological polarization captures the capacity of the challenger to use policy adoption to her/his advantage. An increase of one standard deviation in *Legislative Advantage* makes reform almost three times more likely, while the existence of ideological polarization makes reform more than 80% less likely, controlling for the number of parties in the legislature.

In short, the opening of electricity markets to private investment is less likely as political competition increases, but the effect is weaker than in privatization. A possible reason for the lack of significant findings regarding economic pressures might be that this policy has a weaker effect on revenue than does the sale of assets. The lack of findings on executive capacity could be related to the possibility of avoiding a legislative act. This political strategy might also explain why the ideology of the incumbent matters for the adoption of this policy, in contrast to both privatization and the establishment of a regulator, as we will discuss below.

The Establishment of Regulatory Agencies

This section presents our results on the conditions that affect the establishment of regulatory authorities. We do not expect fiscal deficits to have an effect on the decision to establish regulators because they generate no resources, but we do expect other measures of financial pressure to have an effect. Henisz, Zelner, and Guillen (2005), for example, have shown that external financial pressures have an effect on the adoption of regulators. Again, hazard models are used to estimate the factors that affect the likelihood that a country will establish a regulator, and we relate this probability to the same variables we used in previous sections.

Telecoms

Table 6 indicates weak effects of financial pressures on the establishment of regulatory agencies in telecoms. We did not expect the fiscal deficit to have an effect, but we found no significant effect for external debt service either. The effect of IMF agreements is in the expected direction but is not robust. Yet the indicator of whether the country had a sectoral World Bank loan in telecoms that year is significant and positive. Again, it is hard to determine whether this result measures encouragement or rewarding, but it does suggest that the World Bank played some role in the policy process. As in privatization, teledensity has a significant effect on the establishment of regulators in the sector, but this effect is strongly nonproportional. Although its effect is negative when included alone, when an interaction with time is included, its effect is positive at the beginning of the period but after 1993–94 it becomes significant and negative.

The ideological distance between the executive and the median legislator has the expected negative effect, decreasing the hazard by around 75% for every increase of

TABLE 5 Decision to Open Up to Private Capital in Electricity*

	<i>Economic Factors</i>		<i>Executive Capacity</i>				<i>Political Competition</i>		
Under IMF	1.293 (0.37)	1.234 (0.31)	1.532 (0.55)	1.309 (0.39)	1.074 (0.10)	1.238 (0.30)	0.963 (0.06)	2.245 (1.07)	1.504 (0.54)
Debt	0.804 (1.08)	0.815 (1.17)	0.814 (0.98)	0.794 (1.06)	0.836 (0.81)	0.800 (1.11)	0.824 (1.08)	0.821 (0.89)	0.765 (1.41)
Debt * LogT	1.124 (1.24)	1.119 (1.43)	1.118 (1.13)	1.131 (1.19)	1.103 (0.95)	1.127 (1.27)	1.114 (1.30)	1.116 (1.06)	1.152 (1.61)
Electricity Consumption	0.997 (0.59)		0.997 (0.69)	0.997 (0.70)	0.998 (0.54)	0.997 (0.75)	0.997 (0.77)	1.000 (0.06)	0.999 (0.32)
Electricity Consumption * LogT	1.002 (0.79)		1.002 (0.87)	1.002 (0.92)	1.002 (0.83)	1.002 (0.97)	1.002 (0.90)	1.000 (0.21)	1.001 (0.65)
Growth	0.321 (1.08)	0.502 (0.77)	0.288 (1.07)	0.317 (1.09)	0.265 (1.23)	0.324 (1.04)	0.226 (1.70)*	0.491 (0.81)	0.346 (0.74)
Growth * LogT	1.821 (1.34)	1.502 (1.08)	1.898 (1.29)	1.834 (1.35)	2.009 (1.52)	1.812 (1.27)	2.131 (1.95)*	1.476 (1.01)	1.790 (0.93)
Fiscal Position	0.957 (0.37)	0.938 (0.75)							
GDP per Capita		1.001 (2.80)***							
Distance			0.620 (0.47)						
Government Share			1.428 (0.21)						
Single-Party Majority				0.885 (0.11)					
Political Constraints					0.079 (1.11)				
Right Incumbent * Left Opposition						0.926 (0.13)			
Left Opposition							0.379 (1.18)		
Legislative Advantage							97.533 (2.46)**		
Polarization								0.188 (3.64)***	
Effective Number of Parties								1.151 (0.69)	
Right Incumbent									3.948 (2.22)**
Center Incumbent									1.638 (0.37)
Observations	186	186	188	206	206	187	189	189	206

*Robust z statistics in parentheses; *significant at 10%; **significant at 5%; ***significant at 1%.

