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Sang-Hyun Yi

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**THE POLITICAL ECONOMY OF PUBLIC ENTERPRISE
REFORM: A COMPARATIVE STUDY OF MINERAL SECTOR
CASES IN LATIN AMERICA**

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Sang-Hyun Yi, B.A., M.A.

Dissertation

Presented to the Faculty of the Graduate School of
The University of Texas at Austin
in Partial Fulfillment
of the Requirements
for the Degree of

Doctor of Philosophy

The University of Texas at Austin
May, 2006

DEDICATION

To my parents Jung-Woo Yi and Gun-Ja Jung

And to miners all over the world

ACKNOWLEDGEMENTS

There are many people and institutions who in different ways supported my study since the beginning of my journey in Latin American Studies. First of all, I would like to thank my supervisor, Raúl Madrid, for his support and guidance throughout this dissertation process. His incisive comments and strong encouragement were vital to keep me going with this research. I value his opinions and respect his serious-minded approach to social science. Additional thanks goes to the other committee members of the dream team of Latin American Studies, Henry Dietz, Jonathan Brown, William Glade, and Bryan Roberts.

My field research was made possible primarily by the Teresa Lozano Long Institute of Latin American Studies of the University of Texas at Austin, and an additional trip to Chile was supported by the Tinker Foundation. I want to thank many people for their generous help and support while I was conducting field research in Chile and Argentina. More than fifty scholars, policymakers, politicians, and union leaders agreed to have interviews for this study. Also many other people assisted this project in countless ways. I am particularly grateful to Julián Alcayaga, Hugo Fazio, Isabel Hernández, Jorge Katz, Antonio Leal, Rolf Lüders, and Pedro Morales in Chile and to Carlos Acuña, Juan Pablo Baylac, Sergio Berensztein, Gustavo Calleja, Hector Cavicchia, and Lucas Mendez in Argentina.

I am indebted to my professors in Korea who introduced Latin American Studies to me. I would also like to thank several colleagues and friends for their support and help. Anne Dibble, Claudia Martinez-Castañón, Julie Reid, and Susan Roberts all helped make life more worthwhile. I am also grateful to Lanie Tankard for her excellent editing.

Finally, I thank my family. First, I would like to thank my parents, Jung-Woo Yi and Gun-Ja Jung, and parents-in-law, Uk-Hee Park and Chung-Jin Kim. Without their support none of this would have been possible. Second, I am also indebted to my brothers and sister-in-law, Sang-Ho, Sang-Hoon, and Young-Ran, who have filled in for my absence in the family. Third, I am grateful to my grandmother, Pil-Bong, who passed away last winter. I miss her love and support. Final thanks to my valuable colleague, friend, and spouse, Yun-Joo. Her countless contributions to this dissertation are beyond any expression.

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Publication No._____

Sang-Hyun Yi, Ph.D.

The University of Texas at Austin, 2006

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In accordance with market-oriented reform in recent decades, Latin American countries have implemented public enterprise reforms. But these efforts have varied depending on the country and type of industry. Some Latin American countries have chosen to hold on to their state enterprises in the mineral sector when they have privatized widely in other sectors. Also, some Latin American countries have fully privatized their public enterprises while other companies have opted for partial privatization or other types of public enterprise reform that do not involve privatization. This study accounts for such divergence by developing a theory of public enterprise reform. The findings in this study contribute to our understanding of the conditions for economic policy in general and public enterprise reform in particular.

In this study, public enterprise reform is divided into four different types according to the degree of state and private involvement in the ownership and

management control of the public enterprise: no-privatization, rationalization, semi-privatization, and full-privatization.

CODELCO of Chile and YPF of Argentina constitute cases of no-privatization and full-privatization respectively, while COMIBOL of Bolivia represents a case of rationalization. The comparative analysis of these cases demonstrates that the combination of economic benefits and the scope of political opposition to privatization determines the type of public enterprise reform. The combination of high economic benefits and high political opposition results in no-privatization, while low economic benefits and low political opposition lead to full-privatization. Also, low economic benefits and high political opposition yields rationalization while high economic benefits and low political opposition produce semi-privatization. As a result, this study finds that the state implements a certain type of public enterprise reform based on the competition of social forces and economic efficiency.

This research also details the specific indicators or sources of economic benefits and political opposition. The economic benefits of a public enterprise are determined by the company's fiscal balance, its contribution to tax revenue, its contribution to exports, and its debt ratio. The autonomous power of the labor unions, the power of the military, the power of the left, and the strength of public opposition shape the political opposition.

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LIST OF ABBREVIATIONS

ADN	Acción Democrática Nacionalista (Democratic Nationalist Action, Bolivia)
BNDES	Banco Nacional de Desenvolvimento Econômico e Social (Nacional Bank for Economic and Social Development, Brazil)
CGT	Confederación General del Trabajo (General Confederation of Labor, Argentina)
CNT	Comando Nacional de Trabajadores (Nacional Workers' Command, Chile)
COB	Central Obrera Boliviana (Bolivian Labor Central)
COCHILCO	Comisión Chilena del Cobre (Chilean Copper Commission, Chile)
CODELCO	Corporación Nacional del Cobre del Chile (Nacional Copper Corporation of Chile)
COMIBOL	Corporación Nacional Minera de Bolivia (Nacional Mining Corporation of Bolivia)
CONDEPA	Conciencia de Patria (Conscience of the Homeland, Bolivia)
CORFO	Corporación de Fomento de la Producción (Corporation for Production Development, Chile)
CTC	Confederación de Trabajadores del Cobre (Federation of Copper Workers, Chile)
CUT	Central Unica de Trabajadores (Central Workers' Confederation, Chile)
CVRD	Companhia Vale do Rio Doce, Brazil
FREPASO	Frente del País Solidario (Front for Country Solidarity, Argentina)
FSTMB	Federación Sindical de Trabajadores Mineros de Bolivia (Bolivian Mine Workers' Federation, Bolivia)
FTC	Federación de Trabajadores del Cobre (Copper Workers' Federation, Chile)
GDP	Gross Domestic Product
ITA	Internacional Tin Agreement
MAS	Movimiento al Socialismo (Movement Toward Socialism, Bolivia)

MIR	Movimiento de Izquierda Revolucionaria (Leftist Revolutionary Movement, Bolivia)
MNR	Movimiento Nacionalista Revolucionario (Nationalist Revolutionary Movement, Bolivia)
MODIN	Movimiento para la Dignidad y la Independencia (Movement for Dignity and Independence, Argentina)
NPE	Nueva Política Económica (New Economic Policy, Bolivia)
PC	Partido Comunista (Communist Party, Chile)
PDC	Partido Demócratico Cristiano (Christian Democratic Party, Chile)
PDVSA	Petróleros de Venezuela, Venezuela
PEMEX	Petróleos Mexicanos , Mexico
PETROBRAS	Petróleo Brasileiro, Brazil
PJ	Partido Justicialista (Justicialist –Peronist- Party, Argentina)
PPD	Partido por la Democracia (Party for Democracy, Chile)
PRD	Partido de la Revolución Democrática (Party of the Democratic Revolution, Mexico)
PRI	Partido Revolucionario Institucional (Institucional Revolutionary Party, Mexico)
PS	Partido Socialista (Socialist Party, Chile)
PSD	Partido Socialista Demócrata (Social Democratic Party, Chile)
RN	Renovación Nacional (Nacional Renovation, Chile)
Statoil	State's Oil, Norway
UceDÉ	Unión del Centro Democrático (Democratic Center Union, Argentina)
UCR	Unión Cívica Radical (Radical Civic Union, Argentina)
UDI	Unión Democrática Independiente (Independent Democratic Union, Chile)
UDP	Unión Democrática y Popular (Democratic Popuar Union, Bolivia)
YPF	Yacimientos Petrolíferos Fiscales, Argentina
YPFB	Yacimientos Petrolíferos Fiscales Bolivianos, Bolivia

CHAPTER 1: EXPLAINING PUBLIC ENTERPRISE REFORM IN THE MINERAL SECTOR

INTRODUCTION

In the past three decades, we have witnessed a wave of market-oriented reform around the world. This effort has aligned with the new economic policy scheme, neoliberalism, which emphasizes the role of the market in the economy instead of the state. Market-oriented reform includes various policies such as privatization, deregulation, and liberalization of many aspects of the economy mainly in the trade and financial areas. Among these market-oriented policies, privatization has been the most controversial not only because economic benefits of privatization are not clear cut, but also because it is “by nature painful and politically dangerous.”¹ Despite these inherent difficulties, governments around the world successfully adopted and implemented privatizations in terms of their scale and diversity. According to *Privatisation International*, by implementing various forms of privatization, countries around the world had amassed more than \$ 1 trillion by the end of the twentieth century.² As a result, the share of public enterprises in the “global GDP” has declined from more than 10 percent in 1979 to less than 6 percent in 2001.³

Latin America, once the champion of the state-centered economy, became the pioneer of market-oriented reform. Since the 1970s, most Latin American countries have implemented a series of neoliberal economic policies. In accordance with these policies, Latin American countries have privatized most public enterprises such as banks, telecommunications, electricity, water, and transportation. Latin America and the

¹ Suleiman and Waterbury. 1990: p. 3.

² Megginson and Netter, 2001: p. 326.

³ Megginson and Netter, 2001: p. 380.

Caribbean region turned into the leaders of privatization in the developing world, accounting for half the value of all privatizations between 1986 and 1999.⁴

These privatization efforts have varied depending on the country and type of industry. The Latin American mineral sector especially has shown specific sectoral results. For example, the Chilean state has not privatized the state-owned copper company, CODELCO (Corporación Nacional del Cobre del Chile), which constitutes the largest copper company in the world and is the third largest state-owned company in Latin America. This situation seems contradictory to Chile's pioneering effort in implementing neoliberal economic policies since the early 1970s. Neither did the Mexican state privatize its largest monopoly petroleum company, PEMEX (Petróleos Mexicanos). The PEMEX case does not match the aggressive free trade and market-oriented economic policy implemented by Carlos Salinas de Gortari and Ernesto Zedillo. Bolivia shows a new type of mineral policy because the country has chosen a distinctive type of public enterprise reform for its major state-owned mining company, COMIBOL (Corporación Minera de Bolivia). COMIBOL is the main producer of tin and other minerals and has long been responsible for the largest portion of Bolivian exports. Despite the overt financial difficulty of COMIBOL, Bolivia continues to sustain COMIBOL as a state company while the country sold some of COMIBOL's assets and transferred its management responsibilities to the private sector by contracting leases and joint ventures. In contrast, Argentina privatized its oldest petroleum company, YPF (Yacimientos Petrolíferos Fiscales), in 1993, and Brazil privatized the world's largest producer and exporter of iron ore, CVRD (Companhia Vale do Rio Doce), in 1997 although the Brazilian government holds a significant company's share directly and

⁴ Inter-American Development Bank Research Department, 2002: p. 2.

indirectly. The CVRD case is another surprise in the mineral policy, because CVRD is a very profitable company in Brazil.

From these cases, I draw several research questions: Why have many Latin American countries chosen to hold on to their state enterprises in the mineral sector when they have privatized broadly in other sectors? Why have some Latin American countries fully privatized their public mineral enterprises while other countries have opted for partial privatization or different types of public enterprise reform than privatization?

This research is designed to answer these questions. The primary purpose of this study is to unveil the determinants of public enterprise reform rather than those of market-oriented reform in general. This examination provides a theory of public enterprise reform that elucidates structural conditions of privatization. My findings can apply to public enterprise reform in other countries and regions. The political and economic variables in this research, however, may have different weights in different countries and different reform cases.

To establish a dynamic theory of public enterprise reform, this research focuses on the reform of a specific sector, the mineral sector⁵, which has been the most important sector in the Latin American region's economy. Minerals are limited and not reusable. Because minerals have played a crucial role in Latin American economies, they have often been represented as symbols of nationalism and have sparked international and domestic political conflicts as well. In this sense, the privatization of the public mineral enterprise has been treated as the ultimate task for policymakers and politicians. By providing a detailed story of the most important public enterprise reform based on each country's unique political and economic environments, this research aids in understanding what factors lead to different sectoral results of market-oriented reform in

⁵ In this research, the mineral sector refers to underground resources such as copper, iron, oil, gas, tin, etc.

a country. The determinants for the different sectoral results are easily ignored by the country-based research that deals with market-oriented reform in general.

The main purpose of this chapter is to set forth a theory of public enterprise reform in the mineral sector. Before explaining my theory of public enterprise reform, I discuss how I measured the dependent variables of public enterprise reform and categorize them in four categories: no-privatization, rationalization, semi-privatization, and full-privatization. In the following section, I lay out my theory of public enterprise reform. First, with critical reviews of the extant literature, I suggest the importance of the political economy approach which examines both political and economic variables together. Second, I offer two main independent variables which determine the nature of public enterprise reform in the mineral sector: the scope of political opposition and the economic benefits of a public enterprise. Third, I present my theory of public enterprise reform in the mineral sector. Finally, to complete my theory, I clarify and discuss several determinants of public enterprise reform with reference to each independent variable. Next, I describe the research design of this study, including methods and case selection. In the final section, I discuss the theoretical implication of this study and lay out the organization of this dissertation.

DEPENDENT VARIABLES

In this dissertation, I offer an explanation of the logic behind which factors determine public enterprise reform. To develop a theory of public enterprise reform, I first clarify the dependent variable, simply expressed as “change in the ownership and management control of public enterprise.”

During the past three decades, privatization has been the most popular method for reforming the public sector. Privatization can be defined as “the shifting of a function,

either in whole or in part, from the public sector to the private sector.”⁶ Logically, we can expect various results from public enterprise reforms in terms of the degree of the involvements of the state and of the private sectors in ownership and management of a company. However, existing literature⁷ on privatization has failed to distinguish privatization from other types of public enterprise reform. Because public enterprise reforms vary depending on the political and economic situation of both the country and its public enterprise per se, the failure to distinguish privatization from other types of public enterprise reform obscures our understanding of the complexity of each public enterprise reform. As Madrid points out in his research on Latin American labor reform, existing literature “tends to focus on reforms that were formally proposed by the executive, which creates a form of selection bias since some groups may be effective at keeping issues off the agenda.”⁸ That is, existing literature tends to concentrate on the reform cases that were proceeded to the stage of success while ignoring the cases that did not succeed due to political and economic reasons. By limiting research to success stories, most existing literature has failed to explain various results of public enterprise reform policies. Immersed in similar success cases, the arguments in existing literature tend to emphasize a few common independent variables to explain public enterprise reform. Thus, without incorporating “other results” of public enterprise reform such as no-privatization or semi-privatization, existing studies cannot convey the main determinants of complex process.

By definition, nationalization denotes the conversion of resource or service from private to state ownership and control. Conversely, privatization denotes reducing the

⁶ Butler, 1991.

⁷ Williamson, 1994; Levitsky, 2001; Murillo, 2001; Teichman, 2001; Armijo and Faucher, 2002; Corrales, 2002; Murillo, 2002; Schamis, 2002; Weyland, 2002.

⁸ Madrid, 2003a: p. 57.

role of the state while increasing that of the private sector in activities or asset ownership. In this context, both ownership and management control are the main variances of public enterprise reform. Hence, various results of public enterprise reforms reflect different degrees of state and private roles in ownership and management control. Considering these fundamental features of public enterprise reform, I conceptualize four types of public enterprise reform which cover the full range of variation in public enterprise reform in terms of the degree of state and private involvement in the ownership and management control of public enterprise production and assets. The development of four types of public enterprise reform helps specify the origin of each reform.

Table 1-1. Scopes of Public Enterprise Reform

Type of Reform	Ownership	Management
Full-Privatization	Private	Private
Semi-Privatization	Mostly Private	Mixed (State & Private)
Rationalization	Mostly State	Mostly Private
No-Privatization	Mostly State	Mostly State

The first type of public enterprise reform is full-privatization in which the state transfers total ownership as well as management control of a state-owned company to the private sector. Hence, in full-privatization, the state not only gives up company ownership, but also terminates direct control of the resources or services that it undertook before. After the process, a regulatory policy could be the only way for the state to control such resource or service. Full-privatization is the simplest and most straightforward way to transform a public enterprise. Both asset and equity sales can be used as a method of full-privatization. In fact, full-privatization has been the most popular form of public enterprise reform. A notable example is YPF of Argentina. The Argentine state adopted full-privatization to reform its petroleum public enterprise, YPF. After going through preliminary processes such as partial asset and equity sales, the

Argentine state completely transferred the ownership of YPF to a Spanish company, Repsol, in 1999. Full-privatization has also been widely adopted in other industries and in other parts of the world. The telecommunication and banking sectors tend to follow full-privatization in reforming efforts.

In the case of full-privatization, the state transfers both ownership and management control of a public enterprise to the private sector at the same time. However, under various political and economic constraints surrounding a public enterprise, the state cannot always choose and succeed in fully privatizing the public enterprise. Hence, many public enterprise reform cases have shown mixed results in which neither the state nor the private sector has outright ownership or management control. In this research, I use terms such as “rationalization” and “semi-privatization” for these mixed results of public enterprise reform.

Semi-privatization is closer to privatization, because more than half of the stakes are transferred to the private sector. By implementing the semi-privatization process, the state turns a public enterprise into a private one. However, I distinguish semi-privatization from full-privatization because the state maintains a significant portion of the stakes through which it can influence the management of the enterprise and receive profits. In semi-privatization, even though the state has privatized a public enterprise, the state is still an important investor in the enterprise. The privatization of CVRD in Brazil is an example of semi-privatization. In 1997, the Brazilian state privatized the world’s biggest iron ore producer and exporter, CVRD. However, in spite of privatization, the public sector entities including the federal government not only hold a significant portion of CVRD’s equity directly but also keep influencing the decision-making process.⁹

⁹ *Latin Finance*, March 2004.

The third type of public enterprise reform is rationalization. Rationalization does not mean the sale of absolute ownership of a public enterprise; rather, it means attempts by the state to restructure a public enterprise through the sale of some assets or the development of joint ventures. Unlike semi-privatization, however, those restructuring processes do not change the legal ownership status of a public enterprise and its resources. That is, rationalization is limited to the management control of the company and its resource. As a result, in rationalization, the public enterprise sustains its status even though the state may withdraw its control from productive activities and transfer management to the private sector. Therefore, the private sector assumes a main role in controlling the company and its resources while the state sustains the legal ownership of the public enterprise and its resources. For this type of public enterprise reform, joint ventures are the most popular method. As Guarnera explains, “joint ventures are frequently utilized when, because of issues of patrimony, government ownership of all or part of the mineral property is required.”¹⁰ Both COMIBOL and YPFB (Yacimientos Petrolíferos Fiscales Bolivianos) of Bolivia can be classified as this type of public enterprise reform. As of 2005, the Bolivian state legally owned both COMIBOL and YPFB and their mineral resources, although the private sector not only assumes production but also exerts substantial control on the resources of COMIBOL and YPFB.

Finally, I establish no-privatization as a type of public enterprise reform. In no-privatization, the state not only exerts absolute ownership of a public enterprise, but also sustains firm control on the enterprise and its resource. No-privatization means that the public enterprise sustains its status without transferring ownership of the company, although some reform measures might be implemented to secure economic efficiency. Under no-privatization, the state might sell minority stock of a public enterprise to the

¹⁰ Guarnera, 1996.

private sector as a strategic move which aims at either enhancing transparency of the public enterprise or absorbing technologies from another private sector. Yet, under no-privatization, the reform measure does not involve the change of a company's absolute ownership as well as the substantial management control on the resources or service of the public enterprise.

Many public enterprises around the world choose no-privatization for its strategic public enterprise. Particularly, in the Latin American mineral sector, CODELCO of Chile, PEMEX of Mexico, and PDVSA (Petróleros de Venezuela) of Venezuela are notable cases of no-privatization. Also, the Norwegian state petroleum company, Statoil, and PETROBRAS (Petróleo Brasileiro) of Brazil can be included in this type of public enterprise reform, although they sold minority stock. After a partial stake sale in 2001 and 2004, the Norwegian state reduced its stake from 100 percent to 76.3 percent. The Brazilian federal government has sustained more than 50 percent of PETROBRAS's voting stock, although the company sold a significant portion of its stake to private investors when the Petroleum Act (Law no. 9478/97) was enacted in 1997. In both companies, the state by law must sustain its absolute ownership of the company and management control of its resource.

In sum, the dependent variable of the research is the change in ownership and management control of a public enterprise. The conceptualization of four scopes of public enterprise reform enhances our understanding of various results from public enterprise reform. Among four scopes of public enterprise reform, full-privatization and no-privatization represent polar values of the variable. Also, semi-privatization and rationalization are situated in the intermediate position of the variables. Operationally, both semi-privatization and rationalization have complementary roles to support the theory of this research.

THE LOGIC OF PUBLIC ENTERPRISE REFORM

The purpose of this research is to develop a theory of public enterprise reform. In this section, I discuss the logic of public enterprise reform, which explains the causality of various scopes of public enterprise reform in relation to political and economic determinants. This study has two independent variables. One is the economic benefits of a public enterprise; the other is the scope of political opposition to the privatization of such public enterprise. In brief, I argue that the combination of different degrees of both economic benefits and political opposition leads to various results of public enterprise reforms.

Explaining Public Enterprise Reform

By taking into account both the political and economic contexts and processes of public enterprise reform, this research elucidates the determinants of such reform in the Latin American mineral sector. Also, by shedding light on determinants, this study makes clear the causality of various results of public enterprise reform. As I explained in the previous section, the failure to distinguish privatization from other forms of public enterprise reform is the principal weakness in existing literature. However, the binomial variation on the dependent variable is not the only obstacle to a more accurate understanding of public enterprise reform. Existing literature on public enterprise reform tends to limit the scope of independent variables due to a traditional disciplinary approach. Therefore, many economists and political scientists fail to explain the complexity of public enterprise reform, which is conditioned by both political and economic variables. For instance, the economic approach sees privatization as a purely economic phenomenon while deemphasizing the political dimension of a public enterprise rooted in the society. In other words, the economic approach does not consider the political feasibility of public enterprise reform while spotlighting the economic

rationality of privatization. Indeed, the economic approach focuses on answering not “how” but rather “why” questions of particular public enterprise reform. That is, it ignores “the motivating power of non-economic forces such as nationalism, ideology, race, and ethnicity.”¹¹ As Manzetti notes, no matter how sophisticated economic analyses may be, researchers using the economic approach have been unable to explain the timing of privatization in many countries.¹²

Similarly, the effort of political scientists to theorize public enterprise reform, which is contained in the literature on economic adjustment and privatization, also shows a limited capability to understand public enterprise reform. Unlike the economic approach, the political approach tends to treat public enterprise reform as a purely political phenomenon. The political approach interprets public enterprise reform as a product of the realignment of institutions and decision-making processes in which social groups compete for their own interests.¹³ That is, the political approach assumes that “whenever there is conflict between the economic and political goals of privatization, the political goals will be given priority by the state implementing the privatization program.”¹⁴ The political approach literature thus suggests that political and institutional features such as the regime type, the structure of political party system, the degree of the executive power, and the strength of particular social groups as independent variables. However, the political approach shows limitations to explain the variation of public enterprise reform because it ignores the particular economic role of each public enterprise with regard to exports and revenue-generation in the national economy.

¹¹ Feigenbaum, Henig, and Hamnett, 1999: p.40.

¹² Manzetti, 1999: p. 1.

¹³ Feigenbaum and Henig, 1994.

¹⁴ Dobek, 1993.

In a capitalist economy, the state determines economic policy based on competition of social forces and considerations of economic efficiency. The capitalist state is not simply an instrumental entity controlled by a dominant class but is rather an institutional entity that is a distillation vector of a balance between social forces. In this sense, the capitalist state has limited autonomy, and its economic policy reflects the power of competing social forces within the structure of the state itself.¹⁵ The limited autonomy of the state is also derived from the economic efficiency of a policy. If a new economic policy aims at changing existing economic situations, the state should consider the economic benefits from the economic policy. While each social force pursues its own interests from the economic policy, the state must calculate the ability of the economic policy to evade an economic failure in the long run. Meanwhile, the importance of both economic and political considerations in determining an economic policy is also relevant to electoral competition. According to Remmer,

Electoral considerations are expected to shape macroeconomic policy choices and outcomes. Governments are presumably interested in political as well as economic success, which means that they may select economically suboptimal sets of policies to maximize electoral support and the prospects of reelection. The process of macroeconomic policy formation is thus linked with the electoral process, through which governments attempt to retain power in competition with one or more sets of opponents.¹⁶

In this sense, studies of economic policy should analyze both economic and political variables together, because, as Krueger emphasizes, “many aspects of economic policy cannot be satisfactorily analyzed without taking both political and economic elements into account.”¹⁷ By the same token, Smith highlights, “privatization, for all its technical aspects, was fundamentally a political process. In the simplest terms, the process reflected and responded to not only economic considerations and criteria but also

¹⁵ Poulantzas, 1975; 1980.

¹⁶ Remmer, 2002: p. 40.

¹⁷ Krueger, 1993: p. 135.

mobilized political interests.”¹⁸ Therefore, in this research, I seek to explore both economic and political determinants together in order to establish a model to explain public enterprise reform in the Latin American mineral sector.

However, questions still remain. What specific factors determine public enterprise reform? Why have some states chosen full-privatization while others have opted for other types of public enterprise reform? Why have some states tried to evade full-privatization of public enterprises in the mineral sector when they have gone with privatization in other sectors? What accounts for this variation? This research aims to answer these questions and, in doing so, attempts to develop a comprehensive theory of public enterprise reform.

Defining Independent Variables

Before laying out the theory for the research, I discuss independent variables in reference to economic and political determinants. I suggest “economic benefits of the public enterprise” for the economic variable and “the scope of political opposition to the privatization” for the political determinant, respectively.

Economic Determinant: “Economic Benefits of the Public Enterprise”

To begin with economic determinants, it is worthwhile to review the lists of the general objectives set out for privatization by British Conservatives in the 1980s, because most governments pursue the same objectives in their privatization programs.¹⁹ The goals are “to (1) raise revenue for the state, (2) promote economic efficiency, (3) reduce government interference in the economy, (4) promote wider share ownership, (5) provide the opportunity to introduce competition, and (6) subject public enterprises to market discipline.”²⁰ In terms of economic goals, the privatization program aims at improving

¹⁸ Smith, 2002: pp. 154-155.

¹⁹ Megginson and Netter, 2001: p. 324.

²⁰ Megginson and Netter, 2001: p. 324. Megginson and Netter added one more goal, the development of the national capital market.

both macroeconomic and microeconomic performance.²¹ It means that the economic determinants of public enterprise reform should consider both microeconomic and macroeconomic performance.

For Latin American states, economic stability based on balancing both payments and public expenditures has been the main target of economic policy. This target has become more urgently pursued by many countries in the region after the economic crisis of the 1980s. Latin American states have considered privatization as a method to solve their faltering economic situations. Many extant literatures²² on market-oriented reform suggest economic crisis as a primary determinant for public enterprise reform, particularly in Latin America. Bates and Krueger argue that “crisis is perhaps the more frequent stimulus to reform.”²³ Also, Suleiman and Waterbury note in their study on public sector reform and privatization that privatization “is begun and sustained in response to crisis: outsized public deficits, high inflation, deteriorating trade balances, the instability to meet external debt obligations, and ultimatums from public and private creditors. In some developing countries all of these elements of crisis are present simultaneously.”²⁴

However, economic crisis cannot explain the variation of public enterprise reform in mineral sector. In fact, not every country that experienced economic crisis privatized its public enterprise in the mineral sector. For example, in spite of several economic crises, Mexico did not privatize its largest public enterprise, PEMEX. Neither has Chile privatized its most important public enterprise, CODELCO, despite a severe economic

²¹ Here, I follow Molano’s definitions on macro- and microeconomic performance. According to Molano, “microeconomic” refers to company-level factors, while “macroeconomic” refers to country-level factors. Molano, 1997: p. 19, Notes no. 9.

²² Suleiman and Waterbury, 1990; Haggard and Kaufman, 1995; Rodrik, 1996; Weyland, 1998; Weyland, 2002.

²³ Bates and Krueger, 1993: p. 452.

²⁴ Suleiman and Waterbury, 1990: p. 2.

crisis in the early 1980s. In the mineral sector, Argentina's YPF is the only case of full-privatization under the economic crisis. Yet, in the case of Argentina, crisis was not the only determinant of privatization because Argentina had experienced several economic crises before. In addition, economic crisis cannot explain the variation of public enterprise reform in a country either. For example, both Mexico and Chile sustained their public enterprises in the mineral sector while they privatized public enterprises in other sectors such as telecommunication, public utilities, and banking. In summary, economic crisis may affect the timing of reform but determine neither the target public enterprise for privatization nor the type of reform. As Armijo and Faucher conclude, "economic crisis probably is necessary but not sufficient for the initiation of reform."²⁵

However, the lack of explanatory power of economic crisis as a variable does not mean that the macroeconomic performance can be ignored because a public enterprise, particularly a large public enterprise, is strongly connected to the macroeconomic performance of the country. Therefore, in this research, I pay attention to the microeconomic performance of a public enterprise while considering its impact on macroeconomic performance. Public mineral enterprises exist neither for social welfare such as social security and health insurance nor for the infrastructure of utilities such as electricity and water. The main function of a public enterprise in the mineral sector is to yield profits. It also has other roles such as employment, balance of payments, and tax revenue. Indeed, the microeconomic performance of a public enterprise has been a popular topic in privatization literature. Jones, Tandon, and Vogelsang even argue that the microeconomic analyses of a privatized firm should be the focus of privatization studies.²⁶ The survey of extant literature shows that the majority of studies on

²⁵ Armijo and Faucher, 2002: p. 4.

²⁶ Jones, Tandon, and Vogelsang, 1990.

microeconomic performance and privatization, mainly done by neoclassical economists, focus on the relationship between the type of ownership and the efficiency of the company. Most of them argue that public enterprise is less profitable and productive than private.²⁷ Yet even though established research has shown a tendency of pro-privatization, it also verifies the importance of microeconomic performance as a deciding factor for the fate of a public enterprise.

The state chooses to reform a public enterprise in order to improve macroeconomic performance of the country. However, which company is going to be “reformed” and how is largely based on the microeconomic performance of each public enterprise. If a public enterprise shows a good microeconomic performance and has a positive impact on the macroeconomic performance of the country, the state would not have a strong economic incentive to change the existing structure of the public enterprise. On the contrary, if a public enterprise performs poorly and has a negative impact on the national economy, the state would have a strong incentive to change the structure of the enterprise, including the ownership. In sum, the economic determinant of public enterprise reform is “economic benefits of the public enterprise,” which refers to the microeconomic performance of public enterprise and its contribution to the macroeconomic performance of the country.

Political Determinant: “The Scope of Political Opposition to the Privatization”

To be sure, the “economic benefits of the public enterprise” alone cannot explain the public enterprise reform in the mineral sector. Political determinants should be considered together with economic determinants to understand the variation in public enterprise reforms. With regard to this study, there are two notable perspectives on the political determinants of public policy formation: state-centric and society-centric.

²⁷ Boardman and Vining, 1989; Dewenter and Malatesta, 2001.

On the one hand, the state-centric perspective on economic reform focuses on executive authority and institutional capability as key political determinants of economic reform, arguing that “executive authority to dismantle opposition from vested interests was considered a precondition for the success of privatization and other market-oriented reform.”²⁸ In this sense, the state-centric literature deals with political and institutional circumstances which determine the executive capability to initiate, proceed, and implement public enterprise reform. Therefore, the state-centric literature suggests political and institutional features such as regime type, party structure, electoral system, and legislative-executive relationships as its key independent variables.²⁹ For instance, many sources, notably early studies on economic reform, focus on analyzing the effect of regime type on the speed and depth of economic reform in general, and privatization in particular. In this context, some argue that the authoritarian regime has an ideal position to implement market-oriented reform because it does not need to consider the fact that its electoral possibilities might be undermined by the implementation of unpopular economic reforms.³⁰ Contrary to this claim, others argue that an authoritarian regime has no advantage over a democratic regime to implement and sustain economic reform.³¹ Also, some suggest that a democratic regime provides better political circumstances for initiation and maintenance of market-oriented reform since it could enjoy greater legitimacy, which is pivotal to insulate social interests.³² Meanwhile, other studies pay attention to more specific institutional features of a country. Haggard and Kaufman highlight the authority of the executive and the structure of the party system, particularly

²⁸ Murillo, 2002: p.467.

²⁹ Nelson, 1990; Shugart and Carey, 1992; Haggard and Kaufman, 1992; Haggard and Kaufman, 1995; Mainwaring and Shugart, 1997.

³⁰ Malloy, 1987; Skidmore, 1977.

³¹ Nelson, 1990; Pereira 1993.

³² Maravall, 1995.

the extent of its fragmentation and polarization as two institutional arrangements for managing the political pressures associated with economic reform.³³ Also, Mainwaring and Shugart³⁴ argue that the degree of presidential power shapes the implementation and outcomes of economic policy. They point out that the number of parties and the degree of party discipline are crucial variables that condition how presidentialism functions.

However, in spite of its strong and plausible insights to understand economic reform in general, this state-centric literature is insufficient to explain a particular public enterprise reform. Since the state-centric literature focuses on the political capability of formal political institutions to carry out general reform, it tends to ignore specific struggles and bargaining processes of each public enterprise reform. The state-centric perspective, moreover, encounters difficulties in accounting for different results of public enterprise reform at the subnational level. In other words, the national-level variables adopted by state-centric studies cannot explain why countries privatize some firms and not others. Particularly, studies that rely on institutional features as independent variables show this weakness. According to their assumption, every individual policy in market-oriented reform tends to be treated as a single package dominated by each country's political institutional features. As Madrid points out, however, "this assumption is highly suspect given that different types of reforms are governed by different institutional rules and have sharply varying distributions of costs and benefits."³⁵ Therefore, the state-centric perspective has limitations in explaining the full range of public enterprise reform within a country, because each public enterprise has been placed in different political settings.

³³ Haggard and Kaufman, 1995.

³⁴ Mainwaring and Shugart, 1997.

³⁵ Madrid, 2003b: p. 2.

On the other hand, society-centric studies support the importance of social interest groups in the examination of economic reform and privatization. In her study of economic policy and performance in Latin America, Remmer underlines the continuing importance of popular pressures on policy formation in Latin America while criticizing “state-centric literature that portrays civil society as a dependent variable, too dramatically weakened and fragmented by the shift in development strategies.”³⁶ Also, Haggard, Lefay, and Morrisson argue in their study on political feasibility of economic reform,

“There are important relationships between economic adjustment efforts and the political reactions of social groups. Strikes and protests can lead governments to change the course of policy, and have in certain circumstances even led to changes in the government itself.”³⁷

Therefore, as Nelson, Haggard, and Kaufman argue in their essays on how distributive conflicts influence the economic reform policy, “the key theoretical issue is the weight that should be placed on social and economic interests in explaining the reform process.”³⁸

To summarize, two main theories on the political determinants of economic reform indicate that in order to explain the variation of public enterprise reforms, we should focus on the specific political conditions that could limit, modify, and block a particular proposal made by the state. In this sense, the destiny of public enterprise reform is contingent on the degree of the power of political forces opposing the privatization of a particular public enterprise as well as the political and institutional conditions that facilitate or constrain their opposition.

³⁶ Remmer, 2002: pp. 54-55.

³⁷ Haggard, Lefay, and Morrison, 1995: p. 77.

³⁸ Haggard and Kaufman, 1992: p. 8.

In this study, I suggest the scope of political opposition to privatization as a political determinant of public enterprise reform.³⁹ I argue that the degree of oppositional power of social interest groups against privatization has a more decisive role in differentiating public enterprise reforms than does the strength of the executive authority or a particular institutional feature. Przeworski offered an explanation for the role of particular political forces in economic reform. According to Przeworski,

“Reforms can progress under two polar conditions of the organization of political forces: The latter have to be very strong and support the reform program, or they have to be very weak and unable to oppose it effectively. Reforms are least likely to advance when political forces – in particular, opposition parties and unions – are strong enough to be able to sabotage them and not large enough to internalize the entire cost of arresting them.”⁴⁰

Therefore, in order to find a political factor to differentiate the results of public enterprise reform, I specify the scope of the relative power of opposition forces to pro-privatization forces as a political determinant. However, it does not mean that the capability of the executive authority and formal political institutions can be ignored in the analysis of public enterprise reform. Rather, this study stresses that the executive authority and formal political institutions have an important role to provide general conditions in which social interest groups negotiate, mobilize, and struggle for their own interests.

In this study, for example, constitutional provisions are an important institutional feature to account for public enterprise reform in mineral sector. The constitutional rules governing public mineral enterprises have created the general environment in which political actors operate, although they do not determine the degree of oppositional power

³⁹ Here, I use the term “political” in broad definition which refers to both formal political institutions such as executive, legislative, and political parties, and the military and other social and popular organizations such as labor unions.

⁴⁰ Przeworski, 1991: p. 180.

per se.⁴¹ As a result of nationalistic political movements in past decades, many Latin American countries require a constitutional reform in order to privatize a public mineral enterprise. Constitutional reform is difficult to achieve in many Latin American countries because it needs “supermajority votes”⁴² in the legislature. As a result, where privatization of a public enterprise requires a constitutional amendment, oppositional parties do not generally need a majority in the legislature to block privatization, which facilitates political opposition to privatization. In this sense, the primary role of the executive authority and formal political institutions is not to determine various results of public enterprise reform but rather to offer a general environment to each public enterprise reform.

In essence, particular social interest groups who have interests in particular public enterprises shape specific public enterprise reform, while national-level political and institutional features outline general political and institutional conditions for the public enterprise reform.

As a result, both the economic benefits of a public enterprise and the scope of political opposition to the privatization of the public enterprise determine public enterprise reform. I provide detailed measurements of these independent variables later in this section.

Theory of Public Enterprise Reform

The main purpose of this study is to develop a dynamic theory of public enterprise reform that explains how both political and economic variables interact to produce various effects of public enterprise reform. By establishing a dynamic theory, I show that

⁴¹ Przeworski, 1991; Ramamurti, 1992; Madrid, 2003b.

⁴² Madrid, 2003b: p. 55.

different combinations of economic and political variables of each public enterprise result in different results of public enterprise reform.

In so doing, my first argument is as follows:

1. The higher the scope of political opposition to the privatization of a public enterprise, the lower the possibility of privatization of the public enterprise; and, the higher the economic benefits of a public enterprise, the lower the likelihood of privatization of the public enterprise.

From this argument, I extrapolate the following argument:

2. The privatization of a public enterprise is most likely to occur with the combination of a low scope of political opposition and low economic benefits of that enterprise; the privatization of a public enterprise is least likely to occur with the combination of a high scope of political opposition and high economic benefits of that enterprise.

Therefore, my theory of public enterprise reform can be summarized in the following model. Each cell in the model below represents various consequences of different combinations of the economic benefits and the scope of political opposition.

Figure 1-1. A Model of Public Enterprise Reform in the Mineral Sector

		The Scope of Political Opposition	
		High	Low
Economic Benefits	High	A) No-Privatization	C) Semi-Privatization
	Low	B) Rationalization	D) Full-Privatization

Cell A is the combination of high economic benefits and high political opposition. High political opposition and high economic benefits of a public enterprise prevent

privatization. Because the company contributes positively to the macroeconomic performance of the country, the state would not have any reason to initiate a change in the company's ownership. By the same token, even though the state manages to initiate a privatization plan, strong and extensive political opposition to privatization can block the advance of the plan. As a result, the state does not opt to privatize the public enterprise in this cell, because it can threaten the state's economic and political stability.

Cell B combines high political opposition and low economic benefits. A public enterprise in this cell, even though its economic benefits are low, will not be privatized due to strong political opposition. That is, the state seeks another solution to improve the economic benefits of the public enterprise rather than seeking privatization. I call this process, "rationalization." "Rationalization" differs from the other restructuring programs of public enterprises, which are implemented even in high economic benefits. While the other restructuring processes constitute limited actions aimed at sustaining economic benefits, "rationalization" takes a series of actions that are helpful for improving economic benefits without changing ownership. That is, the state not only withdraws from productive activities by means of privatization of assets, but also transfers operating responsibilities and profit-making opportunities to the private sector by means of lease and joint venture contracts. In this cell, the high scope of political opposition prevents the privatization of the whole public enterprise, even though it showed weak economic benefits.

Cell C is a combination of high economic benefits from the enterprise and low political opposition to its privatization. Even though privatization of a public enterprise would not face serious political opposition, the high economic benefits of the public enterprise would result in a distinct type of privatization that I call "semi-privatization." In this type of privatization, the state aims to raise extra cash in order to resolve macro

economic problems such as public debt. However, the profitability of the enterprise leads the state to continue to maintain a stake in the firm. That is, in “semi-privatization,” the state pursues economic benefits not only from the sale of a major portion of the stocks but also from dividends from the remaining stakes. Furthermore, the possible rise in stock price in the future can give more profits to the state in case of future sales of the remaining stakes. The state can choose this option only when there is a combination of high economic benefits and low political opposition. In this cell, privatization of a public enterprise does not face serious political challenges.

Cell D is the combination of low economic benefits and low political opposition. In such a case, full privatization of a public enterprise is an easy option for the state. The state cannot sustain the public enterprise because of its economic inefficiency. In addition, privatization may not face strong opposition that could threaten political stability.

In essence, my theory on public enterprise reform suggests that the combination of different degrees of the scope of political opposition to privatization and the economic benefits of the public enterprise leads to a particular type of public enterprise reform. The consequences of public enterprise reform are defined as no-privatization, rationalization, semi-privatization, and full-privatization in reference to the combination of different degrees of both ownership and management control of public enterprise.

Determinants of Public Enterprise Reform

Both economic benefits and the scope of political opposition are abstract level variables which are hard to measure directly in empirical research. In this section, therefore, I suggest specific determinants to show the impact of both economic benefits and the scope of political opposition on public enterprise reform, respectively.

Table 1-2. Determinants of Public Enterprise Reform

Economic benefits	The Scope of Political Opposition
1) Fiscal Balance: Surplus or Deficit	1) Degree of Autonomous Power of the Labor Union
2) Degree of the Contribution to Tax Revenue	2) Degree of Power of the Military
3) Degree of the Contribution to Exports	3) Degree of Power of the Left
4) Degree of the Company's Debt Ratio	4) Degree of Public Opposition to the Privatization

Economic Benefits

As I explained earlier, the economic benefits of a public enterprise denote the microeconomic performance of the company as well as the company's role in the macroeconomic performance of the country. In this context, I consider four economic measurements that determine the degree of economic benefits of a public enterprise: (1) its fiscal balance, (2) its contribution to tax revenue, (3) its contribution to exports, and (4) the company's debt ratio.

Table 1-3. Measurements of Economic Benefits

Fiscal Balance	The fiscal balance of a public enterprise will be judged by whether the public enterprise produces a deficit or surplus. Deficits show low economic benefits of a public enterprise, which may heighten the possibility of privatization.
Degree of the Contribution to Tax Revenue	The contribution to tax revenue will be measured by the percentage of total tax paid by the public enterprise compared to total government revenues. With low contribution of a public enterprise to total tax revenue, which is evidence of low economic benefits, the possibility of privatization of the company is higher.
Degree of Contribution to Exports	The degree of the contribution of a public enterprise to total exports can be measured by the percentage of exports from the public enterprise to the total export of the country. If the percentage of exports from a public enterprise is low, it is evidence of low economic benefits from the public enterprise. Low economic benefits of a public enterprise produce high possibility of its privatization.
Degree of the Company's Debt Ratio	Degree of the company's debt ratio will be measured by the percentage of total debt owed by a public enterprise compared to the total assets of the company. With a high debt ratio of a public enterprise to total assets, which is evidence of low economic benefits, the possibility of its privatization is higher.

As many studies⁴³ point out, privatization of public enterprises intersects with fiscal policy in several ways. If a public enterprise is in the red, it not only becomes part of the fiscal problem, but also offsets other public expenditures. Therefore, in this situation, with privatization the state can not only free itself from a fiscal burden but also gain some revenue to reduce public debt. In contrast, if a public enterprise is running a surplus, it can not only act as a central engine of employment and industrial policy but also transfer tax revenue for other public expenditures. Therefore, the fiscal balance and the transfer of tax revenue from a public enterprise are important indicators of the economic performance of the public enterprise. In the same sense, the debt ratio of a company is an important indicator. Because a company is a public enterprise, its heavy burden of debt easily spreads to be a fiscal burden. Also, because the mineral sector needs relatively large investments compared to other public enterprises, the high debt ratio not only engenders a chronic fiscal burden but also affects the future performance of the company. Finally, the contribution to exports is also an indicator, which is related to the performance of a public enterprise in the market as well as the destination of the commodity. No Latin American country is free from foreign debts. Foreign currency earning is a main function of the mineral sector in Latin America. Therefore, the contribution to exports by a public enterprise is another main indicator to measure its economic performance.

The Scope of Political Opposition

The basic assumption for the scope of political opposition to privatization is that political opposition is high when many powerful social and political groups have not only interests in a public enterprise but also certain capabilities and intentions to oppose the privatization of the public enterprise. In this research, I argue that there are three political

⁴³ Pinheiro and Schneider, 1995: p. 751-752; Ramamurti, 1996; Yunez, 1998: pp. 6-7.

forces that usually oppose the privatization of a public enterprise: labor unions, the military, and the left. Also, I emphasize the role of public opinion in shaping political opposition to the privatization.

The Labor Union

The labor union of a public enterprise is one of the most predictable opposition forces to privatization, because any reform in public enterprise would destabilize its most important interest, the stability of employment. According to Kikeri's study for the World Bank,

Many observers fear that privatization will cause major job losses as new owners of privatized firms shed excess labor to improve efficiency and as divesting governments cut the workforce to prepare for privatization. These fears led state enterprise workers and organized labor to become among the most vocal and organized opponents of privatization, often threatening or taking actions to block or delay reform. When faced with opposition from these employees, who often provide a base of political supports, many governments have been unwilling to pursue reforms with high political risk.⁴⁴

Labor is one of the most likely losers in the process of public enterprise reform, and labor almost always opposes privatization. However, the effect of labor's opposition to a market-oriented economic reform has been debated by many political economists. Some extant literature on economic adjustment argues that interest groups, especially urban organized labor, "have proved to be less politically effective than expected."⁴⁵ Indeed, facing recent political and economic upheavals that have swept the region, labor unions in Latin America have shown a great deal of difficulty in sustaining the political and organizational power enjoyed under the previous corporatist structure. Particularly, the economic crisis in the 1980s and the following initiation of neoliberal economic reform fueled decomposition of the corporatist structure and accelerated adversity of

⁴⁴ Kikeri, 1998: p. 1.

⁴⁵ Geddes, 1995, p. 203.

labor unions. However, the argument that labor unions were politically ineffective in opposition to neoliberal economic policy formation is oversimplified and overstated because it does not consider the variation in labor union's role across industries and countries. In fact, the decomposition of the corporatist structure does not have an equal effect across various social forces in the society. Moreover, the weakness of labor does not occur equally across sectors in the context of the neoliberal economic scheme that drives an export-led development strategy. In this sense, contrary to the assumption of some studies that neoliberalism weakened labor union's opportunity and/or capacity to influence political decisions, labor unions (at least some) are still one of the significant societal forces in the process of policy formation.⁴⁶

For instance, many Latin American labor unions in the public mineral sector, which is the main concern in this study, have better preserved their political and organizational capability than their counterparts in the private sector or other industries.⁴⁷ There are several reasons why labor unions in a public mineral enterprise have enjoyed more favorable political and organization status than those of the private sector or other industries. On the one hand, with the return to electoral democracy, public enterprise labor unions (in particular those who are politically autonomous) could find a more convenient and effective political sphere to express their concerns and to find allies. In the context of a more open political sphere brought on by political liberalization, autonomous social forces have more power to protect their own interests.⁴⁸ Also, labor unions in the public sector encounter the more democratized state as their counterpart in negotiation or struggle while other unions in the private sector deal with an emboldened employer under neoliberal protection. On the other hand, since the new economic model

⁴⁶ Remmer, 2002: pp. 54-55.

⁴⁷ Epstein, 2001.

⁴⁸ Remmer, 1997.

has reaffirmed the role of export-oriented industry, labor unions in a public enterprise (in particular those who assume the export sector) have preserved their economic utility in the national economy, which once culminated in the period of state formation and economic development in Latin America.⁴⁹ In brief, labor unions, particularly in the public mineral sector, are an important social force against privatization. Yet not every labor union can block public enterprise reform, including privatization. There are still certain conditions under which labor unions have the capability to attain their political and economic interests against the executive's will.

In this study, I argue that two features of a labor union determine the degree of labor's influence on public enterprise reform: power in general and autonomy in particular. At first, the power of a labor union denotes the union's basic ability to mobilize itself in any case. There are several ways to measure the labor power. For example, the number of strikes, unionization rates, the percentage of workers covered by a collective contract, and the degree of unity and centralization of the labor movement are common variables to measure the power of labor union, particularly in quantitative analyses.⁵⁰ In addition, the power of a labor union can be defined by means of the role of the union in the historical and political context. For example, a union that has accumulated a long history of many political experiences has greater organizational power than a newly founded labor union. In this study, I examine the power of labor unions in public enterprises in the mineral sector using several established measurements.

The power of a labor union alone does not enable us to understand the role of the labor union in the complex political process of public enterprise reform. A powerful union is not always able to mobilize when its political and/or economic interests are in

⁴⁹ Bergquist, 1986.

⁵⁰ Madrid, 2003a: p. 58.

danger. That is, power is a necessary but not sufficient condition for labor's successful opposition to public enterprise reform. Labor unions also have to maintain a certain level of autonomy to effectively exercise their power.

Extant studies suggest somewhat contradictory arguments about the relationship of autonomy and the role of labor on economic reform. In her study on different behaviors of labor over market-oriented reform in Latin America, Murillo highlights the nature of the labor unions' relationship with the main political parties, particularly with the ruling party which wants to initiate an economic reform, as a main determinant to understand the variance of labor's behavior in the market-oriented reform.⁵¹ She argues that a labor union having close ties with powerful political parties has greater influence on the political process because these political parties would be more responsive to the demand from the labor union to sustain its political constituency. In his research on the union's influence on economic reform in Latin America, however, Madrid points out that the union-party tie argument has limited explanatory power for mixed results of economic policies. Madrid argues,

Union-party ties are a double-edge sword. ... Although close ties with the ruling party may provide the unions with political clout that enable them to resist reform, they also provide the ruling party with influence over the unions. The ruling party may use this influence to pressure the unions to support reforms, which they may be successful in doing so long as the measures do not impose large costs on numerous unions.⁵²

Madrid concludes, "The policy impact of labor hinges not only on the political or economic power of the unions, but also on their willingness to use their political or economic clout."⁵³ In this sense, the union-party tie cannot fully predict the degree of a labor union's opposition to public enterprise reform. Therefore, I argue that, along with

⁵¹ Murillo, 2001.

⁵² Madrid, 2003a: p. 59.

⁵³ Madrid, 2003a: p 59.

power, the autonomy of a labor union is an important aspect in understanding the behavior of a labor union in the process of public enterprise reform. In brief, I suggest that a powerful and autonomous labor union can increase the possibility to limit, modify, and block public enterprise reform.

For practical reasons, it is necessary to clarify under what condition a labor union has autonomous power. Indeed, the extant literature ignores the possible existence of different interests among union members, particularly between the leadership and the rank-and-file. In many Latin American labor unions, the state corporatist labor policy has developed a particular type of labor union in which the leadership does not fully represent the interests of the rank-and-file. For example, in the event of privatization, the leadership is mainly interested in sustaining its leadership whereas the main concern of the rank-and-file is economic stability. That is, the leadership can be co-opted and agree with privatization when the state assures its leadership in the privatized enterprise. Yet the issue of privatization would be the most urgent event for the majority of members of a labor union to oppose because it threatens the most important issue--job security. Even though the leadership of a labor union is reluctant to oppose the state, the majority of the rank-and file can be quite willing to mobilize against privatization. For this reason, it is necessary to consider both the union structure and the relationship between the leadership and the rank-and–file in order to understand the degree of a labor union's autonomous power. I use the autonomy of a labor union in turn to predict the degree of the union's opposition to public enterprise reform.

In sum, the degree of autonomous power of a labor union determines the degree of the labor union's opposition to public enterprise reform. In this study, the autonomous power of a labor union means that the union has power and autonomy to achieve economic and political interests of both leaders and rank-and-file. The higher the

autonomous power of a labor union, the lower the probability of privatization. With this indicator, I refer to the company union of a public enterprise in the mineral sector.

The Military

Another political force that influences the scope of opposition to privatization is the military. Especially in developing countries, the military has been regarded as one of the most powerful political forces. According to Di Tella, “we should consider the armed forces as a separate actor with institutional autonomy; it does not always reflect the opinions or directly represent the interests of other actors. The indirect connections, however, may be much stronger than any other direct ties could be.”⁵⁴ Yet, the extant literature on recent market-oriented reform and privatization has not paid necessary attention to the role of the military in the decision-making process of economic policy, because it assumes that the restoration of electoral democracy and the spread of market-oriented reform have weakened the political power of the military sector.

In many countries, however, “the regime’s political survival in the midst of economic reform is contingent upon the support of a seldom-recognized economic actor: the military.”⁵⁵ In fact, the military has increasing interests in economic reform policy in general, because an economic crisis and a resultant economic reform leads to the budgetary shortfall and cutbacks for defense “as governments redirect funds into non-military sectors to support economic reform programs.”⁵⁶ With regard to large public enterprises in the mineral sector, the military (especially in some developing countries) has strong interests in obstructing privatization: (1) because they often have direct economic interests in the public enterprise, and (2) because they see privatization as a

⁵⁴ Di Tella, 2001: p. 90.

⁵⁵ Mora and Wiktorowicz, 2003: p. 88.

⁵⁶ Mora and Wiktorowicz, 2003: p. 89.

threat to the national security.⁵⁷ Particularly in Latin America, despite the termination of military dictatorships and the emergence of electoral democracy, the experience of the military dictatorship secured the military as a powerful social and political force. However, not all armed forces will disrupt the privatization of public mineral enterprises. There are two preconditions to the military exercising real oppositional power to privatization: (1) the military should be politically powerful, and (2) the military has clear political and economic interests in the public enterprise. In order to analyze the military's opposition to the privatization of a public mineral enterprise, this study focuses on both the degree of military power and the degree of political and economic interests that the military has in the public enterprise.

I track the role of the military in the process of privatization and its interests in the public enterprise. For the countries that experienced a military regime, I first look at the process of democratic transition from military authoritarianism to electoral democracy because it explains variations in civil-military relations in postauthoritarian society. That is, as Agüero argues,

“Many of the differences in civilian-military relations observed since the demise of authoritarian regimes may be accounted for by founding conditions of the successor democracies: the way the military exit took place, the main feature of the transition, and the early institutional arrangements that gave shape to the new post-authoritarian order.”⁵⁸

In addition, in order to measure the degree of military power, I look at both the absolute percentages of the military spending compared to total national revenue and its change throughout the periods because the military revenue indicates the degree of the military power in both military and postauthoritarian society.⁵⁹ The stronger the power of the military, the lower the probability of privatization. By the same token, the stronger

⁵⁷ Manzetti, 1999: p. 26.

⁵⁸ Agüero, 2001: p. 197.

⁵⁹ Basombrío Iglesias, 1999: p. 125.

the political and economic interests of the military in a public enterprise, the lower the probability of its privatization.

The Left

Another political determinant to oppose the privatization of a public enterprise is the power of the left. In this section, I discuss how and under what conditions leftist ideology and its political power help to oppose the privatization of a public enterprise.

Many extant studies on market-oriented reform have underlined the role of ideology⁶⁰ in the process of economic policy formation, arguing that the increasing influence of neoliberal ideology is the main feature in recent proliferation of market-oriented economic policies around the world.⁶¹ According to Appel,

Ideology determines how programs are designed. Put most simply, there is little doubt that ideology and economic liberalism shaped the policymaker's decision to base the new property system on private ownership.

In many respects it is intuitive that economic ideas embedded in economic theory influence economic policy-making.⁶²

In this context, extant studies on market-oriented reform have paid special attention to the role of both international organizations and neoliberal economists in key government positions who have assumed a decisive role in promoting neoliberal ideology to political leaders and constituencies. Like the state-centric literature on market-oriented

⁶⁰ Here, I follow Hamilton's essential definition of "ideology," which is adopted in Appel's study on liberal economic reform. By identifying conceptual elements or "definitional criteria" of more than two dozen in the definition of ideology used in social science, Hamilton argues that all definitions of ideology are built: "a system of collectively held normative and reputedly factual ideas and beliefs and attitudes advocating a particular pattern of social relationships and arrangements, and/or aimed at justifying a particular pattern of conduct, which its proponents seek to promote, realize, pursue or maintain." In addition, for practical reasons, the term "ideology" is interchanged with "ideas." That approach is also adopted by several political scientists in explaining the impacts of economic theory on economic policy. Appel, 2000; Hamilton, 1987.

⁶¹ Waterbury, 1992; Domínguez, 1997; Centeno and Silva, 1998; Hira, 1998; Appel, 2000; Armijo and Faucher, 2002; Biglaiser, 2002; Madrid, 2003b; Teichman, 2004.

⁶² Appel, 2000: p. 528.

reform, however, the neoliberal ideology literature has limited applicability to understanding public enterprise reform. In spite of its strong applicability to policy formation, particularly in the stage of design and initiation, the neoliberal ideology argument cannot explain modification, alteration, and blockage of a proposed reform because the change is compelled by oppositional forces who do not share the neoliberal ideology.

I argue that the variation of public enterprise reform in Latin America can be explained in part by the leftist ideology which provides a counter-neoliberal argument to oppositional political forces in the process of economic policy formation. In reference to political ideology, most of the extant studies agree that the left tends to oppose the privatization of public enterprises, whereas the right supports it.⁶³ Put simply, leftists oppose the privatization of public enterprises in general because they believe that the higher level of state intervention in the economy is a key element to correct the fundamental problems of capitalist economy, relating state intervention to income distribution, social division of labor, and power structure in the society. Also, for more practical reasons, leftist political forces that tend to represent the working class see that privatization not only jeopardizes the job security of the labor force but also decreases their chances for re-election by dismantling their base.

In this study, I focus on the power of the leftist political forces that follow the leftist ideology rather than the logic of the ideology itself. The practical formation of policy is determined not by the logic of ideology per se but rather by the power of the political forces that bear the ideology.⁶⁴ Therefore, I discuss leftist political actors who assume struggles and negotiations to modify or invalidate the neoliberal proposition of

⁶³ Boycho, Shleifer, and Vishny, 1996; Boix, 1997; Boix, 1998; Remmer, 1998; Biais and Perotti, 2002; Biglaiser, 2003; Opper, 2004.

⁶⁴ Madrid, 2003b: p. 38.

public enterprise reform as well as particular political and institutional features that define the strength of those political actors. In so doing, this study suggests two specific indicators for measuring the power of the leftist force in the formation of public enterprise reform: the power of leftist parties and the degree of leftist ideology identification of voters.

At first, political parties have potentially wider impact on the formation of economic reform because they assume “the central role in presenting alternatives and molding attitudes with regard to particular governments as well as with regard to the very project of structural transformation.”⁶⁵ In Latin America, the reemergence of electoral democracy has dramatically increased the importance of political parties in the process of economic reform. Existing literature on economic reform suggests that the type of party system may influence economic reform.⁶⁶ Specifically, fragmented, highly polarized, or desinstitutionalized party systems are considered obstacles for economic reform.⁶⁷ In this sense, the degree of the scope of political parties’ support or opposition is crucial in the politics of economic reform.

As I suggest above, among political parties, leftist ones are a notable opposition force to privatization. According to Dobek⁶⁸, leftist parties are not likely to pursue a privatization program to build their constituency; rather the center and the rightist parties, which believe in individualism and a free-market economy, promote privatization. Boix also argues that, in order to raise productivity, leftist parties prefer governmental intervention in the economy whereas rightist parties encourage the private capital investment.⁶⁹ Therefore, as Remmer verifies, the power of leftist parties can be an

⁶⁵ Przeworski, 1991: p. 182.

⁶⁶ Haggard and Kaufman, 1995; Mainwaring and Shugart, 1997.

⁶⁷ Haggard and Kaufman, 1995.

⁶⁸ Dobek, 1993.

⁶⁹ Boix, 1998: pp. 85-90.

indicator to measure political power of the opposition to privatization.⁷⁰ In sum, the level of influence of leftist parties in the legislature or the executive helps determine the destiny of privatization. In other words, the rightist parties that support privatization need to dominate the legislature and the executive in order to carry on successful privatization.

In order to measure the power of leftist parties, this study looks first at the percentage of the vote received by leftist parties⁷¹ in presidential and legislative elections. Also, by analyzing election results, I discuss whether the leftist parties are at least a part of the governing coalition. According to some established empirical studies, “the political ideology of a governing party or parties has obvious effect on the quality of reform.”⁷² That is, if a leftist party or parties are at least a part of governing coalition, it would increase the power of the leftist parties in economic policy formation. Moreover, if the leftist party dominates the governing coalition or government, it would decrease the possibility of initiation of privatization.

Yet the election results are not enough to understand the power of leftist parties. Particularly in newly reborn electoral democracies such as in Latin America, leftist parties are still less institutionalized than the traditional rightist parties. In addition, the deep-rooted clientalistic voting behavior has tended to hinder the success of leftist parties in elections. In this context, the degree of preference of the leftist ideology among voters is also worth considering. That is, although a country where the leftist parties show weak presence in the formal political apparatus, the strong inclination to the leftist ideology among voters not only bolsters the political power of oppositional force to privatization but also influences the formation of public enterprise reform policy. To measure the degree of leftist voters, I look at the percentage of voters who self-identify as the left in

⁷⁰ Remmer, 1998.

⁷¹ Remmer, 1998.

⁷² Opper, 2004.

political surveys of ideological identification. That is, the more leftist voters there are, the stronger the leftist politics is. The stronger the leftist politics, the lower the probability of privatization.

Public Opinion

Finally, public opinion on privatization, whether it supports or opposes, is also an important indicator to determine privatization policy.⁷³ Indeed, extant literature on public policies suggests that the impact of public opinion on public policies is substantial.⁷⁴ More importantly, as Burstein proves, a highly salient issue enhances the impact of public opinion on policy formation because voters' particular concern about an issue leads to the elected officials' response.⁷⁵ In this context, public opinion has a substantial impact on a highly salient issue such as privatization of an important public enterprise. Needless to say, the direction of public opinion affects the action of political parties and other social organizations. For this study, I first look at public opinion surveys on the issue of public enterprise reform in the mineral sector.

There are several factors that help shape public opinion on the issue of particular public enterprise reform. I emphasize that the historical feature of the public enterprise or industry, particularly in the process of nationalization, should be analyzed in order to understand public opinion on the issue of public enterprise reform. That is, public enterprises that were nationalized tend to have greater symbolic importance than public enterprises that were founded originally by the state because the nationalization process builds up public support for public enterprise. Furthermore, if major political events such as revolution resulted in nationalization, the political and economic importance of the

⁷³ Manzetti, 1999.

⁷⁴ Weyland, 1998; Stokes, 2001; Durant and Legge, 2002; Burstein, 2003.

⁷⁵ Burstein, 2003.

company would be increased. Also, in many Latin American countries, the nationalization underlying political events led to the creation of the constitutional provisions in reference to privatization of the company, which proved another institutional hurdle for privatization. In this study, I examine the historical features in the process of nationalization that shape public opinion to privatization of the public enterprise.

Besides the particular feature of the nationalization process, the role of nationalism is also considered in shaping public opinion on the issue of public enterprise reform. In developing countries where domestic capital is scarce, the issue of privatization develops easily into a nationalism debate because, from the nationalist perspective, privatization refers to “foreignization” of valuable national wealth. Especially since the mineral sector has been treated historically as a national symbol in Latin America, privatization of a public mineral enterprise tends to ignite stronger opposition among nationalists than do other reforms. To look at the effect of nationalism, I survey the nationalistic feature of political opposition to privatization as well as historical aspects of each public enterprise in the context of the country’s major historical events.

To summarize, I argue that the high degree of public opinion against privatization strengthens the scope of political opposition to privatization in the mineral sector. Moreover, particular historical features such as the nationalization process and historic political movements also increase public opposition to privatization.

RESEARCH DESIGN

To identify the determinants of public enterprise reform, I have chosen the mineral industry in Latin America. The mineral sector has not only played a crucial role in Latin American economy but has also proved to be a center of political struggle among

various social forces. Due to the central role that the mineral sector has played in the overall development process, the mineral sector is more than just a source of foreign exchange. Particularly, the mineral sector is an ideal case for analyzing the recent wave of market-oriented reform and privatization because it is “the oldest and the largest area of state intervention and also the sector generally most closely connected to, and shaped by, the world economy.”⁷⁶ Thus, the mineral sector is a mirror for Latin American political economy. In sum, the important role of the mineral industry gives us a strong reason for conducting research on the mineral sector and the changes in its ownership and management control.

In order to establish a theory of public enterprise reform, I conduct a comparative case study focusing on three cases (small-N). The comparative case study is well suited to developing hypotheses, because it has advantages for identifying the causal relationship between determinants and policy results.⁷⁷ Comparative case studies enable researchers not only to define which variable affects policy outcomes more than others, but also to analyze directly how variables interact in the complex process of policy formation. Nevertheless, it is well known that findings in a small-N comparative case study could be hampered by the problem of “many variables, small N.”⁷⁸ Yet, a statistical analysis that would evade the “many variables, small N” problem of a comparative case study also has serious defects by simplifying the complexity of policy-making process and by abstracting relevant variables. In this study, without a significant theory of public enterprise reform in the mineral sector, a comparative case study is the best possible method to conduct this research. To evade possible methodological problems, this study controls interaction effects among variables by defining variables clearly and by

⁷⁶ Sideri and Johns, 1980: p. 1.

⁷⁷ Madrid, 1999.

⁷⁸ Lijphart, 1971: p. 159.

analyzing the process in detail.⁷⁹ Furthermore, the field research for this study can ascertain causal mechanisms more directly than statistical analysis.⁸⁰ I conduct field work in both Chile and Argentina, which serve as two primary cases.

To explore my arguments, I use process tracing, contextual analysis, interpretive analysis, and interviews. Process tracing is based upon media reports and union and company documents. Data for contextual analysis is based upon secondary sources and media reports. Various economic data are used to measure the economic benefits of each public enterprise. Also, I use legislative documents for the interpretive analysis. Formal political debates in the legislature can provide a guide to understanding political groups and their political strategies. I also interview policy participants and various interest groups such as bureaucrats, politicians, labor leaders, and private entrepreneurs.

Table 1-4. Public Enterprise Reform in the Latin American Mineral Sector

Full-Privatization	Semi-Privatization	Rationalization	No-Privatization
YPF (Argentina)	CVRD (Brazil)	COMIBOL (Bolivia) YPFB (Bolivia) Petroecuador (Ecuador)	CODELCO (Chile) PEMEX (Mexico) PDVSA (Venezuela)

I have chosen three main cases: CODELCO of Chile, YPF of Argentina, and COMIBOL of Bolivia. Case selection is based on the premise of the “most similar systems design.”⁸¹ This method is based on the belief that “systems as similar as possible with respect to as many features as possible constitute the optimal samples for comparative inquiry”⁸² The “most similar systems design” focuses on intersystemic similarities and intersystemic differences. In this method, “common systemic

⁷⁹ Weyland, 2002.

⁸⁰ Weyland, 2002.

⁸¹ Przeworski and Teune, 1970.

⁸² Przeworski and Teune, 1970: p.32.

characteristics are conceived of as “controlled for,” whereas intersystemic differences are viewed as explanatory variables.”⁸³ CODELCO of Chile, YPF of Argentina, and COMIBOL of Bolivia seem to fit the prerequisites of the “most similar system design” quite closely. All cases are located in the same geographical area, South America. They also have similar cultural and political histories, political institutions, and development patterns. Particularly, all three countries not only experienced the military regime and the restoration of electoral democracy, but also went through severe economic crisis and followed by significant change of economic policy from a state-centered scheme to a market-oriented one. Furthermore, all cases involve the most important public enterprises in the mineral sector of each country.

Meanwhile, all three cases differ in terms of dependent variable in this study. While Chile has maintained total ownership of CODELCO in state’s hands, Argentina fully privatized YPF and Bolivia rationalized COMIBOL. CODELCO of Chile and YPF of Argentina represent polar values of the dependent variable. COMIBOL of Bolivia is an intermediate case. The inclusion of an intermediate case in comparative case study is valuable because it not only shows greater variation of the dependent variable, but also helps to avoid the selection bias of cases that tends to happen when only extreme value cases on the dependent variable are selected.⁸⁴

CONCLUSION

Theoretically, this study involves two main areas of literature: the determinants of market-oriented reform in developing countries and the privatization study in general. First of all, the findings in this study contribute to an understanding of determinants of market-oriented reform in developing countries. That is, this study helps to identify what

⁸³ Przeworski and Teune, 1970: p.33.

⁸⁴ Madrid, 1999: pp. 41-42; Collier and Mahoney, 1996.

factors lead to different speed and depth of market-oriented economic reform across countries and industries. This study suggests that both political and economic variables determine the destiny of market-oriented reform in developing countries. Specially, contrary to many studies⁸⁵, I argue that macroeconomic performance is not applicable for explaining public enterprise reform, because it determines not the type of market-oriented reform but rather the timing of the reform. That is, the study suggests that the microeconomic performance of a public enterprise determines the type of reform, which can account for the varying depths and speeds of market-oriented reform across countries and industries.

This study emphasizes the importance of popular interest groups on policy formation.⁸⁶ This study finds that various traditional popular political groups such as labor unions and the left are still important political variables to determine the formation of public enterprise reform. This study also adds a new determinant of market-oriented reform: the military. The military, in some countries, has greatly influenced public enterprise reform even under electoral democracy. Finally, public opinion, which is shaped in part by historical events such as the nationalization process, is another important determinant of public enterprise reform.

The findings presented in this dissertation have larger implications as well. This study contributes to theorization of privatization by developing a comprehensive theory that overcomes traditional disciplinary limitations. My theory supports a political economy approach while preserving insights from both economic and political approaches. As a result, this study identifies why some countries have fully privatized

⁸⁵ Suleiman and Waterbury, 1990; Bates and Krueger, 1993; Haggard and Kaufman, 1995; Rodrik, 1996; Weyland, 2002.

⁸⁶ Przeworski, 1991; Haggard, Lefay and Morrison, 1995; Remmer, 2002;

their mineral enterprises while others have chosen other forms of public enterprise reform.

The rest of the dissertation unfolds as follows. The next three chapters are comparative case studies that explore reforms on the most important public enterprise in the mineral sector of three countries in Latin America. A single chapter is dedicated to each case: Chapter 2 examines CODELCO of Chile; chapter 3, YPF of Argentina; and chapter 4, COMIBOL of Bolivia. In the final chapter, I verify the hypotheses presented in this chapter through direct comparison of the three cases. I then discuss the applicability of my theory to other cases of Latin American countries and beyond.

CHAPTER 2: THE NO-PRIVATIZATION OF CODELCO, CHILE

INTRODUCTION

The state-owned Chilean copper company, CODELCO, is a “no-privatization” case in this research, which elucidates the determinants of public enterprise reform in the Latin American mineral sector. Since it was nationalized in 1971, CODELCO has maintained its status as the largest public enterprise in Chile. It is important to investigate the survival of CODELCO as a public enterprise because Chile has experienced diverse political and economic changes for three decades after the nationalization of CODELCO. During the twentieth century, Chile has gone through the most dynamic political and economic experience among Latin American countries. It elected Latin America’s first socialist president in 1970 and endured the longest military regime between 1973 and 1989. Furthermore, the swings in Chilean economic policies from socialism to neoliberalism represented the most drastic change in the continent. In addition, since transitioning to electoral democracy in 1990, the Concertación regime, the center-left coalition, has tried to balance between the inherited neoliberal economic scheme and a progressive social and political agenda.

This chapter seeks to explain why the Chilean state chose to hold on to the ownership and management control of CODELCO while privatizing other public enterprises widely in the midst of profound neoliberal economic reform, and what factors have made CODELCO remain as a public enterprise. No-privatization of CODELCO has been chosen by the Chilean state in accordance with the political and economic situation around CODELCO and Chile. To explain the CODELCO case effectively, I examine two major Chilean political regimes: the military and the Concertación regimes. Because the two regimes created different environments with reference to political and economic

variables, the separate analysis for the issue of CODELCO privatization will help us understand the issue correctly. Before discussing the copper policy of two regimes and the politics over the issue of CODELCO privatization, I argue that the high economic benefits of CODELCO has been the common determinant to prevent CODELCO from privatization in both the military and the Concertación regimes. That is, CODELCO is too important for the Chilean economy to be privatized because it has not only showed impressive economic performance, but also assumed an important role in both government revenue and fiscal balance. To support the argument, I provide economic performance figures of CODELCO.

Following the economic benefits of CODELCO, I discuss political opposition to the privatization of CODELCO. At first, during the military regime, the military itself was the major opposition power to the privatization of CODELCO. In addition, I examine other political sectors that opposed the privatization of CODELCO, even though the military regime limited various forms of political activity. Secondly, during the Concertación regime, both the left and the copper labor union played important roles in opposing the privatization of CODELCO. Moreover, several political and institutional features such as the constitutional rules governing CODELCO, the nationalization process of CODELCO, and strong public opinion against the privatization of CODELCO help explain why the Chilean state has not opted for the privatization of CODELCO. Equally important, the military that sustained political and economic power in the Chilean society after democratization still showed its ability to oppose the privatization of CODELCO. In brief, the combination of high economic benefits of CODELCO and high political opposition to the privatization has kept CODELCO in state hands for three decades.

THE CHILEAN COPPER INDUSTRY: HISTORICAL BACKGROUND

Former President Salvador Allende referred to copper as the “*Sueldo de Chile*,” because it has been the most important resource of Chile since the beginning of the twentieth century. Copper accounted for 49 percent of Chile's exports and about 10 percent of the gross domestic product in 1997.¹ Chile has about 37 percent of the world's copper reserve, and in 1997 its copper production totaled nearly 3.4 million tons, up 8.5 percent from 3.1 million tons the previous year. The predominant portion of 1997's output--3.3 million tons worth \$6.85 billion--was exported. CODELCO accounted for 1.4 million tons, followed by Escondida with 792,800 tons and El Abra with 198,500 tons.² In 2002, Chilean copper cathode production was at a 3.6-million-metric-ton-a-year pace and is expected to increase to 5 million tons by 2010.

Before the *Gran Minería del Cobre* was nationalized in 1971, copper also was the symbol of economic dependency in Chile. The Chilean experience of economic dependency through copper dates back to the early twentieth century. In 1904, U.S. investors bought El Teniente copper mine inspired by the birth of the electronics industry. A decade later, it was sold to Kennecott Corporation, which turned it into the world's largest underground copper mine by the 1930s. Also, Anaconda bought Chuquicamata mine in 1923, which became the world's largest open-fit copper mine.³ Anaconda owned other copper mines that belonged to the *Gran Minería del Cobre* such as El Salvador, Exotica, and Potrerillos. Foreign ownership of the most important national resource meant endless negotiations and struggles between the Chilean state and foreign owners over the control of profits and management. In this context, the nationalization of the *Gran Minería del Cobre* in 1971 was not a surprise option for the Chilean state. Rather, it

¹ *The Wall Street Journal*, October 07, 1997: A17.

² *American Metal Market*; 106(91), May 13, 1998: 7.

³ Kline, 1992: p. 3.

proved to be the result of gradual changes in the relationship between the Chilean state and foreign owners over the most important national resource.

After World War II, the main copper policy implemented by the Chilean state had been the gradual increase of Chile's participation in earnings from the *Gran Minería del Cobre*. Both greater tax and Chilean ownership in the mines were the main contents of policy options. There were two major legislations that showed features of the Chilean copper policies before nationalization: the New Deal laws in 1955 and the Chilenization program in 1966. The New Deal laws were in pursuit of "revising the tax formula, establishing rules on the return of foreign exchange, and expanding the participation of domestic industries in the production activities of the *Gran Minería de Cobre*."⁴ By creating the Copper Department, the Chilean state laid the organizational foundation for intervention in the copper industry. The Copper Department was to be responsible for "the collection of tax revenues, the supervision of purchases by the *Gran Minería* of domestic and foreign inputs, and the formulation of marketing strategies."⁵ The new tax plan and organizational structure under the New Deal scheme showed that the principal intention of the Chilean state was to increase Chile's share of the profits from the copper industry.

In fact, Chile had imposed a 6 percent income tax on these copper mines, which increased to about 20 percent during the interwar period. Because of the New Deal laws, the total tax burden of companies became above 70 percent as the Chilean state added additional excess profit taxes and other charges. Nevertheless, copper investment was very profitable for foreign investors. From 1925 to 1970, they earned U.S. \$164 million annually even though they returned US\$335 million to Chile.⁶ A report shows that

⁴ Lasaga, 1981: p. 16.

⁵ Lasaga, 1981: p. 16.

⁶ Allende, 1988: p. 63.

Kennecott still could earn over 40 percent and Anaconda made profits of at least 12 percent on its Chilean investment, even at tax levels as high as 60 percent.⁷ In addition, it was a more serious issue that the foreign investors' local intervention and their global strategies damaged the Chilean interests.

A new stage of the Chilean copper policy began with the presidency of Christian Democrat Eduardo Frei in 1964. The Frei regime saw that Chile's slow economic growth and external dependence were due to inadequate evolution of exports and excessive foreign participation in the export sector. They proposed a massive investment effort as well as redefinition of property relations, so-called "Chileanization" of copper. After long and difficult negotiations, the Frei regime and foreign investors agreed that foreign investors should sell a majority interest in the copper company (51 percent) to the Chilean state and cofinanced a major expansion program.⁸ As of December 1970, the Chilean state had acquired significant shares of the following foreign-owned copper mines: 49 percent of Chuquicamata, 49 percent of El Salvador, 40 percent of El Teniente, 75 percent of Exotica, and 70 percent of Andina. Under the Chileanization program, both the Andina and the Exotica mines had begun operation in 1970. The Chilean state also approved an investment program aimed at increasing production beginning at the end of 1970.⁹

The 1970 presidential election proved to be a turning point for the Chilean copper industry. The elected socialist Allende regime changed the copper industry dramatically through total nationalization. They argued the need for total nationalization of the industry in terms of increasing government revenues and foreign exchange earnings, and

⁷ Kline, 1992; P. 3.

⁸ Allende, 1988: pp. 64-65.

⁹ Lasaga, 1981: pp. 17-18.

of reducing Chile's dependency.¹⁰ On July 11, 1971, the Allende regime nationalized the U.S.-owned *Gran Minería del Cobre*, which comprised Chuquicamata, El Teniente, and El Salvador mines.¹¹ Since that time, the state enterprise CODELCO-Chile has run those major copper mines including Andina. Chuquicamata was a giant open-pit mine whose ore has an extremely high content of copper at 1.75 percent.¹² El Teniente was the second largest producer. These two mines had about 77 percent of Chile's reserves. Thus, these two mines covered a great portion of the Chilean economy. Particularly, the high content of copper ore in the Chuquicamata mine made Chile a leader in the world copper market.

The nationalization proceeded with amending the constitution in the congress. With the attendance of 42 senators and 135 congressional deputy members, the national congress passed the nationalization bill unanimously. Indeed, unanimous decision in the congress has great historical meaning because it reflects the Chilean people's unified will over their own natural resource. According to Finn,

As in the 1940s and 1950s, there was a powerful convergence of interest in nationalizing copper mines. From the socialist perspective, nationalization was part of a broader political project of worker's control over the means of production. For the liberals, state management of the mines would generate revenues for state-sponsored economic development and social welfare. For the conservative Chilean entrepreneurs, nationalization would halt the exodus of profits that could be better invested in their capitalist ventures. The elite landowners' support of nationalization was perhaps the most ironic. The Chilean elites held many interests in common with the foreign copper companies. However, they were threatened by the agrarian reform agenda of the Alliance for Progress. They supported nationalization of the mines as a key political bargaining chip. They intended to pressure the foreign companies to pressure the U.S. government to abandon land reform. If landholders lost, so would the copper companies.¹³

¹⁰ Allende, 1988: p. 66.

¹¹ Oppenheim, 1993: p. 56.

¹² CODELCO, *Annual Report*, 1981.

¹³ Finn, 1998: p. 58.

In fact, the nationalization of copper mines proved to be the biggest victory of the Left in Chilean history not only because all leftist political sectors including the Socialist Party, the Communist Party, and other leftists incorporated collectively for the first time, but also because the nationalization of copper mines meant the first significant defeat for the Right. In essence, the combination of desires to recover its most profitable economic resources from foreign ownership and the highest point of the leftist power induced the Chilean people to support the nationalization of its most important resource in modern history.

However, unstable political circumstances made the transition to a nationalized copper industry difficult. The flight of high-level technicians and the stoppage of materials and spare parts shipments initiated by Kennecott hampered the newly nationalized company from maintaining its previous production level.¹⁴ After all, the Allende regime was not powerful enough to defend itself from a series of attacks by the Right and the United States government, which had economic interests in many sectors such as copper and telecommunications during the Allende regime.

ECONOMIC BENEFITS OF CODELCO

In this section, I explore how economic benefits influenced the ownership and management control of CODELCO during the military and Concertación regimes. According to extant literature on privatization, the main purpose of the privatization can be summarized in two ways: to decrease the burden of public finance and to increase the efficiency of market function. This argument has some presumptions. First, it underscores that public enterprise is prone to yield deficit, which could negatively affect public finance. Second, public enterprise shows a tendency to distort the competition, which could harm the national welfare.

¹⁴ Lasaga, 1981: p. 20.

To understand why the Chilean state has kept CODELCO in hand, we must examine the economic benefits of CODELCO for the Chilean economy. CODELCO is the largest enterprise as well as one of the most profitable companies in Chile. In this section, I will show that CODELCO has not been privatized because it is neither a burden on public finance nor a source of concern for national welfare.

Privatization Process in Chile

As a consequence of regime change in 1973, the orientation of Chilean economic policy took a sharp veer toward neoliberalism. Privatization was an integral part of the neoliberal economic policy package. In Chile, the privatization process occurred in two stages. The first stage took place from 1974 to 1981, comprised of “normalization” of seized or nationalized enterprises during the Allende regime and the privatization of established public enterprises. According to the list of rules for all state enterprises issued by the Ministry of Finance in 1974, the first stage of privatization proceeded according to the following rules: “(a) all state enterprises must be profitable, i.e., they must be able to finance their operations without subsidies; (b) private enterprise standards to judge efficiency, profitability, and return on investments must be used; (c) no state enterprise can be a legal monopoly; and (d) all must pay the same tax and tariff rates applicable to the private sector.”¹⁵ That is, the guideline issued by the Chilean state suggested that the most important factor to decide the subject of privatization was the profitability and efficiency of a public company. During the first stage, more than 325 companies that had been expropriated or intervened under the Allende regime were privatized. In addition, CORFO (Corporación de Fomento de la Producción)¹⁶ sold its interest in 156 companies

¹⁵ Allende, 1988: pp. 68-69.

¹⁶ As a state corporation and holding company created in 1938, CORFO has managed public enterprises and corporations.

and liquidated another 47. As a result, the first stage of privatization efforts yielded government revenues about US\$1 billion.¹⁷

The 1982-83 financial crisis and recession stopped the privatization process. In January 1983, the financial crisis forced the Chilean state to take temporary control of most key domestic financial institutions as well as some corporate enterprises. In 1985, the privatization process resumed with more intensity. This second stage of privatization has lasted until the Aylwin presidency following the Frei presidency in the 1990s. During the second stage of the privatization campaign, the Pinochet regime reprivatized intervened banks and companies during the economic crisis, and sold some traditional state enterprises to private investors through CORFO. The sales that concentrated on the public utilities proved to be the most important phase of privatization in Chile. The state collected nearly US\$2 billion by selling thirty-three enterprises along with five banks and two pension fund management companies. In this stage, among the most important enterprises privatized by the Pinochet regime were the Telephone Company of Chile (CTC, Compañía de Teléfono de Chile), the National Electricity Company (ENDESA, Empresa Nacional de Electricidad), the Chemical and Mining Society of Chile (SOQUIMICH, Sociedad Química y Minería de Chile), the Steel Company of the Pacific (CAP, Compañía de Aceros del Pacífico), and the national airline, LAN-Chile.¹⁸ In conclusion, the privatization policy implemented by the Pinochet regime aimed at not only recovering capitalist order from the previous socialist economic system but also restructuring the whole economy based on a neoliberal economic agenda.

However, there were some exceptions in the privatization program in Chile. Even though the Chilean state implemented the privatization program for more than two

¹⁷ Piñera and Glade, 1991: p. 21; Maloney, 1994: p. 136.

¹⁸ Kline, 1992: pp. 34-35.

decades, it did not privatize several important strategic public enterprises including CODELCO, ENAMI (Empresa Nacional de Minería), ENAP (Empresa Nacional del Petróleo), and Correos de Chile. Moreover, neither the Pinochet nor the Concertación regimes returned the ownership of the copper mining sector to foreign investors who had owned copper mines before the Allende regime. Rather, after seizing state power, the military regime's first work was negotiation with the United States government and companies about compensation for the expropriation. According to the final agreement settled in 1974, Chile agreed to pay US\$532 million in compensation. The second work was the opening of the copper sector, with the exception of established state copper companies, to foreign investment.¹⁹ That is, the situation was highly paradoxical in the mining sector. Even though the foreign investment resumed in the mining sector in 1973 and the development strategy was changed into the neoliberal economic scheme based on the free market, the industry as a whole remained largely a state sector.

Economic Benefits of CODELCO

The economic performance of CODELCO has been impressive since it was nationalized in 1971. Unlike other public enterprises, CODELCO has never had a deficit in three decades of operation. In fact, CODELCO recorded a total net income of more than US\$5.3 billion between 1980 and 1999. CODELCO has great price competitiveness in the world market because of low production cost. For example, as of 2003, CODELCO's production cost is 44.7 cents/lb. compared with production costs in other countries reported to reach up to 70-80 cents/lb. However, this natural advantage was not the only reason that CODELCO achieved this fine economic performance. CODELCO has kept pursuing structural and technological improvement. Especially after a disastrous financial scandal in 1993 followed by hot debate on privatization, CODELCO has

¹⁹ Allende, 1988: p. 70.

undergone a major restructuring process, reduced its workforce by about a fifth, and slashed production costs more than 20 percent. Therefore, as former CODELCO president Juan Villarzu asserted, “in 1994 the undertaking was to show that it was possible to transform CODELCO into a competitive, world-class company. Today the task is to improve shareholder value – the shareholders, of course, being all Chileans.”²⁰

Table 2-1. Economic Performance of CODELCO

Year	Total Sale	Operating Income	Net Income
1975	879	48.2	31.4
1976	1,268	250.6	178.6
1977	1,231	174.5	159.0
1978	n/a	n/a	n/a
1979	n/a	n/a	n/a
1980	2,281	962.1	401.4
1981	1,741	326.1	97.3
1982	1,660	484.3	160.6
1983	1,774	620.4	220.7
1984	1,535	440.9	143.7
1985	1,598	482.4	150.4
1986	1,625	462.9	126.5
1987	2,132	798.2	267.1
1988	3,153	1611.2	587.3
1989	3,589	1930.0	756.6
1990	3,339	1548.7	621.4
1991	2,774	954.3	292.9
1992	3,017	1013.9	304.7
1993	2,485	408.2	-13.4
1994	2,993	922.3	391.9
1995	3,926	1849.6	636.7
1996	2,940	916.3	388.9
1997	3,426	987.9	330.0
1998	2,730	447.8	56.7
1999	2,886	617.0	143.3
2000	3,610	833.4	205.4
2001	3,422	482.3	25.6

Source: Calculated based on Corporación Nacional del Cobre, *Memoria Anual*, various issues; Corporación Nacional del Cobre, Annual Report, various issues.

²⁰ *LatinFinance*, March 2001: p. 42.

In addition, through paying tax CODELCO has contributed to the national treasury more than US\$17.2 billion between 1980 and 2000. Furthermore, CODELCO's financial report shows that its debt situation is very sound. For example, in 2000 the debt ratio was a mere 1.10, which means that total equity is almost the same as total liability. As a result, CODELCO has maintained a good credit rating in the international financial markets, indeed its credit rating was the same as the Chilean sovereign rating in 2001.

Table 2-2. Contribution of Tax Revenue by CODELCO

Year	Tax Payment to the Chilean Treasury Department(1)	Decree of 13,196 Sales Tax (US\$ million)
1976	423.2	105.0*
1977	393.8	101.7
1978	n/a	n/a
1979	n/a	n/a
1980	1,000.6	189.8
1981	408.3	148.1
1982	523.9	136.9
1983	678.5	148.5
1984	556.5	127.0
1985	411.3	138.8
1986	455.1	135.7
1987	598.9	168.2
1988	1,467.2	272.3
1989	1,960.8	313.8
1990	1,504.7	287.0
1991	869.9	223.5
1992	891.3	226.8
1993	418.3	185.0
1994	857.9	237.1
1995	1,735.0	336.1
1996	1,044.2	254.8
1997	1,173.3	282.1
1998	354.6	218.0
1999	268.7	238.1
2000	702.0	274.8
2001	270.0	260.1

(1) includes income tax, Decree Law 13,196 sales tax, profit distributions and others.