TABLE 6 Regulatory Agency Telecom*

	Economic Factors			Executive Capacity			Political Competition		
Under IMF	3.766 (2.38)**	2.715 (2.02)**	6.891 (2.10)**	3.075 (1.83)*	3.235 (1.91)*	4.303 (1.54)	4.233 (1.57)	11.025 (3.00)***	2.744 (1.89)*
World Bank Loan									
	7.246 (3.15)***								
Debt	1.011 (1.11)	1.019 (1.67)*	1.012 (1.00)	1.007 (0.72)	1.009 (0.88)	1.011 (1.02)	1.008 (0.71)	1.010 (0.87)	1.008 (0.72)
Teledensity	1.141 (3.54)***	1.163 (3.01)***	1.174 (3.35)***	1.135 (4.01)***	1.140 (3.73)***	1.166 (3.61)***	1.158 (3.02)***	1.153 (3.42)***	1.124 (3.35)***
Teledensity * LogT	0.940 (4.04)***	0.936 (3.12)***	0.929 (3.75)***	0.944 (4.73)***	0.941 (4.38)***	0.931 (3.99)***	0.934 (3.35)***	0.937 (3.79)***	0.948 (3.88)***
Growth	0.825 (1.69)*	0.781 (1.79)*	0.874 (1.63)	0.882 (1.59)	0.869 (1.68)*	0.897 (1.21)	0.900 (1.15)	0.876 (1.41)	0.863 (1.40)
Fiscal Position	1.156 (1.63)	0.995 (0.05)							
GDP per Capita									
GDP per Capita * LogT									
Distance			0.260 (2.84)***						
Government Share			0.044 (1.42)						
Single-Party Majority				1.467 (0.68)					
Political Constraints					1.786 (0.52)				
Right Incumbent * Left Opposition						0.382 (1.48)			
Left Opposition							0.308 (1.94)*		
Legislative Advantage							1.491 (0.31)		
Polarization								0.119 (4.83)***	
Effective Number of Parties								0.888 (0.64)	
Right Incumbent									1.357 (0.47)
Center Incumbent									0.523 (0.53)
Observations	165	163	168	185	185	167	167	169	185

*Robust z statistics in parentheses; * significant at 10%, ** significant at 5%, *** significant at 1%.

Note: Growth is marginally nonsignificant if we include it alone and Fiscal Position is not significant when included without Growth.

TABLE 7 Regulatory Agency Electricity*

	Economic Factors			Executive Capacity			Political Competition		
Under IMF	2.328 (1.18)	2.875 (1.91)*	7.096 (3.74)***	2.982 (2.07)**	2.557 (1.88)*	3.117 (1.92)*	4.480 (2.94)***	8.768 (2.81)***	2.905 (1.83)*
Debt	1.026 (2.17)**	1.024 (2.05)**	1.017 (1.66)*	1.017 (1.43)	1.024 (2.09)**	1.025 (2.18)**	1.022 (1.89)*	1.025 (1.41)	1.027 (2.45)**
Electricity Consumption	1.016 (4.17)***	1.001 (0.74)	1.001 (0.74)	1.003 (2.38)**	1.005 (4.00)***	1.010 (2.90)**	1.016 (4.37)***	1.018 (18.08)***	1.003 (2.12)**
Electricity Consumption * LogT	0.993 (3.86)***			0.999 (1.63)	0.998 (2.61)***	0.996 (2.79)***	0.993 (4.28)***	0.993 (13.40)***	0.999 (1.55)
Fiscal Position	0.767 (3.47)***								
Growth		1.669 (1.50)	0.168 (1.91)*	1.705 (1.56)	1.604 (1.49)	1.031 (0.26)	0.074 (2.65)***	0.136 (3.40)***	1.605 (1.31)
Growth * LogT		0.847 (1.26)	2.222 (2.01)**	0.823 (1.40)	0.856 (1.21)		3.025 (2.53)**	2.326 (3.33)***	0.858 (1.06)
GDP per Capita		1.000 (0.13)							
Distance			0.143 (3.11)***						
Government Share			0.213 (0.58)						
Single-Party Majority				2.774 (1.81)*					
Political Constraints					0.038 (2.80)***				
Right Incumbent * Left Opposition						0.758 (0.49)			
Left Opposition							0.256 (2.04)**		
Legislative Advantage							3.338 (0.94)		
Polarization								0.248 (1.97)**	
Effective Party								0.769 (1.24)	
Right Incumbent									0.888 (0.23)
Center Incumbent									0.553 (0.75)
Observations	174	195	176	195	195	175	175	177	195

* Robust z statistics in parentheses; * significant at 10%; ** significant at 5%; *** significant at 1%.

Note: Including GDP, Electricity Consumption, and Growth in the same model makes it collinear. All results hold when we include them separately.

one point in distance. Yet, other measures of institutional capacity have no effect. As with privatization, the ideology of the incumbent has no significant direct effect on the establishment of regulators. However, two measures of political competition involving relative ideology have significant effects: *Polarization* and *Left Opposition*. Both effects are substantial: controlling for the number of effective parties, a polarized political system makes the establishment of regulators around 90% less likely and having a challenger to the left of the incumbent makes reforms nearly 85% less likely.

Electricity

Our results regarding the establishment of regulatory agencies in electricity suggest that financial pressures have a stronger effect in this sector than in telecoms. The indicator of whether the country was under an IMF agreement has a positive and (mostly) significant effect (see Table 7). The size of the external debt also has a positive effect on the likelihood of establishing a regulatory agency. As in telecoms, the fiscal deficit had no significant effect on this policy decision, which provides no fiscal revenue to the government.

All the measures of executive capacity have significant effects on the probability that a regulatory authority will be established. Controlling for the government's representation in the legislature, the distance between the executive and the median legislator has the expected negative effect, decreasing the odds of policy adoption by 85% per distance point. So does Henisz's measure of political constraints, which decreases the hazard by 50% for every increase of one standard deviation in the index of constraints. Also, we find that single-party majority governments are almost three times more likely than other governments to establish regulators. While these effects suggest a link with the need for legislative action to create new regulatory authorities, they do not explain why we find weaker effects in telecommunications. In terms of political competition, whereas *Legislative Advantage* has no significant effect on policy adoption, both *Polarization* and *Left Opposition* have significant effects in the expected negative direction, decreasing the likelihood that a regulatory agency will be established for the electricity sector by 76% and 74%, respectively.

To sum up, the analysis of the three policies shows that the ideology of the incumbent has practically no effect on policy adoption (with the exception of the opening of electricity markets to private investment), suggesting that pragmatism dominated the adoption of market reforms in Latin America—at least after Chile served as

showcase for the region.²⁶ We show that the emphasis of the literature on executive capacity is justified, although important variation exists across policies and sectors. In electricity, the stronger effect of measures of executive capacity is probably associated with the costs to legislators of passing a reform that clearly had a more direct effect on their constituencies—as coverage was wider in electricity than in telecommunications.²⁷ Remarkably, the ideological distance between the executive and the median legislator was the most effective constraint on presidential capacity across sectors and policies, decreasing the likelihood of reform in electricity by around 80% and by more than 60% in telecoms. The exception here is the opening of electricity markets, where we find weaker effects of executive capacity due to the fact that in many countries this reform did not require legislative action.

Finally, we find evidence to support our arguments about political competition across the three policy areas and the two sectors. Interestingly, we find that these effects hold—especially the incentives on the challenger derived from its placement in the ideological spectrum—despite the ideological pragmatism of incumbents in adopting market reforms. These effects are stronger on the adoption of privatization than on the other two policies as this is the most publicly salient of the three—and they were also stronger on electricity than on telecoms as expected from differences on coverage and rationing costs. Our results suggest that the ideology of challengers needs to be included in the analysis before declaring the end of ideology in policy adoption in Latin America. Indeed, we also find that the relative ideology of the executive and its main political challenger has an effect on executive capacity for policy adoption—an effect that has not previously been tested in the region either.

Conclusion

This article demonstrates the effect of political competition in shaping the incentives that policymakers have to respond to technological and financial pressures by adopting market reforms in public utility reform. It emphasizes the incentives faced by incumbents and their political challengers derived from their power differential, as well as their relative ideological positions. It confirms

²⁶Except for the establishment of a regulatory agency in electricity, Chile is excluded from our analysis because the reforms had been adopted by 1985.