* includes Special Tax Laws 13,196 and 16,624.

Source: Calculated based on Corporación Nacional del Cobre, *Memoria Anual*, various issues; Corporación Nacional del Cobre, *Annual Report*, various issues.

Table 2-3. Debt Situation of CODELCO

Year	Total Asset (a)	Total Liability (b)	Total Equity (c)	Debt Ratio (Debt Exposure) (%) (d)	Total External Debt of Chile (e)
1976	2041.9	625.5	1416.4	0.44	5,195
1977	1969.2	626.7	1342.5	0.47	5,334
1978	n/a	n/a	n/a	n/a	6,664
1979	n/a	n/a	n/a	n/a	8,484
1980	2292.0	805.1	1486.9	0.54	11,084
1981	2517.1	1113.9	1403.2	0.79	15,557
1982	2939.2	1331.5	1607.7	0.83	17,159
1983	3152.7	1315.2	1837.5	0.72	18,037
1984	3569.6	1458.5	2111.1	0.69	19,659
1985	3758.0	1623.8	2134.1	0.76	20,403
1986	3924.8	1767.9	2156.9	0.82	21,144
1987	4423.6	2126.2	2297.3	0.93	21,489
1988	4715.1	2335.9	2379.2	0.98	19,592
1989	4956.6	2641.9	2314.8	1.14	18,032
1990	4898.8	2589.0	2309.8	1.12	19,132
1991	4228.7	1961.6	2267.2	0.87	17,902
1992	4329.7	2056.7	2273.0	0.90	18,242
1993	4219.2	2083.3	2135.9	0.98	19,186
1994	4504.4	2060.7	2443.6	0.84	21,478
1995	4743.6	2293.7	2449.9	0.94	21,736
1996	4952.9	2190.7	2762.2	0.79	21,979
1997	5172.1	2489.6	2682.5	0.93	26,701
1998	5823.3	3127.1	2696.2	1.16	31,691
1999	5816.5	3034.9	2781.6	1.09	34,167
2000	5818.8	3042.0	2776.8	1.10	36,849
2001	6103.5	3403.6	2699.9	1.26	37,790

(a), (b), (c): US\$ million.

(d) calculated by Total Liability/Total Equity

(e): US\$ million, Year End.

Source: (a), (b), (c) Calculated based on Corporación Nacional del Cobre, *Memoria Anual*, various issues; Corporación Nacional del Cobre, *Annual Report*, various issues.; (d) Banco Central de Chile, *Boletín Mensual*, various issues; EIU (The Economic Intelligence Unit), *Country Profile: Chile*, various issues; EIU (The Economic Intelligence Unit), *Country Report: Chile*, various issues.

As of 2001, CODELCO generated about 4 percent of the country's GDP and 20 percent of total export receipts while providing around 8 percent of the government's

budget.²¹ As a result, in spite of the Chilean economy expanding significantly during the last three decades, CODELCO has continued to be the most important economic enterprise for both the Chilean state and the Chilean economy.

Economic Benefits of CODELCO and the Issue of Privatization

A variety of participants in Chilean economic policy and copper policy have acknowledged that the strong economic performance of CODELCO has impeded its privatization. Gustavo Lagos, president of the Copper Studies Center (CESCO), explained well the economic benefit of CODELCO on the issue of privatization. He argued that to privatize the state-run copper mining company CODELCO would be "bad business" because the government would lose billions of dollars in tax revenue, and "negotiating capacity" in the global copper market.²² According to Lagos, in the 1980s alone CODELCO transferred US\$11.5 billion in government revenue while it earned an annual average of about US\$4 billion per year. At present, taxes from copper exports account for 49.8 percent of the federal government's revenue base.²³ Therefore, Lagos argued that a more efficient approach would be for private capital to invest in new mining projects, rather than selling existing ones. Also, many political leaders who oppose the privatization of CODELCO underscore the economic benefit of CODELCO in the Chilean economy. According to Antonio Leal, a PPD deputy:

I am not pro-privatization of CODELCO because... from the nationalization of CODELCO in 1976, the state has received about 30 billion dollars from CODELCO. CODELCO has been a good business. I am not pro-privatization of a company that represents 16 percent of world production of copper and major copper company in the world. I am not pro-privatization of a company that represents 25 percent of the total Chilean exportation. Therefore, it would be the worst business that UDI and some big corporations try to do. In addition, it

²¹ *LatinFinance*, March 2001: p. 42.

²² Robinson, 1994.

²³ Robinson, 1994.

would be a serious mistake for the Chilean state to privatize CODELCO. We do not go for privatization of CODELCO for any reason.²⁴

Also, Víctor Garay, an economist in COCHILCO (Comisión Chilena del Cobre), explains:

The process of privatization in Chile was inspired by lack of resources for maintaining investments, lack of resources to operate companies and lack of resources to be able to expand companies and to modernize them to make them more efficient. Then it (the process of privatization) extended to have a goal of giving in attractive business for investors that obviously would provide the capital that the state did not have. From this perspective, CODELCO did not have the same characteristics, in other words, the company generates a lot of resources, has an activity that allows the company to finance its investments and has modern and up to date assets. Therefore, CODELCO did not need to be privatized since it does not share the particular circumstances that the other companies in Chile had. I am not saying that it was the only reason why CODELCO was not privatized. Also there are other reasons related to impossibility to reach a consensus regarding economic viability and profitability that would require privatization.²⁵

Meanwhile, during the Concertación period, the good economic performance of CODELCO ignited another debate front in the copper policy: the role of private capital. In the process of debate over privatization of CODELCO, the capitalists made clear their voices, unlike in the previous period. It was mainly due to the result of continuous neoliberal economic policy since the 1970s, which strengthened the power of the capitalist in the Chilean society. Particularly, the expansion of private capital in the copper industry increased the capitalists' influence in the process of copper policy. Both the 1982 mining law and 1983 mining code led to the drastic increase of private investment in the copper industry since the end of 1980s. As of 2002, private capital occupied more than two-thirds of the total production of copper in Chile.

²⁴ Interview with Antonio Leal, 2002.

²⁵ Interview with Víctor Garay, 2002.

Table 2-4. Participation of Foreign Private Copper Companies in Chilean Copper Production

Year	Amount of Production	% of National Total
1985		5%
1990	251,000 TM	8%
1995	1,200,000 TM	18%
1996	1,700,000 TM	60%
2000	2,560,000 TM	75% (approx.)

Source: Lavandero Illanes, 2001: p. 75.

Table 2-5. Participation of Export of Chilean Copper in the World Market

Year	CODELCO (%)	Private (%)	Participation in the World (%)
1985	21	5.5	26.5
1995	20	17.0	37.0
2000	18	38.0	56.0

Source: Lavandero Illanes, 2001: p. 75.

Even though private capital has contributed to many aspects of the Chilean economy, it has not been fully free from nationalist attacks. Private companies in particular cannot fully persuade the Chilean people that they pay enough taxes. Even though they accounted for about two-thirds of the total copper production in Chile, private copper companies have paid significantly less tax than CODELCO. According to Table 2-6, in 1996 CODELCO paid tax three times that of all private copper companies.

Table 2-6. Tax paid by the Mineral Sector in 1996

	Number of Companies	Production (Millions of Tons)	Total Tax Paid (US\$ million)
Private Total	956	1,895	286
CODELCO	1	1,221	1,060

Source: Lavandero Illanes, 2001: p. 98.

Jorge Lavandero Illanes, a PDC senator, criticizes the multinational private mining companies, arguing:

It is impossible that, among forty-seven companies that exploit copper, forty-four companies declare losses not to pay tax. Nobody will believe it because those

companies are not nuns who work in charity and they do not come here to do charity. They came to make profits and it is impossible to maintain (the business) for twenty-four years only generating losses.²⁶

Also, according to Carlos Vilches, a RN deputy:

The privatization of our services has been successful. However, the privatization of the productive companies is not the same case. There is just one reason. In 1975, a decree of the Law 600 and an article of investment passed here, which favor a great deal those investors to attract capital in dollar from abroad to develop projects in Chile and let them pay taxes only when they recover their capital (investment). It means that many companies have worked more than eight or ten years but never had to pay tax. Then if we privatize CODELCO, those foreign companies will bring some capital in. And since those laws are still valid, the companies will bring some capital from abroad and take this law and article of investments and the same that happened to those productive companies could happen (to CODELCO). Average of US\$1 billion annual transfers from CODELCO to the state will be transformed to zero. This is what makes us worried about privatization according to our research on the topic. Secondly, CODELCO is a good deal because it can keep growing and it can generate more resources for the state than the private company could as I said before. Those private companies begin to pay tax when they just recoup their capital.²⁷

Especially in May 2002, the selling of Minera Disputada de Las Condes by ExxonMobil Corporation to Anglo American for US\$1.3 billion not only ignited a debate about the private copper companies' effects on the national economy, but also introduced the massive discussion of mining royalty tax. Because the Minera Disputada de Las Condes did not pay any income tax by reporting an operating loss for twenty-three years of its operation, the US\$1.3 billion sale price, which is 160 percent of the operation's book value, did not appear to be reasonable. Also, public opinion escalated when ExxonMobil Corporation tried to evade the capital gains tax and other taxes arising from the sale by conducting it in a foreign tax haven. Finally, the company agreed to pay

²⁶ Interview with Jorge Lavandero, 2002.

²⁷ Interview with Carlos Vilches, 2002.

US\$39.3 million in taxes, just 14 percent of the state's original estimate of the tax from the sale.²⁸

As a result, the incident of the Minera Disputada de Las Condes not only undermined the credibility of the private copper company, but also strengthened the opposition sector of the privatization of CODELCO. That is, the main theme of discussion of the Chilean copper policy moved its target from the privatization of CODELCO to the efficient management of private companies for the national economy.

In conclusion, evidence shows that the high economic benefit of CODELCO to the Chilean economy is a main determinant to keep CODELCO as a public enterprise in Chile. That is, neither the military nor the Concertación regime has privatized the most profitable and the largest public enterprise because it has not only benefited public finance but also helped national welfare.

PINOCHET PERIOD: POLITICAL OPPOSITION TO THE PRIVATIZATION OF CODELCO

On September 11, 1973, a military junta headed by General Augusto Pinochet launched a coup d'etat overthrowing the Allende regime, which had represented the first elected socialist government in the history of Chile. The coup d'etat proved to be a violent action itself, consisting of the permanent shutdown of Congress, the outlawing of political parties, and the harsh repression of political dissidents and labor leaders. A drastic change also occurred in economic policy. The Pinochet regime's economic policy showed a dramatic overturn from Allende's state-centered socialist one. A group of economists called the Chicago Boys²⁹ played a major role in the economic policy of the

²⁸ EIU, *Country Report: Chile*, July 2003: pp. 29-30.

²⁹ Chicago Boys meant the neoliberal economists in Chile. Theodore Shultz, the chair of Economic Department at the University of Chicago, visited the Economic Department at the Catholic University of Chile in 1955 when he created the study abroad program for Catholic University students at the University of Chicago. The program trained about thirty economists for eight years. Milton Friedman, a Nobel-Prize-winning monetarist economist, taught them at the University of Chicago. Silva, 1991: pp. 389-391.

military regime. They implemented neoliberal economic policy based on market-oriented thinking, which consisted of policy recommendations such as downsizing the state, privatization, atomization of economic agents, neutral tax system, and free financial system.³⁰

This section will explain why the military regime did not privatize CODELCO, although it implemented massive neoliberal economic policy. I will focus on the political variables. First, without a formal political system, the military itself opposed the privatization of CODELCO, both to sustain its economic benefits from the sale of CODELCO's copper and to maintain its political power by keeping CODELCO in state hands. In addition, less importantly and indirectly, the copper labor sector did influence the opposition to the privatization of CODELCO.

The copper policy of the Pinochet regime can be divided into two periods. The first period, from 1973 to 1980, focused on the normalization and rationalization of CODELCO and the establishment of foreign investment conditions. The second period, from 1981 to 1989, focused on the expansion of CODELCO's production and further favorable conditions for foreign investment. There were debates about the privatization of CODELCO in each period.

The First Debate: Neoliberalists vs. Nationalists

The first privatization attempt of the state copper companies emerged with the rationalization effort. Between 1974 and 1976, the issue of privatization was actively debated within the regime. During the Pinochet regime, there were two contradictory positions within the regime over state policy. The Chilean copper policy has been the result of competition between these two positions, which aligned with various social forces: neoliberalists and nationalists.

³⁰ Ffrench-Davis, 1988: pp. 40-41.

At first, the neoliberal economic technocrats were in favor of privatization. They represented the view of more orthodox neoliberals. The capitalists supported their position. They argued that the state had to reduce its influence in the economy and that state ownership of the copper company was an excessive influence of the public sector in the economy. They also argued, informally, that state ownership of the copper sector would prevent the flow of foreign investment into the sector which had the largest opportunity for attracting foreign investment.³¹

The second position was a more nationalistic view argued by the military and state enterprise technocrats. Their position coincided with that of the labor sector. They saw the state copper sector as a strategically important sector in the economy and specifically for the government revenue. Another consideration stems from the fact that copper revenues financed a large portion of the defense budget. Under the Law 13,196, which was passed during the Frei regime in the 1960s, 10 percent of the copper revenues (some US\$1.4billion between 1976 and 1985) were allocated for purchases of military material.³² It was believed that the vast majority of the country and political parties that had unanimously supported the Nationalization Bill in the 1972 Congress also held this position.

These two positions over the privatization of CODELCO reflected two ideological foundations within the military regime. One was the doctrine of national security held by the military. The other was the neoliberal economic doctrine pursued by the economic technocrats. Without any formal political apparatus such as political parties and Congress, the decision-making process of economic policy under the authoritarian military regime was limited to small groups of participants. Repression and the

³¹ Bande and Ffrench-Davis, 1989: p.77.

³² Allende, 1988: p. 73.

personalization of power is the most convincing explanation for this decision-making process.

By 1974, after marginalizing other branches of the armed forces, Pinochet personalized political power. While the junta had weak legislative powers, Pinochet occupied the executive office under the title of Supreme Chief of the Nation until the new constitution was adopted in 1980, at which point Pinochet was formally inaugurated as the President of the Republic.³³ Under these circumstances, even though the neoliberal technocrats had a great deal of autonomy to decide the economic policy compared to past regimes, the personalization and concentration of political power by Pinochet and a small group of military members forced them to seek the support of the president. As Montecinos pointed out, “The autonomy of Pinochet’s technocrats was not absolute. Pinochet zealously protected his prerogatives as the supreme political authority. Internal debates and inconsistencies were kept within a small circle of loyalists.”³⁴

Eventually a compromise was reached at sustaining state ownership, even though it imposed considerable restrictions over the state companies. The solution was the creation of the independent state company –Corporación Nacional del Cobre de Chile (CODELCO)--and the institution for policy setting and regulation of the copper industry –Comisión Chilena del Cobre (COCHILCO). In 1976, by promulgating Decree Law No. 1350, the military regime created CODELCO, comprised of four divisions corresponding to the nationalized *Gran Minería del Cobre*: Chuquicamata, El Salvador, Andina, and El Teniente mines. CODELCO covered 84 percent of the Chilean copper production at that time.³⁵ Under the new rule, the autonomy of CODELCO was limited by the Ministry of Finance, which the neoliberal technocrats did dominate. The economic technocrats had

³³ Montecinos, 1998: p. 69.

³⁴ Montecinos, 1998: p. 64.

³⁵ Moquillansky, 1998: p. 11.

the control of CODELCO through the annual operating and investment budgets. Another important policy related to the copper industry was Decree Law 600, the Foreign Investment Statute. The main purpose of Decree Law 600 was to attract foreign investments.³⁶

In conclusion, the first privatization attempt of the state copper company resulted in the creation of a more centralized state copper company, CODELCO, which was dependent on the economic technocrats. However, the debate over the privatization of CODELCO was not finished because the neoliberal economic technocrats did not abandon their hope to privatize the remaining public enterprises, including CODELCO.

During the first period, other social factors did not greatly influence copper policy. Both domestic and foreign capitalists focused their endeavors not on present investment or collective action but rather on the creation of favorable conditions for future investment, because they did not have full confidence in the state policy yet. Meanwhile, the labor sector could not act in support of its own interests, even though it lost many of its established benefits and powers. The repression of the military regime strongly limited the power of the labor sector. After the coup d'etat, the Pinochet regime removed left-wing union leaders from the copper unions. Then, the government appointed the copper union leaders on December 5, 1973, including several Christian Democrats, because at first Christian Democrats greeted the coup as the salvation of Chilean democracy from Marxist totalitarianism. However, on September 6, 1976, the situation had changed when the government replaced the CTC (Confederación de Trabajadores del Cobre) leadership headed by a Christian Democrat, Guillermo Santana with AIFLD (American Institute for Free Labor Development)-trained trade unionist

³⁶ Bande and Ffrench-Davis, 1989: p.78.

Bernardino Castillo, and others known as the “trade union gangsters.”³⁷ This change of copper union leadership not only meant that the military regime severed its ties to the Christian Democrats, but also it signified that the military regime tried to consolidate its control in the Chilean social sector, including labor. In this environment, the copper union was focusing its efforts on the democratization of union leadership rather than engaging in the privatization debate. Nevertheless, in the copper sector, labor retained its influence in a limited form because the Pinochet regime wanted to evade any interruption of copper production, which was the most important hard currency earner for the country.

The Second Debate: New Legal Structure of CODELCO and the Copper Industry

The second privatization attempt of CODELCO emerged in the late 1970s with discussion of the new constitution of 1980, and accelerated in the early 1980s with the debate on the new mining laws. The debate over the 1980 constitution was a direct conflict between the neoliberal economists and the armed forces. The main figures were Sergio De Castro, the minister of finance, who represented by the neoliberal economist group, and Colonel Gastón Frez, vice president and subsequently president of CODELCO who represented the armed forces’ position. Before entering the debate over modification of the constitution, the first conflict between the neoliberal economists and the nationalists was related to dividing CODELCO. “The economists saw CODELCO as an unmanageable and inefficient monster. So they believed that CODELCO must be divided.”³⁸ However, the armed forces led by Colonel Frez resisted the idea of dividing CODELCO because they suspected it was the easy road to privatization of CODELCO. The debate over dividing CODELCO in the late 1970s was brought to a conclusion in the same fashion as in the early period of the military regime. The personalization and

³⁷ *Chile Monitor*, No. 22, December 1976.

³⁸ Aldunate, 1988: p. 125.

concentration of power by Pinochet and a small group of military officers enabled them to win the debate and sustain the structure of CODELCO.

Even though the neoliberal economists failed to divide CODELCO, they did not give up modifying the structure of the copper industry. The second round of debate started with the modification of the constitution related to mining property. Neoliberal economists tried to modify state ownership of mineral resources into the common mining property regime that guarantees private property rights of the mineral resource. The neoliberal economists argued that established state ownership over all mineral resources had hindered foreign capital from investing in the Chilean mining sector. However, the armed forces and CODELCO opposed the idea proposed by the neoliberal economists. The nationalists argued, “It is not possible to make ownership of exploitation rights free to anybody or to stop exploiting mines. In the case of exploitation, the owner can not afford to pay for all those minerals that have not been exploited.”³⁹

Instead, they proposed the idea of state ownership and the mining concession. The conflict heated up until Pinochet and the armed forces headed by Raúl Benavides, the minister of defense, agreed to Pinochet’s order right before the plebiscite for approving the 1980 constitution: “The Constitution stays as it was. There is no modification.”⁴⁰ Finally, even though the 1980 constitution guarantees private property rights in its clauses, it clearly establishes state ownership of all mineral resources. The 1980 constitution nevertheless opened the way to “authorizes mining concessions through which private parties can explore and develop most mineral deposits. One type of concession is granted through the organic law with rights and obligations enforceable in the courts. Administrative concession can also be granted to develop resource areas

³⁹ Aldunate, 1988: pp. 125-126.

⁴⁰ Aldunate, 1988: p. 127.

reserved to the state, but these contracts may be terminated at any time by the government with corresponding indemnity payment.”⁴¹ As a result, even though the 1980 constitution ratifies control of the state over the mines, it allows private investors to have legal concessions, which would be protected the private property rights. The nature of those concessions, their rights, duties, and duration would be determined by a constitutional organic law.⁴² The 1980 constitution was followed by another debate about the new mining law.

Meanwhile, foreign investment in the copper sector did not meet expectations. Copper prices dropped from US\$0.99 per pound to US\$0.67 in 1982. The possibility of increasing copper production was limited because of the restrictions imposed on CODELCO’s investment in the previous years by the neoliberal technocrats. The neoliberal economic team argued that the predominance of CODELCO in the copper industry and the lack of property rights over mining deposits under Chilean law limited foreign investment. However, the good performance of CODELCO during the 1970s weakened their previous argument that the state company was inefficient. Thus, they focused on modifying the mining law, especially related to foreign investment. Without abandoning their hope of privatizing CODELCO completely, the economic technocrats focused on modifying the mining law. They argued that, without a proper mining law, “the state reserved the exploitation right with consequent discouragement for new discovery. For more efficient and strategic management, it is more convenient to declare free enunciability and establish a right of first option of buying for the state.”⁴³ Especially, they tried to “replace the administrative concessionary rights granted by the

⁴¹ Kline, 1992: p. 44.

⁴² Piñera, 1986: p. 7.

⁴³ Piñera, 1986: pp. 5-6.

state over mineral deposits, for effective private property rights not subject to administrative jurisdiction.”⁴⁴

The full-blown debate on new mining law and the CODELCO privatization debate started with a request for examination of the new mining law by president Pinochet in 1981.⁴⁵ According to the speech on September 11, 1981, the eighth anniversary of the military takeover, Pinochet attempted to balance the neoliberal economic technocrats and the capitalists in industry and commerce with the nationalists in the armed forces and state industries. For the former, there was new labor and mining legislation, as well as maintenance of the existing policy on money supply and interest rates. For the latter, the regime had a more interventionist stance on banking legislation and measures designed to eliminate “extreme poverty.”⁴⁶

Like the first debate, the major confrontation took place within the regime. However, the second debate evolved into a more complicated situation because the worsened economic condition limited the policy options of the regime. In 1982, the implementation of neoliberal economic policy encountered serious difficulty. In this situation, Pinochet had to choose between the neoliberal technocrats and IMF policies. The rift between the neoliberal technocrats and nationalists culminated in 1982 and early 1983. The sense of national pride within the army was severely wounded by the abysmal economic performance of the country and aggravated by the conspicuous expenditures and favoritism practiced by the president. Furthermore, the privatization issue of

⁴⁴ Bande and Ffrench-Davis, 1989: p. 86.

⁴⁵ According to Aldunate, the president’s request to examine the new mining law was the result of Exxon’s visit to the president. In the visit, the top executives of Exxon, the owner of ‘La Disputada de Las Condes’ copper mine, expressed discontent with the 1980 constitution. They argued that the 1980 constitution not only blocked the possibility of new investment in the Chilean mines, but also made the exploitation of ‘La Disputada’ impossible. The news from Exxon meant that Chile not only lost the immediate foreign investment, but also might give bad signals to the foreign investors. Exxon’s action persuaded the president to make the decision to enact a new mining law. Aldunate, 1988: p. 145.

⁴⁶ EIU, *Quarterly Economic Review*, 4th Quarter of 1981: p. 4.

CODELCO ignited their discontent against the neoliberal technocrats. The debate over the new mining law created strong competition among social forces until 1983, when the new mining code was agreed upon.

The new legal structure for the copper industry was completed with two legal schemes: the 1982 mining law and 1983 mining code. The new mining law, drafted by Minister of Mining José Piñera, was promulgated on January 21, 1982. “The 1982 mining law, the basic organic law for the mineral sector, can only be changed by a 60 percent majority of the Chilean Congress, providing some degree of stability regarding its provisions.”⁴⁷ This law was brought into force when a new mining code was agreed upon by the junta in August 1983 and issued in December of the same year. The new mining code introduced the concept of “full mining concession.” This new form of concession is still granted by the state, which constitutionally retains formal ownership of all mineral resources. However, the concession is subject to the judiciary system rather than administrative authority.⁴⁸ The more important point is that “in the event of expropriation, the owner of the concession is entitled to compensation equivalent to the net present value of the concession’s proven reserves. In practice, the full concession gave a virtual property right to investors. By accepting the full concession, the military secured the approval of a constitutional-rank law which expressly guaranteed the state ownership of CODELCO.”⁴⁹ Thus, the new mining code paved the way for more direct private investment in the copper sector. Furthermore, the new mining law and code would take the leading economic role from CODELCO. The second privatization debate over CODELCO not only guaranteed private investment in the copper mine, but also opened a way to flexible partnership activity of CODELCO in the future. However, the

⁴⁷ Kline, 1992: p. 44.

⁴⁸ Kline, 1992: p. 44.

⁴⁹ Bande and Ffrench-Davis, 1989: p.87.

new legal structure for the copper industry did not touch the state ownership of CODELCO. As Lüders agreed⁵⁰, instead of privatizing CODELCO, the Chilean state introduced private investment in the copper mines. In conclusion, the Chilean state accepted the new mining code rather than the privatization of CODELCO because it did not want to ignite a frontal attack by the nationalists and secured politico-economic spaces for the long-term financial survival of the state.

The Military and CODELCO

As in the first debate, the military played a significant role in defending CODELCO from privatization. Throughout the discussion over the new legal scheme of the copper industry, the military kept its position defending state ownership of CODELCO. Lüders argues:

I think during that period (the early 1980s) the military force opposed privatization not because of the 10 percent of income but because of the control. The military always wanted to have control over the Chilean economy and CODELCO. They felt that they should have the control over the economy. We tried various times to sell the idea of golden share but they (the military) did not buy the idea. They preferred to have total control. However, they have changed a lot, even General Pinochet. Once he invited a few professors to have lunch with him in 1992 or 1993. At the lunch, one of the professors asked General Pinochet: “If today you could privatize CODELCO and the other public companies that have not been privatized yet, would you do it?” Then Pinochet responded: “Immediately!” Once out of the government, he (Pinochet) is in favor of privatization of CODELCO, too. However, in the government he did not want to privatize it. When you are out of the government, it is the opposite. CODELCO gives too much power to the governments in turn, then, you (being out of government) want to destroy it. I think the reason why the military opposed privatization of CODELCO is about power. It was not about how they feel about privatization. They did not care about economic rationale. The only thing they cared about was the power and control. CODELCO gave them power without doubt.⁵¹

⁵⁰ Interview with Lüders, 2002.

⁵¹ Interview with Lüders, 2002.

The consistent opposition of the military to the privatization of CODELCO was due to economic interests as well as political power. The military tried to keep its political power by controlling the largest public enterprise, which had yielded significant export and public revenue. The military also took into account the 10 percent copper surtax when it opposed the privatization of CODELCO. The money from CODELCO was divided equally by the three branches in order to buy military equipment. The copper surtax helped the military sustain its status in Chilean society. In addition, the 10 percent law itself is an obstacle for privatization. It is obvious that no private investor wants a company that has to pay 10 percent of its export sales as a tax to the military. In 1986, by promulgating the new law (No. 18,445), the military regime raised the floor of return from CODELCO from US\$90 million to US\$180 million.⁵² That is, if 10 percent of CODELCO's total sales does not reach that amount, the national treasury would make up the gap to the military.

In essence, both the idea of national security and the desire to monopolize political power made the military oppose the privatization of the copper mines. CODELCO functioned as the most important economic source of the military's political power.

Except for the military and the neoliberal technocrats, social forces could not participate actively in the second debate because of the ongoing repressive political environment. Capitalists did not participate explicitly in the CODELCO privatization issue, not only because they were weakened by the anticapitalist reforms implemented under the Frei and Allende regimes but also because the fear of a return of the left to power prevented them from active participation in the political arena.⁵³ Only the National

⁵² Hunter, 1996: p. 30.

⁵³ Montecinos, 1998: p. 35.

Committee of Copper Defense (Comité Nacional de Defensa del Cobre) created in 1983 actively opposed privatization. The committee organized nationally diverse social forces to express opposition to the new mining law and the privatization of CODELCO. Its arguments aligned with the nationalists and the military within the regime. According to the committee, it could not accept the loss of state control of the important national resource because from a geopolitical perspective copper is strategically prime material in internal and external dimensions.⁵⁴ However, the committee was not a genuine civil organization because it integrated people from the armed forces although many participants were retired.

The Copper Labor Union and Democratization

Without a formal political apparatus such as political parties, the copper labor union would be the only viable social force outside of the regime in the decision-making process surrounding the CODELCO reform. As the most powerful organized labor union in the country in the most important area to the national economy, the copper union had assumed an important political role at various historical junctures. For example, through its votes and strikes, the copper labor union did significantly promote nationalization of copper mines in 1971⁵⁵. Also, once it achieved nationalization, the copper labor union struggled with its independence from the Allende regime by striking the El Teniente mine from April to June 1973. The 1973 incident proved to be a finishing blow to the Allende regime. However, during the second debate period, which concluded in 1983, copper labor could not directly participate in the discussion process. Rather, the union focused its efforts on recovery of the labor union power that was limited because of repression by the military regime. Eventually, through strikes and struggles, the CODELCO copper labor

⁵⁴ Gana, 1988: pp. 47-48.

⁵⁵ Swanger, 1997: p. 275.

not only recuperated its strong union power but also led the protest against the military regime. In addition, its renewed union power proved to be an important factor to block further attempts at privatization of CODELCO in the late 1980s.

Since 1973, the labor sector had been dormant because of strong suppression from the military regime. However, the copper labor started to resist suppression of the military regime. In particular, the struggles of El Teniente mine in November 1977 and Chuquicamata mine in July 1978 broke the long period of labor's silence after the coup. Even though both struggles could not achieve their original goals, they proved to be meaningful not only because they were the first labor struggles against the military regime, but also because they became a catalyst to unite copper labor. The military regime's repressive actions during the struggles brought militants of the PDC, the PC, and the PS together for the first time. Thus, copper workers and militants from the PDC, the PS, and the PC came together to organize an opposition to the officialist leadership of the unions.⁵⁶ Meanwhile, the copper workers' struggle led to a new labor policy because the Pinochet regime realized the need for the introduction of neoliberal policy into the social sector facing continuous labor struggles.

In the end, the Pinochet regime implemented the new labor legislation on order to reduce labor struggles and evade the boycott threat from the international labor organizations.⁵⁷ On June 30, 1979, Labor Minister José Piñera announced the new labor code, which limited labor rights through a number of articles. It allowed negotiations at the plant or workplace only, but it did not permit nationwide or areawide actions. Under

⁵⁶ Klubock, 1997: p. 114.

⁵⁷ ORIT (the Inter American Regional Organization of Workers) and the AFL-CIO threatened the boycott of Chilean products. But they canceled it because the Pinochet regime promised the introduction of union election and collective bargaining. Meanwhile, according to the ORIT secretary, Juan del Pinto, they lifted the boycott threat at the request of the Christian Democrat union group, the Group of Ten. EIU, *Quarterly Economic Review of Chile*, 2nd quarter 1979: p. 9.

the new law, union workers could not strike longer than sixty days and those who had, at any time, been members of organizations that supported the concept of class struggle could be banned from holding any union position. Even worse, the new law forbade strikes in “45 strategic industries,” which included the Chuquicamata copper mine, the oil industry, ports, telecommunications, and the state transport companies. However, the new labor code did allow room for union activity in the copper sector. Finally, in the union elections between 1979 and 1982, the opposition leaders took control of the unions and the CTC.

On May 11, 1983, the First National Day of Protest called by the copper union CTC, with support from the other unions, ignited struggles against the Pinochet regime and its economic policy. The street protests and pan banging swept Chile and resulted in six thousand arrested and two killed. This struggle turned into the most important event in the process of overthrowing the Pinochet regime. The origin of this protest had direct connection to the CTC congresses in 1982 and April 1983. From 1982, the copper workers grasped the democratization of their union representative after a long struggle. In December 1982, the copper workers elected Emilio Torres as the new president of CTC, removing notorious unionist Bernardino Castillo. In El Teniente, the copper labor removed Guillermo Medina from his position as head of an umbrella organization representing the El Teniente unions and replaced him with Eugenio López, a militant of the PDC. And the copper workers elected some communist party militants as part of CTC’s national leadership, including Manuel Rodríguez, newly elected president of the El Teniente foundry workers’ union.

After completing the task of democratizing their representatives in the union, the copper workers started to make their demands to the military regime. In the middle of the economic crisis, the CTC strongly demanded a repeal of the law 18,134, threatening a

general strike. The 1982 CTC congress issued a detailed examination of the workers' situation under the Labor Plan of the Pinochet regime. Thus, they concluded,

The Labor Plan ... permits the strengthening, accumulation, and concentration of economic power in Chile. And today this economic power imposes its decisions and has the power to obligate us to work in the conditions it decides, assuring the functioning of the economic model.⁵⁸

The CTC emphasized that only united struggle against the economic system of the Pinochet regime could have effects because the traditional forms of workplace-based action proved not to be feasible.⁵⁹ Especially, the failures of collective bargaining and the strikes between 1980 and 1982 urged copper labor to search for a new form of struggle.

The Pinochet regime did not accept the CTC's demand. In April 1983, the CTC congress decided that it had no alternative. Congress chose to call a strike on May 11. However, the labor leaders changed their minds and called for a general "protest," mobilizing participation from all popular sectors because the leaders doubted the effectiveness of a strike in the labor sector during an economic crisis with high unemployment.⁶⁰ Furthermore, continuous export-led neoliberal economic policy and economic crisis destroyed the domestic industrial base, which had acted as the strong union movement base before 1973. For the Day of National Protest, CTC issued a statement in which it declared its aim of terminating the Pinochet regime and its economic policy. "Our problem is not one law more or less ... but a complete economic, social, cultural, and political system that has us smothered and bound."⁶¹

The success of the first protest led to a new movement toward unification of the labor movement. Thus, on May 21 all the labor and professional organizations formed the

⁵⁸ Klubock, 1997: pp. 123-124.

⁵⁹ Klubock, 1997: p. 124.

⁶⁰ *La Tercera de la Hora*, April 22, 1983 quoted from Bongcam, 1984: p. 583; Barrera and Valenzuela, 1986: pp. 260-261.

⁶¹ *La Tercera de la Hora*, April 22, 1983 quoted from Bongcam, 1984: p. 583.

Comando Nacional de Trabajadores (CNT), planning new days of protest. The Confederation of Copper Workers became part of the CNT, and its youthful president, Rodolfo Seguel, became the CNT's most important leader.⁶² Second and third days of protest were held on June 14 and July 12 respectively, with more strong repercussions than that of the first on May 11. Further protests were promised on the twelfth day of each month. The government reacted with hostility and used hard-line tactics. On July 15, after the second day of protest, the government arrested many people, including Rodolfo Seguel. The arrest of Seguel was swiftly followed by a strike called by the Copper Workers' Confederation with 22,000 members on June 17. Furthermore, the success of CNT's unity struggle and the arrest of Seguel led CTC to call for a national labor strike. Thus, four labor unions representing 20,000 workers decided on a June 23 national strike.

⁶³ The wildcat strike called by the CTC on June 17, following the arrest of its leader Rodolfo Seguel, proved the copper union's power. In El Teniente, between 85 and 95 percent of the work force participated in the stoppage. The military regime not only placed the military at all four main mines, but also dismissed nearly 3,000 workers. This included 16 percent of the 6,250 unionized workers at El Teniente, 28 percent of the 3,600 workers at Andina, and 43 percent of the 2,100 members at El Salvador. The unions claimed that they paralyzed operations in El Salvador.⁶⁴

The protests and strikes led by the copper union proved to be the most important political event opposing the military regime, because they eventually led to the creation of the opposition coalition headed by Alianza Democrática, which achieved victory in the plebiscite of October 5, 1988, and in the presidential election of December 14, 1989.

⁶² *El Mercurio*, May 22, 1983.

⁶³ Bongcam, 1984: pp. 239-240

⁶⁴ EIU, *Quarterly Economic Review of Chile*, 3rd quarter 1983: p. 18; Bongcam, 1984: pp. 239-240.

In conclusion, even though the copper union did not directly participate in the discussion process of the privatization of CODELCO, by leading the national protest against the Pinochet regime and its neoliberal economic policy, it showed that it could be a major source of opposition to the privatization of CODELCO. In fact, because the privatization discussion of CODELCO had never occurred beyond the regime's inner circle and some limited civil society, the direct participation of copper labor in the discussion was impossible. By assuming another important role in a historic event in Chile, the copper union recovered its organizational power for future discussion of privatization of CODELCO. In fact, the copper union participated actively in the Committee of the State Enterprises Defense (Comité de Defensa de las Empresas del Estado) arguing "to defend our principal resource and to prevent the transfer of companies that have been created based on all Chileans' sacrifice and cost."⁶⁵ Without doubt, the powerful political position of the copper union after the national protest helped to prevent further privatization attempts in the late 1980s when the military regime privatized many important public enterprises.

Even though the Pinochet military regime was famous for the complete implementation of its neoliberal economic policy in Chilean society, it sustained CODELCO as the largest public enterprise in Chile. The Chilean case during the military regime shows that both economic and political variables determine public enterprise reform. The Chilean state, even under the neoliberal military regime, had to consider both economic and political factors. In terms of the political sectors, the military itself played a great role in preventing CODELCO from being privatized. Also, the copper labor union, less importantly and indirectly, did influence the privatization discussion, especially in

⁶⁵ Gana, 1988: p. 114.

the late 1980s. Meanwhile, the economic importance of CODELCO, such as export and national revenue, persuaded the military regime to keep CODELCO in state hands. By controlling the most important economic resource, the military regime not only secured its political power but also overcame economic adversity in the 1980s.

CONCERTACIÓN PERIOD: POLITICAL OPPOSITION TO THE PRIVATIZATION OF CODELCO

President Patricio Aylwin assumed power on March 11, 1990, after an historic presidential election victory in December 1989. It was not just a personal victory for Aylwin but also a victory for the seventeen center-left party coalition, Concertación de los Partidos por la Democracia. Even though it emphasized more social expenditure, the economic policy of Aylwin was a continuation of Pinochet's neoliberal economic policy. Nevertheless, the privatization policy could not continue smoothly under the Concertación regime because of discontent within the regime. In fact, between 1989 and 1995, the Concertación regime privatized only four public enterprises with a total value of US\$27.2 million.⁶⁶ Also, the center-left coalition government has kept the state's absolute ownership and control of CODELCO and its resources in spite of several controversies. This section will explain why the Concertación regime has not privatized CODELCO, with an emphasis on political factors.

With the return to electoral democracy, opposition to the privatization of CODELCO became diversified because formal political organizations such as political parties came to the fore. Therefore, unlike during the Pinochet period, the left centered by the revitalized leftist parties became the main opposition to the privatization of CODELCO. Also, strong public opposition, which is shaped by the historical experience in the process of nationalization, helped political opposition to the privatization by

⁶⁶ Lüders, 2000: p. 31.

neutralizing the center and right parties on the issue of CODELCO privatization. Of equal importance, the copper labor union showed its unparalleled organizational and political power in defending state ownership of CODELCO. In addition, I argue, the military, which still has direct political and economic interests in CODELCO, not only preserved its political power but also actively opposed the privatization of CODELCO.

CODELCO and the Issue of Privatization in the Concertación Period

During the Aylwin government, efforts to privatize CODELCO did not emerge directly but rather with the reform of CODELCO. The first reform of CODELCO proposed by the Aylwin government was related to the operational independence asked for by CODELCO itself. The proposal aimed to ease investment constraints and state interference imposed under the military regime. The most important motive for independence was the investment fund. According to Ignacio Guerrero, CODELCO's financial director, "as a state company, we compete with health, housing and education for the government's limited resources."⁶⁷ Initially, it achieved only partial success. In 1990, CODELCO reinvested only US\$350 million from US\$1.5 billion profit. The production of 1991 did not reach the level of 1989 when output peaked at 1.24 million tons.⁶⁸

Even though the government approved the five-year investment plan for CODELCO of an annual US\$450 million, the privatization of CODELCO became an issue in Chile. Yet the debate did not explicitly aim at privatization of CODELCO but rather focused on the joint venture of CODELCO with private capital. CODELCO owns numerous copper deposits, development of which requires investment over and above that already proposed. There were some arguments proposing full privatization of

⁶⁷ *The Financial Times*, December 4, 1992: p.36.

⁶⁸ *Mining Journal*, February 7, 1992: p. 105.

CODELCO from the neoliberal technocrats, right-wing parties, and especially, from newly emerged capitalists. However, the political structure and economic interests of CODELCO made the issue of privatization itself taboo within the Aylwin government. The most powerful opposition sector was the copper unions. Since 1990, the labor sector has strengthened due to the new labor code, which approved the formation of trade union federations. Moreover, leftist parties within Concertación were mainly supported by the labor sector.

The decision was made in consideration of the long-term profits of CODELCO. On May 6, 1992, President Patricio Aylwin promulgated a new CODELCO law aiming at increasing the company's possibilities for joint exploration with private concerns. Aylwin assured everyone that the law was not designed to privatize CODELCO, but that the evolution of the economy had demonstrated the continuing advantages of both private domestic and foreign capital. He added that the company's administration would not be affected, nor would active mines be included in future partnerships with third parties.⁶⁹

Nevertheless, the new CODELCO law proved to be not the end but the start for the debate about the future of CODELCO. Particularly, the privatization of CODELCO became the hottest topic from 1993 to 1995. The debate was ignited by the abrupt revelation of a financial scandal, in which CODELCO lost some US\$270 million in the metal futures market. Even though CODELCO tried to respond to the scandal with a major decentralization of CODELCO, the privatization debate continued to heat up during the process of government change from Aylwin to Frei.

Eduardo Frei was the second president of center-left coalition, Concertación. The main policy proposed by Frei was the reduction of poverty. In addition, the Frei government promised that his presidency would pursue the general privatization

⁶⁹ *El Mercurio*, 1992 May 7, Sec. A: pp.1A-12A.

program. However, Frei said that the privatization program would not include CODELCO. He reiterated this promise on several occasions after taking office, reflecting the highly controversial nature of privatization of the mining sector, including strong opposition among elements from within his own Concertación governing coalition. But the situation around CODELCO ignited by the scandal has produced much debate since 1990.

The first proposal for the privatization of CODELCO was from the right wing, which was relatively dormant during the Aylwin government. Several weeks after the scandal of CODELCO, the right wing party, the Independent Democratic Union (UDI), which generally represented the interests of the financial and industrial groups, released a proposal for complete sale of CODELCO for US\$13 billion. The UDI proposal was immediately supported by the Confederation of Production and Commerce, one of the principal private sector associations. Then in late April, SONAMI (Sociedad Nacional de Minería) presented a detailed plan for the "gradual" privatization of CODELCO, which started with the breakup of CODELCO's five principal mining operations into autonomous corporations and the subsequent sale of each to private bidders.⁷⁰

Although the Frei government rejected the SONAMI proposal for the gradual privatization of CODELCO, its own proposal for modernizing CODELCO was remarkably similar to SONAMI's. The Frei plan involved an internal reorganization of CODELCO. Indeed, both the SONAMI and the Frei government's plans proposed the same subdivision and decentralization. The only difference was that the former argued that such reorganization should be the first step for total privatization, while the Frei

⁷⁰ Robinson, 1994.

government insisted that existing CODELCO holdings should remain in the state's hands.⁷¹

The Frei government's strategy of decentralization of CODELCO generated broad opposition, especially within the ruling Concertación. In late February 1994, representatives of the Chile's Socialist party (PS), the Communist party (PC), and the Democratic Left party (PDI), as well as the Copper Workers' federation (FTC, Federación de Trabajadores del Cobre), made separate statements expressing their absolute opposition to the privatization of CEDELCO. The PS proposed a national debate to promulgate a new law governing CODELCO operations, while the PC and the FTC asserted that CODELCO should remain in public hands. The PDI said it supported CODELCO executive president Jorge Martinez's firm decision to fully investigate the company's losses to determine who was criminally, administratively, and politically responsible for creating the crisis.⁷²

On the other hand, opposition to the privatization of CODELCO made the leftist parties and copper labor have a strange alliance with the military, which had continued to receive a flat 10 percent of all CODELCO's copper sales as part of the agreement it reached in 1990 with incoming civilian authorities. While 70 percent of the military budget came from the national budget and was used for operational expenses and salaries, the remaining 30 percent, which derived from copper profits, went to weapons and other equipment procurement.⁷³

The debate for the privatization of CODELCO ended with a compromise among social forces, but further controversy remained. According to the law for the new statutes of CODELCO approved in congress on March 11, 1996, CODELCO was not privatized.

⁷¹ Robinson, 1994.