²⁷An average of 60% of Latin Americans had electricity coverage by 1989 according to OLADE (1989). In that year, the ITU (1989) reports an average of five telephones per hundred inhabitants in the region.

the ideological pragmatism of incumbents in adopting these policies while at the same time showing that the relative ideology of challengers plays an important role in policy adoption. Although economic performance has been shown to affect retrospective evaluations of Latin American incumbents—inducing pragmatism in policy adoption—this study suggests that ideology still matters for prospective evaluations of challengers. In fact, we find that the relative ideological position of the challenger—using either *Polarization* or *Left Opposition* as indicators—is the most significant measure of political competition, probably because challengers are not directly affected by the financial and technological pressures that mitigate the effects of political competition on the incumbent. Hence, even in an area of strong policy convergence such as public utility reform, politics and ideology mattered through the incentives generated by political competition.

The effect of political competition on policy adoption goes beyond market reforms and can be found in other reforms with broad public effects. The renationalization of electricity distribution in the Dominican Republic provides a good example. After the price of oil went up in 2002—along with a major banking crisis and currency devaluation—the government refused to transfer the higher cost of electricity production to consumers. Subsequent blackouts increased public discontent with the distribution company. Facing an upcoming competitive election, President Hipólito Mejía renationalized electricity in October 2004. His decision was popular because the company was blamed for the blackouts. Moreover, Mejía was able to use the expansion of coverage and subsidized prices as part of his electoral capital, although it was not enough to get him reelected.

By comparing across countries and across sectors, we are able to find systematic differences in the conditions under which policy reforms were adopted. We find that executive capacity is more important in the reform of electricity than in telecoms: political constraints and government status only affect electricity, and the distance between the executive and the median legislator has a slightly stronger effect in this sector than in telecoms. Moreover, the effect of political competition on the incumbent—measured by *Legislative Advantage*—is significant only in electricity. We believe that this difference is due to the fact that electricity is more politicized than telecoms as its coverage is broader—expanding the costs of reforms across more consumers who may stand to lose their subsidies—and the costs of rationing it are higher—increasing the intensity of consumers' preferences. Additionally, energy has an important symbolic value in Latin America, making it a politically sensitive issue while the higher value of telecommunications assets provides stronger fiscal (and perhaps corruptive) incentives in this sector.

In comparing different policy reforms, we find that economic pressures had an influence in policy adoption for both privatization and the establishment of regulators—through different mechanisms—in line with Henisz, Zelner, and Guillen (2005). However, political competition seems to have been a stronger determinant of the timing of privatization—the more visible and politically sensitive of the three reforms—than of the decision to undertake regulatory reforms or open the electricity market to private investment. For this last reform, we find that neither economic effects nor executive capacity have significant effects. The possibility of bypassing the legislature to achieve this reform may explain these effects as well as the fact that right-wing incumbents were more likely to adopt it.

This article makes two main contributions to the literature on policymaking. First, we stress the importance of disaggregating the analysis of market reforms in order to better understand different patterns of policymaking in the context of policy convergence. The study of market reforms in Latin America has moved from a focus on the feasibility of the reforms to the study of the particular dynamics of each reform. In this article we disaggregate reform into a series of different policies and analyze them across countries and for two industries. This strategy allows us to identify systematic interindustry and interpolicy differences in policymaking. Of course, the findings presented here should be tested in other sectors and regions to confirm their generalizability.

Second, we show the effects of political competition on policy adoption, which have been largely neglected by the literature on Latin American market reforms. We find that the risk of replacement for the incumbent and ideological polarization of the challenger shape the process of policy adoption. Previous literature has shown the connection between domestic politics and the policy process, but it has mainly focused on the effects of institutional constraints on policymaking. Instead, we emphasize the effects of political competition on policy adoption, linking the role of competitive politics with market reforms. Although the implications of market reforms for democratic quality in Latin America have been extensively analyzed, the effects of competitive politics for policymaking have received little attention.

The measures we use and the dynamics we uncover depend on the nature of political competition and on issue saliency. In principle, we should expect to find similar dynamics beyond Latin America, in other places and sectors where these conditions exist. Indeed, by putting political competition into the discussion, our findings link the politics of market reform in the region with findings in other transitional economies, which also faced simultaneous processes of economic and political liberalization.