⁷² *El Mercurio*, 1994 Feb 24, Sec. C: p. 2C,

⁷³ *La Tercera*, 1994 Feb 18: p. 6,

Yet the law did not exclude all private participation, which expanded the scope for association with private capital. The state would retain ownership of the four large older mines and of the new Radomiro Tomic mine. The most important result of the new statutes was CODELCO achieving autonomy and independence. Under the new statutes, CODELCO would act as a holding company, and each mine would function as a subsidiary with its own board and autonomy to make its decisions.⁷⁴ The new CODELCO law stitched up the privatization issue of CODELCO, which was wounded by the financial scandal.

Ricardo Lagos was inaugurated as the second socialist as well as the third consecutive Concertación president on March 11, 2000, although he declared, "I will be the third president of the Concertación, not the second socialist president"⁷⁵ when he was elected. As a moderate socialist, Lagos has inherited neoliberal economic policy from the previous governments while proposing more social justice. In fact, in terms of economic policy, the victorious candidate Lagos and the defeated Joaquín Lavín, candidate of the right coalition, showed relatively few differences during the 2000 presidential campaign. Both promised massive programs in order to solve the problem of poverty and unemployment based on the free-market economic model.⁷⁶

Nor did either candidate show apparent disagreement on the privatization of CODELCO in proposing the status quo based on the resolution achieved during the Frei government. That is, the state continues to own CODELCO and its five large mines while allowing joint ventures with private capital in the new development. However, even though it was believed to be a promise to earn votes, Lavin's position on CODELCO was surprising because he was a UDI member as well as the Right coalition candidate. Lavin

⁷⁴ *Latin American Weekly Report*, March 28, 1996: p. 140.

⁷⁵ *BBC News*, January 17, 2000. <http://news.bbc.co.uk/2/hi/americas/606850.stm>

⁷⁶ Angell and Pollack, 2000: p. 365.

“would welcome additional private sector involvement in CODELCO, but stop short of full-scale privatization unless there was clear public mandate.”⁷⁷ Hernán Büchi, former finance minister and Lavin’s economic adviser during the campaign, also added, “We think that privatization should be an issue of going ahead in order to improve efficiency... (but) it has to be done in a way that you obtain the consensus of the people involved.”⁷⁸ Meanwhile, the copper policy of the Lagos government was inherited mainly from the previous Concertación administrations. Lagos said,

I am not certain that privatizing CODELCO would be the best thing for Chile. What we have to do is maximize CODELCO’s knowhow. It has to become international, doing joint ventures with private companies outside the country, and within Chile.⁷⁹

Since the Concertación has governed Chile from 1990, its main policy vis-à-vis CODELCO has been the status quo of state ownership of CODELCO’s *Gran Minería del Cobre*, although the new 1992 CODELCO Law allowed minority private participation in CODELCO’s new project. In fact, the 1992 new CODELCO Law gave considerable autonomy to CODELCO, which not only enabled it to develop a joint venture with private capital, but also privatized some noncore assets. Accordingly, CODELCO started a joint venture with Cyprus-Amax to develop the US\$1.05 billion El Abra copper mine in 1994 and sold a controlling stake in its old Tocopilla thermoelectric plant in 1995. The purpose of all these efforts was to raise the funds for new projects such as the development of a US\$588 million copper mine, Radomiro Tomic, which came on stream in 1998.⁸⁰

⁷⁷ *Latin Finance*, November, 2000.

⁷⁸ *Latin Finance*, November, 2000.

⁷⁹ *Business Week*, April 2, 2002.

⁸⁰ EIU, *Country Profile: Chile*, 2000: pp. 25-26.

As a result, the Concertación regime has not changed the basic structure of CODELCO, which “is required by law to retain total ownership of its traditional divisions (Chuquicamata, El Teniente, El Salvador, and Andina) and to develop on its own its two richest copper mineral deposits, Radomiro Tomic and Mansa Mina.”⁸¹

The Left

Unlike during the military regime, the left has gained political power during the Concertación period. Before the military coup d’etat in 1973, Chile had exhibited a long history of electoral democracy based on ideological political parties. The transition to electoral politics in 1990 meant that the past political pattern was revived. Especially, the reemergence of the leftist parties has balanced the map of political ideology in which the right had dominated during the military regime.

The left gained significant power within and outside of the governing Concertación coalition. Between 1989 and 2002, the leftist PS and PPD have been represented in the National Congress with an average of 24 percent of the seats in the Lower House and 17 percent in the Senate, respectively.

⁸¹ EIU, *Country Profile: Chile*, 2000: pp. 25-26.

Table 2-7. Balance of Forces in the Chilean Congress

(no. of seats)

	Deputies				Senators		
	1989	1993	1997	2001	1989	1993	1997
Concertación	70	70	69	63	22	21	20
Partido Demócrata Cristiano (PDC)	38	37	38	24	13	13	14
Partido Socialista (a) (PS)	19	16	11	12	4	5	4
Partido por la Democracia (PPD)	7	15	16	21	1	2	2
Partido Radical Social Demócrata (PRSD)	6	2	4	6	4	1	0
Unión por Chile	46	44	47	57	16	16	18
Unión Demócrata Independiente (UDI)	14	15	21	35	2	3	9
Renovación Nacional (RN)	32	29	25	22	13	11	7
Partido del Sur	0	0	1	0	0	0	0
Independents	0	0	0	0	1	2	1
Unión de Centro Progresista	0	2	2	0	0	1	1
Independents	4	4	2	0	1	2	1
Total elected	120	120	120	120	38	38	38
Un-elected (b)	-	-	-	-	9	8	11
Total	120	120	120	120	47	46	48

(a) Includes two deputies elected under the Movimiento de Izquierda Demócrata Allendista (MIDA) list in 1989, and one elected under the Partido Demócratico de Izquierda in 1993. (b) There are normally nine unelected senators, who serve for an eight-year period. They include: four former senior military commanders, one from each of four branches of the security forces, selected by the National Security Council; two former Supreme Court judges and one former controller-general, selected by the Supreme Court; and one former interior minister and one former university rector, selected by the president. In addition, former presidents who served for no less than six years have the right to become senators for life, which enabled General Augusto Pinochet to join the Senate in March 1998, and Eduardo Frei in March 2000.

Source: Ministry of the Interior, *Servicio Electoral*; EU, *Country Profile: Chile*, 2000; <http://www.electionworld.org/election/chile.htm>

In addition, although the PC did not have a congressional seat, the PC had meaningful influence over popular movements (including the labor unions) and earned significant votes during the municipal and presidential elections. The PC is a leading force in the public sector unions in particular.

Table 2-8. Valid Votes of the Communist Party (Partido Comunista)

(% of valid votes)				
Municipal, 1992	Deputies, 1993	Municipal, 1996	Presidential, 1999	Deputies, 2002
6.6	5.0	5.9	3.2	5.2

Source: Ministerio del Interior, *Servicio Electoral*.

The significant presence of the leftist parties in the Congress is important because it is directly related to the stability of the governing Concertación regime. That is, the inherited character of the Concertación is a factor shaping copper policy, including the CODELCO issue. Since the Concertación has governed, it has been on the verge of a split several times due to differences over the issue of public-sector reform. Especially, because the Frei government tried to reform public health and education, and public administration in general as well as that of CODELCO, the government met strong resistance from the leftist sector within the Concertación such as the PS (Partido Socialista) and the PPD (Partido por la Democracia). The government bowed to the demands from the leftist sector because the regime's priority was to sustain the coalition.

The leftist parties have been the significant opposition power against the privatization of CODELCO. That is, major leftist parties--the PS, the PPD and the PC (Partido Comunista)--clearly oppose the privatization of CODELCO, not only because they were the main political forces to propel the nationalization of *Gran Minería del Cobre* in 1971 but also because their constituency is the main opposition force to the privatization of public enterprise.⁸² In fact, Chile is one of the leading countries that has a

⁸² Interview with Leal, 2002; Interview with Nuñez, 2002; Interview with Fazio, 2002.

great deal of leftist voters in Latin America. According to the Mirror on the Americas 1999 survey conducted by *the Wall Street Journal*, 33.6 percent of the Chilean voters self-identify with the left as their political ideology, which is the third largest percentage among Latin American countries following Bolivia and Brazil. Also, according to the same survey, Chilean voters record an average of 4.95 points on a 0 to 10 political ideology scale in which 0 represents the left and 10 the right. In this category, Chile holds the second most left-wing position among Latin American countries following Bolivia.

Table 2-9. Left-Right Political Ideology Identification in Latin America, 1999*

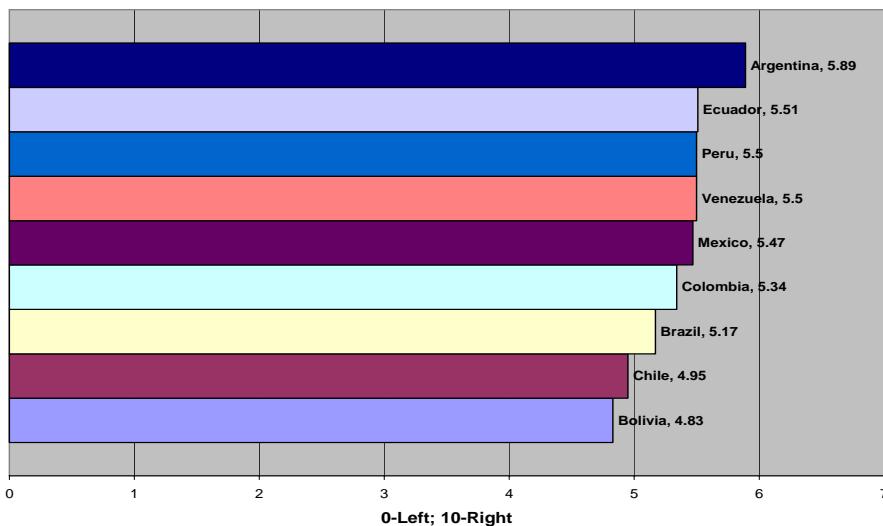
	Left (0-4)	Center (5)	Right (6-10)	Average	Ranking (L to R)
Argentina	14.6	48.2	37.1	5.89	9
Bolivia	35.1	34.1	30.8	4.83	1
Brazil	36.3	22.6	41.0	5.17	3
Chile	33.6	39.1	27.4	4.95	2
Colombia	30.1	28.2	41.8	5.34	4
Ecuador	30.9	25.3	43.8	5.51	8
Mexico	31.2	28.0	41.0	5.47	5
Peru	23.4	37.9	38.7	5.50	6
Venezuela	32.5	21.7	45.9	5.50	7
Average**	29.7	31.7	38.6	5.35	

* The Table is calculated and formulated by the author based on a 0-10 survey scale (0 is left and 10 is right).

** The average is based on nine countries' survey results in the table.

Source: *The Wall Street Journal*, "Mirror on the Americas," 1999 edition,
<http://online.wsj.com/public/resources/documents/pollmirror1999-eng.html>

Figure 2-1. Average of Left-Right Political Ideology in Latin America, 1999



* The average is based on nine countries' survey results in the table.

Source: *The Wall Street Journal*, "Mirror on the Americas," 1999 edition, <http://online.wsj.com/public/resources/documents/pollmirror1999-eng.html>

Without a doubt, the voters' ideological tendency is also the reason that the leftist parties are against the privatization that is the centerpiece of neoliberal economic policy. According to Antonio Leal, a PPD deputy:

Of course, the president Lagos opposes the privatization of CODELCO. If a government wanted to privatize CODELCO, it would face with strong opposition from unions, legislature. It should be considered the fact that to privatize CODELCO or any public company requires a bill to pass in the legislature and that bill would not pass--never in this Chilean legislature.⁸³

Meanwhile, the Chilean binominal electoral system has played a great role in maintaining the copper policy as status quo. Under the binominal system, each congressional district elects two candidates. A single party can win two seats only if it garners two-thirds of the total votes. It is therefore difficult for one party to win two seats. Therefore, neither the left nor the right has enough seats in the Congress, which makes it

⁸³ Interview with Leal, 2002.

difficult to enact legislation, especially legislation that requires super majority votes. For example, the 1980 Constitution that guaranteed the state ownership of all mineral resources needs a two-thirds majority to modify.⁸⁴ Because it ensured a strong presence of the right parties, many scholars⁸⁵ criticized the binominal electoral system as an authoritarian heritage. However, the Chilean binominal electoral system also secured a significant presence of leftist parties in the Congress, which have been major opposition forces to the privatization of CODELCO. Therefore, with a relatively small number of congressional members, leftist parties could exert high negotiation power in the divided congress. Ironically, the inherited electoral system from the military regime not only hinders the monopoly of legislative power by a single political party, but also blocks the change of laws, and thus impedes the privatization of CODELCO.

In sum, during the Concertación period, the left that expanded its presence in the political arena became the main political force against the privatization of CODELCO. The left has succeeded in blocking the privatization of CODELCO thanks to absolute public support, a large leftist electorate, and institutional heritages such as constitutional provisions and the binominal electoral system.

Public Opinion

With regard to the issue of CODELCO privatization, one interesting feature is the center and the right parties' reserved position, which is somewhat different from their economic policy platform supporting the market-oriented neoliberal economic policy. In

⁸⁴ Also, the modification of many organic constitutional laws related to the function of CODELCO would not pass easily in the Congress. According to Barros, "The organic constitutional laws had their origins in the 1958 French constitution. These laws differ from ordinary legislation in that they require a higher quorum for their approval, amendment, or abrogation (the vote of three-fifths of the deputies and senators in office, lowered by the June 1989 constitutional reform to four-sevenths) and are subject to obligatory, prior constitutional review by the Constitutional Tribunal. During the transitional period, as structured by T.D. 13, no higher quorum was required for approval and amendment of organic constitutional laws, though these laws remained subject to review by the Constitutional Tribunal." Barros 2002: p. 250.

⁸⁵ Weeks 2001; Hunter 1996; Hershberg 1997.

fact, the centrist PDC (Partido Demócrata Cristiano) and PRSD (Partido Radical Social Demócrata) follow the left on this issue.⁸⁶ In addition, a significant portion of right-wing RN (Renovación Nacional) members do not agree with the privatization of CODELCO either. According to Carlos Vilches, a RN deputy:

I believe that I was victorious within the party. I cannot say it is 100 percent but a major percent is for maintaining the property of ENAMI as property of the state and for leaving CODELCO Chile as a property of the state. Now we hope that there would be modernization in administration of these companies in order to let those companies grow and do major investments because these companies are those who give the largest amount of cash to the Chilean government. ... I would tell you that Renovacion Nacional does not agree with the privatization of CODELCO, Chile.⁸⁷

Even though UDI, the right party, has argued for the popular capitalism type of privatization of CODELCO in which the stock of the privatized company would be distributed to all Chileans, UDI is cautious in this regard because of public opinion. The general secretary of UDI, Cristián Leay, said, “If there is not a profound social consensus about privatization of CODELCO, it does not bother me that CODELCO is kept in the hand of the state being well administrated.”⁸⁸

Leay’s remark shows that one reason center and right parties oppose or hesitate to execute the privatization of CODELCO can be found in public opinion. That is, political parties are supposed to pay attention to public opinion and the majority of the Chilean people do not support the privatization of the largest as well as the most profitable public enterprise. As Ricardo Nuñez, president of the Socialist Party, argues, “I would say that 100 percent of copper laborers are against (the privatization of CODELCO). I would say that if we conduct a survey, about 80 percent would oppose the privatization of

⁸⁶ Interview with Lavandero Illañez, 2002; Interview with Parra, 2002.

⁸⁷ Interview with Vilches, 2002.

⁸⁸ Interview with Leay, 2002.

CODELCO.”⁸⁹ In fact, most Chileans not only have a good image of CODELCO, according to a survey, but also regard CODELCO as an important resource for the country. The image of CODELCO stands at 5.8 on a 1 to 7 survey scale among Chileans, in which 1 stands for the most negative image and 7 represents the most positive one.⁹⁰ In the same survey, almost all Chileans agree that CODELCO is important for the country.⁹¹ In addition, another poll in December 1998 showed that about 70 percent of Chileans opposed CODELCO’s privatization. Also in a 1998 poll, Chileans selected the copper giant as the firm that contributes most to the country’s economic development: CODELCO got the vote from 26 percent of respondents compared with phone company CTC and electricity companies ENDESA and CHILECTRA, which got only 2 percent of respondents each.⁹² According to another poll released in July 2005 by Admark on behalf of the Mining Ministry, more than 93 percent of Chileans oppose the privatization of CODELCO.⁹³

Another reason why the center and the right parties oppose or hesitate to propel the privatization of CODELCO can be traced to the nationalization process in 1972. That is, the unanimous decision to nationalize the copper mines in 1972 has become a political burden for the right in arguing for the privatization of CODELCO. Ricardo Núñez also says,

The Right wing parties participated in the nationalization of copper because their congressmen voted in favor of nationalization in the House of Representatives. But they did not have alternatives, because if they had opposed the nationalization, they would have felt rejected not only by the Left and by the Unidad Popular, but also by 90 percent of Chileans who understood that

⁸⁹ Interview with Nuñez, 2002.

⁹⁰ Adimark, 2001.

⁹¹ More than 99 percent of respondents answered that CODELCO is important for the country.

⁹² “So Goes Chile,” *Worldlink*, May/June 1999.

⁹³ *Latin Business Chronicle*, Sep 12, 2005, <http://latinbusinesschronicle.com/reports/reports/codelco.htm>

nationalization was the best way out of the situation that dragged on in Chile for years.⁹⁴

In addition, Antonio Leal, a PPD deputy, suggests that the nationalization process, a historic event experienced by most Chileans, is a strong factor in explaining high public support for CODELCO.

The fact is this country in its deep inside knows that it is a mining country and also knows that the battle for the nationalization of copper was a historical battle. In this country, people remember that the Chilean nitrate industry was private and it died as private. People remember that the Chilean nitrate mines disappeared or became ruins; the miners of Chilean nitrate died. Everything terminated with the Chilean nitrate. People remember that the English company took every advantage of the Chilean nitrate without leaving virtually anything for Chile. Also Chilean people remember that the same thing happened with silver and iron. Chile is the principal producer of copper in the world with major copper reserves.... People remember that the battle to nationalize copper was very important.⁹⁵

That is, Chileans' historical experience in the process of nationalization of CODELCO has not only helped build up public support for CODELCO and its resources, but also increased public opposition to privatization.

In conclusion, public opinion and historical experience have played important roles in opposing the privatization of CODELCO. Particularly, these factors pressured the center and the right parties to follow the leftist parties on the issue of CODELCO's ownership. In fact, according to my interviews for this research, most center and right party leaders confessed that they do not want the privatization of CODELCO to become an issue in the elections. The center and the right parties have difficulty discussing the issue of CODELCO privatization because negative public opinion on privatization conflicts with their own free market platform.

⁹⁴ *Cobre Chileno*, 2001, No. : p. 22.

⁹⁵ Interview with Antonio Leal, 2002.

The Labor Union

Certainly, the labor sector was aligned with leftist parties. Under the Concertación regime, the labor sector has not showed significant political power. The CUT (Central Unitaria de Trabajadores de Chile), the national umbrella organization, has noticeably lost its power within the Chilean society. According to Epstein's research:

The CUT leadership was persuaded by its political allies in the parties of the Concertación that organized labor needed to postpone its backlog of economic demands accumulated during the dictatorship in the interests of aiding the governability of the newly elected government. ...

Given the central role of the military in overseeing the new regime, any sharp escalation of strikes or, worse yet, a general strike which had last occurred in 1987 against Pinochet, could be seen as quite destabilizing. Instead CUT actively contributed to a peaceful environment with organized business by agreeing to the Model Accord of April 1990.⁹⁶

The power of Chilean organized labor has never recovered its previous level because it was gradually undermined by the long-lasting neoliberal economic policy. The CUT was also hampered by the legal restrictions imposed by the military regime. According to the law, "only enterprise-based unions have had the right to strike and to engage in collective bargaining."⁹⁷ Nevertheless, the copper union has been the exception in the labor movement. The copper union federation, the FTC, has preserved its unparalleled status within the Chilean union movement not only because it represented the most important strategic industry, but also because it was the most strong opposition power against the Pinochet regime. According to interviews in my field work, almost all policymakers such as politicians, government bureaucrats, and economists agreed that copper union has been the most important factor in preventing CODELCO from privatization.

⁹⁶ Epstein 2001.

⁹⁷ Epstein, 2001.

The copper union's new relationship with the Concertación regime started with strikes. In July 1991, the No. 1 and No. 2 Chuquicamata labor unions went on strike over the new collective bargaining arrangements. The strike aimed at not only enhancing its economic interests but also securing its political power in the new political environment. The president of the Chuquicamata empowered committee, Renzo Gasparini Noziglia, said, "It is not about if they are going to pay a worker 10 pesos or one million pesos. I think it is a secondary issue. Therefore, the question is not about how much we would adjust our salaries but how much the company could support in medium-large period for the benefits of the whole country."⁹⁸ After enduring fourteen days, the strike ended with the victory of the Chuquicamata copper union, which assured some economic and organizational benefits for copper workers.

During the privatization debate in 1993, the copper labor union was actively involved in the discussion process using its political as well as organizational resources. In May 1993, under the direction of president Raimundo Espinoza, the FTC launched various mobilization acts including partial strikes.⁹⁹ The mobilization was called a "warning strike" in the midst of the CODELCO privatization discussions. The purpose of the mobilization was not only to change the direction of policy already adopted by CODELCO (including a joint venture with private capital), but also to assure state ownership of CODELCO. The FTC demanded that CODELCO should assume direct exploitation of new mining projects such as "El Abra," "Radomiro Tomic," "MM," and "Mina Vieja." The partial strikes took place in fifteen centers of CODELCO, including El Teniente and Chuquicamata mines. However, faced with the privatization discussion of CODELCO, the struggle was not the only tactic of the FTC. On September 2, 1993, to

⁹⁸ *El Mercurio de Calama*, July 5, 1991.

⁹⁹ *La Tercera*, May 3, 1993.

guarantee the state ownership of CODELCO the FTC voluntarily suggested and signed a “strategic alliance” with the company, the Modernization and the Future of the Company, in which the copper union would play the main role in the company’s transformation and modernization process. The deal helped save jobs by means of new flexible work rules, worker’s participation, and incentive schemes.¹⁰⁰ By signing the strategic alliance, the copper union clearly expressed that state ownership of CODELCO is its most important issue.

In April 1994, the FTC also suggested a proposal that not only expressed its opposition to the privatization of CODELCO, but also demanded a more consolidated copper policy that would facilitate the modernization of CODELCO.

The National Directive Council of the FTC (Consejo Directivo Nacional de la Federación de Trabajadores del Cobre) submit a programmatic proposal about the future of CODELCO as a base document for discussion to all its affiliates and to important actors in the national issue. ...

The proposal that we present here strengthens our will for dialogue and take this historically important moment. From this perspective, we think this country should realize that the real dilemma of CODELCO is not about ownership but about the absence of a strategic development model and efficient administrative performance that allows overcome difficulties, restrictions and budgetary, tributary and institutional discriminations that suffocate its development.¹⁰¹

That is, CODELCO labor expressed its deep interest in state ownership of CODELCO as well as its support for the long-term strategy of a comprehensive copper policy that would enable CODELCO to sustain its status as an internationally competitive company. Meanwhile, the “strategic alliance” between the CODELCO administration and the labor union has been sustained throughout the Concertación regime. CODELCO achieved an important outcome in labor relations on July 5, 2001. It agreed to the “Proyecto Común de Empresa” in which the administration, the state, and labor

¹⁰⁰ *Worldlink*, May/June 1999.

¹⁰¹ FTC, March 1994: p. 4.

participate in the process of the company's strategic decisions by engaging 140 executives of CODELCO, more than 600 representatives of the FTC, FESUC (Federación de Supervisores del Cobre), and ANSCO (Asociación Nacional de Supervisores de CODELCO). The essence of the project is the engagement of labor in the decision-making processes of the company. That is, according to the project, the company assured that labor is an important partner in the company's discussion process.

By signing the “strategic alliance,” copper labor secured state ownership of CODELCO as well as its status within the company in exchange for cooperating with the company's administration, which would enable the company to lay off or reduce its labor force in times of difficulty.¹⁰² As a result, the strategic alliance showed that keeping CODELCO in state hands is the most important task for the copper union. In addition, it suggested that the copper union took a powerful position within the company in a more official way.

In sum, the copper union defended successfully the state ownership of CODELCO, showing its unparalleled organizational and political power in the midst of a weakening labor movement in Chile. Interestingly, unlike the previous period, both a friendly political situation and stable organizational power of the union led the copper union to use a flexible tactic to secure state ownership of CODELCO by participating in the strategic alliance. The CODELCO labor union case shows that powerful labor unions do not need to use militant acts such as strikes because enhanced negotiation power gives the union leeway to choose among various options.

¹⁰² According to Pedro Morales Cerda, director of investigation and technology innovation of CODELCO, the CODELCO administration was surprised by the compromise because the union not only suggested the radical modernization project of the company, but also expressed acceptance of labor force reduction to attain a more competitive and efficient company in case of emergency. Interview with Morales Cerda, 2001.

The Military

In discussion of the privatization of CODELCO, the most interesting political sector was the military. Even though it lost state power in 1990, the military sustained its interests in the privatization debate of CODELCO. The Chilean military did not lose its strong political status in Chilean society.¹⁰³ Three reasons for the persistence of strong military power during the Concertación period can be suggested. The pacted character of the transition to the electoral democracy itself proved to be the first reason. Although popular struggles and electoral victory were the main dynamic in achieving the transition to electoral democracy, the civilian opposition paid attention to the removal of Pinochet from the presidency rather than the substantial change of the authoritarian institutional order established in the 1980 constitution. Secondly, the military has sustained overwhelming power because of the various legal and political structures that assure the bureaucratic, financial, and judicial autonomy of the military. Finally, because of the above two reasons, throughout the Concertación regime the civilian governments have failed to reduce the power of the military.¹⁰⁴

Both the 1980 Constitution and the Constitutional Organic Law of the Armed Forces No. 18,948 in 1990 have secured the political power of the military.¹⁰⁵ Both constitutional legal schemes “conferred guarantees of autonomy on the military and police, while limiting executive, judicial, and legislative authority.”¹⁰⁶ The highlight of the legal scheme for the military is the National Security Council. Article 91 of the Constitution and Article 1 of Law 18,948 grant the military “the explicit right to intervene at anytime in defense of the country’s national security and the institutional

¹⁰³ Hunter, 1996; Galleguillos, 1998; Weeks, 1998; Weeks 2001.

¹⁰⁴ Agüero, 2003; Aravena, 2001; Hunter, 1996; Galleguillos, 1998; Weeks, 1998; Weeks 2001.

¹⁰⁵ The Organic Law of the Armed Forces No. 18,948 was promulgated on February 2, 1990, only days before the Concertación regime assumed power.

¹⁰⁶ Hunter 1996: p. 30.

order (as defined by the military-dominated National Security Council).... it logically follows that the military can plot a military coup without violating the constitution.”¹⁰⁷

Meanwhile, Article 96 of the Constitutional Organic Laws in 1990 assured financial autonomy to the military in the future by providing “a budget floor whereby the military would not receive less than its 1989 budget adjusted for inflation.”¹⁰⁸ Also, the military has kept receiving 10 percent of CODELCO’s total copper sale in exports. In 1990, the military raised the floor of the return from US\$180 million to US\$225 million. Therefore, Chile’s per capita defense spending is roughly twice as big as that of Argentina, four times that of Peru, and ten times that of Brazil.¹⁰⁹

Table 2-10. Defense Expenditure by Central Government in Chile, 1975-1999

(% of Total Expenditure)												
1975	1980	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
13.41	12.4	11.5	8.4	-	9.65	9.14	8.83	8.55	8.17	8.43	8.36	8.25

Source: UCLA Latin American Center Publications, 2002: p. 979.

In addition, as I mentioned earlier, the binominal electoral system has played a major role in sustaining the status quo in Chilean politics, which secures the power of the military. This situation is due to the fact that many laws guaranteeing the power of the military in the Chilean political system are backed by either the constitution or the constitutional rank organic law.¹¹⁰

As a result, the Chilean military sustained its strong political power, enjoying legal and financial autonomy. As Weeks argues, “The armed forces never returned to barracks. They remain a potent political actor, capable of exerting pressure that changes government policy.”¹¹¹ In respect to copper policy, the power preserved by the military

¹⁰⁷ Galleguillos, 1998: p. 7.

¹⁰⁸ Weeks, 2001: p. 7.

¹⁰⁹ Hunter 1996: p. 31; *The New York Times*, January 26, 1990: p. E4.

¹¹⁰ The modification of constitutional organic law needs three-fifths of congressional approval.

¹¹¹ Weeks, 1998: p. 1.

helped CODELCO to remain in state hands because the military still has an unchanged interest in CODELCO for both national security and financial reasons.

Unlike during the military regime, diverse social forces have played an important role in CODELCO's privatization during the Concertación regime. With the return of formal politics, the most conspicuous forces were the political parties. The reemergence of the leftist parties not only balanced the ideological tendency of congress, but also led center and right parties to oppose or hesitate to proceed with the privatization of CODELCO. The leftist parties' firm stance against the privatization of CODELCO comes from ideological beliefs and historical responsibility. Meanwhile, the powerful copper union showed its great interest in blocking the privatization of CODELCO. However, unlike in the military regime period, the copper union (which has fully recovered its political and organizational power) achieved its goal by means of flexible as well as militant tactics. In addition, by assuring its political and financial autonomy, the military continued to be a main opposition force to the privatization of the national copper company, which it believed to be an important resource for its financial interests and national security. Finally, CODELCO's excellent economic performance and great presence in the Chilean economy helped keep CODELCO in state hands. In conclusion, historical evidence showed that both political and economic reasons have determined the destiny of CODELCO during the Concertación period. That is, both high economic benefits and high political opposition have sustained CODELCO as a public enterprise in Chile.

CONCLUSION

The CODELCO case clearly supports the argument of this research that high political opposition with high economic benefits of a company leads to no-privatization.

Also, the Chilean case shows that these variables matter regardless of the character of the regime. That is, even though the military and the Concertación regimes created different political and economic environments in Chile, high political opposition and high economic benefits of the company still blocked CODELCO from privatization.

In both the Pinochet and Concertación periods, the military was one of the strongest opposition sectors to the privatization of CODELCO. The military has some reasons to oppose the privatization of CODELCO. At first, it feared losing its control over the economy. Second, the military considers CODELCO a strategic industry for national security. Finally, in an economic sense, it receives 10 percent of CODELCO's total copper sale. After the return to electoral democracy, the military not only succeeded in preserving its political power but also continued to oppose privatization of CODELCO for the above mentioned reasons.

The copper union, the FTC, is another political sector that used its strong power to oppose the privatization of CODELCO, particularly in the Concertación period. As the strongest labor union in Chile, the copper union used intransigent struggles as well as elastic compromises to prevent CODELCO from being privatized. In addition, even though other labor unions keep losing organizational power because of long-lasting neoliberal economic policy, copper labor has preserved its political and organizational power. On the other hand, under the suppression of the authoritarian military regime, the copper union could not participate directly in the discussion of its own company's destiny. However, by leading the protest against the military regime in 1983, the copper union not only demonstrated its continued political strength, but also deterred further discussion of privatization of the company in the late 1980s.

With the return of electoral democracy to Chile, the recuperation of a formal political system and the resulting emergence of leftist politics played an important role in

sustaining CODELCO in state hands. The significant presence of leftist parties in the governing regime has created a focal point for opposition to the privatization of CODELCO in the formal political system. Also, the large leftist electorate and institutional features such as the constitutional rule on CODELCO and the binominal electoral system added to the power of the left. Equally important, strong public opposition to privatization shaped by the historical experience in the process of nationalization not only neutralized the center and right parties in the issue of CODELCO privatization, but also strengthened political opposition to privatization.

The Chilean case illustrates that each period has a somewhat different opposition coalition against the privatization of CODELCO, depending on the political situation. That is, during the military regime, the military itself is the most important figure in the opposition sector. Also, the copper labor union, less importantly and indirectly, helped the opposition. During the Concertación period, the Chilean military, as a pioneer of neoliberal economic policy, joined voices with labor and leftist political parties in the CODELCO privatization issue. The secret of this phenomenon is the economic performance of CODELCO.

The Chilean case underscores that economic variables contributed to the no-privatization of CODELCO. For three decades, CODELCO has not only shown excellent economic performance, but also sustained its leading role in the Chilean economy. CODELCO generates about 4 percent of the country's GDP and 20 percent of total export receipts, and provides around 8 percent of the government's budget. Therefore, almost all Chilean people agree that CODELCO is a profitable company for the national economy. That is, the Chilean case showed that high economic benefits of a public enterprise is an important variable to keep the company in state hands. As many policy

participants agree, there is no reason to privatize a state-owned company that keeps yielding profits and transferring a significant amount of tax to the treasury.

CHAPTER 3: THE FULL-PRIVATIZATION OF YPF, ARGENTINA

INTRODUCTION

The privatization of YPF is a full privatization case. The primary purpose of this chapter is to survey why and how the Argentine state has privatized the oldest and the largest state enterprise in the country. Thus, this chapter searches for the answer to which factors led to the full privatization of YPF. In brief, I argue that the full privatization of YPF is a result of the political-economic situation that YPF and Argentina faced. Full privatization of YPF resulted from the combination of the company's meager economic benefits and low political opposition to privatization.

In 1907, Argentina discovered the first oil reserve at Comodoro Rivadavia, the remote Patagonian frontier in the South. The discovery of oil altered Argentine politics and its economy in many ways. Since the early 1920s, the state-owned petroleum company YPF has dominated the Argentine petroleum sector as a practical monopoly in the exploitation, development, and processing of oil and natural gas through the refinement, transportation, sale, and distribution of final products. During the 1990s, Argentina experienced a drastic neoliberal economic reform. The Peronist president Carlos Menem implemented a neoliberal economic policy against its own party's tradition. The implementation of neoliberal economic policies in Argentina was extensive and speedy. Most federal-level public enterprises were privatized and most markets were deregulated. Also, many social sectors were privatized or decentralized. However, the Argentine economic reform was not simple and easy. Rather, it was a complex and long process in which many political forces negotiated and struggled for their own interests.

The Argentine state needed almost a decade to privatize fully the oldest and largest state-owned petroleum company. The long privatization process of YPF started

legally in 1991 when YPF was converted into a public and limited liability corporation. In 1993, YPF was partially privatized, as the Argentine state sold more than 50 percent of its stock to private investors. The full privatization of YPF was completed in 1999 when Repsol of Spain acquired controlling stock from the Argentine state and the stock market. In essence, the privatization of YPF provides us with a basis to analyze the whole process of economic reform implemented by the Menem regime.

This chapter unfolds as follows. First, I review the general privatization process in Argentina. Second, I examine the history of YPF in reference to the development of the Argentine petroleum industry. Then, I review the process of YPF privatization, which consists of three stages corresponding to different degrees of state ownership of YPF. Also, I analyze the economic performance of YPF. By examining a number of economic performance indicators of YPF, I reveal that the poor economic performance of YPF is a result of the monopolized and politicized petroleum market. Then I argue that the allegations about the inefficiency of YPF by the Menem regime succeeded in persuading Argentine society to approve its privatization.

After discussing economic variables, I discuss the weak political opposition to the privatization of YPF. In the case of YPF privatization, the evidence showed that no political sector was powerful enough to block the privatization of YPF. To support my argument, I pay particular attention to several possible opposition sectors such as the left, the petroleum labor union, and the military. In conclusion, I argue that the combination of low economic benefits of YPF and low political opposition to privatization lead the Argentine state to choose and implement the full privatization of YPF.

THE ARGENTINE PRIVATIZATION: OVERVIEW

The Argentine privatization program started with the inauguration of a Peronist president, Carlos Menem, in July 1989. The Argentine privatization, which peaked in the

early 1990s, was one of the most rapid and broadest privatization programs in the world. In terms of government revenue, the Argentine privatization under Menem was the third largest earner in Latin America after Brazil and Mexico with US\$31 billion in sales.¹ Except for YPF, public enterprises had little significance in Argentina until the 1940s. However, the accumulated wealth from the export sector enabled the Argentine state to create and purchase many public enterprises beginning in the 1940s.²

Menem was not the first president in Argentine history who attempted to privatize YPF. From President Arturo Frondizi in the late 1950s and early 1960s, through the military regime in the late 1970s, to the Raúl Alfonsín regime in the 1980s, there were several attempts to privatize YPF in order to reduce the size of the state. However, none of these attempts attained the original goal, which was to improve the efficiency of public services and the finance of the company. The failure of these attempts stemmed from resistance by the Peronists, which occupied a hegemonic position in Argentine society. The Alfonsín regime, for example, launched several programs including increasing private sector involvement in petroleum development, restructuring plans for the defense and the steel industry, and the privatization of Empresa Nacional de Telecomunicaciones (ENTel) and Aerolineas Argentinas. However, the Alfonín regime did not succeed in privatizing a substantial portion of public enterprises because of congressional opposition and executive wavering.

¹ *The Financial Times*, July 31, 1998. However, according to the calculation by Manzetti, the Menem privatization program earned about \$19.5 billion in cash in the 1989-1998 period because debt bonds that were swapped in the process had actually \$8 billion in market value rather than \$17 billion in nominal value. (Manzetti, 1999: p. 120).

² The World Bank, 1993: p. ix.

Table 3-1. Operating Results of the Ten Largest State-Owned Enterprises in 1989

State-Owned Enterprises	Income	Expenditure	Loss
YPF (Oil Company)	1,774	2,800	1,026
Ferrocarriles Argenitnos (railroads)	150	650	500
SEGBA (electricity, Buenos Aires)	220	650	430
Gas del Estado	350	560	210
ENTel (telephone)	545	940	395
AyE (electricity, provinces)	270	600	330
Hidronor (water)	21	131	110
Encotel (post office)	121	198	77
YCF (coal)	28	55	27
Obras Sanitarias (water works)	73	95	22

Source: SIGEP (Argentina's Public Enterprises Auditor), published in *La Nación*, February 10, 1993; Corrales, 1998: p.28.

Financial information shows how the Argentine public sector poorly ran its businesses. In 1989, the operating deficits of the thirteen largest enterprises totaled US\$3.8 billion on revenue of US\$8.7 billion. Also, at the end of 1988, the total external debt of federally owned public enterprise reached upwards of US\$11 billion.³

Table 3-2. Argentina: Foreign Debt by Companies in 1980, 1985, and 1989

Company	1980		1985		1989	
	US\$ million	% share	US\$ million	% share	US\$ million	% share
YPF	2,906.0	36.93	4,684.0	35.30	5,604.0	34.49
Gas	452.3	5.75	1,849.0	13.94	2,405.7	14.81
YCF	118.0	1.50	179.0	1.37	222.6	1.37
Water Electricity	1,496.6	19.02	2,180.0	16.43	2,613.0	16.08
SEGBA	661.2	8.40	724.8	5.46	783.6	4.82
Hidronor	281.6	3.58	652.0	4.91	1,120.6	6.90
FFAA	439.5	5.58	1,101.4	8.30	966.1	5.95
Airlines	515.5	6.55	826.6	6.23	773.0	4.76
AGP	33.0	0.42	9.4	0.07	4.1	0.03
Elma	663.5	8.43	446.2	3.36	957.7	5.89
ENTel	293.0	3.72	608.0	4.58	790.2	4.86
Encotel	9.3	0.12	7.0	0.05	8.6	0.04
TOTAL	7,869.5	100.00	13,268.0	100.00	16,249.2	100.00

Source: Sindicatura General de la Nación; Manzetti, 1999: p.82.

3 The World Bank, 1993: pp. 1-2.

This poorly managed public sector was trying to cope with raging hyperinflation in July 1989 when Menem assumed the presidency. Between August 1988 and July 1989, the inflation rate recorded 3,610 percent in terms of consumer prices and 5,062 percent in terms of whole prices.⁴ However, Menem turned the crisis into an opportunity. He superseded the ISI economic structure based on protectionism and Keynesian demand-side economic management, relatively generous social benefits, and state regulation of the labor market with the neoliberal economic structure based on open markets and free trade. That is, he used inefficient public enterprises as an excuse to change economic policies. Through privatization, Menem aimed at achieving two economic goals: reforming (more exactly, removing) inefficient public sectors and acquiring revenue to implement the stabilization program and to solve the external debt problem. Also, Menem took advantage of privatization in order to build a broader political coalition. As various studies⁵ point out, by using the privatization process, Menem succeeded in inviting former enemies of the Peronists into his coalition, such as business groups and conservative factions of the political sector, without sacrificing his party's traditional base of organized labor. Even though privatization programs damaged some sectors of the organized labor, especially the rank-and file, Menem did not lose support from the mainstream of Peronist organized-union leaders, because Menem provided them with economic and political benefits. Thus, Menem tried to achieve economic recovery and political stability by substituting state interventionism with neoliberalism.

The Argentine privatization program needed the approval of new legislation in congress because the privatization program conflicted with the existing legal framework, which had protected the previous state-led development structure. In August 1989,

4 Smith, 1991: p. 45.

5 Etchemendy 2001; Madrid 2003a; Murillo 1997.

Menem gained approval of the State Reform Law (Act 23,696) in the Peronist-controlled congress and the Economic Emergency Law (Act 23,697) shortly thereafter. These laws became the legal foundation for the Argentine privatization program.⁶ The State Reform Law dealt particularly with the privatization program. The law provided the executive the full authority to privatize a large number of public enterprises and services, including two television stations, ENTel, Aerolineas Argentinas, YPF's production areas, the merchant fleet, Gas del Estado, and the Buenos Aires Waterwork (Obras Sanitarias de la Nación, OSN) and the electricity enterprise (Servicios Eléctricos del Gran Buenos Aires, SEGBA).

Meanwhile, the Economic Emergency Law aimed at financially cleansing the public sector. It allowed the president to mandate an immediate and temporary reduction in public expenditure, mainly in subsidies and tax breaks for industrial promotion. The important issue in these two laws is that “Congress delegated to the executives the power to privatize through decrees, and unlimited discretion on the means and criteria to be implemented.”⁷ That is, these two laws impeded the opposition from using legal measures and appeals to block the reforms. In addition, the subsequent laws and decrees assured that every public enterprise could be sold if a company had attracted private investors. In the end, the final list for privatization contained national highways; electric power facilities; hydrocarbon production, refining, and distribution; rail cargo transport; urban rail and subway transport; ports; grain handling; water supply; mail services; money printing; shipping; a savings and insurance company; a hotel; a race track; petrochemical plants; steel manufacturing; assembly of airplanes and other military hardware; and various defense-related industries.⁸

⁶ Llanos, 2001.

⁷ Manzetti, 1999: p. 72.

⁸ The World Bank, 1993: p. 3.

The Argentine privatization program can be divided into three stages.⁹ The first stage, between 1989 and 1991, was characterized by poor management of the process. Because the economic situation was so desperate and the government needed to quell the financial and foreign debt crisis, the state wanted to sell state assets as quickly as possible. That is, in this stage the privatization policy was just one means to deal with the economic emergency. Under these circumstances, the state could not afford to make prudent and technically complex decisions that might have improved the quality of the process.¹⁰

The second stage, from March 1991 to 1994, began with the Convertibility Plan¹¹ engineered by the new Ministry of Economy Domingo Cavallo. The Convertibility Plan not only controlled outraging hyperinflation but also triggered an economic recovery, although it proved to be a short-term remedy. Under the Convertibility Plan, Argentina expanded its economy 7.7 percent per year between 1991 and 1994. Thus, in the second stage of privatization, the Argentine state could pay more attention to improvement in productivity and efficiency. Also, a more flexible financial situation enabled the Argentine state to create a more competitive bidding process and to design some sound regulatory frameworks.¹² However, in the second stage, even though some privatization programs (including YPF, Gas del Estado, and SEGBA) were approved by a special law made by congress, there was not serious discussion about privatization in congress. At

⁹ Manzetti, 1999; Gerchunoff and Torre, 1998.

¹⁰ Gerchunoff and Torre, 1998: pp. 124-5.

¹¹ The main principles of the Convertibility Plan included “(1) the Central Bank could no longer finance the government fiscal deficit; (2) the Central Bank was forced to back 100 percent of the monetary base with foreign exchange and gold reserves, creating a de facto ‘gold standard’ system; (3) the establishment of a new foreign exchange system fixing the parity of the US dollar at \$1 per Argentine peso; (4) the requirement that any new devaluation was to receive congressional approval; and (5) the elimination of all indexation mechanisms from contracts as they created the so-called ‘inertial inflation’ effect.” (Manzetti, 1999: p.73)

¹² Manzetti, 1999: p. 89; Gerchunoff and Torre, 1998: pp. 132-3.

the same time, some privatization processes were still implemented through so-called “decrees of necessity and urgency.”¹³ Between 1989 and 1993, Argentina privatized thirty-four companies, transferred concessions of nineteen services, and sold petroleum development rights in eighty-six areas.¹⁴

Table 3-3. Sample Sales Proceeds For Privatized Enterprises

(in US\$ million) (1989-1993)		
Enterprise	Cash	Debt
YPF(a)	3,040	855
Oil Fields	1,560	0
Natural Gas	300	2,651
Petrochemicals	53	0
ENTel	2,271(b)	5,000 (c)

(a) The partial privatization: 1993

(b) Plus US\$380 million in promissory notes.

(c) Face value (cash equivalent estimated at about 15 percent)

Source: The World Bank, 1993: p. 14.

The third stage began in early 1995 and continued throughout 1999. The last stage of the Argentine privatization program was characterized by a return to problems of the first stage. The Mexican crisis in December 1995 and the Asian crisis in 1997 critically hurt the stability of the Argentine economy. Again, privatization became the means to offset public deficits and to support the Convertibility Plan. In the third stage of the privatization process, the sale items consisted of some remaining public enterprises and state shares in already privatized companies, including YPF.

The Argentine privatization program seemed to attain its short-term goal, an escape from the acute economic crisis. Thus, privatization contributed to reducing domestic and foreign debts to some degree. According to the World Bank, “as of December 1992, the nominal face value of domestic and foreign debt was reduced by

¹³ Manzetti, 1999: p. 92.

¹⁴ The World Bank, 1993: p. 7.

US\$12 billion.”¹⁵ Also, the privatization entailed at least US\$1.5 billion in annual savings by reducing federal government budgetary support to public enterprises.¹⁶ However, the long-run economic benefits were doubtful. In many cases, the Argentine privatization did not follow some important recommendations for privatizing public enterprises: (1) the state’s retaining considerable stock holdings; (2) restructuring prior to sale; (3) transparent and competitive bids.¹⁷ To make matters worse, the Argentine privatizations did not achieve its primary goal: the creation of a free market, which would remove the inefficiency of a state monopoly. In many cases, the privatization of public enterprises just transferred the ownership of a monopoly company to the private sector without creating necessary regulatory environment.

The Argentine privatization program proceeded with great speed and was broadly executed, which greatly impacted many aspects of Argentine society. First of all, the privatization curtailed employment in public enterprises from 347,240 in 1989 to 66,731 in 1995.¹⁸ One of the important goals of the Argentine privatization was transformation of the old state-corporate structure rooted in Argentine society, which Perón had created. Notably, organized labor was quiescent during the whole privatization process. To some degree, using the carrot was successful to mitigate the resistance of organized labor. About 100,000 employees in telecommunications, gas, electricity, and oil received minority stocks through *Programa de Propiedad Participada*. However, the most plausible explanation for the quiescence of the labor sector would be the historic relationship between the leaders of organized labor and the Peronist party.

¹⁵ The World Bank, 1993: p. 13.

¹⁶ The World Bank, 1993: pp. 13-14.

¹⁷ Gerchunoff and Torre, 1998: p. 122.

¹⁸ Manzetti, 1999: p. 132.

In conclusion, the Argentine privatization program under Menem can be considered a half-success. It might be viewed as an innovative policy to escape from imminent economic crisis. However, realization of the original goals of the privatization program was impeded by its poor execution and political limitations.

YPF: FROM THE CREATION TO THE PRIVATIZATION

This section deals with a brief history of YPF from its creation as the first state-owned petroleum company in the world to its privatization. First, I examine the history of YPF, analyzing how the Argentine state built its petroleum industry around YPF. Then, I review the process of YPF privatization, which consists of three phases corresponding to different degrees of state ownership of YPF: restructuring, partial privatization and full-privatization.

YPF and the Development of the Argentine Oil Industry

As soon as oil was discovered in Comodoro Rivadavia in 1907, the Argentine state promulgated a decree that created a national oil reserve in an area of almost 200,000 hectares surrounding Comodoro Rivadavia, although it was diminished in size by Law 7059 of 1910.¹⁹ According to Yeatts, the decree constituted a milestone of Argentine mining legislation because “the decree was founded on Section 15 of the Public Lands Law of 1903, which authorized the government to establish reserves in public property.” Also, the reserve became a main characteristic of the modern Argentine oil policy.²⁰

In 1910, President Sáenz Peña vitalized the fledgling oil operations of the state by creating a formal commercial agency. By issuing the decree, President Peña transferred “the administration of the state’s oil fields from the Bureau of Mines to newly created Dirección General de Explotación del Petróleo de Comodoro Rivadavia, hereafter

¹⁹ Philip, 1982: p. 163; Solberg, 1979: pp. 10-17.

²⁰ Yeatts, 1996: p. 80.

referred to as the Petroleum Bureau.”²¹ However, state petroleum production had faced financial and technical shortages, which originated mainly from the economic liberals’ opposition to state intervention in the oil industry. Also, the presence of foreign petroleum companies at that time made the success of a national oil company doubtful.

The situation changed with the outbreak of World War I. Because Argentina relied on the UK’s coal as its main energy source at that time, the unreliable and expensive coal supply in wartime caused serious economic problems. The energy crisis brought by the war not only stabilized the financial situation of the Petroleum Bureau but also ignited political pressure for energy independence and its fledgling state oil production. “Legislators, officials, and leading intellectuals proposed strengthening the public enterprise in order to protect the republic from potential fuel shortages.”²²

Motivated by those political pressures and his own electoral goals, President Yrigoyen reorganized the administrative structure of state oil production on June 3, 1922, by replacing the Petroleum Bureau with YPF. The creation of YPF reflected the final victory of nationalists in obtaining sovereignty over oil, because already in 1920 the expansion of the Petroleum Bureau’s size and political support discouraged Yrigoyen’s attempt to hand the Petroleum Bureau over to a British company.²³ With this measure, Argentina had become the first country in the world to have a state oil company.

Headed by General Enrique Mosconi, YPF rapidly expanded its production and developed into a successful state oil company. In particular, the construction of La Plata refinery in 1928 was a turning point for YPF by allowing it to enter into the distribution market dominated by foreign companies.²⁴ Until the mid 1930s, YPF’s success did not

²¹ Solberg, 1979: p. 16.

²² Yeatts, 1996: pp. 86-87.

²³ Philip, 1982: p. 168.

²⁴ Philip, 1982: pp. 168-169.

remove the tension between private investment and the state in the oil industry. In fact, private companies had participated in about half of the Argentine oil production between 1920 and 1937. However, rising nationalism and state intervention in the Argentine economy dispelled the tension, assuring state ownership of natural resources. After all, at the end of the 1930s, the Argentine state suspended a new private concession and established a regulated oil market based on price control. Economic nationalism reached its zenith in 1940 with the advent of Juan Perón. As part of Peronist constitutional reform, Perón nationalized the oil fields and assured YPF's monopoly of oil exports.²⁵ Even though there were some modifications, the monopoly of YPF in the regulated oil market became the main feature of the Argentine oil industry until Menem started the privatization process of YPF in 1989.

After the establishment of the state oil company, YPF, Argentine oil policy has centered on becoming self-sufficient in oil to sustain industrialization and economic development. Since it was founded in 1922, YPF has played a major role in attaining this goal. Thus, YPF had been not only a monopoly company in the Argentine petroleum market but also an agent of oil policy. Moreover, as the first state oil company in the world, YPF represented a symbol of Argentine nationalism. To support this privileged status of YPF in the petroleum market, the Argentine state strictly regulated every corner of the petroleum market by fixing prices related to the petroleum industry, including production, distribution, and commercialization. In the regulated market, YPF was the sole exporter and importer of petroleum, prohibiting the private producers from disposing of their petroleum freely. However, Argentina could not attain self-sufficiency in oil because of the chronic technical, financial, and administrative deficiencies of YPF. Throughout the modern history of Argentina, the dilemma between nationalism and self-

²⁵ Gadano, 1998: p. 9.

sufficiency has led to a permanent struggle over the scope of private participation in the oil industry.

Even though YPF managed to attain a privileged and monopolistic status in the Argentine petroleum market, it turned out to be “a weak monopoly, incapable of resisting the pressure of private producers, the union, and the government itself,”²⁶ as its operations were subordinated to the political goals of the state, such as anti-inflation and the distribution of political rents. YPF hired labor above its capacity to alleviate high unemployment in Argentina. Furthermore, it constructed refineries and facilities in uneconomical places to develop underdeveloped regions. Due to such loose management, YPF lost US\$6 billion during the 1980s.²⁷ Without a doubt, this situation grew into a reason for YPF privatization.

The Privatization Process of YPF

The Argentine oil industry started to change when Peronist President Carlos Menem embarked on deregulation of the petroleum industry and transformation of YPF from a state-owned public enterprise into a private one. This culminated in July 1999, when Repsol, the Spanish petroleum company, formalized an offer of over US\$13 billion for 85 percent of YPF’s control shares. Repsol already held 14.99 percent of YPF shares that previously belonged to the Argentine state. The success of Repsol’s purchase of YPF in 1999 not only concluded almost a decade of the YPF privatization process, but also put an end to the continuous struggle between the state and private capital over petroleum in Argentina.

²⁶ Etchemendy, 2001: p. 12.

²⁷ *The Economist*, July 2, 1994: p. 63.

The privatization of YPF went through three stages: 1) restructuring; 2) partial privatization; and 3) full-privatization. These stages show how the Argentine state tried to maximize the political and economic benefits of YPF privatization.

Restructuring: 1989-1992

In 1989, Argentina experienced a full-blown economic crisis. Inflation raged, fiscal deficits widened, and external debt became swollen. In this situation, newly elected President Menem started stabilization programs emphasizing public sector reform and economic liberalization. As a part of the reform package, the Argentine state decided to privatize the state-owned petroleum company, YPF. This macroeconomic situation in 1989 and the subsequent political goals of President Menem and his Peronist party clearly were crucial in determining the timing of the state's action in beginning YPF privatization. However, the type of public enterprise reform depends on degree of the economic performance of each company and the degree of political opposition to privatization. That is, the combination of low economic benefits and low political opposition led the Argentine state to fully privatize YPF.

The economic performance of YPF recorded unsatisfactory results during the 1980s. Even though there was discordance about methods of transforming YPF, its reform was welcomed almost unanimously. In this context, the Menem regime's plan for privatizing YPF proceeded in two directions: 1) the restructuring of YPF to transform it into a profitable and slimmed down company and 2) the deregulation of the petroleum market to improve conditions for attracting private investors. The Argentine state processed the restructuring of YPF under the name of "Global Transformation Plan of YPF (Plan Transformación Global de YPF)." Unlike the other cases of privatization in Argentina, the Argentine state restructured YPF before selling it to private investors.

According to Yeatts' explanation²⁸, the privatization of YPF had two goals: 1) obtaining cash to ease the urgent financial crisis of the state and 2) generating foreign investment in a high-risk country like Argentina. In doing so, the Argentine state had to choose one of two ways to privatize. The first option was to sell YPF as a single enterprise to maximize revenue. The second option was to sell YPF as several companies after dividing it. The first option required the transformation of YPF into a profitable company while keeping its monopoly status after privatizing it, which could maximize its value in the privatization process. The second option could create a more competitive market situation after privatization at the cost of more state revenue from privatization. The Argentine state went for the first option to earn higher revenue. Therefore, as the first step of privatization, YPF needed to transform itself into a streamlined company, which was a requirement in the new economic environment. In order to be a profitable and efficient company, the restructuring process of YPF employed various political and economic methods such as joint ventures, sale of unnecessary or unprofitable assets, and layoffs. Also, the Argentine state propelled the restructuring process with deregulation of the petroleum industry and federalization of petroleum ownerships to increase the efficiency of the petroleum market as well as to mitigate political opposition from provincial political powers against privatization.

In essence, the restructuring process showed its double-edged goals: enhancing economic efficiency and reducing political intervention. That is, the restructuring process of YPF aimed at not only transforming YPF into a profitable company to maximize revenue for future privatization but also reducing political opposition, which could be a possible obstacle for future privatization.

²⁸ Yeatts, 1996: p. 153-154.

The restructuring of YPF started with auctioning off exploitation concessions for its unprofitable oil fields, the so-called secondary fields, and exploration permits for the development of new oil fields. The grant of exploration permits for new oil fields was implemented under the name of “The Argentine Plan (El Plan Argentina).” Despite some changes, the Argentine plan built upon the Houston Plan (El Plan Houston), which was launched by the Alfonsín regime. The goal of these programs was to attract private investments in the petroleum industry to achieve the self-sufficiency in oil and, furthermore, to expand the export of oil.²⁹

The restructuring of YPF also concluded a long dispute between the federal and provincial governments over the ownership of petroleum. In order to obtain political support from the provincial government, the federal government moved to the plan of the “Federalization of Hydrocarbons (Federalización de Hidrocarburos)” in which the federal government recognized “the provincial states’ ownerships of certain hydrocarbons fields, and paid them the debt that YPF had amassed in respect of unpaid royalties” through the issue of YPF shares.³⁰

In so doing, on December 31, 1990, by issuing decree 2778/90, President Menem declared that YPF was a subject of privatization and was destined to be reorganized. In accordance with another decree (2723/90 on December 28, 1990), “Yacimientos Petrolíferos Fiscales Sociedad del Estado,” a corporation fully subject to public laws, changed its legal and regulatory framework in January 1991 into “YPF Sociedad Anónima,” a company that ultimately would be governed entirely by private laws. The change of YPF legal status facilitated privatization as well as the restructuring process. By consulting with McKinsey AICC, an international consulting firm, YPF accelerated

²⁹ Yeatts, 1996: p. 139.

³⁰ Albarracín and Dow, 1995: pp. 2-3.

its restructuring process. For assets classified as nonstrategic but potentially profitable, YPF tried to make joint ventures with the private sector. It auctioned off a part of the exploitation rights for central oil fields in Vizcacheras, El Huemul, El Tordillo, and Puesto Hernandez. Joint ventures were offered to foreign companies in return for an equity share in the oil production.³¹ Even though the Argentine state initially offered 50 percent of the exploitation for central oil fields, it eventually sold between 60 and 90 percent because of the state's financial urgency. YPF also sold unprofitable physical assets, including producing properties, pipelines, most of the tankers for river and sea transportation, airplanes, the naval warehouse, retail outlets, ports, buoys, in-house drilling and exploration services, research laboratories, and some refineries such as Campo Durán, San Lorenzo, and Dock Sud.

The Argentine state earned about US\$1.5 billion from the auction of exploitation rights for central oil fields and about US\$250 million from the secondary fields.³² In sum, the Argentine state collected more than US\$2 billion from the sale of assets and joint venture contracts.

Meanwhile, deregulation of the petroleum market dealt with the liberalization of prices related to oil production, distribution, and commercialization (including export and import). Before the deregulation, neither contractors of YPF disposed extracted oil freely, which should have been handed over to YPF, nor could private refineries purchase petroleum for producing. Petroleum was assigned by quotas and the refineries took pre-established margins for their work.³³ Deregulation of the petroleum industry started in January 1991. In regard to YPF, the most important move was the Conversion of Service Contracts. In November 1991, Menem issued Decree 2411/91 to carry out renegotiation

³¹ *The Financial Times*, May 14, 1992: p. 35.

³² Margheritis, 1999: p. 206.

³³ Gerchunoff, 1994: p. 8.

with the Houston plan contractors. This move aimed at reducing the financial burden of YPF, because under the old scheme, YPF had to purchase contractors' oil at the established price regardless of the international price. In these negotiations, existing service contracts were converted into either exploration permits or exploitation concessions, in which former contractors "were entitled to full ownership of oil and to dispose freely of that oil which is produced in the block."³⁴ Until May 1992, a total of twenty-six production contracts were converted into concessions--equivalent to 93 percent of all previous production contracts.³⁵

As a result of the restructuring, oil extracted by YPF dropped from 98 percent of the total production in 1989 to 43 percent in 1991.³⁶ However, the restructuring led to the swift financial turnaround of YPF. From a deficit of over US\$700 million in 1990, YPF earned a profit of more than US\$500 million in 1992.³⁷ The restructuring of YPF not only ameliorated the financial results of the company but also reduced the number of workers. The company's payroll decreased from 51,000 in December 1990 to 8,000 in December 1993. The reduction of workers was based on the introduction of a new labor agreement that permitted layoffs.³⁸

In conclusion, the Argentine state succeeded in restructuring YPF, which not only enhanced the efficiency of both the financial and organizational capability of the company, but also laid the groundwork for debilitation of the political opposition to the transformation of YPF. Therefore, by implementing the restructuring, the Argentine state paved the way for privatizing YPF.

³⁴ Albarracín and Dow, 1995: pp. 10-12.

³⁵ Bianchi, 1993: p. 17-15.

³⁶ Manzetti, 1999: p. 115.

³⁷ Calculated from YPF SE, *Memoria y Balance General*; YPF SA, *Memoria*; YPF SA, *Annual Report*.

³⁸ YPF S.A., 1993, *Annual Report*: p. 2.

Partial Privatization: 1993

The Argentine state needed a special law to privatize YPF because the State Reform Law of 1989 (23,696) did not include provisions for the privatization of YPF. In September 1992, the National Congress made a political decision to privatize YPF when it approved Law 24,145, which disposed decree 2778/90 in 1990.

The plan of privatization was already established with the beginning of the restructuring of YPF. As Natale testified, whether YPF was going to be privatized or not was not on the table. The main objective of discussion was focusing on the form of the privatization of YPF. Thus, the discussion in congress mainly dealt with how to privatize YPF. However, there was a disagreement over the operating mechanism of the privatized company. The main concern was “who assumes the charge of the management of YPF?”³⁹

Despite the fact that the opposition was not strong, approval of the privatization law of YPF was not a simple process. In fact, the government needed several attempts to reach the necessary quorum for a vote. The main deterrent to making the quorum was the opposition Radical party, even though its actions in congress were focused not on privatization itself but rather on timing and means of privatization. As Juan Pablo Baylac, a deputy of UCR (Unión Cívica Radical), said, “The truth is that the opposition was not against the privatization itself but against the way that the privatization had been developed.”⁴⁰

However, various groups in the congress tried to take advantage of the passage of the YPF privatization bill when reaching a quorum was at the center of political negotiation. At first, a “Group of Eight,” who opposed the economic reform policy

³⁹ Natale, 1993: pp. 185-187.

⁴⁰ Interview with Baylac, 2002.

proposed by President Menem, consisted of eight rebellious Peronist congressmen. The second group was the so-called “*los dipusindicales*,” who represented the labor unions in the Peronist party. Unlike the Group of Eight, *los dipusindicales* did not want to defy the president and his policies but rather intended to gain economic interests on behalf of the labor union, CGT. The final group was composed of members of the small provincial parties, especially from the oil-producing provinces. Like *los dipusindicales*, the small provincial party members were mainly interested in the economic interests of their own provinces rather than political struggle against privatization.

Faced with resistance in congress, President Menem threatened to authorize the privatization of YPF by issuing a decree if the necessary quorum could not be reached. Meanwhile, Domingo Cavallo, the minister of economy, warned congress that if it did not approve the YPF privatization bill before the end of October, “Argentina could not satisfy with the compromise of primary surplus of US\$1,536 million which was obligated by the International Monetary Fund.”⁴¹ However, the threat was not the only way to quell the resistance. President Menem and his Peronist party used various appeasement measures to persuade rebellious congressmen to vote for the bill. Menem first targeted the nationalists, although nationalist arguments against privatization including those of the Radicals were not strong enough to block the measure. To allay their fears, Menem gave up its full-privatization proposal of YPF assuring the nationalists that there would be a minimum 20 percent of state ownership of the privatized YPF. Second, for *los dipusindicales*, by negotiating with the CGT, the president promised to watch out for the political and economic interests of the labor union even though many of those interests only concerned the labor leaders. Finally, for the oil-producing provinces, Menem allotted 39 percent of YPF stocks to cancel debts owed to the provincial governments.

⁴¹ *Clarín*, September 19, 1992.

Finally, the Law of the Federalization of Subsoil and Privatization of YPF, No. 24,145, was approved on September 24, 1992. The vote was 119-10 in favor with one abstention. Only Peronist deputies and allies such as UCeDÉ and some provincial parties including the Movimiento Popular Neuquino participated in the vote. Opposition party members refused to participate in the vote.⁴²

Table 3-4. Results of the Vote to Partially Privatize YPF in 1992

	In Favor	Against	Absent	No Participate	Total
Partido Justicialista	102	0	0	15	117
UCR	0	0	0	84	84
UCeDÉ	9	0	0	1	10
Other Parties	8	10	1	27	46
Total	119	10	1	127	257

Sources: Cámara de Diputados de la Nación, *Diario de Sesiones*, September 23 and 24, 1992: p. 3338; Secretaría de la H. Cámara de Diputados de la Nación, Cámara de Diputados de la Nación: Su Composición y Comisiones; *Página 12*, September 24, 1992; *La Nación* (Edición Internacional), September 28, 1992.

The sales of stock were successful both in the international financial market and the domestic one. In June 1993, the Argentine state sold 160 million stocks, equivalent to 45 percent of the total, at the price of US\$19 per share. The Argentine state earned US\$3.04 billion from the public offering. The state used about US\$1,700 million, equivalent to about 60 percent of the sale, to pay part of the debt held by the retirees. The rest of the earnings went to the petroleum producer provinces as petroleum royalties. Also, in July 1993, the state sold 17.7 million stocks to the retirees and swapped another 28.5 million stocks social security bonds.⁴³ About 96,000 pensioners had participated in the stock swap. The pensioners were required to retain shares at least one year.⁴⁴

⁴² Fundación Arturo Illia, 2000: p. 33.

⁴³ Margheritis, 1999: pp. 220-221.

⁴⁴ However, faced with another election in April 1994, Menem allowed pensioners to sell their stock earlier. *The New York Times*, March 30, 1994: p. D5.

Table 3-5. The Distribution of YPF Stock after the Partial Stock Sale in 1993

(Total: \$353 million stocks)			
Type A	State	20.3%	71.2 millions
Type B	Provinces	11.2%	39.8 millions
Type C	Employees (PPP)*	10.0%	35.3 millions
Type D	Private	58.3%	206.2 millions

* Programa de Propiedad Participada

Source: ECOS, February 1995: p. 4.

The privatization of YPF in 1993 was not full-privatization but partial privatization. Even though the Argentine state sold more than 50 percent of its stock, YPF was still under control of the Argentine state. Thus, YPF converted itself into a mixed corporation. The congress made some instruments that prevented YPF from full-privatization. The state was required to retain 20 percent of the stocks. Also, by way of a golden share⁴⁵, the state held veto power on such matters as “1) Decisions on merging with other corporations; 2) Accepting a takeover whether hostile or not with more than 51 percent of the capital stock; 3) Transfer to third parties of all production rights, whereby all exploration and production activities by YPF would be ended; and 4) The voluntary dissolution of YPF Sociedad Anónima.”⁴⁶

In conclusion, the privatization of YPF turned into a financial exit for the Argentine state in 1993. The privatization of YPF enabled the Argentine state to attain its political goals by overcoming the financial problem originating from hyperinflation and external debt crisis. That is, President Menem and the Peronist party not only managed to privatize YPF, but also consolidated its political support. In particular, soft political opposition to the partial stock sale in 1993 led the Argentine state to attempt full-privatization in 1999 when the macroeconomic situation fell into another difficulty.

⁴⁵ Calleja, 1999: p. 64.

⁴⁶ Section 8, Law 24,145; Quoted from Yeatts, 1996: pp. 154-155.

Full-Privatization: 1999

After selling YPF stocks partially in 1993, President Menem and the Peronist party had proposed full-privatization at various times.⁴⁷ In fact, the original proposal advanced by the regime in 1992 was full-privatization. Like the public stock sale in 1993, the Menem regime considered the remaining package of YPF stock as a savings account to salvage the finances of the regime in the case of emergency. The first attempt happened in 1994. Some Peronist members of congress proposed selling the remaining 20 percent of the stocks held by the state to finance the construction of 100,000 houses in order to garner support in the presidential election of 1995.⁴⁸ Even though these attempts did not succeed, full-privatization of YPF was just a matter of time.

Like other decisions in the past, full-privatization of YPF became reality due to macroeconomic difficulties. The so-called Tequila effect of Mexico in 1995 drove the Argentine economy into a turbulent situation. The Convertibility Plan became a conspicuous burden to the Argentine economy not only because the Argentine state needed to keep up foreign reserves to sustain the currency system, but also because the strong Argentine peso resulting from the plan deteriorated the current balance. To make things worse, the recession widened fiscal deficits, which again ignited the problem of public debt. In addition, like the first attempt in 1994, the presidential election of May 1995 influenced the decision of full-privatization, although the Menem regime had to postpone the sale of stocks due to an international financial crisis and the ensuing stock market crash.

⁴⁷ In 1996, the Argentine state allowed YPF workers to sell their 10 percent stake in YPF, even though the workers did not complete their payment for the stocks. Since they had acquired the stocks in 1993, YPF workers were saving by installment to pay for their shares. Finally, the workers sold their 10 percent stake in July 1997. *The Financial Times*, November 6, 1996: p. 4; *The New York Times*, July 19, 1997.

⁴⁸ *The Financial Times*, June 7, 1994: p. 25.

Congress passed the bill for full-privatization of YPF in March 1995. Meanwhile, in December of the same year, congress had to pass the same bill with a modification allowing the administration to extend the duration of the Provincial Development Trust Fund up to fifteen years. The modified law opened the way for the Argentine government to sell the remaining YPF stocks at the most appropriate time. Unlike 1992, the debates in congress were not intense. Even though members of opposition parties criticized the state's intention as "the sale of grandmother's last jewelry,"⁴⁹ the law passed easily in congress. The vote was 103-51 in favor with 5 abstentions.⁵⁰ There was another creative maneuver to garner support in congress. At this time, the Argentine state earmarked earnings from the sale for "the Provincial Development Trust Fund," created after the Mexican crisis to encourage the privatization of provincial banks and public-service firms.⁵¹ However, due to the need to cover the urgent financial deficit, the Argentine state chose not to deliver the money to the Provincial Development Fund directly. Instead, the Argentine state required the fund to purchase state bonds, with the promise of buying them back. The revenue from the sale of the 14.9 percent stake was equivalent to 5 percent of the planned national revenue in 1999.⁵²

In January 1999, the Argentine state sold 14.99 percent of YPF stake for US\$2.01 billion at the price of US\$38 per stock to Repsol, the Spanish oil company. The Argentine state had originally planned to sell its remaining 20.3 percent stake as an open bid in international and local markets. However, worldwide financial market turmoil ignited by the Asian crisis thwarted the plan. Then the Argentine state wanted to sell a

⁴⁹ Cámara de Diputados de la Nación, *Diario de Sesiones*, March 25, 1995: p. 705.

⁵⁰ Cámara de Diputados de la Nación, *Diario de Sesiones*, March 25, 1995: p. 712.

⁵¹ EIU, *Country Report: Argentina*, 2nd quarter 1998: p. 20.

⁵² Clarín, January 21, 1999.

14.99 percent stake to “a strategic partner” as a package to maximize revenue from the sale.⁵³

In May 1999, Repsol completed its purchase of YPF, acquiring the other 85 percent of controlling shares at the price of US\$44.78 each. Even though there was some opposition from the YPF executives related to the change of YPF provisions, the political opposition was just quiet. “The opposition Alliance appeared to accept the final sale as a virtual *fait accompli*.⁵⁴ As a result of this final sale, the state received US\$837 million for 5.01 percent stake, Santa Cruz province US\$948 million, Chubut province US\$78 million, and the rest of the stockholders US\$11,442 million.⁵⁵ In spite of full-privatization, the Argentine state kept a golden share, whose number was reduced to one thousand stocks by the law in 1995, to use the veto power that was assured it by Law 24,145 in 1992.⁵⁶ However, the full-privatization of YPF not only terminated state control of the seventy-seven-year-old petroleum company in Argentina, but also handed over the petroleum ownership to foreigners.

The full-privatization of YPF in 1999 finalized a decade-long privatization process of YPF. The historical evidence showed that, since it had started the restructuring process in 1989, the Argentine state had kept the full-privatization of YPF in mind. But the Argentine state took ten years to accomplish this in order to maximize its revenue from the sale of the company. The YPF case also showed that the most important factor to decide the timing of privatization was the macroeconomic situation of the country. Political events of the country played an important role in deciding the timing as well. However, neither the macroeconomic situation nor political events determined the type of

⁵³ *The Financial Times*, November 5, 1998: p. 31.

⁵⁴ *The Financial Times*, May 1, 1999: p. 21.

⁵⁵ Calleja, 1999: p. 63.

⁵⁶ Calleja, 1999: p. 64.

public enterprise reform implemented. In the next sections, I will show how the economic benefits of a public enterprise and the power of political opposition determined the type of public enterprise reform.

ECONOMIC BENEFITS OF YPF

This section deals with the economic performance of YPF. It is worthwhile to see the economic performance of YPF because it gives us a clue to understand why the Argentine state privatized the company. Here, I pay particular attention to four indicators of economic performance of YPF: its fiscal balance, its debt situation, its contribution to tax revenue, and its contribution to exports. Then, I argue that the Argentine state privatized YPF because it had recorded poor economic performance, which negatively affected public finances.

The Fiscal Balance and the Debt Situation

When he embarked on the privatization campaign in 1989, President Menem publicly criticized YPF for being the only money-losing petroleum company in the world.⁵⁷ This argument is partly right and partly wrong.

⁵⁷ Calleja, 1993: p. 37.

Table 3-6. Fiscal Balance and Debt Situation

Year	Total Assets	Total Debts	Operating Income	Net Income
1979	3,801	2,102	-122	499
1980	4,913	2,461	-442	105
1981	5,230	4,714	-314	-2,072
1982	4,450	5,668	-202	-1,687
1983	9,516	5,490	-148	-1,781
1984	8,750	5,753	-425	-91
1985	9,245	6,723	-66	-524
1986	9,023	5,887	-222	-173
1987	n/a	n/a	n/a	n/a
1988**	8,849	1,768	-176	36
1989**	9,148	3,049	-286	-257
1990**	80,786	27,260	-781	69
1991	8,045	3,564	263	253
1992	7,349	2,851	523	256
1993	7,198	2,232	714	706
1994	7,509	2,423	708	538
1995	9,137	3,298	961	793
1996	10,142	3,768	1,519	817
1997	11,427	4,487	1,608	877
1998	12,166	4,957	1,127	580

* Operating Incomes in 1979 and 1980 include financial results.

**Total Assets and Total Debts in 1988, 1989, and 1990 indicate billions of Australes.

Source: Calculated based on YPF Sociedad del Estado, *Memoria y Balance General*, various issues; YPF Sociedad Anónima, *Annual Report*, various issues; YPF Sociedad Anónima, *Memoria*, various issues; YPF Sociedad Anónima, *Memoria y Estados Contables*, various issues.

Table 3-7. External Debt of YPF

Year	External Debt of YPF	External Debt of Argentina
1975	350	7,875
1977	741	n/a
1980	2,906	27,162
1983	4,366	45,069
1988	4,927	58,303

Source: SIGEP (Sindicatura General de Empresas Públicas); Banco Central; Camara de Senadores De La Nación (República Argentina), *Diario de Sesiones* (June 25, 1992)

As we can verify in Table 3-6, it was true that YPF had recorded enormous debts as well as continuous deficits. Even worse, a large part of its debt was from abroad. The

external debt of YPF increased from US\$350 million in 1975 to about US\$5 billion in 1988. However, many scholars⁵⁸ agree that state petroleum policy was to blame for YPF's poor financial situation. In other words, the major cause of the operating deficits was the regulated petroleum market based on fixed prices. Under the regulated market system, as I mentioned earlier, the state fixed the price of petroleum production, distribution, and commercialization. As a result, YPF not only assumed an anti-inflationary role by adopting a low price for its products in the market, but also functioned as a tax collector by overloading the combustible tax onto consumers. On top of that, YPF had to pay hydrocarbon royalties to the provinces that had produced petroleum. In total, YPF delivered about 50 percent of its net revenues to the National Treasury and the Provinces.⁵⁹ Also, in order to achieve self-sufficiency in oil by promoting mass domestic production, the state favored service contracts with private producers. However, the contracted price with the private producers was generally so high that YPF lost money by purchasing oil under the service contract. The military regime, in particular, obliged YPF to transfer its oil fields and production facilities to the private companies without pay. Under the contract, YPF had not only to purchase their oil at a more expensive price than YPF normally paid, but also to sell the same oil to private refineries at a lower price than before. According to Bravo's estimation, from 1976 to 1989 these contracts including oil fields and production facilities had reduced YPF income about US\$11 billion.⁶⁰

On the other hand, lax management was responsible for the poor operating results of YPF. The Argentine state always used YPF as its own political resource. Overemployment, investments in uneconomic regions, and frequent changes in top

⁵⁸ Bravo, 1992; Margheritis, 1999; Gerchunoff, 1994; Ortiz, 1989; Calleja, 1993.

⁵⁹ Margheritis, 1999: p. 197; Bravo, 1992, 83-84.

⁶⁰ Bravo, 1993: pp. 83-84.

managers were the hallmarks of lax management at YPF. Table 3-6 shows that after starting the restructuring process, the operating income of YPF turned around from deficit to surplus.

The chronic deficit YPF had run until that point led to a lot of debt. YPF was the largest debtor as well as the largest company in the debt-ridden Argentine state. Even worse, a major portion of YPF's debt was from abroad. Rather than channeling money from the state treasury to YPF, the military regime encouraged public enterprise to borrow from abroad.⁶¹ As a result, between 1980 and 1989, its external debt rose from US\$2,934 million to US\$5,473 million. The heavy debt of YPF prevented it from making enough investments to continue production while also hurting public finances. Therefore, the deregulation of the petroleum market and the privatization of YPF was not only able to promote investments in the petroleum industry, but also reduce the external debt and fiscal deficit. As former Minister of Economy Roberto Teodaro Alemann, said, "The Argentine state intends to clear up debt accumulated due to inefficiency in state companies, and this will affect the YPF sale."⁶²

The operating results of YPF were so poor that the Argentine state needed to restructure it and the petroleum market. Even though YPF's deficits were not caused purely by the company itself, the Argentine state was no longer able to support the money-losing public company, especially in the midst of a severe economic crisis.

The Tax Contribution

In Argentina, there were two types of tax related to YPF. One was the direct tax on YPF income. The other was the indirect tax on combustibles, which overloaded the price of combustibles.

⁶¹ Manzetti, 1999: p. 81.

⁶² *The Oil and Gas Journal*, December 7, Vol. 90, No. 49: p. 27.

Table 3-8. Tax Revenue from the Sale of Combustibles

Period	Million US Dollars/Year	% GDP
December 1987	2,220	2.8
December 1988	2,990	3.5
September 1990	3,120	2.8
October 1991	2,320	1.8
December 1992	2,383	n/a
December 1993	2,125	n/a
December 1994	2,063	n/a

Source: Gerchunoff, 1994, p. 38; *La Nación*, August 6, 1996.

In my research, to analyze the economic performance of YPF, I pay attention only to the direct income tax paid by YPF. As we can see in Table 3-8, the combustible tax has been one of the most important sources of government revenue. However, when the Argentine state needed to calculate the economic benefits of YPF privatization, it did not need to consider the combustible tax because it could continue to impose such a tax after privatizing YPF. In fact, the Argentine state has kept the combustible tax with some modifications. Even after full-privatization, the combustible tax brought in US\$2,540 million from January to September 2001.⁶³ When the macroeconomic situation became bad, the Argentine state has occasionally taken advantage of combustible tax to cover the public deficit of public finance. For example, in 1996 the Argentine state increased the combustible tax during a recession.⁶⁴ In 2002, in the midst of another economic crisis, the Argentine state imposed a special combustible tax to increase tax revenue.⁶⁵

⁶³ *La Nación*, October 16, 2001.

⁶⁴ *La Nación*, August 6, 1996.

⁶⁵ *La Nación*, March 3, 2002.

Table 3-9. Direct Income Tax Paid by YPF and Contribution from Treasury to YPF

Year	Income Tax (a)	Contribution from Treasury to YPF (b)	Net Contribution to Tax Revenue (a)-(b) (US\$ million)
1983	314	376	-62
1984	234	471	-237
1985	266	71	195
1986	182	437	-255
1987	n/a	n/a	n/a
1988	149	202	-53
1989	104	937	-833
1990	420	1,531	-1,111
1991	-	-	-
1992	-	-	-
1993	-	-	-
1994	-	-	-
1995	61	-	61
1996	364	-	364
1997	473	-	473
1998	260	-	260

Source: Calculated based on YPF Sociedad del Estado, *Memoria y Balance General*, various issues; YPF Sociedad Anónima, *Annual Report*, various issues; YPF Sociedad Anónima, *Memoria*, various issues; YPF Sociedad Anónima, *Memoria y Estados Contables*, various issues.

In a situation of constant deficits, YPF's contribution to the government tax revenue was extremely limited. According to Table 3-9, even though YPF had paid some amount of income tax to the state, the net contribution to fiscal revenue had been negative before implementing the privatization process. Until 1990, the state had to transfer money to YPF to cover deficits and to keep up the debt service of YPF. Based on my calculation, from 1983 to 1990 the transferred money from the state to YPF reached more than US\$2 billion. Meanwhile, not surprisingly, after the first stock sale in 1993, the Argentine state started to collect net tax contribution from YPF.

As a result, the tax revenue contribution of YPF was so low that the state could expect more net tax revenue through privatizing YPF. It is no wonder that the Argentine state considered the low tax contribution of YPF in the decision to privatize YPF.

The Export Contribution

Argentina had achieved self-sufficiency in petroleum in 1983, although the severe economic recession that year helped it. Before the recession, it had needed to make up shortages of petroleum with imports. The exportation of petroleum cannot be always good for the Argentine economy.⁶⁶ Since the reserves of petroleum in Argentina are not eternal, they could be exhausted in the near future. However, to sustain the Convertibility Plan and to ease the external debt crisis, the Argentine state needed to increase exports in order to acquire foreign currency.

Table 3-10. Argentine Export of Oil

Year	Total Export* (US\$ million)	Export of Oil** (US\$ million)	Participation in the Total Export (%)
1980	8,021	273.6	3.4
1981	9,143	610.7	6.7
1982	7,623	462.0	6.0
1983	7,835	296.9	3.8
1984	n/a	317.8	n/a
1985	8,393	678.5	8.0
1986	6,852	137.0	2.0
1987	6,360	103.6	1.6
1988	9,134	187.8	2.1
1989	9,573	n/a	n/a
1990	12,354	n/a	n/a
1991	11,978	n/a	n/a
1992	12,235	1,081.0	8.8
1993	13,117	1,235.0	9.4
1994	15,839	1,650.0	10.4
1995	20,969	2,167.0	10.3
1996	24,043	3,088.0	12.8
1997	26,431	3,060.0	11.6

*Value of Exports of Goods (FOB)

**Includes Oil and Lubricants

Source: Calculated based on ECLAC, *Statistical Yearbook for Latin America and the Caribbean*, various issues; Ortiz, 1989: p. 42; Herrero, 1999: p. 58.

Until the Argentine state deregulated the petroleum market in 1991, YPF had monopolized the export and import of petroleum. As we can see in Table 3-10, oil

⁶⁶ Fundación Arturo Illia, 2000.

exports by YPF were not impressive until it started the restructuring process in 1989. Until 1988, the exports of YPF had stagnated at the low end of total Argentine exports. According to Table 3-10, from 1986 to 1988 YPF had accounted for only about 2 percent of total exports in each year. However, the technical and financial problems of YPF limited the development of more reserves to promote exports. Then the Argentine state decided to infuse private capital into the petroleum industry. In terms of exports, the result was fruitful. Between 1991 and 1999, the export of oil was multiplied by 3.9 times in value and by 4.5 times in volume. Also, the export of oil increased from 6.4 percent of total exports in 1991 to 12.7 percent in 1999.⁶⁷

In conclusion, YPF made little low export contributions prior to restructuring. In this situation, the Argentine state needed private investment in the oil industry to promote Argentine oil production, which could increase exports. The low export contribution of YPF represents low economic benefits then, which led the Argentine state to decide to privatize YPF.

Economic Benefits of YPF and the Issue of Privatization

Before restructuring in 1989, YPF had been an inefficient and debt-ridden company, although the main reason was the petroleum policy of the Argentine state. The most important figure who criticized the bad financial situation of YPF was President Menem. In fact, the Menem regime used the inefficient and bad financial situation of YPF as a reason to privatize it. According to the report written by the SIGEP (Sindicatura General de Empresas Públicas) about the situation of twenty-six public enterprises, the problems of YPF are 1) delayed investment, 2) financial deterioration, and 3) lack of port equipment. Also, according to Decree 2778/90, called “Provide the Transformation of YPF Sociedad Anónima, Approve the Plan of Transformation,”

⁶⁷ *Le Monde diplomatique, el Dipló*, año III, No.25, Julio 2001: p. 4

That the ministry of economy, through the sub-secretary of public companies, with intervention of YPF has ordered the regulation of serious economic and financial situation of the company in order to achieve efficient management and to transform the company into a competitive company in a deregulated and de-monopolized market.

That such analysis about actual conditions that YPF faces shows that it is impossible for the company to develop its activities in mentioned deregulated, competitive and open market.⁶⁸

Many people in the pro-privatization sector agreed with the government's argument. In 1989, as Hernán Cornejo, the Peronist governor of Salta, mentioned, "If YPF does not have enough capacity for oil production as the company has claimed, it would make the participation of private, national and foreign capital necessary."⁶⁹ In the parliamentary debate, the Peronists and their allies in congress suggested that the bad financial situation was the main reason to privatize YPF. For example, by inserting information about the YPF financial situation, Pedro Molina, a Peronist senator, concluded that YPF should be privatized because the wrong petroleum policy during previous regimes resulted in the expansion of foreign debt in both Argentina and YPF.⁷⁰ Also, in the Chamber of Deputies, pro-privatizationist Federico Zamora, a UCeDÉ (Union del Centro Démocratico) deputy, asserted,

YPF made great effort and completed its primary objects, but unfortunately did not achieve the following objectives. From 1940 to 1987 alone we imported products related to oil at a value equivalent to our foreign debt. It shows that YPF did not complete the second fundamental role for which it (YPF) has been created.

Except during a short period of time, from its creation, we were not even close to obtain efficient YPF. We had a company which became political rather than commercial, which completed other objectives that were not exactly for a commercial company rather than turn into an efficient and profitable producer.

⁶⁸ Republic of Argentina, Decreto 2278/90, December 31, 1990.

⁶⁹ Página 12, July 4, 1989.

⁷⁰ Cámara de Senadores De La Nación (República Argentina), *Diario de Sesiones*, June 25, 1992: pp. 1133-1136.

YPF replaced the national state. It is only possible under special circumstances not under normal procedure. It constructed roads when in reality they are not necessary to complete YPF's specific job. It constructed schools and even it brought into operation various registry offices.⁷¹

Private capital backed up the attack on YPF's inefficiency presented by the Menem regime. Luis Rey, president of petroleum company Pluspetrol, affirmed that "YPF today is not efficient" and "neither the State nor the stockholders of YPF has capability to invest for the development of the company."⁷²

However, as we can see from the financial results of YPF above, despite its public enterprise status the successful restructuring process between 1989 and 1991 turned YPF into an efficient and profitable company. It bolstered the opposition sector against privatization during 1992 when congress carried out deliberations about the YPF privatization bill. According to Orlando Gallo, a MODIN (Movimiento Por La Dignidad Y La Independencia) deputy,

There are not serious reasons to liquidate YPF. What actually exists is a proposal for the dismantlement of commitment of national patrimony and of saving of Argentineans which has been conceived during various generations.... .

YPF does not require any cost to public funding as told by the other Mr. Congressman, who argued just before me. The balance of 1990 and 1991 showed that it did not run deficits but originated profits. YPF during recent years contributed to public funding and, therefore, to the equilibrium of fiscal accounts, in no less than US\$5,000 million annually. It allowed the national government to have funding for its various politics and for payments of obligations under contract with external debtors.

Today it is being attempted the fire sale of the goose that lays the golden eggs.⁷³

However, the pro-privatization sector not only maintained its position that YPF had been inefficient, but also suggested that the privatization of YPF would be the only

⁷¹ Cámara de Diputados de la Nación, *Diario de Sesiones*, September 23 and 24, 1992: p. 3202.

⁷² Página 12, November 19, 1989.

⁷³ Cámara de Diputados de la Nación, *Diario de Sesiones*, September 23 and 24, 1992: p. 3229.

way to keep sustaining an efficient and profitable company after restructuring. According to Octavio Frigerio, a Justicialista deputy,

YPF is a profitable company. I have heard objections from some congressmen from opposition parties which are worth listening to, in that respect of why a profitable company is under privatization. From my point of view, that kind of argument has some misunderstanding from the beginning. If there is something YPF was not in the past, it is precisely a company. During decades, YPF was an executive branch of fiscal policies and a mere instrument of Treasury to get into debt even irresponsibly in recent occasions.