Appendix

Data Definitions and Sources

Financial Pressures	
<i>Under IMF</i>	Dummy that indicates whether country was under an IMF agreement in that year, including Standby Arrangements, Extended Fund Facility Arrangements, Structural Adjustment Facility Arrangements, and Enhanced Structural Adjustment Facility Arrangements (renamed Poverty Reduction and Growth Facility Arrangements). Data provided by James Vreeland.
<i>World Bank Loan</i>	Dummy that indicates whether there was a loan from the World Bank in place in that year. Data provided by Lixin Colin Xu.
<i>Debt</i>	Total debt service (% of exports of goods and services). From World Development Indicators.
<i>Fiscal Position</i>	Deficit as % of GDP. From International Monetary Fund.
Technological Pressures	
<i>Electricity Consumption</i>	Electric power consumption in kwh, per capita. From World Development Indicators.
<i>Teledensity</i>	Telephone mainlines per 1000 inhabitants. From World Development Indicators.
<i>GDP per Capita</i>	Gross Domestic Product per capita (constant 1995 US\$). From World Development Indicators.
<i>Growth</i>	Growth in the Gross Domestic Product (annual %). From World Development Indicators.
Executive Capacity	
<i>Political Constraints</i>	Index constructed by W. J. Henisz, based on “the number of independent veto points over policy outcomes and the distribution of preferences of the actors that inhabit them.” See Henisz (2002) for more details.
<i>Single-Party Majority</i>	Dummy that takes the value 1 when the government is occupied by a single party and this party holds a majority (50% +1) of seats in the legislature (Lower Chamber where the legislature is bicameral), and 0 otherwise. Party shares were obtained mainly from observatorioelectoral.org and the Political Database of the Americas. Country-specific sources (such as electoral institutes) were used when the data was not available in these sites.
<i>Distance</i>	To code ideology, we give each political party a score on a 5-point scale, where 1 is Left and 5 is Right. The scores are based on party positions from Coppedge (1997) for Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru, Uruguay, and Venezuela. Party positions for remaining countries (Guatemala, El Salvador, Dominican Republic, Honduras, Nicaragua, Paraguay, and Panama) and for parties not included in Coppedge were constructed based on consultations with country experts (Dinorah Azpuru, Orlando Perez, Michael Coppedge, Andrew Schrank, Ricardo Cordova, Miguel Carter, Jonathan Hartlyn, David Roll, Ana Maria Bejarano). We code personalistic parties with no clear ideology as missing, as well as parties coded in Coppedge as <i>unknown</i> , and <i>other</i> . We then calculate the average ideology of the government by averaging the scores for all parties in the government and weighting them by the parties’ size. We do the same thing to calculate the ideology of the median legislator. Ideological distance was then calculated taking the absolute distance between the government’s ideology and the median legislator’s ideology.
Political Competition	
<i>Legislative Advantage</i>	Difference in seats between the party in government (or parties if the government was a coalition) and the largest opposition party as a proportion of the total number of seats in the legislature (Lower Chamber where the legislature is bicameral). See <i>Single-Party Majority</i> for sources for party shares.
<i>Polarization</i>	Dummy that takes the value 1 when the ideological distance between the government and the main challenger is larger than the mean distance for the entire sample. See <i>Distance</i> for details on how we measure ideology.
<i>Left Opposition</i>	Dummy that takes the value 1 if the opposition is to the ideological left of the government. See <i>Distance</i> for details on how we measured ideology.
Ideology of Incumbent	
<i>Right Incumbent</i>	Dummy variable that takes the value 1 when the ideology of the incumbent’s party is 4 or 5 (on the 1–5 ideology scale; see <i>Distance</i> for details), and 0 otherwise.
<i>Center Incumbent</i>	Dummy variable that takes the value 1 when the ideology of the incumbent’s party is 3 (on the 1–5 ideology scale; see <i>Distance</i> for details), and 0 otherwise.
<i>Left Incumbent</i>	Dummy variable that takes the value 1 when the ideology of the incumbent’s party is 1 or 2 (on the 1–5 ideology scale; see <i>Distance</i> for details), and 0 otherwise.
<i>Right Inc * Left Opp</i>	Interaction between <i>Right Incumbent</i> and <i>Left Opposition</i> . Takes the value 1 when the president’s party is right-wing and its main opposition stands to its left.
Controls	
<i>Effective Num. of Parties</i>	Effective number of parties taken mainly from Jorge Schiavon, <i>Effective Number of Parties Database of Latin America</i> , http://www.cide.edu/investigadores/jorge_schiavon/parties.html .
<i>Government Share</i>	Share of legislative seats held by the government (including all members of the coalition where appropriate). See above for sources for party shares.

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