It is obvious that under these circumstances it is impossible to give necessary financial, strategic and managerial auto-determination. YPF always connoted every vicious activity as a public company. YPF was an entity that in 1989 had 52,000 agents, when it did not need more than 8 thousand to work according to guidelines of international competition. Like other public companies, it is a company contaminated by uncontrollable corruption, which is structurally controllable with necessary transference to the private sector.⁷⁴

Also, according to an interview by the Newspaper *Página 12* with Domingo Cavallo, minister of economy, in 1993 before the privatization:

Página 12: YPF is a company that gives much profits and, according to what you said yourself in the Bolsa, Estenssoro (the president of YPF), transformed YPF from being inefficient into being very efficient. Why did you privatize YPF?

Cavallo: Because it is the only way to maintain that style of management.

Página 12: Until now, as I know, Estenssoro has been a public employee and YPF is a public company.

Cavallo: But you can not imagine the support that President and I gave him. It is unimaginable. It is impossible to maintain that type of support indefinitely. Unfortunately Estenssoro has been accused from various sides and by a lot of organizations, which wanted to force him to run the company like the other public companies. What Estenssoro did and what we allowed him to do is something new. It is titanic. No Radical government could have done it.⁷⁵

⁷⁴ Cámara de Diputados de la Nación, *Diario de Sesiones*, September 23 and 24, 1992: p. 3326.

⁷⁵ *Página 12*, June 20, 1993.

In conclusion, evidence shows that the low economic benefit of YPF for the Argentine state is a main determinant to privatizing YPF. Thus, the Argentine state could not afford to preserve YPF as a public enterprise because its petroleum policy centered around YPF was like throwing water on thirsty soil. In fact, the main financial indicators show that before implementing the restructuring process, YPF had been in deficit and debt-ridden shape. Even though the successful restructuring process changed YPF into an efficient and profitable company, the pro-privatization sector did not give up its attack on YPF and kept emphasizing the necessity of privatization. The sector argued that privatization of YPF was the only way to sustain YPF as an efficient and profitable company because the state enterprise structure itself would not only worsen the financial situation of the company, but also burden the national treasury. Finally, the pro-privatization sector persuaded the Argentine society to accept the privatization of YPF.

POLITICAL OPPOSITION TO THE PRIVATIZATION OF YPF

The main purpose of this section is to analyze the political determinants of YPF privatization. I examine how the Argentine state successfully implemented the privatization of the oldest and largest public enterprise in the country. The privatization process of YPF overlapped with the period of the Menem regime (1989-1998). Therefore, the politics of YPF privatization necessarily deal with the relationship between the Menem regime and political forces who opposed the privatization. I analyze this process by focusing on three possible opposition forces: the left, the labor union, and the military. I also look at the strength of public opposition to the privatization of YPF. In brief, I argue that weak political opposition is one of the key facilitating conditions of the successful privatization of YPF.

The Left

In reference to the political determinants of public enterprise reform, the power of the left is important because the left would be the most consistent opponent to the privatization policy. In Argentina, however, the left was too weak to prevent the YPF privatization. In fact, Menem's initiative on neoliberal economic reform was an unusual move for a Peronist president because his party had long been a major advocate of a state-centered economy. In spite of Menem's unexpected betrayal and his painful neoliberal reform, powerful leftist political forces did not emerge in Argentine politics. As such, the Menem regime did not meet meaningful resistance from the left during the massive privatization process of public enterprise--including its largest public enterprise, YPF. To account for the weak political power of the left during the process of YPF privatization, this section examine leftist political parties, the political ideology of voters, and institutional features such as the legal restrictions governing public enterprise and its resources in the mineral sector.

Traditionally, the Argentine political party system has been bipartisan, with the Partido Justicialista (Peronist) and the Unión Cívica Radical (UCR) dominating. After the emergence of Perón, the Peronist party played a major role in popular elections, while UCR assumed the role of the main opposition party until Alfonsín won the presidency in 1983. The Peronists had absorbed the low and middle class, including industrial labor. UCR had its support from the middle class. In this context, the ideologically-oriented parties remained weak, unlike in neighboring countries in Latin America.

In spite of the two-party dominance, small parties cannot be underestimated because to attain a quorum for the start of deliberations or for the vote, the ruling parties often needed the cooperation of small parties.⁷⁶ In Argentine politics, there are three

⁷⁶ Llanos, 2002:p. 33.

groups of small parties. The first one, the most important, was made up of the provincial parties such as Partido Renovar de Salta (PRS), Partido Liberal de Corrientes (PLC), Movimiento Popular Neuquino (MPN), Alianza Acción Chaqueña (Acc.Chaqu.), Partido Demócrata Cristiano Federal (PDCFed), Partido Conservador Popular (Cons.Pop.), Movimiento Popular Jujeño (MPJ), Movimiento Popular Fueguino (MOPOFU), Partido Demócrata Progresista (PDP), Partido Autonomista de Corrientes (PAC), and Partido Bloquista de San Juan (PBSJ). According to Llanos's research,⁷⁷ although the provincial parties shared many common characters, the political behavior of each party, especially voting patterns in congress, was not homogeneous. Furthermore, in many cases, each party member behaved differently depending on economic or political interests. With some exceptions, the same rule could apply to the right-oriented parties. Although they can be categorized as provincial parties, both the UceDÉ (Democratic Center Union, mainly from the metropolitan area) and the Republican Force (from Tucumán) were right-oriented parties. In addition, Movement of Dignity and Independence (MODIN) also fits in the right-oriented category. The other type of small party in Argentina is the leftist party. Both the Christian Democratic Party (PDC) and Intransigent Party (PI) can be classified as center-left, while the Socialist Unity and the United Socialist Party represented the moderate faction of socialism. In addition, by forming alliances, the divided hard-line of socialists also managed to enter congress.

⁷⁷ Llanos, 2002: pp. 117-121.

Table 3-11. Composition of the Chamber of Deputies, 1987-1999

Political Party	1987-89	1989-91	1991-93	1993-95	1995-97	(Number of Seats) 1997-99
PJ	96	120	117	128	131	119
UCR	114	90	84	83	68	66
Frepaso	-	-	-	-	22	38
UceDÉ	7	11	10	4	2	-
PI	5	2	2	1	1	-
Others	32	31	44	41	33	34
Total	254	254	257	257	257	257

Source: Llanos, 2002: p. 32.

Note: The total number of deputies increased from 254 to 257 due to the establishment of Tierra del Fuego as a new province.

Table 3-12. Composition of the Senate, 1986-1998

Political Parties	1986-89	1989-92	1992-1995	1995-1998
PJ	21	26	30	37
UCR	18	14	11	15
Provincial Parties	7	6	7	10
Frepaso	-	-	-	2
Total	46	46	48	64

Source: Llanos, 2002: p. 33.

Note: The total number of senators increased from 46 to 48 due to the establishment of Tierra del Fuego as a new province. The period 1995-1998 includes new senators in accordance with the constitutional reform of 1994.

After the presidential election of 1989, Menem and his Peronist party replaced electoral allies like minor center-left and left parties (the Movement for Integration and Development, the Christian Democratic Party, and the Intransigent Party) with conservative right and provincial parties, aiming at securing votes for the passage of economic reform laws.⁷⁸ When the Peronist party introduced its market-oriented economic policy in 1989, the presence of leftist parties in congress was negligible. Among 254 in the deputy seats, only 2 leftist party members existed in the Chamber of Deputies, and none in the Senate. Also, in 1992 when the privatization bill of YPF was

⁷⁸ Manzetti, 1999: pp. 94-95.

deliberated, there were only four leftist deputies: three members of Unidad Socialista-Honestidad, Trabajo y Eficiencia (US-HTE), and one from the Movimiento al Socialismo (MAS). Luis Zamora, a Trotskyist deputy of MAS, did draw some attention by making an impressive speech during the reform debate. He argued,

Silenzio de Stagni, whom I will never be tired of citing and who is an expert in petroleum, ... has indicated that from 1907 to 1988, YPF allowed the country to extract more than 700 million cubic meters of petroleum, which in current value – he wrote it in 1990 – meant 86 billion dollars of saving of foreign currency to Argentina. We are talking about this! It is national sovereignty! We are not talking about abstract principles, because a country defends itself if it defends its resources and if its people have an acceptable level of life. The national sovereignty makes sense if, instead of letting capital flight of billions of dollars to abroad, we avoid bleeding of these foreign currencies; if we impede the imperialist plundering.

The petroleum policy of the Menem government has been leading us to the total destruction of YPF and to the loss of our country's principal petroleum wealth.⁷⁹

In the end, all four members of the leftist parties did not participate in the vote for the privatization of YPF in September 1992 in order to avoid giving the ruling party a quorum, although their boycott did not change the result of the privatization vote. In brief, the weak presence of leftist parties in the parliament reduced any possible opposition to the privatization of YPF.

The weak presence of the left is not a new phenomenon in Argentina. As Collier and Collier argue, the twentieth-century Latin American political party system and its ideological tendencies were heavily conditioned by the process of labor incorporation during industrialization. According to the Colliers' classification, Argentina had developed a form of party-incorporated labor populism in which a populist party monopolized the massive electoral and organizational mobilization of labor while leftists were co-opted or repressed.⁸⁰ That is, as Llanos also agrees,⁸¹ the monopoly of Peronism

⁷⁹ Cámara de Diputados de la Nación, *Diario de Sesiones*, September 23 and 24, 1992: pp. 3250-3258.

⁸⁰ Collier and Collier, 1991.

in the labor movement has been the most important reason for the weak political power of the left in Argentine politics. In this context, unlike other neighboring countries, the Argentine left has not attained significant political power throughout the twentieth century. Without having mass appeal to workers, the leftist parties could not construct an electoral foundation in accordance with their ideological orientation. Of equal importance, the chronic split tendency of the leftists has been another obstacle to overcome the position of small party.

Survey results verify why the left has weak political power in Argentina. According to Romer & Associates' October 1995 survey⁸², only 12.1 percent of voters self-identify with the left or center-left as opposed to 20.1 percent with the center and 16.3 percent with the right or center-right respectively. Also, according to the Mirror on the Americas 1999 survey conducted by *The Wall Street Journal*⁸³, only 14.7 percent of Argentine voters self-identify as being on the left or the center-left, which is the smallest percentage among Latin American countries. According to a calculation based on the same survey, Argentine voters record an average of 5.89 points on a 0 to 10 political ideology scale in which 0 represents the left and 10 the right. In this category, Argentina shows the highest number among nine Latin American countries, which means that the Argentine voters have the most right-oriented political ideology in Latin America.

⁸¹ Llanos, 2002: p. 120.

⁸² Estudio Graciela C. Romer Y Asociados, 1995.

⁸³ *The Wall Street Journal*, 1999.

Table 3-13. Voters' Self-Placement on the Left-Right Political Ideology Dimension in Argentina, 1995 & 1999

October 1995 Romer & Associates*								Total			
Left	Center-Left	Center	Center-Right	Right	No Choice	Do Not Know/ No Answer					
41	117	269	68	145	470	192		1302			
3.1%	9.0%	20.7%	5.2%	11.1%	36.1%	14.7%		100 (%)			
1999 Mirror on the Americas** (0-Left; 10-Right)											
0	1	2	3	4	5	6	7	8	9	10	Total
34	13	17	28	43	443	52	51	65	24	149	919
3.7%	1.4%	1.8%	3.0%	4.7%	48.2%	5.7%	5.5%	7.1%	2.6%	16.2%	100%
Left & Center-Left				Center	Right & Center-Right						
135				443	341						919
14.7%				48.2%	37.1%						100%

Sources:

*Estudio Graciela C. Romer Y Asociados. 1995. *Romer & Associates: Survey 32, October 1995: Roper Center for Public Opinion Research Study ARROMER1995-TOP032*, distributed by Storrs, CT: The Roper Center for Public Opinion Research, University of Connecticut.

***The Wall Street Journal*, "Mirror on the Americas," 1999 edition,
<http://online.wsj.com/public/resources/documents/pollmirror1999-eng.html>

The absence of constitutional restrictions on the privatization of YPF also undermined the opposition. Unlike other countries in Latin America, Argentina did not have constitutional rules governing public enterprises and its resources in the mineral sector. Thus, the Menem regime did not have any obligation to seek a constitutional amendment that might need a super majority in congress. In fact, Menem even used executive decrees several times to continue the privatization process of YPF instead of seeking congressional approval. Also, without constitutional rules on the privatization of YPF, the Menem regime needed only a majority vote in a quorum. In the end, the vote on the privatization of YPF in 1992 was passed with only 110 in favor out of 257 deputy members because 127 opposition members did not participate in the vote. The absence of constitutional rules on YPF and its resources thus reduced the possibility that the oppositional forces could act as a veto player in the process of YPF privatization.

Meanwhile, in 1995 the emergence of the center-left Frepaso (Frente del País Solidario) put life into the possibility of leftist politics. However, "the leaders of Frepaso

acknowledged the irreversibility of privatization and trade liberalization and endorsed the Convertibility Plan in 1991.”⁸⁴ As Frepaso and the Radicals joined the Alianza in 1997, Argentine politics returned to bipartisan politics in which two catch-all parties competed with each other.

In conclusion, the YPF case of Argentina shows that the left was significantly weak at the time of the privatization. Thus, the Argentine state did not meet serious challenge from leftist political forces that might derail the privatization. Several reasons and conditions contributed to the powerlessness of the left in the process of YPF privatization. First of all, the dominance of the Peronists in the labor movement undermined the political power of the left. Evidence also supports that Argentine voters are more right-oriented than those of other Latin American countries, which leads to the underperformance of leftist political parties in elections. Furthermore, the absence of constitutional restrictions on YPF made it more difficult for the opposition to block the privatization of YPF.

Public Opinion

Argentine public opinion did not help strengthen oppositional forces to the privatization of YPF. Several public opinion surveys indicated that the Argentine public supports the privatization of general public enterprises. Also, in the case of YPF and petroleum, the Argentine public did not strongly oppose the privatization but rather was almost evenly split. Referring to public opinion in the process of YPF privatization, Cavallo identified “the Convertibility Plan” as a strong aid because no one wanted to solve the problem with devaluation.⁸⁵

⁸⁴ Levitsky, 1998: p. 22.

⁸⁵ *Página 12*, September 16, 1992.

According to an April 1992 survey on YPF privatization conducted by Mansilla, Dellich & Associates, 41.8 percent of Argentineans opposed the privatization of YPF while 37.2 percent agreed with it.⁸⁶ Moreover, only 27 percent of respondents supported YPF remaining as a state enterprise without private participation. The degree of public opposition to the privatization of YPF was quite low compared to other Latin American countries. For example, more than 70-90 percent Chilean people opposed the privatization of its largest mineral public enterprise, CODELCO.

Table 3-14. Public Opinion Survey: Privatization of Public Enterprise, Argentina

EQUAS POLL, May 1991*		
<i>What is your opinion – in terms of agree or disagree – on the idea of the privatization of public service enterprises?</i>		
Strongly agree	19	7.6%
Agree	110	43.8%
Neither agree nor disagree	53	21.1%
Disagree	35	13.9%
Strongly disagree	26	10.4%
Do not know	6	2.4%
No response	2	0.8%
Total	251	100.0%
Romer & Associates, October 1995**		
<i>Do you agree or disagree with the privatization of public enterprises?</i>		
Agree	606	46.3%
Disagree	585	44.6%
Do not know	98	7.5%
No response	21	1.6%
Total	1310	100.0%

Sources: *EQUAS. 1991. EQUAS POLL: LI036: Roper Center for Public Opinion Research Study AREQUAS1991-LI036, distributed by Storrs, CT: The Roper Center for Public Opinion Research, University of Connecticut.

**Estudio Graciela C. Romer Y Asociados. 1995. Romer & Associates: Survey 32, October 1995: Roper Center for Public Opinion Research Study ARROMER1995-TOP032, distributed by Storrs, CT: The Roper Center for Public Opinion Research, University of Connecticut.

⁸⁶ Mansilla, Delich & Assoc, 1992.

Table 3-15. Public Opinion Survey: YPF Privatization, April 1992

<i>Do you agree with the privatization of YPF?</i>	No.	%
(1) Agree	193	37.2
(2) Disagree	217	41.8
(3) Indifferent	64	12.3
(4) Do not know	41	7.9
(5) No response	4	0.1
<i>By your judgment, it is advisable that YPF would be</i>		
(1) a state enterprise.	140	27.0
(2) a state enterprise with private participation	143	27.6
(3) a private enterprise with state participation	99	19.0
(4) a private enterprise without any state participation	78	15.0
(5) Do not know	52	10.0
(6) No response	7	1.3
Total	519	

Source: Mansilla, Delich & Assoc. 1992. MANSILLA STUDY # 1992-YPFOP: POLITICS AND ECONOMICS: Roper Center for Public Opinion Research Study ARMANSILLA1992-YPFOP Version 1, distributed by Storrs, CT: The Roper Center for Public Opinion Research, University of Connecticut, 2005.

The fact that YPF, unlike CODELCO in Chile or PEMEX in Mexico, was not nationalized at a key juncture in the country's history may have reduced public support for keeping it in the hands of the state. In fact, as I analyzed in an earlier section, the main motive for the creation of YPF was the outbreak of World War I followed by the energy crisis in Argentina. Unlike other countries' main public mining enterprises, the nationalization of YPF was not accompanied by political upheaval such as revolution in Mexico or socialist movement in Chile. Without the memorable historical experience of the process of nationalization, the Argentine public did not put much symbolic value on maintaining YPF in the hands of the state.

In conclusion, surveys show that the Argentine public did not strongly oppose the privatization of public enterprises, including YPF, in part because YPF was not privatized at a key juncture in Argentine history.

The Labor Union

In the process of YPF privatization, the most interesting sector was petroleum labor. The labor union of YPF, Sindicato Unidos Petroleros del Estado (SUPE), was created on September 23, 1946, during the period of Juan Perón. SUPE is the only national labor union in the petroleum industry. In Argentina, with the reenactment of three main labor laws⁸⁷ during the Alfonsín regime, the corporatist structure of the labor movement, which had been legally suspended during the military regime, reemerged. This legal scheme not only assured leadership control over the rank and file within the union, but also strengthened the monopoly of each national industrial union.⁸⁸ Therefore, as a monopolistic national union in the petroleum industry, the union leaders of SUPE consolidated their authority over the rank and file.

In this context, in order to privatize YPF, the Argentine state tried to separate union leaders from the rank and file and attempted to split the rank and file to soften labor opposition. To facilitate the fragmentation of the union, the Argentine state used a carrot-and-stick strategy. In doing so, the Argentine state assured the “organizational survival”⁸⁹ of the union by offering political and economic interests to the union, while openly declaring a tough stance against resistance.

Faced with this situation, the union leaders of SUPE decided to choose organizational survival at the cost of losing more than 80 percent of its union members in the process of privatization. The decision was based on various considerations. At first, the severe economic crisis did not make any possible allies for opposing the privatization. As I analyzed in earlier section on public opinion, the economic crisis and the subsequent

⁸⁷ Law 23,551 on professional association, Law 24,250 on collective bargaining, and Law 23,660 on welfare funds: Murillo 1997, p. 76.

⁸⁸ Murillo 1997, p. 76.

⁸⁹ Murillo, 1997.

economic reform persuaded Argentine society to support the privatization of public enterprises. Needless to say, in this situation, it was difficult for the labor union to reverse the privatization process. According to Julio Schiantarelli, secretary of organization of SUPE,

I believe firmly that even Argentine society in any survey or poll results shows that the majority of society was in favor of privatization of YPF. The state detached those companies which were not very skillful but were loss-making and they (public companies) at that time stopped the state from taking care of other basic issues or basic needs such as health, education, social security... etc. Then at that time there was huge social and political consensus in favor of privatization.... We did not believe that we were able to reverse the situation.⁹⁰

Secondly, because the dominant party was Peronist, which SUPE was allied with, union leaders did not attract support from the political arena against privatization. As I noted earlier, the monopoly of Peronism in the labor movement hindered the development of any labor-based class party, which could have been a viable alternative when the policy of the Peronist party went against labor's interests. Under these circumstances, it was a natural choice for union leaders to opt for negotiation with the Menem regime to get more benefits out of privatization rather than to organize opposition against privatization itself. The intimate relationship between President Menem and Diego Ibañez, the head of SUPE at that time, is a good example that shows the relationship between the Peronist party and SUPE. Menem and Ibañez were prison inmates during the military regime. As a SUPE leader said, "it is a hard time and we agree to accept the proposal of the government."⁹¹

In this environment, labor leaders including SUPE took advantage of the privatization of YPF to assure their political and economic interests. As I mentioned earlier, to negotiate with the Menem administration effectively, labor leaders depended

⁹⁰ Interview with Schiantarelli, July 4, 2001.

⁹¹ *Clarín*, September 30, 1991: p. 10.

on *los dipusindicalistas* in congress. In return for cooperating to make a quorum to pass the YPF privatization bill in 1992, labor leaders received some rewards from the government.

Table 3-16. Agreement between the CGT and the Menem Government (according to the CGT)

- *10% of YPF will be under the control of workers of YPF.*
- *SUPE will have representatives in the future directorate of YPF, with control of 20% of the shares that the national state maintains.*
- *The rapid approval of the law of collective negotiation will be promoted in the congress with reforms suggested by the Commission of Legislation of Labor regarding unionism.*
- *The extension of liquidation of debt of charitable works which occurred before July 1989 will be studied.*
- *The quarter that have maintained by labor central en Fonavi will be managed to be maintained now under the control of provinces.*
- *The law of charitable work as well as the reform proposed by the government regarding labor law will be come up through consensus.*

Source: *La Nación* (Ediciona Int'l), September 28, 1992.

In terms of economic interests, SUPE not only participated in receiving 10 percent of employees' stake in the privatized YPF share, but also was exclusively allowed to manage social welfare funds in the privatized company. In addition, with the assistance of the state, SUPE set up or purchased more than three hundred firms (including transport, maintenance, and oil equipment) and hired more than nine thousand laid-off workers.⁹² Also, in terms of political interests, even after the privatization, SUPE maintained its "monopoly on representation of former YPF workers, who were claimed by the Federation of Private Workers of Oil and Gas."⁹³

The agreement between the state and union leaders did not leave any leeway for the rank and file, who had no institutional room under the monopolized national union structure. There were carrots for the rank and file, too, however. The Argentine state

⁹² ECOS, February of 1993: p. 3.

⁹³ Etchemendy, 2001: pp. 15-16.

spent more than US\$600 million in 1991 and 1992 for indemnification of the layoffs.⁹⁴ In fact, many workers were content with the amount of indemnification. According to the observation by Juan Rodriguez, an economist of Instituto Argentino del Petróleo y del Gas,

There was very good compensation. [YPF] invested a lot of money in compensation. Then, at that moment people felt that it was enough. The first stage was much euphoria. If everybody left [the company] happy, it is because they left with a hunk of money. It was important.⁹⁵

Furthermore, all workers were not opposed to privatization. As Madrid pointed out, the privatization of public enterprises may entail disproportional impacts on union members. While some union members lose their jobs, other union members benefit from the financially improved privatized company.⁹⁶ In fact, between 1989 and 1995, the average salary of YPF workers increased from US\$350 to US\$1,650,⁹⁷ although the number of YPF employees decreased from 37,677 for YPF (plus 15,000 contract employees) in 1990 to 5,079 in 1994.

Not surprisingly, there was resistance against the intention of privatization, even though sometimes it was aimed at strengthening negotiation power instead of actual resistance itself. Indeed, SUPE was not a weak labor union in Argentine history. For example, during the Alfonsín regime, SUPE successfully participated in thirteen general strikes against the restructuring process intended by the regime. Faced with privatization and massive layoffs, SUPE called a general strike on September 13, 1991. However, the main goal of the strike was not about opposition to the privatization itself but rather about the form of privatization. Even worse, according to the ministry of labor, only 15 percent

⁹⁴ Ministry of Economy, 1993: p. 43.

⁹⁵ Interview with Rodriguez, 2002.

⁹⁶ Madrid, 2001.

⁹⁷ ECOS, February of 1995: p. 3.

of total YPF workers participated in the strike.⁹⁸ According to Schiantarelli, secretary of organization of SUPE,

We did not use any force or anarchical measures either. Neither strike nor sabotage nor other blunt measures were adopted because it was the demand from the society. We, as a part of the society, could not do it because it seemed that we were calling for sectarian interests over interests of the whole community. With the parliament, the Argentine society was saying yes! Privatize it (YPF).⁹⁹

In the end, because of fragmentation between the rank and file themselves as well as between the leaders and the rank and file, the strike failed, leaving nine thousand layoffs.

In conclusion, by adopting the carrot-and-stick strategy, the Argentine state succeeded in privatizing YPF without significant opposition from labor. Several external and internal conditions limited the ability of the petroleum union to oppose YPF's privatization. On the one hand, the severe economic crisis and the Argentine public's strong support of the privatization proved to be the main external factors deterring opposition from the labor union. On the other hand, the lack of autonomy, which is derived from the historically intimate relationship with the governing Peronist party, put fetters on the petroleum union. Thus, the leadership of the petroleum labor union decided to sustain its organizational and economic privileges at the cost of giving up its political power, based on the multitude of union members. In addition, generous economic rewards did play a major role in mitigating the resistance of the rank and file. In brief, the petroleum labor union did not have the necessary autonomous political power to derail the privatization of YPF.

⁹⁸ *Página 12*, September 15, 1991.

⁹⁹ Interview with Schiantarelli, 2001.

The Military

Another interesting force in the process of YPF privatization was the Argentine military. For several decades, the military had been the strongest political power in Argentina. Generally, the Argentine military was regarded as political and economic nationalists. Furthermore, the military had established public enterprises in vital industries such as steel, chemicals, aviations, petroleum, and later nuclear power.¹⁰⁰ Since General Mosconi headed YPF in 1922, the military not only regarded YPF as a symbol of economic independence but also assumed a guardian role against the intervention of private capital in national resources. For instance, the military overdraw the Arturo Frondizi regime in discontent with its petroleum policy that sought to attract private investments in oil fields.¹⁰¹

However, since it collapsed in 1983, the military gradually lost its political power due mainly to defeat in external war, human rights violations, and gross economic mismanagement. Despite extant tensions, the Alfonsín regime made a lot of progress weakening the military power. The Alfonsín regime transferred the human rights accusation trials against military leaders from military courts to civilian ones. Also, it cut the military budget significantly, reduced the number of armed forces, curtailed the number of military-owned companies, and refused to compromise over the dirty war.¹⁰² Even though the military tried several desperate rebellions against civilian regimes, the downhill slide of military power was accelerated during the Menem regime. Menem totally dismantled the military-industrial complex, and returned the military to a position in the nation's essential sectors like education, health, and justice. Meanwhile, to proceed with its economic program smoothly, the Menem regime made some concessions to the

¹⁰⁰ Manzetti, 1999: p. 98.

¹⁰¹ ECOS, February of 1995: p. 1; Gadano, 1998: p. 11.

¹⁰² McGuire, 1997: p. 197.

military, including the release of officials accused of human rights violations and greater flexibility over budgetary cases.¹⁰³

Table 3-17. Military Expenditures in Argentina, 1983-1997

Year	Military Expenditures (Millions of Pesos)	Index of Military Expenditure (1997=100)	Military Expenditure As % of GDP
1983	6.168	154	3.5
1984	5.305	132	2.3
1985	4.915	122	2.3
1986	5.308	132	2.3
1987	5.386	134	2.3
1988	4.915	122	2.1
1989	4.086	102	1.9
1990	3.151	78	1.5
1991	3.563	89	1.5
1992	3.654	91	1.4
1993	3.589	89	1.3
1994	4.255	106	1.4
1995	4.117	102	1.4
1996	4.124	103	1.4
1997	4.016	100	1.2

Source: David Pion-Berlin, 2001: p. 149 (Military Expenditure and GDP figures provided by Thomas Scheetz. Index calculated by David Pion-Berlin. Raw data originally from the Ministry of Economy and the Central Bank).

After giving away its political power in 1983, the main concern of the military has been not the recapture of political power but rather the size of its budget. In fact, between 1983 and 1997, the defense budget as a percentage of GDP fell from 3.5 percent to 1.2 percent. Defense cutbacks were particularly noticeable during the first presidency of Menem when economic reform and privatization proceeded. The budgetary cut resulted in a dramatic decline of the size of the armed forces. According to a calculation by Pion-Berlin, the size of the military was reduced by 52 percent between 1983 and 1997.¹⁰⁴

¹⁰³ EIU, *Country Profile: Argentina*, 1992-93: p. 6.

¹⁰⁴ Pion-Berlin, 2001: p. 148.

As a result, when the Menem administration launched its privatization program, the military did not have the power to veto the plan. Because it was busy taking care of itself, the military could not pay attention to other matters like the privatization of YPF. In essence, the Argentine military did not affect the decision or the process of YPF privatization--not only because it did not have much political power at the time, but also because it did not have any direct political or economic interests in YPF.

CONCLUSION

In 2001, about one hundred years after the discovery of oil in Comodoro Rivadavia, the Argentine people had to pay more to purchase oil than the Chilean people did, in spite of the fact that Chile imports oil from Argentina. Some politicians criticized the full-privatization of YPF in 1998, sarcastically calling it “the sale of grandmother’s last jewelry,” and some scholars deplored the “*desnacionalización total*” of petroleum.¹⁰⁵ However, criticism did not change the destiny of YPF, because the full-privatization of YPF was decided already in 1989.

In terms of the amount of receipts from the sale, YPF was a well-managed privatization, unlike other cases in Argentina. Through the three stages of the process, the Argentine state not only collected a great deal of revenue, but also assured a smooth process of privatization. Based on the political and economic situation of YPF, the Argentine state decided on the full-privatization of YPF in 1989. The Argentine state could not sustain YPF any more because of its low economic benefits. Also, because the power of possible political opposition forces was weak at that time, the Argentine state did not face strong political opposition to its plan. That is, the combination of low economic benefits and low political opposition to the privatization led the Argentine state to decide on the full-privatization of YPF in 1989. However, rather than rushing to

¹⁰⁵ Calleja, 1999.

privatize YPF immediately, Argentina turned YPF into its long term savings account. The first step was the restructuring process, in which the Argentine state aimed not only at enhancing the economic benefits but also at terminating political opposition, although the political opposition was already weak. The restructuring process entailed impressive improvement in the economic performance of YPF. However, as we have seen, the Argentine state continued to proceed with the privatization of YPF because the higher economic efficiency was projected by the Argentine state to maximize its receipts from privatization. The second stage was partial privatization, in which the Argentine state still held more than 20 percent stake in the privatized YPF. The remaining stakes not only sustained state control over the privatized YPF, but also enabled the state to collect greater receipts from the future sale of stock. Finally, the Argentine state sold its remaining stocks to the Spanish petroleum company, Repsol, at the price of US\$38 per stock in 1998. The US\$38 per stock was two times more than the price in 1993 when the first stock sale happened.

In terms of the timing of privatization, the YPF case illustrates the role of the macroeconomic situation and political events in the privatization process. The macroeconomic situation is an important variable to decide the timing of privatization in Argentina. That is, the economic crisis in 1989 and another economic difficulty in 1998 resulted in the decision of privatization in 1989 and the action of full-privatization in 1998. Political events such as elections also played an important role in deciding the timing of privatization. To garner political support in the political event, the state tried to take advantage of revenue from the sale of public enterprise. In Argentina, to achieve its second presidential bid, Menem and his Peronist party advanced the schedule of partial privatization in 1993.

Neither macroeconomic situation nor political events can determine the type of public enterprise reform, including privatization. The type of public enterprise reform depends on the political and economic situation of the company. Therefore, the YPF case in this research shows that the combination of a company's economic benefits and political opposition to privatization determine the type of public enterprise reform. On the one hand, the low economic benefits of YPF as a public enterprise led the Argentine state to decide to privatize YPF because the Argentine state believed that privatization was the best way to create an efficient petroleum market in which YPF was no longer a financial burden on state coffers.

On the other hand, the Menem regime did not meet serious opposition to completing its privatization plan because possible opposition forces to the privatization were weak in Argentina. Unlike in other Latin American countries, the left in Argentina never affected the process of YPF privatization because it was not able to develop significant political power under the Peronist dominated political structure. In addition, the low percentage of leftist voters prevented the left from being a significant veto power. Second, the petroleum labor union, SUPE, proved to be a weak oppositional force in terms of the degree of autonomous power. As a longtime partner of the Peronist party, the leadership of SUPE chose organizational survival at the cost of more than 80 percent of its union members. The lack of autonomous power was the main reason that SUPE gave up the struggle against the privatization of YPF. Third, the Argentine case shows that a military that does not have particular political and economic interests in a public enterprise is not a significant oppositional power to the privatization of public enterprise. As a political loser in the democratization process, the Argentine military was more interested in looking after its own welfare. Finally, the Argentine public did not strongly

oppose the YPF privatization. The featureless nationalization process and the absence of constitutional restrictions on the YPF privatization undermined public support for YPF.

CHAPTER 4: THE RATIONALIZATION OF COMIBOL, BOLIVIA

INTRODUCTION

This chapter analyzes the rationalization process of COMIBOL. Since it was nationalized in 1952, COMIBOL has been one of the most important entities in Bolivia--politically as well as economically. In 1985, however, a severe economic crisis and the collapse of the world tin market forced the Bolivian state to restructure COMIBOL, which was in financial trouble. The Bolivian state opted for rationalization rather than full-privatization or no-privatization. Although the troubled economic situation of both the Bolivian state and COMIBOL required the restructuring of COMIBOL, high political opposition led the Bolivian state to choose rationalization without changing the ownership of the company. Thus, the COMIBOL case of Bolivia enables us to understand the intrinsic logic of rationalization, which is one of the types of public enterprise reform in this research.

The rationalization process of COMIBOL was carried out as part of a general neoliberal economic restructuring program. The rationalization of COMIBOL began in 1985 when President Paz Estenssoro announced the NPE (*Nueva Política Económica*) to overcome the hyperinflation-ignited economic crisis. The Bolivian state needed more than fifteen years to complete the rationalization of COMIBOL, although this research shows that completion of the rationalization in 2001 did not mean the end of the story for COMIBOL's reform. For the purpose of better understanding the process, I divide the rationalization process into two stages. The first stage (1985-1989) is characterized by two major events, the decentralization of COMIBOL and mass layoff of miners. A joint venture with private capital was the most important policy during the second stage (1990-2001). Finally in 2001, by completing the joint venture contract, COMIBOL turned itself

into a holding company. Therefore, private capital assumed administration of all of COMIBOL's mines, although ownership of the mines still belongs to the state.

The purpose of this chapter is to survey why the Bolivian state chose rationalization for COMIBOL's restructuring program rather than full-privatization or no-privatization. This chapter is also aimed at understanding how the Bolivian state rationalized one of the most important public enterprises in the nation. In essence, I argue that the political-economic situation of COMIBOL and Bolivia as a whole led to the rationalization of COMIBOL.

This chapter unfolds as follows. I first discuss the 1952 national revolution and the nationalization of COMIBOL. The process of nationalization is important because it influenced the subsequent rationalization process. Second, before analyzing the determinants of rationalization, I look at the process of rationalization. Here, I focus on the chronological process of rationalization along with the macro political and economic situation. Third, I analyze the economic benefits of COMIBOL, particularly focusing on the period of the late 1970s and the first half of the 1980s. In addition, I examine a number of measures of economic benefits. I argue that COMIBOL could not avoid some type of restructuring because of its low economic benefits.

After looking at economic variables, I discuss several political variables opposing the privatization of COMIBOL. I analyze the main labor union, the left (particularly the leftist parties), and the military. I argue that although the opposition could not derail the rationalization of COMIBOL, it was powerful enough to prevent full-privatization. Following the analysis of the rationalization of COMIBOL, I look at further developments that happened in the early 21st century. I pay particular attention to the state's reintervention in both YPFB and COMIBOL. Recent developments provide further support to my argument: high political opposition and high economic benefits led

the state to choose no-privatization in recent years. In conclusion, I argue that the combination of high political opposition and low economic benefits led the Bolivian state to opt to rationalize COMIBOL in the 1980s.

THE BOLIVIAN REVOLUTION AND THE BIRTH OF COMIBOL

Since the Spanish colonial period, mining has been the main industry of the Bolivian economy. The first mineral exported from Bolivia was silver, which enjoyed its primary status from the colonial period to the late nineteenth century even after Bolivia achieved independence. However, in the early twentieth century, tin displaced silver from its dominant position in the Bolivian economy. Bolivia, as a poor and small country in Latin America, had very few entrepreneurs who dominated the primary industry and monopolized the political and economic power of the country. The famous big three tin barons--Patiño, Aramayo, and Hochschild--not only became the richest people in Latin America at the expense of the rest of the Bolivian people, but also subordinated the state to their entrepreneurial activities. The “Big Tin”¹ empires developed strong connections to foreign capital and created a small number of corrupted political oligarchies as well as highly dependent national economies based on a commodity linked to the volatile world market. Needless to say, this situation ultimately led to the Bolivian revolution of 1952.

The birth of COMIBOL was a direct result of the Bolivian revolution. The revolution broke out in response to the military's attempt to deny the MNR (Movimiento Nacionalista Revolucionario) presidency and its reform. The MNR's reform policies were summarized by the slogan “Land to the Indian, mines to the state.”² As the main protagonists in the revolutionary uprising, peasants and mine workers attained their long-cherished desire--political and economic liberation from the old oligarchy. The Bolivian

¹ Morales, 2003: pp. 92-94.

² Morales, 2003: p. 133.

national revolution brought not only political citizenship, such as voting rights to all Bolivian adults, but also economic liberation represented by land reform and the nationalization of the *Gran Minería*, which had been owned by three tin barons.

The nationalization of the properties of three big mining enterprises – Patiño, Aramayo, and Hochschild – and the establishment of COMIBOL became the heart and soul of the national revolution of Bolivia in 1952.³ As the first revolutionary president, Victor Paz Estenssoro highlighted,

The nationalization of mines pursues two goals: that the wealth of Bolivia benefits Bolivians, and eliminates economic political power that is greater than the state and whose interests are contrary to the interests of the state.⁴

The nationalization of the large mining companies and the establishment of COMIBOL was realized when the revolutionary regime enacted Supreme Decree No. 3233 on October 31, 1952. Another Supreme Decree No. 4113 on July 7, 1955, declared:

All the cutters, slag, and cleaning system of mines and the establishment that form part of groups of Patino, Hoschild and Aramayo stay incorporated in the Decree of Nationalization of Mines, which prohibits, as a result, their sale to private individuals or third persons. (At the same time), all mining concessions requested by these groups about properties and the rests, which are in the process of completing, are incorporated in the Decree.⁵

Furthermore, the Law of October 29, 1956, established these supreme decrees as the formal laws of the republic. Finally, the legal process of the nationalization of *Gran Minería* was finalized with the approval of Supreme Resolution No. 97682 on September 2, 1960, which gave constitutional status to the nationalized mines. As a result, article No. 138 of the Bolivian Constitution says,

The nationalized mining groups belong to the national patrimony as one of the bases for development and diversification of the economy of the country, prohibiting these to be transferred or sold to private company under any title. The

³ Morales, 2003: p. 145.

⁴ Estenssoro, *Mensaje al Pueblo*, August 6, 1953, cited in Vega, 1991: p. 64, footnote 5.

⁵ Cited in Vega, 1991: p. 64.

direction and higher administration of nationalized mining companies will be the responsibility of an autonomous entity with attributions determined by the law.⁶

The constitutional status of the nationalized mines has shaped the destiny of COMIBOL ever since because it prohibited the state from transferring the outstanding ownership of COMIBOL's nationalized mines to private capital.

The nationalization of the *Gran Minería* meant a big shift of national economic power from the old oligarchy to the state. In 1952, 70.5 percent of export minerals originated from the three nationalized mining enterprises in the country that depended on the exportation of minerals for 97 percent of its foreign exchange.⁷ In addition, the nationalization of the large mines and the establishment of COMIBOL signaled a new economic direction for the country. From the 1950s to the early 1980s, successive governments of Bolivia maintained a "state-capitalist model"⁸ based on the nationalization of natural gas reserves in 1965, strict control of the exchange rate and key prices, and extensive public enterprise activities in the economy.⁹

Meanwhile, the revolution and subsequent reform established massive participation of popular sectors in the political process. Both labor and peasants who acted as the main protagonists of the revolution became the main political powerhouse in Bolivian politics. Particularly, the national trade union confederation, COB (Central Obrera Boliviana), which was dominated by mine workers, established its independent political status within Bolivian politics. In contrast, the revolution punished and reorganized the armed forces, which had been the repressive instrument of the oligarchy,

⁶ Congreso Nacional de Bolivia, *Constitución Política del Estado*, 1967 and 1995.

⁷ Jordan and Warhurst, 1992: p. 9. However, Richard Thorn (Thorn, 1971: pp. 168-169) suggested somewhat different numbers. According to Richard Thorn, the nationalized mines assumed over 85 percent of the country's tin production, 95 percent of its foreign exchange receipts, and about 50 percent of the central government's fiscal receipts.

⁸ Conaghan and Malloy, 1994.

⁹ Mosley, 2001: p. 13.

although the armed forces regained political power during the military dictatorship of the 1960s and 1970s.

In sum, the Bolivian national revolution in 1952 and the establishment of COMIBOL proved to be the most important twentieth-century events in Bolivian history, not only because they transferred national economic power from the old oligarchy to the state, but also because they opened mass politics in Bolivia.

THE RATIONALIZATION OF COMIBOL

The rationalization of COMIBOL started with two major events in 1985: (1) the hyperinflation-ignited economic crisis followed by the introduction of the NPE, and (2) the overnight collapse of the international tin market. Although it can be also explained by the chronic structural problems of the Bolivian economy, the economic crisis, including astronomical hyperinflation in 1985, stemmed from the policies of the Hernan Siles Zuazo (1982-1985) center-left UDP (Unión Democrática y Popular) regime. As the first democratically elected government after the military dictatorship, the Siles Zuazo regime not only failed to manage a militant labor movement centered around the COB, but also aggravated the fiscal crisis it had inherited from the military dictatorship.¹⁰ As a result, Bolivia suffered a severe economic crisis during the first half of the 1980s. The economic crisis was characterized by falling GDP, rising unemployment, a growing budget deficit, a deteriorating balance of payments situation, and accelerating inflation.¹¹ Even worse, succumbed to hyperinflation from early 1984 until the NPE was implemented in August 1985, the annual inflation rate was running at over 20,000 percent.¹²

¹⁰ Ibañez R., 2000: p. 176.

¹¹ Jenkins, 1997: p. 109.

¹² Mann & Pastor, Jr., 1989: p. 171.

Faced with a severe economic crisis, the newly inaugurated president, Victor Paz Estenssoro (1985-1989) announced a radical neoliberal-oriented economic policy called the NPE. Although he was one of the leaders of the Bolivian revolution, Paz Estenssoro moved away from the state-capitalist model that had been employed since the revolution. To maximize the effect, Paz Estenssoro imposed the NPE by presidential Supreme Decree No. 21060 on September 29, 1985. Paz Estenssoro's NPE addressed:

The political and technical determinants of inflation with five essential policies: (1) stabilization of the exchange rate, (2) liberalization of trade and capital accounts, (3) the reduction of government deficit and monetary emission, (4) the resolution of the distributional and political conflicts in favor of capital, and (5) the achievement of new external resources.¹³

Accordingly, the NPE embodied a series of measures: introducing a single floating exchange rate, eliminating an import quota, unifying import tariffs, cutting government employment, freezing wages in the public sector, halting public investment for a year, and freeing consumer prices.¹⁴ Indeed, the NPE was aimed at not only stabilizing a hyperinflationary economic crisis in the short-run, but also restructuring the state-centered economy into a market-based economy in the longer term.

Within two months of Decree No. 21060 in October 1985, the price of tin in the world market fell overnight from US\$5.4 per pound to US\$2.5 per pound because “the International Tin Council – the 22-nation body made up of both consumers and producers which administered the International Tin Agreement (ITA) and whose job was to keep the tin price stable”¹⁵ – declared bankruptcy and could no longer support the world tin price by purchasing excessive stock in the market. Finally, in March 1986, after all efforts to save international tin trading failed, the London Metal Exchange terminated its

¹³ Pastor, Jr. 1991: p. 224.

¹⁴ Jenkins, 1997; Pastor, Jr. 1991; Malloy, 1991.

¹⁵ Crabtree, Duffy and Pearce, 1987: p. 4.

tin contract.¹⁶ The overnight collapse of the world tin price impacted greatly on the Bolivian economy as well as on COMIBOL. Because Bolivian tin was among the most expensive to produce anywhere, the world tin crisis forced COMIBOL almost to stop its production. Also, the collapse of the tin price devastated an already suffering Bolivian economy that depended on mining exports. In 1985, the mineral industry of Bolivia contributed about 4.9 percent to the GDP and 39 percent to total exports while tin production recorded the lowest level in eighty years.¹⁷

Under these circumstances, the rationalization of COMIBOL was initiated. In fact, as the largest public enterprise, COMIBOL was a main component of public sector reform under the NPE. The rationalization of COMIBOL proceeded in two stages: (1) the Decentralization and Rehabilitation Plan (1985-1989) and (2) Joint ventures (1990-2001).

The First Stage: the Decentralization and Rehabilitation Plan (1985-1989)

The first stage of the COMIBOL's rationalization focused on decentralizing COMIBOL's administration and enhancing its efficiency by reducing the size of the workforce at COMIBOL. At first, the government approved the decentralization of COMIBOL. Also, the government attempted to reduce the number of miners by relocating them. In fact, relocation was simply an expression for the mass dismissal of miners. By accepting relocation, the miners had to leave their company house with some redundancy money that the government offered to help with their relocation. Many relocated miners who chose either voluntary resignation or layoff left for poor urban areas or for coca-producing tropical regions like Chapare. The relocated miners who became coca farmers contributed to the unionization of coca growers and the radical labor response to the government's eradication policies, which greatly influenced

¹⁶ Crabtree, Duffy and Pearce, 1987: p. 4.

¹⁷ Velasco, 1985.

Bolivian politics in the 1990s and 2000s.¹⁸ Not surprisingly, the labor unions and the leftist political sector--centered by the powerful miners' union, the FSTMB (Federación Sindical de Trabajadores Mineros de Bolivia)--resisted the government plan. A series of stiff struggles by the miners (such as hunger strikes, mine occupations, and marches) caused the process to drag for a year. From the start, the debate focused on whether the plan would lead to the privatization of COMIBOL. The labor union and leftist parties opposed to the government plan argued that the plan aimed at privatizing COMIBOL. Faced with these charges, President Paz Estenssoro and his economic team defended their plan, arguing that it was not privatization. Paz Estenssoro maintained that:

COMIBOL has not been de-nationalized. What we are doing here is decentralizing the company in order that each company would work under better conditions. Those who feel affected are bureaucrats of the central offices. There are people who do not do any productive work and some parasites are. It is not for miners who work in holes.¹⁹

Finally, the Paz Estenssoro regime announced another Supreme Decree, No. 21377 on August 25, 1986, for the Rehabilitation of COMIBOL. With regard to the plan, President Paz Estenssoro assured that "There is not a plan to de-nationalize but a program to achieve the continuity and profitability of operations of COMIBOL."²⁰ The main contents of the decree were the cooperativization of underperforming nationalized mines and the assurance of nationalized status for COMIBOL. Cooperativization was a unique method in this stage of rationalization. According to Dr. Luis Antonio Sánchez, "in other words, even if nationalized mines are the property of the state, the activity of extraction and commercialization of minerals could be handed over to workers of companies."²¹ Even though the government idealized cooperativization as the workers' control of

¹⁸ Van Dijck, 1998: p. 43.

¹⁹ *Presencia*, September 13, 1985.

²⁰ *El Diario*, September 4, 1986.

²¹ *El Diario*, September, 3, 1986.

mines, cooperativization was another way to reduce COMIBOL's payroll. As a result, "COMIBOL was authorized by the government to lease some of its mining properties to cooperatives composed chiefly of former workers of the company. The cooperatives will pay COMIBOL a rent of at least 1% of the net value of the minerals produced, and the lease contract will be for a minimum of 5 years and up to a maximum of 10 years."²²

The decree reflected the first stage of rationalization's two main purposes. First, the restructuring process of COMIBOL abided by the constitution, which prohibited COMIBOL's nationalized mines in 1952 from being privatized. At the same time, the rationalization reduced the number of miners and ceased the operation of unprofitable mines in order to improve COMIBOL's economic efficiency.

As a result of the first stage of rationalization, COMIBOL was decentralized into five autonomous mining subsidiaries (Oruro, La Paz, Potosí, Quechisla, and Oriente for Mutún mine) and two autonomous smelting companies: the Vinto metallurgical complex (Complejo Metalúrgico de Vinto) and the never-opened Karachipampa metallurgical complex (Complejo Metalúrgico de Karachipampa) in Potosí. All of COMIBOL's mines were shut down from September 1986 to May 1987 to examine the economic feasibility of each mine. Except for some profitable mines (such as Huanuni, Caracoles, and Colquiri), many tin mines never reopened. Also, COMIBOL transferred nine officially closed tin mines to the cooperatives. In the end, the first stage of rationalization reduced COMIBOL's workforce from more than 27,000 in 1985 to fewer than 7,000 in 1987.

The first stage of the rationalization effort forced COMIBOL to abandon its dominant status in the Bolivian economy as well as in the mining sector. While total mining output increased by 25 percent in 1987, COMIBOL's production fell by 59 percent. In 1987, for the first time since 1952, the medium-sized mines, small mines,

²² Velasco, 1987: p. 126.

cooperatives, and other producers which made up the rest sector of the mining sector produced more minerals than COMIBOL did. For example, COMIBOL's tin represented only 5 percent of the nation's total output in 1987 while the medium-sized mines accounted for 28 percent and the small-sized mines and cooperatives contributed 67 percent of the total.²³ Also, beginning in 1985 the hydrocarbon sector displaced the nonfuel mining sector as the most important sector in the national economy. In 1987, the hydrocarbon sector contributed 44 percent of the nation's total exports; non-fuel minerals contributed 37 percent; and agriculture and other sectors accounted for 19 percent.²⁴

Although the first rationalization measures reduced COMIBOL's production capability dramatically, mining remained one of the most important industries in the Bolivian economy. This is one reason why the Bolivian state could not choose either full privatization or the liquidation of the company to solve the problem of COMIBOL. The Minister of Planning, Guillermo Bedregal, stressed that the "recuperation of the mining sector is a matter of life or death for the country."²⁵ As a historically mining-dominated country, Bolivia not only tried to keep the mining industry working as a main engine of the national economy, but also sought to recover the economic efficiency of COMIBOL.

Table 4-1. Mining Production, by Sub-sectors, 1980-1989

Year	COMIBOL	Medium Sector	Small Sector (*)	Total
1980	100.00	100.00	100.00	100.00
1985	51.18	73.22	68.71	58.66
1986	22.05	73.18	91.95	43.12
1987	7.65	83.12	177.83	47.25
1988	22.80	104.81	233.24	69.07
1989	38.61	113.61	267.45	85.53

(*) Incorporated cooperatives

Source: NPE: Recesión Económica, CEDLA, 1989. Cited in Oscar, 1991: p. 75.

²³ Velasco, 1987: p. 126.

²⁴ Velasco, 1985: pp. 13-132; Velasco, 1987: p. 125.

²⁵ *Presencia*, October 26, 1985.

In 1988, COMIBOL operated about ten mining operations throughout the country, four of which were for tin mining--the remaining six produced mainly silver, lead, and zinc. The first stage of rationalization was only a partial success. Even though the first stage of rationalization helped COMIBOL escape from total liquidation, it did not guarantee the long-term recovery of COMIBOL as an efficient public enterprise. In fact, the rehabilitation plan merely worked to remove unprofitable mines and an overabundance of miners from the company. In 1989, COMIBOL still recorded about US\$4.2 million losses, although the amount of losses had declined from more than US\$200 million in 1986.²⁶ Also, as argued by Villalobos, Bolivia needed fresh investment to stimulate its once-flourishing mining industry:

In quantitative terms, in order to take advantage of the mineral potential of the country at a level compatible with a national annual growth rate of 4.9%, it will be necessary to invest close to US\$ 1.3 billion in the mining industry during the next 12 years. This sum is far in excess of the investment capacity of COMIBOL, the state mining company, which will probably only be able to invest about US\$150 million. Therefore, most of the investment required will have to come from private sources.²⁷

Therefore, the Bolivian government needed a longer-term strategy to ensure the economic viability of the Bolivian mining industry.

The Second Stage: Joint Ventures (1990-2001)

The second stage of rationalization of COMIBOL started with the series of new laws: Supreme Decree No. 22408 on January 11, 1990, a new mining code called ‘Mining Actualization Law (*Ley de Actualización Código Minero*)’ on April 3, 1991, and a revised Mining Code on November 13, 1991. The new mining legal scheme included major changes in the Bolivian mining industry. First, it permitted foreign investment within fifty kilometers of Bolivia’s international boundaries, although it still prohibited

²⁶ Velasco, 1986: p. 125; Velasco, 1989: p. 48.

²⁷ Villalobos, 1989: p. 191.

foreign nationals of bordering countries from investing in the area. The new measure was important in attracting foreign investment because the area was expected to contain more than 30 percent of Bolivia's total potentially exploitable mineral reserves. Second, the new mining code required COMIBOL to undertake joint venture contracts in its nationalized mines and reserves. Also, in September 1990, to stimulate private investment and to secure its investment, a new investment law was enacted. "The terms include[d] a guarantee of property rights, a free exchange of capital, no restrictions on dividends or royalties, no limits on imports, and free zones for re-export purposes."²⁸

The centerpiece of the second stage of rationalization was the measure requiring joint ventures (called "*el contrato de riesgo compartido*" in Bolivia) in COMIBOL's properties. The new law stated that COMIBOL could participate in the production area only via joint venture or leasing contracts. That is, under the new legal scheme, COMIBOL withdrew completely from production and works as a tiny twenty- to thirty-person holding company that concentrated its efforts on attracting private firms to operate its mines under joint ventures or operating contracts. Therefore, "the operator has total autonomy in management, with COMIBOL limiting its role to ensuring Bolivian interests are safeguarded"²⁹.

Again, the joint venture for nationalized mines ignited a privatization debate over COMIBOL. Opposition sectors--including the less powerful FSTMB, leftist parties, and, even more, the expanded cooperatives' federation, FENCOMIN (Federación de Cooperativas Mineras de Bolivia)--vehemently criticized the government plan as a handover of the country's natural resources to international capital. However, the government argued that its plan did not constitute privatization plan as the opposition

²⁸ Jordan and Warhurst, 1992: p. 19.

²⁹ Luis Anal, general manager of COMIBOL, interview in *The Financial Times*, May 11, 1995.

charged. Related to the joint venture plan of COMIBOL, Minister of Mining, Gonzalo Valda, underscored that “It is not the transfer of property rights of the state and the contracts to subscribe are for reactivation not, in any way, for privatization.”³⁰

In sum, in spite of the introduction of joint ventures as a new strategy, the second stage of rationalization was still within the parameters of the main policies of the first stage. That is, even though the Bolivian state tried to attract private investment to save its underfinanced or underdeveloped mines, it kept abiding by the constitution, which prohibited ownership of nationalized mines from being transferred to the private sector. However, the miner union’s strong resistance, the Paz Zamora government’s political hesitance, and weakened world mineral prices delayed the second stage of rationalization into another presidency and impeded its successful realization.

A major architect of the NPE in 1985, Gonzalo Sánchez de Lozada became president in 1993. Following his campaign slogan, “*Plan de Todos*,” the Sánchez de Lozada regime introduced a capitalization program in which “companies are not sold to private investors but investors are invited to subscribe additional capital, up to 50 percent of the shares, and granted management control, the rest of shares being handed out to all adult Bolivian citizens, through pension funds”.³¹ The program capitalized six major public enterprises except COMIBOL’s mines: YPFB (Yacimientos Petrolíferos Fiscales Bolivianos), ENTEL (Empresa Nacional de Telecomunicaciones), LAB (Lloyd Aero Boliviano), ENDE (Empresa Nacional de Electricidad), ENAF (Empresa Nacional de Fundiciones), and ENFE (Empresa Nacional de Ferrocarriles).

Except for ENAF, a COMIBOL subsidiary smelting company, the main process of capitalization was completed with the capitalization of the largest public enterprise,

³⁰ *Presencia*, November 7, 1991.

³¹ Velasco, 1993: p. 26.

YPFB, in November 1996. By the end of 1996, the capitalization attracted about US\$1.7 billion worth of private investment into Bolivia. However, the capitalization process brought about deep after effects on the Bolivian economy as well as its politics. The capitalization of YPFB in particular, as I analyze later, became the main cause of political upheaval in 2003 and 2004.

Meanwhile, under another wave of neoliberal economic reform, the rationalization process of COMIBOL resumed, although it was slow and laborious. Amid protests and mine occupations by the miners, COMIBOL agreed to joint venture or leasing contracts for its existing mines. Also, COMIBOL gradually closed its economically unfeasible mines. By the end of 1996, only three of COMIBOL's existing mines remained in production: the Caracoles tin mine, the Colquiri tin-zinc mine, and the Huanuni tin mine. All three mines had economic potential, especially the Huanuni tin mine, which continued to be the largest and richest tin mine in Bolivia, but they needed fresh investment to perform at an international standard. By 1997, COMIBOL had only 2,500 workers, compared with 4,400 in 1993, 6,000 in 1992; and more than 27,000 in 1985.³²

Table 4-2. Number of Mining Companies, by Sub-sectors, 1980-2000

Year	COMIBOL	Medium Sector	Small Sector	Cooperatives	Total
1980	15	24	6,000	400	6,446
1985	15	28	4,000	430	4,478
1990	6	22	1,200	490	1,718
1995	3	12	600	516	1,131
2000	0	14	420	520	954

Source: Secretaría Nacional de Minería y Metalurgia (1996) y La Patria (1999) as cited in Equipo MMSD América del Sur, 2002: p. 180.

³² *Presencia*, March 12, 1997; Velasco, 1995: p. 99.

During 2001, COMIBOL had no mineral production³³ because it finalized its rationalization process by completing joint venture contracts for the last three mines and the capitalization of the Vinto tin smelter. In 1997, COMIBOL transferred the Caracoles mine's administrative and exploitation rights to the private firm, Barrosquira, in a twenty-year joint venture contract.³⁴ Also, in 2000, COMIBOL agreed with London-based Allied Deals for the Vinto smelter capitalization and the Huanuni mine joint venture contract. According to the contract, Allied Deals had to pay US\$14.75 million for the tin complex and invest US\$10 million in the Huanuni mine. Another joint venture deal was concluded with a Bolivian private mining firm, Comsur, over the Colquiri mine. As a result, by 2000, although it still had some mining deposits to dispose of, COMIBOL completed its rationalization process.

In conclusion, the Bolivian state succeeded in rationalizing COMIBOL, although it took more than a decade. By completing the rationalization process, COMIBOL reduced its role from Bolivia's largest mining company to a holding company that assumed a purely administrative function. Therefore, although the state maintained ownership of the mines, COMIBOL no longer intervened in the exploration, development, or exploitation of new deposits or existing mines. In addition, the rationalization of COMIBOL not only led to the dismissal of almost all miners from the company, but also dismantled one of the strongest labor unions in Latin America, the FSTMB. Therefore, many observers view the rationalization of COMIBOL as the Bolivian version of privatization because private capital undertook all production activities. However, as Bolivian policymakers argued, the rationalization of COMIBOL

³³ Ministerio de Desarrollo Económico, Vice Ministerio de Minería y Metalurgia. 2001.

³⁴ Reuter News, July 14, 2004.

was “a reduction route to solving the problems.”³⁵ Still questions remain--why and how the Bolivian state chose and implemented the rationalization of COMIBOL.

ECONOMIC BENEFITS OF COMIBOL

Clearly, the rationalization of COMIBOL started with two major economic events in 1985: macroeconomic crisis in Bolivia and collapse of the world tin price. However, the Bolivian state would not have needed a restructuring program if COMIBOL had yielded profits and been expected to be sustainable. Therefore, to understand the determinants of the rationalization of COMIBOL, it is worthwhile to look at the economic performance of COMIBOL both before and during the rationalization.

Until 1985, COMIBOL controlled 70 percent of the mining production in Bolivia and occupied the position of second-largest tin producer in the world.³⁶ As the largest public enterprise in Bolivia, under the state-centric development model, COMIBOL had assumed the primary role of maximizing income and financial resources for the state. Also, COMIBOL had taken care of the employment and social welfare of the miners and their families who lived in remote areas under harsh conditions.³⁷ However, COMIBOL had not shown impressive economic performance.

There are several different ways of calculating the fiscal balance of COMIBOL. However, all of those calculations agreed that COMIBOL was losing money, especially, since 1980.

³⁵ *American Metal Market*, July 16, 1986.

³⁶ Farthing, 1992: 17.

³⁷ Jordan and Warhurst, 1992: p. 9.

Table 4-3. Fiscal Balance of COMIBOL, 1952-1991

		US Dollars	
Year	Surplus or Deficit**	Year	Surplus or Deficit**
1952/53	-10,504,800.92	1973	9,305,353.14
1954	-26,944,923.50	1974	5,133,262.54
1955	-16,216,690.96	1975	-10,771,253.79
1956	n/a	1976	3,027,471.00
1957	174,779.52	1977	5,177,229.00
1958	-6,573,401.29	1978	7,153,468.00
1959	-10,314,168.45	1979	7,672,469.65
1960	-12,557,318.99	1980	-29,968,480.24
1961	-9,556,109.63	1981	-45,512,352.38
1962	-16,155,697.47	1982	-51,901,546.70
1963	-14,860,982.27	1983	-51,639,397.74
1964	-5,347,896.97	1984	-68,367,125.35
1965	-38,086.03	1985	-52,829,089.10
1966	1,972,284.73	1986	-200,144,062.29
1967	1,046,696.87	1987	-99,339,329.35
1968	1,177,575.73	1988	-41,418,534.67
1969	2,613,390.00	1989	-41,668,204.85
1970	2,035,851.73	1990*	-5,897,457.00
1971	783,671.46	1991*	-3,737,309.00
1972	1,033,730.12	Accumulated	-783,956,974.95

(*) Results of Operating Income

(**) Based on the current price in 1992

Source: Müller & Associates, calculated based on Corporación Minera de Bolivia data; Müller & Associates. 1992. "La COMIBOL y Los Contratos de Riesgo Compartido," *Boletín*, No. 74, September-October, La Paz, Bolivia: p. 262.

Table 4-4. Profits and Losses of COMIBOL, 1976-1985 (thousand US\$)

Year	Profits/losses	Year	Profits/losses
1976	48,974	1981	2,033
1977	89,998	1982	-17,988
1978	102,106	1983	-15,423
1979	118,270	1984	-44,868
1980	42,573	1985	-39,692

Source: R.Jordan. 1990. *Desempeño y Colapso de la Minería Nacionalizada en Bolivia, Estudios Técnico, Económico, Social y Organisacional de la Corporación Minera de Bolivia*, La Paz, Bolivia. Cited in Jordan and Warhurst, 1992: p. 16.

According to the calculation by Müller & Associates, COMIBOL accumulated more than US\$784 million of deficits between 1952 and 1991, while it contributed about

US\$620 million in royalties and US\$116 million in taxes to the national treasury during the same period.³⁸ According to Jordan, COMIBOL accumulated more than US\$118 million in deficits between 1982 and 1985.³⁹ During the same period, COMIBOL contributed US\$88 million to the state coffers.⁴⁰ In sum, in only four years, COMIBOL's net deficits reached US\$30 million, which was a great burden for a poor and small country like Bolivia. Jaime Villalobos, minister of mines and metallurgy during the Paz Estenssoro regime, argued in his research, "in order to cover the deficit generated, COMIBOL resorted to a fiscal credit granted by the Central Bank of Bolivia which issued inorganic currency and thereby contributed to the most acute hyperinflation in Bolivian history."⁴¹

Meanwhile, continuing deficits accrued by COMIBOL obviously generated a debt problem. Between 1981 and 1985, COMIBOL amassed US\$400 million in foreign debts and had a floating debt of over US\$40 million.⁴² Therefore, debt servicing was a heavy burden on COMIBOL. For example, in 1982 COMIBOL paid about US\$80 million in interest, commissions, and amortization on its total debt, which took over a quarter of its gross sales in that year.⁴³ Also, COMIBOL's poor economic performance forced the Bolivian state to diversify its exports, which COMIBOL once dominated, and COMIBOL's contribution to total exports dropped from 43 percent in 1971 to 34 percent in 1981.⁴⁴ As a result, the contribution of the mining sector to the GDP declined from 10.54 percent in 1980 to 4.00 percent in 1987, while the gross value of mineral

³⁸ Müller & Associates, 1992: p. 245.

³⁹ Jordan, 1990. cited in Jordan and Warhurst, 1992: p. 16.

⁴⁰ *American Metal Market*, July 16, 1985.

⁴¹ Villalobos, 1989: p. 192.

⁴² Villalobos, 1989, p. 192.

⁴³ Ali Ayud and Hashimoto, 1985: p. 50.

⁴⁴ Calculated by the author based on Jordan and Warhurst, 1992: p. 15.

production decreased from US\$750 million in 1981 to US\$139 million in 1986. Needless to say, COMIBOL showed the most drastic decline.⁴⁵

Several factors can be blamed for COMIBOL's poor economic performance. First, the low ore grade of minerals and low productivity in COMIBOL's mines was one cause of poor economic performance of CODELCO. In fact, "the mineral content of COMIBOL's mines had been dropping since 1920s and the mines had been undercapitalized for years."⁴⁶ With the high burden of social welfare, the low grade content of minerals meant high production cost for the minerals. For example, Catavi tin mine, a mining company of COMIBOL, produced a pound of tin at US\$20 per pound while the international price was US\$2.48 after the collapse of tin prices. On August 28, 1986, after imposing a state of siege to quell the miners' protest against the announcement of the first rationalization, President Paz Estenssoro asserted that the miners "are not interested in the fact that tin, which we produce for US\$10 a pound, is sold on the international market for US\$2.48."⁴⁷ Also, in respect to the unprofitable mine closings of COMIBOL, Alvaro Ugalde, ex-undersecretary for mines, said, "Good. It is cheaper to just pay the salaries and not operate at all."⁴⁸

Second, COMIBOL's meager investments had been blamed for the grim future of the company as well as its poor economic performance in the past. For example, during the period of 1980-82, COMIBOL's investment averaged about US\$5 million a year, although gross annual sales averaged about US\$330 million. Because of low investment, COMIBOL was forced to neglect exploration. As a result, most deposits that are mines today were known at the turn of the century.⁴⁹

⁴⁵ Villalobos, 1989: p. 192.

⁴⁶ Farthing, 1992: 17.

⁴⁷ *The Economist*, September 6, 1986.

⁴⁸ *American Metal market*, July 16, 1986.

⁴⁹ Ali Ayud and Hashimoto, 1985: p. 49.

Third, the lax management and welfare function of COMIBOL under the state-centric economic model undermined COMIBOL's performance. COMIBOL was a huge multi-mineral corporation that operated twenty-one mining companies, various spare-parts factories, several electricity plants, farms, a railroad, and other agencies. COMIBOL also provided schooling for sixty thousand children, housing for mining families, health clinics, and popular subsidized commissaries called *pulperías*. Under these circumstances, "COMIBOL's bureaucracy grew quickly, with the ratio of underground to surface workers shifting from over 70:30 to 35:65 by the 1960s."⁵⁰ Villalobos said, "COMIBOL was never a mining enterprise but a political one. Bolivia can no longer support such an institution."⁵¹

In sum, in spite of its flagship status in the Bolivian economy, COMIBOL had not achieved its original goals in terms of economic performance. The statistics show that COMIBOL had recorded deficits for a long period. Also, its contribution to the national treasury and foreign exchange had declined significantly by the 1980s. Therefore, faced with a deep economic crisis and the collapse of the world tin price, the Bolivian state did not have any other choice except to change its mining policy.

Bolivian policymakers agree that low economic benefits were the main reason for rationalizing COMIBOL. As Villalobos explained,

COMIBOL, since it generates losses, has to be restructured and changed into a form to operate within the framework of politics of stabilization. The losses of COMIBOL increased, approximately, to 9 million dollars, which should be faced by The General Treasury of the nation. And within the plans elaborated by the Ministry of Mining, it should be sought to reduce the deficit with application of a plan of emergency and rehabilitation.⁵²

⁵⁰ Farthing, 1992: 17.

⁵¹ *American Metal Market*, July 16, 1986.

⁵² *EL Diario*, August 12, 1986.

Also, denying the privatization charge by the opposition, President Paz Estenssoro underscored the economic reason for the rationalization of COMIBOL:

I do not understand how it is possible to ignore that all the companies of COMIBOL run enormous losses that even it is impossible to be absorbed by an economy in serious crisis without unleashing again the process of hyperinflation that has punished especially the working class with extreme cruelty.

The structural modification of COMIBOL does not follow a plan of de-nationalization, a march to put back a historic process as union leaders and radical politicians distorted the truth. It is rather a heroic attempt to save and to keep what still remains from an industry of mining that can not maintain itself under current conditions.

The program to achieve continuity and profitability of the operations of COMIBOL has unleashed an irrational reaction in levels of management of mining union....

Nothing is more wrong and false. Nobody wants the extinction of COMIBOL. On the contrary, it is about rescuing the positive aspects that still exist in the national mining industry and creating the basis for reorganization in accordance with the present situation of international metal markets, transferring the emphasis put on tin to silver, lead and other minerals.⁵³

Therefore, by implementing rationalization program, particularly via joint ventures, COMIBOL tried to attract fresh investment to overcome its poor economic performance. As a poor country in deep economic crisis, the Bolivian state did not have money to invest in COMIBOL. Luis Arnal, COMIBOL's general manager in 1995, supported the rationalization of COMIBOL, saying, "We badly need new financing for exploration and the best method is via joint ventures."

In conclusion, the evidence shows that the poor economic performance of COMIBOL led the Bolivian state to implement the rationalization of the company. In other words, the low economic benefits of COMIBOL for the Bolivian state were a main determinant of rationalization. If it had not rationalized COMIBOL, the Bolivian state would not have been able to manage the Bolivian macro economy or COMIBOL.

⁵³ *El Diario*, August 30, 1986.

POLITICAL OPPOSITION

In the previous section, I analyzed the economic benefits of COMIBOL to explore what role they had in the rationalization of COMIBOL. The analysis confirmed that the Bolivian state rationalized COMIBOL because it could no longer sustain the old scheme in which COMIBOL yielded large deficits. However, analysis of economic variables alone cannot answer fully the main question of this research. Why and how did the Bolivian state choose rationalization for COMIBOL's restructuring program rather than full-privatization or total liquidation?

In this section, I discuss how political variables influenced COMIBOL's rationalization process. Since it was established in 1952, COMIBOL has been one of the most important public entities in Bolivia, politically as well as economically. COMIBOL not only housed the strongest labor union in the nation, but also developed a great deal of political significance. Here, I show that COMIBOL has not been totally privatized because political opposition to privatization was powerful enough to prevent privatization, although it did not prevent rationalization, mainly owing to the low economic performance of COMIBOL.

The Labor Union

Not surprisingly, the strongest opposition to government policies vis-à-vis COMIBOL came from the labor sector. Historically, Bolivian labor has not only had a long history of struggles, but also developed a highly politicized national organization, the COB. The miners were the leader of labor movement even before the COB was created. Due to harsh working conditions and the repressive oligarchy's dominance in the mining industry, the miners struggled and organized strenuously to the point that they founded their own umbrella organization, the FSTMB in 1944. Subsequently, the FSTMB became the backbone of the COB.

Immediately after the revolution, the MNR helped found the COB in order to create a corporatist political institution like Mexico's PRI in which the political party effectively incorporated the labor sector within the governing party. However, Bolivia did not follow the Mexican path entirely.⁵⁴ In Bolivia, as a main protagonist in the revolution, the COB led by the FSTMB pushed for securing “cogovernment (*cogobierno*)” in the MNR regime and comanagement of the nationalized COMIBOL. In addition, labor militias freely empowered themselves when the military was dismantled. During the first MNR regime (1952-1956), the COB assumed three cabinet positions and the FSTMB put COMIBOL under worker’s control. As a result, while the MNR achieved “its status as an independent quasi-governmental entity in its own right,” the COB also obtained “semi-sovereign status over the workers of Bolivia.”⁵⁵ Against the wishes of the MNR, the COB became an independent force in Bolivian politics outside of the control of the MNR. Also, the COB came to perceive the state as an entity that had to be overcome to realize the interests of its own constituency, the working class.

Over the years, as the COB grew in power, it challenged the state capitalism propelled by the MNR and the subsequent military regime from the perspective of state socialism or working class interests. In 1956, the relationship between the MNR and the COB became antagonistic when the second MNR regime headed by President Siles Zuazo implemented IMF-recommended monetary stabilization policies.⁵⁶ The COB was expelled from the government and lost its co-management role in COMIBOL. Also, the MNR helped rebuild the military to counter the growing power of the COB. Finally, relations between the COB and the state including the MNR became rivalrous as the COB kept challenging the government and struggled to protect its interests against state

⁵⁴ Malloy and Gamarra, 1987: p. 94.

⁵⁵ Malloy and Gamarra, 1987: p. 94.

⁵⁶ Rodríguez, 2001: p. 282.

policy. In fact, rivalry was a dominant feature of relations between the COB and the MNR until the mid 1980s, when the NPE started.

The COB (particularly the miners' union, the FSTMB), enjoyed an exceptionally powerful status during the Siles Zuazo term (1982-1985). As in the 1952 revolution, labor proved itself to be the main actor in the transition to electoral democracy from long-standing military dictatorship. The labor movement was at the forefront of opposition to the authoritarian regime, while other political elites were loathe to fight against the military dictatorship. Therefore, when the military dictatorship collapsed, the COB became the undisputed leader, forcing the leftist parties to assume a "parasitical" role in the election.⁵⁷

Under the center-left Siles Zuazo UDP regime, the debate over the labor movement revolved from the beginning around the issue that the miners had demanded for a long time, worker comanagement.⁵⁸ In April 1983, the FSTMB finally obtained worker's majority control by seizing the company and imposing their own members on the board of COMIBOL. Even though the COB's demand for co-government was denied by the regime, owing to the deteriorating economic situation, the miners recovered their decision-making power in the country's largest public enterprise. According to Ibáñez, the COB intentionally avoided joining the government because it did not need to share the responsibility for the deteriorating economic situation. That is, the COB (which already had enough political power) believed that the co-government would not help it realize its interests, but would saddle it with responsibility for the economic crisis.⁵⁹ However, this did not mean the end of struggle by the labor sector during the Siles Zuazo regime. As the economic situation evolved into crisis, the Siles Zuazo regime tried to

⁵⁷ Ibáñez R, 2000: pp. 177-178.

⁵⁸ Ibáñez R, 2000: pp. 184.

⁵⁹ Ibáñez R, 2000: pp. 184-188.

impose an economic austerity program, which would have hurt the interests of labor--at least in the short term. The intransigent COB resisted the government's economic plan by calling strikes and work stoppages. For example, the COB launched nine general strikes in the period between December 1983 and March 1985. Finally, the first democratically elected regime after the military dictatorship gave up and declared an early presidential election amidst serious economic crisis.

The actions of Bolivian organized labor during the Siles Zuazo regime not only showed its unparalleled power in Bolivian society, but also led to the downfall of both labor and the left in Bolivian society. Because of the economic crisis left by the Siles Zuazo regime, the Bolivian public perceived both labor and the left as irresponsible political forces.

As the new president, Paz Estenssoro announced an economic stabilization policy, called the NPE, to solve the hyperinflation-ignited economic crisis. Less than a week after the announcement of the NPE, on September 4, 1985, the COB called a twenty-four hour general strike. After twenty-four hours, the COB not only extended the general strike indefinitely, but also started a hunger strike, marches, roadblocks, and occupations throughout the country. As the resistance grew, the Paz Estenssoro regime declared a state of siege and arrested the leaders of the COB. Thus, about two hundred leaders (including Juan Lechín Oquendo, the legendary leader of both the COB and the FSTMB), were detained in a remote tropical area until they agreed to suspend the general strike and started a dialogue with the government. The government's move proved to be effective in quelling the resistance of labor, which had weakened due to its three-year struggle against the Siles Zuazo regime. In addition, the Bolivian public, tired of hyperinflation, did not have a choice but to accept the NPE.

After 1985, labor's efforts focused on preventing the decentralization and restructuring of COMIBOL. As I mentioned earlier, the struggle between the Bolivian state and labor over COMIBOL evolved into a debate over whether the government's plan was aimed at privatizing COMIBOL. The issue of privatization was important because labor made use of the issue to attack the government plan, although at that time the hottest issue was about the number of laid off miners and the destiny of unprofitable mines. Indeed, the issue of privatization, particularly about the nationalized mines, was delicate in Bolivia where many people not only had a vivid memory of the tin oligarchy's harmful effects, but also considered the nationalization of COMIBOL as the proudest result of the 1952 revolution. As a result, the government argued that the restructuring of COMIBOL was not intended to privatize the nationalized mines. Rather, it was a restructuring plan for saving the macroeconomic crisis of the country as well as the debt-ridden COMIBOL. According to Mario Barrientos, president of COMIBOL,

Decentralization of COMIBOL does not mean, not even hypothetically, its de-nationalization. The objectives of decentralization were distorted with incorrect evaluations and predictions of this cycle. The company's organizational subdivision and the establishment of the four entities of the company are not, not even hypothetically, to be hidden de-nationalization to privatize partially the patrimony of Bolivian people.⁶⁰

On the contrary, labor criticized the government plan as the first step toward privatization, saying,

The mining workers will resist the application of remedies, especially those attempts to seek de-nationalization of mines, elimination of the co-management with worker's majority, elimination of cheap company stores, reduction of retirement fund, and reduction of salaries and decentralization of the companies of COMIBOL.⁶¹

⁶⁰ *Presencia*, October 19, 1985.

⁶¹ *Presencia*, August 31, 1985.

The labor struggle was not easy because the overnight collapse of the world tin price in October 1985 got rid of the most important weapon of the miner, the strike. Because the collapse of tin prices removed the competitiveness of Bolivian tin on the international markets, the government was not afraid of the stoppage of production. Rather, “strike action suited COMIBOL’s management very well because it freed them from their contractual responsibility to pay wages.”⁶² Even worse, the mass layoffs, the so-called relocation programs that had already been introduced, weakened the negotiating power of the FSTMB by reducing the number of union members. In the end, in August 1986, the FSTMB organized a five-thousand miner 230-kilometer march from Oruro to La Paz, called the March for Life and Peace (*la Marcha por la Vida y la Paz*), demanding cancellation of the restructuring plan and mass layoffs. The FSTMB proposed that “COMIBOL should be handed over to the workers to be administered by the FSTMB, making use of the money which the government had set aside for its restructuring program.”⁶³ As the march reached near La Paz, the tension mounted. In response, the Paz Estenssoro regime declared another state of siege, which forced the marchers to give up the march. Also, the Paz Estenssoro regime immediately imposed Decree 21,377 in which the decentralization of COMIBOL and the cooperativization of unprofitable mines were proposed.

The mounting tension between the miners and the regime led the Bolivian Bishops Conference (CEB, Conferencia Episcopal Boliviano) to mediate. Finally, on September 13, 1986, both parties agreed to postpone the implementation of Decree 21,377. According to the agreement,

COMIBOL maintains all of its entities of production and service, preserving its patrimony and national property over nationalized mining groups in accordance

⁶² Crabtree, Duffy and Pearce, 1987: p. 81.

⁶³ Crabtree, Duffy and Pearce, 1987: p. 88.

with what the Political Constitution of the State has established. For its rehabilitation, (COMIBOL) will take all technical, administrative and financial remedies that allow streamlining until such time that the deficit that each company generated would be eliminated. To do this, the Supreme Government will take into consideration its restructuring policy, taking into account fundamentally the remaining points agreed to in this document.

The decentralization has the purpose of de-bureaucratizing the company and it is not a “maneuver” toward the closure of mines.

In accordance with original technical criteria, formulated by some studies of COMIBOL and other advisors, of how much labor force would be necessary in COMIBOL, in its every modality it (the necessary labor force) would reach, with rehabilitation, approximately 13,000 workers.

This parameter is considered as a reference in tasks of systematic execution of the global program of rehabilitation.

The government does not want to impose with a high hand cooperativization in the mines of COMIBOL. It (government) respect, therefore, the principle of the free determination and adhesion of workers.⁶⁴

The agreement was considered a small victory for the FSTMB, although it did not alter the main features of Decree 21,377. First of all, “the government acknowledged that its aim was not to dismantle COMIBOL but to rehabilitate it.”⁶⁵ Also, it promised to stop the imposition of a unilateral restructuring plan by agreeing that all management decisions in COMIBOL would be implemented only after consulting with the FSTMB, which would preserve the organizational power of the union leadership. However, an unexpected twist happened. The agreement was rejected by the rank and file of the FSTMB, who were led by a group of the radical-left called the Axis of Patriotic Convergence (*Eje de Convergencia Patriota*) and activists of the Trotskyite POR (*Partido Obrero Revolucionario*).

The leadership of the FSTMB was divided and the agreement was annulled. As a result, the government vowed to impose Decree 21,377. Although the union’s leadership

⁶⁴ *El Diario*, September 14, 1986.

⁶⁵ Crabtree, Duffy and Pearce, 1987: p. 88.

unity was recovered at a special congress of the FSTMB in October 1986, the first stage of the struggle against the rationalization of COMIBOL was perceived as a strategic failure for labor. Subsequently, the FSTMB changed its goal of struggle from the workers' control of COMIBOL to a higher redundancy payment for those who opted for voluntary retirement along with the defense of public ownership of COMIBOL and wage increases for those who stayed in the mines. Meanwhile, the radical-left faction of the labor leadership was ousted at the COB convention in July 1987.

As a result of the first stage of rationalization, COMIBOL was decentralized and reduced its payroll from more than 27,000 to 7,000 in 1987. As the number of the miners in COMIBOL diminished, the power of the FSTMB also weakened. However, the FSTMB with the COB continued to struggle against the government's mining policy as well as the general economic policy. For example, in 1988, the COB helped block the government plan to decentralize health care and education. Also, even though labor was not powerful enough to derail the whole plan of rationalization of COMIBOL, it effectively delayed the plan.

However, COMIBOL's rehabilitation program failed to deliver satisfactory economic performance. Therefore, by promulgating the new mining law in April 1991, the Bolivian state strove to implement the second stage of rationalization featuring joint ventures. As expected, the FSTMB strongly opposed the plan on the grounds that it intended to privatize the nationalized mines. According to Edgar Ramirez, a FSTMB leader,

The Mining Code is constituted in the judicial instrument that allows COMIBOL to give its natural resources to transnational companies. The Congressmen should think well to cast their vote in approval of this code, and this way we can avoid extinction of COMIBOL and throwing more than 7 thousand workers onto the street. Currently, for mining workers, it is more important to avoid privatization than to struggle for better wage conditions. If, with the approval of the Mining

Code, more than 5,200 miners will be under rationalization, to what would it serve to ask better wage?⁶⁶

Unlike the first stage of the rationalization, the FSTMB's struggles against the new mining law were accompanied by the cooperatives' federation, FENCOMIN, and some regional civic committees such as Oruro and Potosí since the law would negatively affect their regional economic interests. Initially, both the civic committees and the cooperatives opposed the tax regime of the new mining law, which unified the tax rate at 2.5 percent of net sales. They argued that the new government's mining law would eliminate the cooperative mines which did not yield enough profits to pay taxes. The labor-civil leaders of the CONBIRCO (Bi-Regional Council of Coordination, Oruro and Potosí) issued a document outlining their principal arguments:

To reject the law of realization of the Mining Code in attending to the social and economic interests of the mineral producing regions and to show our solidarity to the just aspirations of miner's cooperatives and small mine movement.⁶⁷

However, the government was able to pass the law without major change except for putting off the grace period of the taxation changes until 1999 for the cooperative mines. Meanwhile, the new mining law was modified in November 1991 when a transnational mining company, LITHCO, asked the government to modify the law because the established mining laws led to "double taxation" in both Bolivia and the United States.

As the new mining law passed, the Bolivian state concentrated on attracting private investment in the mining sector via joint venture contracts. However, the joint ventures did not progress smoothly because of interference by the labor struggle. The FSTMB established its position vis-à-vis the joint venture plan at the miners' congress of

⁶⁶ *Presencia*, April 2, 1991.

⁶⁷ *Presencia*, April 9, 1991.

Tupiza in 1991 in which the miners adopted the so-called Colquiri Declaration.

According to Guido Martínez, permanent secretary of the FSTMB,

After the government has prepared everything to de-nationalize the national mining sector, through various mechanisms including the joint-venture, recently the government wants to explain to the workers the meaning of its hand-over to an international consortium...Workers do not admit the de-nationalization of mines but, on the contrary, want to fight – including through occupation of mines- to preserve worker's rights and national patrimony.⁶⁸

The FSTMB's main strategy to interrupt the second rationalization was through the occupation of mines that were to be the subject of joint ventures. Even though the mine occupations did not nullify the second rationalization of COMIBOL, they proved to be partly successful because they protracted the process for more than a decade. For example, in September 1992, the mine occupations hindered private companies from starting the operation of the joint ventured mines, Minproc and Cominesa. Also, in October 1993, the FSTMB's mine occupation forced the Bolivian state to suspend all of its joint venture contracts. Legal challenges were another strategy of the FSTMB. Particularly, in 1993, the FSTMB went to the Supreme Court in order to overturn COMIBOL's two joint venture contracts. The labor union argued that the contracts were established before ratifying the decree, which allowed the joint ventures. As a result, the Bolivian government needed another legal scheme for joint ventures in accordance with the decision of the Supreme Court that the current scheme was unconstitutional. Even though it was not able to reverse the whole process of the second rationalization of COMIBOL, labor's legal strategy dealt a blow to the process.

Meanwhile, another major struggle against the rationalization of COMIBOL broke out in March 1997 when the Sánchez de Lozada regime tried to enact a new mining law. Again, the FSTMB stood against the new law by staging a strike. The FSTMB

⁶⁸ *Presencia*, November 19, 1991.

argued that “the approval of the new mining law will liquidate the small and the cooperative mines and will facilitate the transnational mining companies.”⁶⁹ However, at this time, the cooperatives and the civic committees proved to be a more powerful force to oppose the new mining law than the FSTMB did. In 1997, the number of miners in COMIBOL was only 2,500 while the private companies were hiring 6,000. Under these circumstances, cooperation with the other sectors was essential for the struggle of the FSTMB. According to Humberto Ochoa, secretary of the relation of the FSTMB, “We recognize that the miners alone cannot have the answer. At this time, we need support of other sectors.”⁷⁰

The civic committees (such as Oruro, Potosí, and Santa Cruz) staged several coordinated strikes, which proved to be successful in terms of the number of participants and the magnitude of the repercussions. In fact, the civic committees that were strengthened as a result of decentralization reform by the Sánchez de Lozada regime became the center of struggles against the new mining law of 1997. Finally, the new mining law was passed in congress, assuring that tax revenue from new investment in the mining sector would go to the treasury of the regional governments.⁷¹ The struggle against the new mining law of 1997 reflected the changed map of Bolivian popular movements in the late 1990s. The labor movement led by the COB lost its monopoly status within the popular movements, while other movements such as regional, indigenous, and peasant organizations gained new momentum in the fight against the neoliberal trends in economic policy. These changes in Bolivian popular movements impacted greatly the destiny of Bolivian economic policy, including the policy of COMIBOL.

⁶⁹ *Presencia*, March 12, 1997.

⁷⁰ *Presencia*, March 12, 1997.

⁷¹ *Presencia*, March 16, 1997.

In sum, the miners resisted continuously the rationalization of COMIBOL by staging countless strikes, mine occupations, hunger strikes, and road blocks. Also, the FSTMB persistently charged that COMIBOL's rationalization was simply another version of privatization that divested the Bolivian people of a precious national resource. As the most powerful union in Bolivian history, the FSTMB's struggles not only led to great social unrest, but also became a main political obstacle for the regimes that were trying to carry out economic transformation. As Jose Zambrana, general manager of COMIBOL, admitted, the FSTMB was one of the most important determinants of COMIBOL's rationalization.

The miners have had great influence because they were the ones who took up arms during the 1952 revolution. They were in the birth of COMIBOL, which for the past 40 years has been run by the state. The workers have had the right to veto decisions and participate in management. It is not easy for them to renounce these privileges.⁷²

Therefore, although Samuel Doria, minister of planning during the Paz Zamora regime, openly proclaimed that "the country's constitution will be changed within the next year to allow the corporation's full privatization,"⁷³ the Bolivian state never even tried to change the constitution, which prevents the full-privatization of COMIBOL's nationalized mines.

However, the FSTMB's persistent struggles against the rationalization of COMIBOL did not mean that the FSTMB was able to preserve its strong political and organizational power, which had climaxed during the UDP regime. With the completion of COMIBOL's rationalization, the political and organizational power of the FSTMB declined dramatically compared to that of the past period. Also, even before the rationalization of COMIBOL was implemented, the power of the FSTMB was weakened

⁷² *The Financial Times*, October 23, 1992.

⁷³ *The Financial Times*, September 3, 1992.

because its radical strategy was discredited in the eyes of the Bolivian public. Nevertheless, this is not to suggest that the FSTMB had become so negligible that the Bolivian state could implement the rationalization of COMIBOL without any political danger to the regime. The Bolivian state took advantage of the declining influence of the left including the FSTMB when it started to rationalize COMIBOL in 1985. Moreover, by abiding by the constitution, which prohibited the state from transferring ownership of COMIBOL's nationalized mines, the Bolivian state succeeded in separating the necessity of restructuring for money-losing COMIBOL from the issue of privatization. In other words, by means of the rationalization, the Bolivian state not only restructured the mining industry, but also weakened the most powerful opposition sector to the economic transformation process.

In conclusion, the miner's labor union was strong enough to deter the full privatization of COMIBOL, although both the economic crisis and the weakened organizational ability of the union forced the miners to accept the rationalization of COMIBOL. However, as I will analyze later, the strong anti-privatization struggles carried out by the miners during the rationalization of COMIBOL proved to be an important political seed that paved the way for the emergence of wide-ranging anti-privatization efforts in the late 1990s and the early 2000s.

The Left

In December 2005, the presidential candidate of the MAS (Movimiento al Socialismo), Evo Morales, won the election with a leftist platform that included more intervention by the state in the natural resource sector in Bolivia. The victory of Evo Morales and the MAS was overwhelming. Evo Morales did not need to be chosen by congress because he got an absolute majority in the popular vote. Moreover, the MAS swept the congressional elections by electing 72 (out of 130) deputies and 12 (out of 27)

senators. The advance of Evo Morales and the MAS in the 2005 election ended the so-called 1985 political system in which three major parties competed or cooperated with each other. However, the reemergence of the left in Bolivia was not totally unexpected. After the early exit of the leftist Siles Zuazo regime in 1985, the left in Bolivia kept trying to recover its political power by struggling against neoliberal economic reform. Thus, in spite of the expansion of neoliberal economic policies, the left succeeded in recovering its political power in both party politics and popular movements. Leftist political forces have taken the initiative with respect to the issue of state ownership of natural resources by consistently supporting outright nationalization. Here, I discuss how the left struggled and succeeded in consolidating its political power under neoliberal economic regimes. I pay particular attention to the role of the left in the rationalization of COMIBOL. My discussion deals mainly with leftist political parties and several conditions that determine the power of the left in Bolivia.

In a country with a long history of political instability, political parties in Bolivia did not develop into the ideal institutions suited for democracy. As McDonald and Ruhl argue, “they do exist, and a good many have been functioning for decades. But parties have generally had little success governing Bolivia or even in exerting political influence.”⁷⁴ That is, Bolivian political parties have functioned primarily as vehicles that captured and circulated state patronage among the dependent middle classes⁷⁵ rather than as institutions that linked the state and civil society. Nevertheless, as Gamarra and Malloy point out, political parties in Bolivia are not simply negligible:

Parties are a central feature of Bolivian political life not only in terms of recruiting future leaders but in terms of being the principal mechanism for bringing regimes into and out of existence. In Bolivia, political parties are the

⁷⁴ McDonald and Ruhl, 1989: p. 223.

⁷⁵ Gamarra and Malloy, 1995: p. 399.

source of the difficulties of governing, and they are as well the only real source of political solutions.⁷⁶

In sum, although they remained as one of the main actors in Bolivian politics, political parties in Bolivia did not perform terribly well. However, the weak performance of political parties improved somewhat after the restoration of electoral democracy in 1982. From 1982 onward, Bolivia enjoyed a comparatively long period of political stability. Although there was a constitutional crisis in both 1985 and 2003, the period between 1982 and 2002 can be recorded as a period in which “constitutional institutions become more firmly established and stability has resulted from a politics of consensus based on multiparty coalition governments.”⁷⁷ Under these circumstances, political parties in Bolivia have tended to supplant other old political actors –the labor union and the military--as the main power brokers⁷⁸ despite their still-limited influence.

After returning to electoral democracy in 1982, three types of political parties exercised power in Bolivian politics.⁷⁹ The first type was the pretransition parties: the MNR, the ADN (Acción Democrática Nacional), and the MIR (Movimiento de Izquierda Revolucionario). These three parties had some common roots. That is, all three parties not only found their origins before electoral democracy in 1982, but also dominated Bolivian politics after the transition. Therefore, Gamarra and Malloy characterized the Bolivian party system as a “three-party-dominant multiparty system.”⁸⁰ These three parties had somewhat different ideological orientations, although they tended to blur due to their participation in coalitions. The MNR, which had originated directly from the 1952 revolution, transformed its ideological orientation from state-centered capitalism

⁷⁶ Gamarra and Malloy, 1995: p. 399.

⁷⁷ Dormingo, 2001: p. 141.

⁷⁸ Dormingo, 2001: p. 141.

⁷⁹ I followed Dormingo’s classification in Dormingo, 2001.

⁸⁰ Gamarra and Malloy, 1995: p. 420.

based on revolutionary nationalism to neoliberal capitalism when President Paz Estenssoro implemented the NPE in 1985. The ADN, which had originated from the military right, represented right-wing interest groups. Finally, the MIR, which had tried to combine a socialist agenda with revolutionary nationalism since the 1970s, could be categorized as the center-left party until it allied with the ADN in the 1989 election. Once the MIR allied with the ADN in the 1989, it could no longer be characterized as leftist.

The second type of political party was neopopulist. In Bolivia, this type of party started to appear in the late 1980s when leftist parties stagnated because of the failure of the UDP regime. The neopopulist parties such as CONDEPA (Conciencia de Patria) and UCS (Unión Cívica Solidaridad) advanced in elections, especially among constituencies that were discontented with neoliberal economic policies. However, because their popularity was based on the personalized leadership figures or on posing as a simple alternative to the traditional parties, the neopopulist parties have become minor political partners of coalition or have dimmed out with the death of the popular leaders. Along with those two parties, the NFR (Nueva Fuerza Republicana) in the 1990s was also categorized as a neopopulist party.

The final type of political party are leftist parties. As a country that had achieved a popular revolution, Bolivia had a long history of leftist politics, although some parties represented a hybrid of leftist and populist tendencies. The UDP regime proved to be the first coalition comprised of major leftist parties. Centered by Siles Zuazo's MNRI (Movimiento Nacionalista Revolucionario de Izquierda), the UDP also included two main leftist parties: the PCB (Partido Comunista de Bolivia) and the MIR. However, the leftist parties were seriously discredited because of their mishandling of the economy during the UDP regime. When the Paz Estenssoro regime started to rationalize COMIBOL in 1985, the leftist parties were still a potent force, although they had not yet

recovered their former political power. During the period of rationalization (1985-2001), the following political parties could be categorized as leftist: the MIR (before 1989); the MBL (Movimiento Bolivia Libre, before 1993); the IU (Izquierda Unida); the MSM (Movimiento Sin Miedo); the PS (Partido Socialista); the PS-1 (Partido Socialista-Uno); the Eje (Partido Eje de Convergencia), and the MAS (Movimiento al Socialismo). This picture of the leftist parties remained the same until the MAS advanced in Bolivian politics, thanks to the emergence of various popular movements in the late 1990s.

Table 4-5. Composition of Congress, 1985-2002 (130 deputies; 27 senators)

Party/Front	1985	1989	1993	1997	2002
MNR	59	49	69	30	
MNR-MBL					47
ADN	51	46		43	5
AP (MIR/ADN)			43		
MIR	<u>16</u>	41		30	31
UCS			21	23	5
CONDEPA		10	14	22	
NFR					27
ARBOL			1		
MBL			7	5	
MIP					6
MAS					<u>35</u>
IU		<u>11</u>		<u>4</u>	
PS-1	<u>5</u>				
PS					<u>1</u>
Eje			<u>1</u>		
Others	26		1		

* Leftist parties are styled as bold, italic, and underlined.

Source: Corte Nacional Electoral.

As we can see in the table, over time the leftist parties weakened significantly. Particularly, during the period of the second rationalization of COMIBOL (1989-2001), the leftist parties did not have any meaningful presence in the national congress. However, the weakened power of the leftist parties in the national congress does not

mean that the Bolivian state handled the fate of COMIBOL easily. There are several reasons for this.

First, even though the leftist parties weakened, particularly in national elections, they did not disappear entirely. Especially during the first stage of rationalization, the MIR, as one of the major parties in Bolivia, remained a major obstacle to privatization. It not only managed to occupy significant seats in congress but also maintained its socialist agenda. As expected, from the beginning of the rationalization process, the MIR and other leftist parties opposed any change in the structure of COMIBOL.⁸¹

Moreover, during the second stage of the rationalization (1990-2001), leftist parties did not simply disappear, although the MIR did give up its socialist identity after making an alliance with the ADN. Despite their lack of presence in the national parliament, the leftist parties made a comeback in local politics. The emerging importance of municipal elections, which was accelerated by the Popular Participation Law in 1994, opened the way for the recovery of the leftist parties. In an environment of pervasive popular discontent with neoliberal economic policies and the traditional political parties, the new leftist parties sought to expand their influence by building upon new popular movements such as coca-producing peasants, indigenous-based political organizations, and grass-roots urban-based associations. In the 1993 and 1995 municipal elections, the leftist parties increased their vote from 5 percent to over 11 percent.⁸²

Meanwhile, the stagnation of leftist parties in congress during the periods of rationalization did not mean that the Bolivian voters rejected the left for their political ideology. In fact, Bolivia is one of the most left-leaning countries to have a high proportion of leftist voters. According to the Mirror on the Americas 1999 survey

⁸¹ *El Diario*, August 28, 1986.

⁸² Domingo, 2001: p. 147.

conducted by *The Wall Street Journal*, 35.1 percent of the Bolivian voters self-identify with the left, which is the second highest percentage among Latin American countries following Brazil. Also, according to the same survey, Bolivia records an average 4.83 points on a 0 to 10 political ideology scale in which 0 represents the left and 10 for right. In this category, Bolivia tops the list in Latin America. Thus, despite the stagnation of leftist parties in congress, the leftist political agenda was strong among Bolivian voters. Under these circumstances, both traditional parties and popular parties vied to absorb leftist voters, making it difficult to privatize COMIBOL. Furthermore, the high proportion of leftist voters ultimately led to the emergence of a new strong leftist party in Bolivian politics.

As a result, despite its lack of presence in national politics, the left was able to influence the process of rationalization. The leftist parties were not strong enough to block the rationalization of COMIBOL, but they were powerful enough to disrupt more radical proposals, like the full privatization of the nationalized mines. Meanwhile, gradual rise of the leftist parties culminated in the MAS's surprising success in the 2002 election. As I mentioned earlier, though, the strength of the leftist parties alone cannot explain why the Bolivian state rationalized COMIBOL.

Other features of the Bolivian party system influenced mining policy. First, the advance of the neopopulist parties helped obstruct the privatization of COMIBOL. As these parties have constituencies among the lower and more marginalized sectors of society, their advance in the elections meant that the traditional parties (which tend to be pro-neoliberal policy) did not fill the space created by the poor performance of the leftist parties. Moreover, the neopopulist parties proved to be a great help for the opposition.

For example, faced with the new mining law in 1991, CONDEPA actively participated in the opposition bloc led by two leftist parties--the MBL and the IU.⁸³

Table 4-6. President Elected and Coalition, 1982-2002

Year	President Elected	Coalition
1982	Hernán Siles Zuazo (MNRI)	MNRI/PCB/MIR (<i>Unión Democrática Popular</i>)
1985	Víctor Paz Estenssoro (MNR)	MNR/ADN (<i>Pacto por la Democracia</i>)
1989	Jaime Paz Zamora (MIR)	MIR/ADN (<i>Acuerdo Patriótico</i>)
1993	Gonzalo Sánchez de Lozada (MNR)	MNR/MBL/UCS (<i>Pacto de la Gobernabilidad & Pacto por el Cambio</i>)
1997	Hugo Bánzer Suárez (ADN)	ADN/CONDEPA/MIR/UCS (<i>Megacoalición</i>)
2002	Gonzalo Sánchez de Lozada (MNR)	MNR/MIR/UCS (<i>Plan Bolivia de Responsabilidad Nacional</i>)

Source: Created by the author based on Dunkerley, 2000; Singer and Morrison, 2004; and other sources.

Second, the coalition politics that characterized Bolivia may also have prevented the Bolivian state from fully privatizing COMIBOL's nationalized mines. As a consequence of the specific constitutional rules of Bolivia's hybrid presidential system, party pacts or coalitions in congress are essential not only to winning the presidency but also to establishing stable governance. Therefore, since 1985, coalitions have been an important part of Bolivian party politics. In fact, the pact between the MNR and the ADN played an important role in implementing both the NPE and the rationalization of COMIBOL during the Paz Estenssoro regime. Furthermore, various coalitions and pacts enabled the Bolivian state to pass several important bills to proceed with the second stage of the rationalization of COMIBOL during the 1990s.

However, with regard to the full-privatization of COMIBOL, the governing coalition represented an obstacle since it made it difficult to win enough supporters in congress to amend the constitution, which prohibited COMIBOL's nationalized mines from being privatized. In other words, the governing coalition helped secure a majority of

⁸³ *Presencia*, April 5, 1991.

seats in congress to pass normal legislation like the mining law, but it made it more difficult to enact constitutional amendments. In fact, under coalition politics, opposition parties, regardless of their ideology, tended to oppose the policy of the governing coalition, although they had supported it as members of previous governing coalitions. For example, the MIR opposed the new mining law of 1997, although the main feature of the mining law of 1997 were introduced by the MIR-led government in 1991.

In conclusion, several features of party politics in Bolivia led the Bolivian state to rationalize COMIBOL rather than fully privatize it. Despite its weakened power in national elections, the left managed to block full-privatization of COMIBOL due to: (1) the high proportion of leftist voters; (2) the advance of neopopulist parties that sometimes allied with the left; and (3) the nature of coalition politics in Bolivia. As a result, the left (which had leftover power from the past and potential power from developing constituencies) was able to prevent COMIBOL from being fully privatized, although it could not derail the rationalization process itself.

Public Opinion

The birth of COMIBOL was a direct result of the Bolivian national revolution of 1952, which proved to be a historic watershed of Bolivian modernization. The 1952 revolution not only gave birth to COMIBOL, but also created strong public sentiment against the privatization of public mineral resources. As a result, after the 1952 revolution, the term privatization was taboo in Bolivia. For example, when President Sánchez de Lozada implemented public enterprise reform in 1994, he had to call the reform capitalization instead of privatization in order to avoid unnecessary animosity.⁸⁴ Under these circumstances, public opinion about the COMIBOL privatization was strongly negative. The lack of a direct survey hampers more accurate analysis, but I look

⁸⁴ *The Economist*, March 26, 1994.

here at some public opinion poll results about privatization in general. A Latinbarometer poll from 2002 shows that around 72 percent of Bolivian interviewees expressed some or strong disagreement to the privatization of public enterprises. The number would surely be even higher if we looked at public opposition to privatization in the mineral sector. According to a 1996 poll conducted by a Bolivian university and cited by the U.S. Embassy's *International Market Insights*, 78 percent of respondents opposed the privatization of YPFB, the Bolivian petroleum public enterprise.⁸⁵

The historical heritage of COMIBOL created by the 1952 revolution not only created strong public opposition to the privatization of COMIBOL but also granted constitutional status to the nationalized COMIBOL mines. In fact, the constitution itself is another important reason why the Bolivian state opted to rationalize COMIBOL rather than to privatize it. Even though the MNR was a main proponent of the NPE, including the rationalization of COMIBOL, it was not totally free from the legacy of the events of 1952 because of its main protagonist role in the revolution and in the nationalization of COMIBOL. Mario Barrientos Siles, president of COMIBOL, acknowledged this legacy:

The nationalization of mines, an irreversible event with profound roots, done by social transformation that brewed persistent and heroic struggles of miners and the revolutionary insurgency of Bolivian people united in the nationalist process of April 1952 is of transcendental importance for COMIBOL, created by supreme decree in 2 of October, 1952, as an organism specialized with integral attributions in the administration of the patrimony of the country. Now, by constitutional mandate of the government, it is projected to go through structural changes by means of organizational decentralization of its companies.⁸⁶

As the minister of mines and metallurgy during the Paz Estenssoro regime, Jaime Villalobos also pointed out the role of the constitution in COMIBOL's rationalization:

The government has taken a reduction route to solving the problems, because it cannot denationalize government-owned mines.

⁸⁵ *Chronicle of Latin American Economic Affairs*, Vol. 11, No. 16, April 18, 1996.

⁸⁶ *Presencia*, October 31, 1985.

Villalobos said reprivatization of state mines is impossible because of prohibitions in the 1952 Constitution against selling off any nationalized property.

“But we by no means discount the possibility of renting properties or turning them into cooperatives,” he said.⁸⁷

In conclusion, the legacy of the 1952 revolution and the subsequent constitutional guarantee of COMIBOL’s nationalized mines turned public opinion against the privatization of public mineral enterprises. Also, the constitutional status of COMIBOL’s mines per se made it easier for the opposition to block privatization.

The Military

In the process of the rationalization of COMIBOL, the military was the most interesting sector. The military in Bolivia had been one of the most important political actors before the restoration of electoral democracy in 1982. After experiencing quasi-dissolution⁸⁸ in the 1952 revolution, the Bolivian military was reorganized by the revolutionary leaders of the MNR to counter growing labor power. Nevertheless, like the labor union, the military in Bolivia gradually became an independent source of institutional power.⁸⁹ Ultimately, the military came to rule Bolivia for two decades.

From 1964 and 1982, Bolivia was ruled by a variety of military leaders. While military governments followed the general scheme of state-centered development strategy introduced by the MNR, they differed from one another in terms of ideology and generations.⁹⁰ As in other Latin American countries, the military in Bolivia generally supported an economic policy based on the idea of nationalism and national security. The military thought that various sectors of the national economy, such as the natural resource sector, were important for defense against external enemies. Therefore, it was not

⁸⁷ *American Metal Market*, July 16, 1986.

⁸⁸ Rouquié, 1987: p. 321.

⁸⁹ Malloy and Gamarra, 1987: pp. 94-95.

⁹⁰ Gamarra, 1998: p. 72.

surprising that Bolivia's military leaders, General Alfredo Ovando Candia (1969-1970) and General Juan José Torres (1970-1971), nationalized the Bolivian Gulf Oil Company in 1969 and the Mathilde zinc mines in 1970, respectively. In addition, Hugo Banzer created the COFADENA (La Corporación de las Fuerzas Armadas para el Desarrollo Nacional) in 1974 to administer various military public enterprises. Meanwhile, the Bolivian military became involved in national politics based on the belief that the military, as an institution, had a mission to maintain social peace and order. Throughout modern history, the Bolivian military actively participated in the nation's social and political conflicts by acting as an arbiter or by lending support to particular social groups or forms of social order.⁹¹

Table 4-7. Defense Expenditure of Bolivia, By Central Government, 1975-1999

(% of Total Expenditure)												
1975	1980	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
17.60	n/a	5.4	14.1	13.1	9.77	8.20	8.23	8.42	7.23	8.26	9.60	7.68

Source: figures from ECLAC. 2002. *Statistical Yearbook for Latin America and the Caribbean*, Santiago, Chile: p. 979.

After the restoration of electoral democracy in 1982, like the labor union, the military was weakened and discredited because of the human rights abuses and abysmal economic performance that occurred under military rule. Moreover, the economic crisis of the mid-1980s and resultant implementation of the NPE reduced the resources available to the military. As we can see in the table, the military budget in Bolivia plummeted from 17.6 percent in total government expenditure in 1975 to 5.4 percent in 1985. As a result, as Malloy and Gamarra⁹² argue, the Bolivian military became a neutralized political force that was forced to adapt to electoral democracy. However, this did not mean that the military in Bolivia gave up its nationalist ideas and its self-

⁹¹ Barrios, 1989: p. 190.

⁹² Malloy and Gamarra, 1988: p. 248.

conception as a protector against social disorder. Even though the Bolivian military was no longer likely to carry out a military coup, it was still one of the major political institutions in Bolivia. There are a number of reasons why this was the case.

First, under civilian regimes, the military could keep assuming its role as a protector against social disorder. When the civilian regime implemented neoliberal economic policies such as the NPE, it had to resort to military force in order to break the popular resistance to these policies and to restore social order. For example, during the Paz Estenssoro regime, “the military applauded the imposition of the state of siege, the imprisonment of labor leaders, and the military occupation of strategic industrial zones.”⁹³ Indeed, the civilian regime could not do away with the military because it relied on military force in a country where labor and popular movements were still powerful enough to disrupt its project. As a result, the military in Bolivia was guaranteed its institutional power in return for helping the civilian regime implement its economic policy.

Second, the strong anti-drug policies backed by the United States proved helpful to the Bolivian military. In the mid-1980s, “Bolivia had become the third most significant producer of cocaine hydrochloride and the second producer of coca leaves in the world.”⁹⁴ In this context, drug policy became an important determinant of U.S.-Bolivian relations. Beginning in 1983, the Bolivian state agreed both to eradicate coca and carry out interdiction in exchange for economic assistance and counter-narcotics aid from the United States.⁹⁵ By the end of the 1990s, Bolivia had become not only the largest recipient of U.S. counter-narcotics assistance in Latin America, but also a country which

⁹³ Barrios, 1989: p. 200.

⁹⁴ Gamarra, 1998: pp. 75-76.

⁹⁵ Gamarra, 1998: p. 76.

allowed U.S. military personnel to participate in drug policy enforcement.⁹⁶ In fact, during his visit to Washington in 1990, President Jaime Paz Zamora agreed to let armed forces take part in drug control in exchange for a promise of some US\$35 million in military aid.⁹⁷ In this context, as we can see in the table 4-7, the Bolivian military raised its expenditures from 5.4 percent of total government expenditures in 1985 to 14.1 percent in 1990, before stabilizing at 7 to 9 percent during the 1990s.

As a result, in spite of the constant human rights violations charged by the coca farmers, the militarization of drug enforcement enhanced the status of the Bolivian military from both an economic and a political perspective. In other words, as Youngers argues, the Bolivian military was “eventually enticed with economic and political backing offered by Washington, and found in the drug war a convenient *raison d’être* for maintaining troop levels, budgets and political influence.”⁹⁸

Table 4-8. Statistics of Bolivian Military, 1985-1995

Year	Military Expenditure (US\$ million)	Armed Forces (Thousand)	GDP (US\$ million)	Military Expenditure/GDP %	Military Expenditure/ Central Government Expenditure %	Military Expenditure per Capita	Soldiers per 1,000 Population
1985	n/a	28	4,021	n/a	n/a	n/a	4.8
1986	132	30	3,953	3.3	22.6	22	5.1
1987	185	30	4,138	4.5	33.5	31	5.0
1988	185	28	4,308	4.3	27.7	30	4.6
1989	162	30	4,453	3.6	21.5	26	4.8
1990	166	30	4,707	3.5	18.8	26	4.7
1991	128	33	4,945	2.6	14.0	20	5.1
1992	112	32	5,142	2.2	9.4	17	4.8
1993	130	32	5,347	2.4	9.4	19	4.7
1994	137	28	5,591	2.4	9.6	20	4.1
1995	132	28	5,810	2.3	9.5	19	4.0

Source: ACDA (Arms Control and Disarmament Agency), 1996, *World Military Expenditure and Arms Transfers*, Washington D.C.

⁹⁶ Gamarra, 1998: p. 76.

⁹⁷ Kawell, 1991.

⁹⁸ Youngers, 2001: pp. 19-20.

Under successive civilian regimes, the military supported the main features of the neoliberal economic policy, including the restructuring of COMIBOL, because it believed that economic stability was important to maintain social peace and order. However, its support was contingent upon idea that the neoliberal policies would not harm national interests or national security. Two incidents illustrate the military's position with regard to the neoliberal economic policies. First, the military resisted the privatization of military-operated public enterprises, arguing that those enterprises had been beneficial for national security. According to the military leaders,

It is not acceptable – from the point of view of military doctrine – that some companies of the military sector that complete its strategic missions become privatized by the government.⁹⁹

Second, when political leaders began to study the prospects of greater economic cooperation with Chile, military leaders in Bolivia not only criticized the civilian leaders, but also moved to the verge of insubordination. The military leaders argued in a public announcement that “territorial disagreements would have to be resolved before economic negotiations could take place.”¹⁰⁰

In this sense, even though the military was supportive of the main features of the rationalization of COMIBOL, it opposed some measures related to national security. For example, the military expressed discontent with the decision to lift most restrictions on mining in state reserve lands in 1986. Also, the military opposed the new mining law, particularly the clause permitting foreign investment within fifty kilometers of the frontier. During the congressional discussion of the new mining law in 1991, which permitted foreign investment within fifty kilometers of Bolivia’s international

⁹⁹ *La Razón*, July 30, 1992. cited in Barrios M. 1994: p. 82.

¹⁰⁰ Foreign Broadcast Information Services, February 10, 1993, and June 28, 1993, cited in Arceneaux, 1999: p. 106.

boundaries, Colonel José Balderrama, director of mines and metallurgy of the COFADENA, argued,

Regarding the area of fifty kilometers, we believe that it has geopolitical meaning. It is not possible, due to the characteristics of Bolivia, to open the borders to neighboring countries or other countries which are interested in the extraction of our natural resources. On one hand, we have borders with five countries; on the other hand, we have resources precisely in the border area. We are an uninhabited country. We do not have enough population and it is our interests to be very careful when it is in our natural resources in the border area.¹⁰¹

In conclusion, even under the civilian regime, the military in Bolivia has managed to preserve its institutional power thanks mainly to the repression necessary to carry out both the economic restructuring program and the drug enforcement policy. Because of its nationalistic ideas and its concern for national security, the military in Bolivia assumed the role of the ultimate protector of an important national resource with regard to the reform of COMIBOL. Without a doubt, according to the Bolivian military, the privatization of the nationalized COMIBOL's mines could harm national security.

To conclude, the evidence shows that three main actors--the labor union, the left, and the military—assumed an important role in preventing the full-privatization of COMIBOL. Although these three actors lost some of their political power compared to the past, they were still powerful enough to prevent the Bolivian state from privatizing this important natural resource. In addition, the nationalization of COMIBOL in the 1952 national revolution played an important role in creating public opposition toward the privatization of COMIBOL. As a result, the Bolivian state never even tried to amend the constitution that prohibited the full-privatization of COMIBOL's nationalized mines.

¹⁰¹ INFORME "R", No. 204, Year X-October I, CEDOIN, La Paz, 1990: p. 9. Cited in Barrios M. 1994: p. 84, footnote 19.

However, the comparatively weakened power of the opposition and the poor economic performance of COMIBOL led the Bolivian state to rationalize COMIBOL.

REEMERGENCE OF OPPOSITION AND CHANGE OF RATIONALIZATION

The completion of the rationalization of COMIBOL in 2001 did not mean the end of the story. In this section, I will analyze recent political developments in Bolivia and how they affected the rationalization of COMIBOL. It is worthwhile to look at further developments because it confirms the main argument of this research that both the political opposition and economic performance of a public enterprise are the main determinants of whether that enterprise is privatized. Furthermore, in this section, I will suggest that both strong political opposition and high economic benefits can even reverse the tendency of privatization by forcing the state to accept re-nationalization.

In the 2002 election, the MAS, an avowed socialist party headed by a coca grower (*cocaleros*) leader, Evo Morales, astonished the world by winning second place in the presidential election and garnering one-third of the congressional seats.¹⁰² The surprising advance of the MAS was the culmination of persistent struggles among various social forces in the 1980s and 1990s and heralded the increased influence of popular movements in the 21st century. The success of the MAS was due mainly to the negative impact of the neoliberal economic restructuring policies during the 1980s and the 1990s. First of all, contrary to its promise, as a result of more than eighteen years of neoliberal economic policies, “Bolivia has become one of the most socially and economically unequal societies in Latin America, as measured by the Gini index.”¹⁰³ That is, in spite of its success in containing hyperinflation and stabilizing macroeconomic indicators, dismantling the state-centered economy did not result in the reduction of poverty, nor in

¹⁰² Singer and Morrison, 2004.

¹⁰³ Healy, 2004: p. 28.

the creation of more viable employment for the poor. Rather, it wiped out the few remaining fruits of the state-centered economy: high public employment, some degree of labor protection, a measure of economic sovereignty, partial protection for domestic industry, and agricultural protection.¹⁰⁴

In this context, social forces tried to overcome lasting and increasing social economic inequality and insecurity through various forms of struggles and alternative forms of living. Indeed, along with established popular movements like the labor unions, important new popular movements based on various classes and identities have emerged both in rural and urban areas, such as the coca producer movement, urban and rural indigenous movements, and community unions and neighborhood organizations. For example, the militarization of coca enforcement led the coca producers to organize themselves into a militant resistance groups. In fact, thousands of relocated miners moved to the coca-growing region after they lost their jobs, and formed unions of coca growers. Two struggles before the 2002 election were particularly important: the so-called “water war” from February to April 2000 in Cochabamba and a month-long road blockade throughout the country from September to October 2000.

The successful election results of the MAS in 2002 were a omen of the political upheaval of 2003, particularly the so-called “gas war” that led to the ouster of President Sánchez de Lozada in September and October 2003. As with the nationalized mines of COMIBOL, the constitution affirms the legal ownership of the state of the gas deposits although it allows the participation of private capital in exploration, exploitation, and transportation in the hydrocarbon sector,. According to Article 139 of the constitution:

All hydrocarbon deposits, in whatever condition or form they are found, fall within the direct, inalienable, and imprescriptible domain of the government. No concession or contract can confer ownership of the hydrocarbon deposits. The

¹⁰⁴ Cusicanqui, 2004: p. 20.

right to explore and exploit the hydrocarbon fields and market the product thereof is exercised by the government through YPFB. This government-owned company will necessarily execute joint-risk contracts of limited duration with individual or legal entities, whether Bolivian or foreign nationals, for the exploration, exploitation, and marketing of hydrocarbons, pursuant to the provision of this law.¹⁰⁵

Under this scheme, foreign investment in the natural gas industry cannot claim absolute ownership of natural gas, although the hydrocarbon law (No. 1689) approved by Sánchez de Lozada in 1996 effectively invalidated the constitution.¹⁰⁶ Therefore, as long as they pay comparatively modest royalties, foreign companies may gain profits from their Bolivian natural gas investments. As a result, some twenty foreign companies have invested US\$3.5 billion in exploration, discovering more than fifty-five trillion cubic feet of gas valued between US\$70 billion and US\$210 billion.¹⁰⁷ For many Bolivians, the value of the natural resources is too great and the country is too poor to allow them to be monopolized by foreign interests. In September 2003, when President Sánchez de Lozada tried to complete a deal to export natural gas through a Chilean port to California, many popular organizations resisted the plan through massive protests, including strikes, marches, hunger strikes, and road blockades. Faced with a popular uprising, the Sánchez de Lozada regime responded with repressive measures resulting in the death of more than forty-five protesters. Ultimately, the popular sectors “converged around the same demands: the resignation of Sánchez de Lozada and his ministers, a trial to punish those responsible for state violence against the unarmed civilian population, a national referendum on how to develop the country’s natural gas reserves, the formulation of a new Hydrocarbons law and the convening of a Constitutional Assembly.”¹⁰⁸ Finally, on

¹⁰⁵ Congreso Nacional de Bolivia, *Constitución Política del Estado*, 1967 and 1995.

¹⁰⁶ Villegas Quiroga, 2002: pp. 31-35.

¹⁰⁷ *The Associated Press*, July 20, 2004; *Business Day*, July 20, 2004.

¹⁰⁸ Hylton and Thomson, 2004: p. 15.

October 17, 2004, as 500,000 protesters gathered in the Plaza Murrillo in La Paz, Sánchez de Lozada resigned and flew to Miami.

Subsequently, in a referendum held in July 2004, the Bolivian people approved increased state involvement in the natural gas industry, although the ultimate destiny of the natural gas industry (including the rationalized state enterprise YPFB) will depend on further struggles inside and out of congress. The popular struggle and subsequent decision of the Bolivian state to increase its involvement in the natural gas industry is a clear example of how both political factors and economic benefits determine the destiny of natural resources. In other words, both strong political opposition to privatization of the gas industry and the high economic benefits of this industry led the Bolivian state to reclaim --in the form of renationalization-- an important natural resource.

Meanwhile, flourishing popular movements not only emboldened the opposition to neoliberal economic policies in Bolivia, but also changed the direction of COMIBOL's rationalization. The first change happened in the Huanuni mine in May 2002. As one of the most profitable mines of COMIBOL, the Huanuni mine was administered by the London-based RBG Resources (ex Allied Deals) via a thirty-year joint venture contract. However, when RBG Resources declared bankruptcy amid accusations of financial mismanagement, the miners in Huanuni occupied the mine, demanding the reintervention of the state. Backed by a strong civic organization called the Committee in Defense of Oruro's Patrimony (*el Comité de Defensa del Patrimonio de Oruro*), the miners carried out strikes and road blockades for about a month. In the end, the Bolivian state assumed the administration of the Huanuni mine through COMIBOL's intervention, in spite of the fact that the mining law prohibited COMIBOL from being involved in production. On July 24, 2002, as the miners held a vigil in front of the parliament building, congress

approved the changes to the mining law of 1997, restoring the right of the state-owned mining enterprise COMIBOL to control day-to-day operations of the mines.¹⁰⁹

COMIBOL's intervention in the production of Huanuni proved to be a huge victory in the opposition fight against privatization, not only because it recovered one of the profitable mines from private hands, but also because it reestablished the legal right of COMIBOL to explore and exploit mines. According to Miguel Zuvíeta, executive secretary of the FSTMB, the promulgation of the new mining law (Law No. 2400) was an "important achievement and unprecedented." He added, "The nationalization of Huanuni permits that 100 percent of the foreign exchange from mineral exports of this company will stay in the nation."¹¹⁰ The recuperation of the Huanuni mine signaled a change in the rationalization of COMIBOL, which was believed to be completed in 2001. Although the Huanuni mine had registered deficits of more than US\$1.8 million during the eight-month period in which it was administered by RBG Resources, it recorded US\$603,910 in profits for three months under COMIBOL.¹¹¹

On May 4, 2004, amidst a boiling debate over the issue of the natural gas nationalization, some seven hundred unemployed cooperative miners occupied the Caracoles mines (the third largest tin producer in Bolivia), expelling the miners of Barrosquira, a private company that had assumed Caracoles via a twenty-year joint-venture contract with COMIBOL. The cooperative miners who were from near the Argentina mine, a cooperative mine rented from COMIBOL, demanded that the state not only rescind the joint-venture contract with Barrosquira, but also transfer Caracoles to them because their Argentina mine had run out of deposits. However, unlike the case of Huanuni, the conflict in Caracoles was complex because there were so many actors

¹⁰⁹ BBC News, July 29, 2002; *La Razón*, July 25, 2002.

¹¹⁰ Econoticiasbolivia.com, June 2, 2004.

¹¹¹ *La Razón*, December 12, 2002.

involved in the matter. Particularly, the conflict between the FSTMB on behalf of the expelled Barrosquira miners and the Fencomin on the part of the cooperatives hindered a rapid solution. Also, the emboldened opposition to privatization after the gas war put the state in a difficult position.

On June 14, 2004, faced with more than a two-month-long struggle by both the cooperatives and the Barrosquira miners to defend their employment, the Bolivian state decided to intervene in another rationalized mine, which was claimed by the miners as nationalization. On June 30, 2004, the Bolivian state promulgated Supreme Decree No. 27603 to create the Caracoles Productive Unity as a dependent company of COMIBOL. The new production unit will offer employment to both the cooperative miners and the former Barrosquira miners. In addition, it is believed that recent rise in the world tin price contributed to the decision of COMIBOL to create a new production unit under its control.¹¹² The state's intervention in the Caracoles mines thus supports the arguments of this study. That is, the state chose not to privatize when there was high political opposition to privatization of a public enterprise and that enterprise generated high economic benefits.

The state's intervention in the Caracoles mines, along with the Huanuni mine in 2002, made a huge impact on the direction of the rationalization of COMIBOL. As an official of COMIBOL admitted, "COMIBOL tended to return (to) a production company again."¹¹³ In sum, both the Huanuni and Caracoles cases suggest that the combination of high political opposition to privatization and high economic benefits from state enterprises lead the state to choose not to privatize nationalized assets. Furthermore, as both cases show, the combination of high political opposition and high economic benefits

¹¹² IPS-Inter Press Service, April 24, 2004.

¹¹³ Business News Americas, September 1, 2004.

tend to lead to the re-nationalization of a public enterprise if the company is in private hands.

CONCLUSION

The COMIBOL case confirms one of the arguments of this research that high political opposition toward the privatization of a public enterprise along with few economic benefits stemming from that enterprise leads to its rationalization. Throughout the process, economic benefits were the most important variable that determined whether some type of restructuring should be implemented or not. The low economic benefits of COMIBOL not only led to the implementation of the initial restructuring program of the company, but also led to a second rationalization process. In other words, the Bolivian state could not sustain COMIBOL as a public enterprise due to its money-losing situation. By introducing the joint venture contract with private capital, the Bolivian state deepened the rationalization process of COMIBOL because of both the disappointing results of the first stage of rationalization and the need for private investment in the nationalized mines.

The COMIBOL case shows that political variables were important to determine the destiny of a public enterprise. In Bolivia, all three possible opposition sectors--the labor union, the left, and the military--showed strong opposition to the privatization of COMIBOL. At first, the labor union, particularly the FSTMB, was one of the strongest opponents of the privatization of the nationalized mines as well as of the rationalization of COMIBOL. The FSTMB (the miners' union) was one of the most powerful political actors in Bolivian history. Its opposition not only limited the Bolivian state's options vis-à-vis COMIBOL's restructuring program but also protracted the process of rationalization. In the end, the miners' union proved to be strong enough to deter full-privatization of COMIBOL, although both economic crisis and weakened organizational

power forced the miners' union to accept the rationalization of COMIBOL. Meanwhile, the Bolivian case also shows how the power of other popular movements also affected the reform process. In Bolivia, both civic committees and the cooperatives' federation impacted greatly on the issue of natural resource privatization.

The left also influenced the decision of the Bolivian state to rationalize COMIBOL rather than to fully privatize it. The Bolivian case shows that the presence of the leftist parties in congress helped prevent the Bolivian state from privatizing COMIBOL, particularly during the first stage of the rationalization process. In addition, other features of Bolivian party politics (such as the high proportion of leftist voters, coalition politics, and the advance of the neopopulist parties) assumed an important role in preventing full-privatization of COMIBOL. Meanwhile, as the Bolivian case highlights, both the legacy of the 1952 national revolution and the constitutional status of COMIBOL contributed to opposition against the privatization of these important natural resources.

The Bolivian case confirms that the military can be a political determinant of privatization. Even under the civilian regime, the military in Bolivia had managed to preserve its institutional power, thanks mainly to the repressive character of both the economic restructuring program and the drug enforcement policy. Even though the Bolivian military helped the Bolivian state implement neoliberal economic policies, it still opposed full-privatization of important natural resources. Because of its nationalistic ideas and its concern for national security, the military in Bolivia helped block the government's plan to privatize its natural resources.

Meanwhile, the Bolivian case also verifies another hypothesis of the research that high political opposition with high economic benefits of a public enterprise leads to no-privatization. Both political upheaval and the reintervention of the state in the

rationalized mines of COMIBOL in the 2000s show that the combination of both high political opposition and high economic benefits of a company could reverse the process of privatization or rationalization if the company is in private hands. Moreover, both developments in the 2000s support this chapter's main argument. The combination of high political opposition and low economic benefits led to the rationalization of COMIBOL.

CHAPTER 5: DISCUSSION AND CONCLUSION

INTRODUCTION

This study aims to develop a theory of public enterprise reform. Unlike other research on the privatization of public enterprises, this study considers various kinds of public enterprise reform. I conceptualize four types of public enterprise reform in terms of the degree of state and private involvement in the ownership and management control of the public enterprise: No-privatization, Rationalization, Semi-privatization, and Full-privatization. My attempt to conceptualize various types of public enterprise reform proves successful because it helps to account for the range of variation across cases. In order to explain this variation, this study searches for both economic and political determinants. As a result, it sheds light on the economic and political determinants of public enterprise reform and enables us to establish a dynamic theory of public enterprise reform. The cases in the Latin American mineral sector demonstrate that the combination of both economic benefits and the power of political opposition to privatization determines the type of public enterprise reform. The degree of economic benefits and the power of political opposition to privatization varies in each case. Therefore, this study finds that the state implements certain types of public enterprise reform based on the competition of social forces and economic efficiency.

This chapter begins with a comparative review of the three public enterprise reforms discussed in the earlier chapters. The three Latin American public enterprise reforms in the mineral sector not only represent different types of public enterprise reform, but also become a useful guideline for the region's public enterprise reforms. The next section contains a brief analysis of other important public enterprise reform cases in the Latin American mineral sector. By looking at other public enterprise reform cases in

the Latin American mineral sector, I examine the broader applicability of my theory. In the final section, I generalize my argument and discuss the implications of my theory.

COMPARING THE CASES

The three cases in earlier chapters show clear differences with regard to the effects of both political and economic determinants on each type of public enterprise reform. The three cases represent variance in public enterprise reform: No-privatization, Full-privatization, and Rationalization. The comparative analysis of the three cases in this chapter highlights the causal effects of the independent variables on the dependent variable.

The three cases confirmed that the economic benefits of public enterprises greatly affected the decisions on public enterprise reform. Economic benefits denote the microeconomic performance of a public enterprise as well as its contribution to the macroeconomic performance of the national economy. Low economic benefits of a public enterprise led the state to decide some types of reform that required change of the ownership and/or management control. On the contrary, the state did not need to privatize a public enterprise that showed good economic performance and impacted positively on the national economy.

Table 5-1. Determinants of Public Enterprise Reform in Chile, Argentina and Bolivia

	CODELCO (Chile)	YPF (Argentina)	COMIBOL (Bolivia)
The Type of Reform	No-Privatization	Full-Privatization	Rationalization
Economic Benefits	High	Low	Low
<i>Fiscal Balance</i>	Surplus	Deficit	Deficit
<i>Contribution to Tax Revenue</i>	High	Low/Medium	Low
<i>Contribution to Export</i>	High	Low	Low/Medium
<i>Debt Ratio</i>	Low	High	High
Political Opposition	High	Low	High
<i>The Labor Union*</i>	Strong	Weak	Strong
<i>The Military</i>	Strong	Weak	Strong
<i>The Left</i>	Strong	Weak	Strong
Leftist Parties	Strong	Weak	Medium
The Strength of Leftist Voters	High	Low	High
<i>Public Opinion on Privatization</i>	Strongly Oppose	Mixed	Strongly Oppose
Constitutional Restrictions on Privatization	Yes	No	Yes

* Autonomous Power

Among the three cases, CODELCO of Chile has shown the highest degree of economic benefits. Surprisingly, CODELCO has never recorded deficits in operating income since it was nationalized in 1971. Also, CODELCO has been the biggest exporter as well as the biggest taxpayer in Chile. Furthermore, unlike YPF, the presence of CODELCO in the market did not distort the Chilean copper market. Therefore, neither the military nor the Concertación regime had an economic reason to privatize CODELCO.

Meanwhile, both YPF of Argentina and COMIBOL of Bolivia yielded low economic benefits, which proved to be an important reason for a reform, requiring change of ownership and/or management control. In the case of Argentina, the domestic petroleum market monopolized by YPF became so ineffective that the Argentine state could not sustain it any more. Also, the meager export contributions of YPF lowered its economic importance to the national economy in the middle of the currency crisis. Therefore, in the effort to privatize YPF, the Argentine state transformed the petroleum industry in which YPF had functioned not as an enterprise but as a state agency. The state also pursued the collection of revenue from the sale of the company in order to compensate public debts.

In Bolivia, the low economic benefits of COMIBOL that led to the rationalization stemmed from several factors: 1) the declining importance of tin, 2) the collapse of world tin prices in 1985, and 3) the high production cost of Bolivian tin. Despite a comparatively high proportion of COMIBOL's contribution to total exports, the Bolivian state needed to rationalize it because COMIBOL's deficit became the greatest burden to the national economy.

The three cases also demonstrate that the scope of political opposition to privatization determined the type of public enterprise reform. Along with the strength of

public opposition, the power of the three main political opponents to the privatization--the labor union, the left, and the military--explain different results of public enterprise reforms. The state must overcome political opposition when it proposes and implements a public enterprise reform, particularly privatization. Different political settings yielded various mixtures of political determinants across public enterprise reforms and across countries.

In Chile, under the military regime, the military itself was the strongest political force to determine economic policy while popular political forces such as the labor union and the left exerted limited power. Several reasons explain the military's opposition to the privatization of CODELCO. First, during the military regime, the military feared losing its controlling power over the economy as a result of privatization. Second, the military considered CODELCO to be a strategic industry for national security. Finally, the military had direct economic interests in CODELCO because it received 10 percent of CODELCO's total copper sales. Under electoral democracy, three powerful political forces--the left, the copper labor union, and the military--effectively deterred CODELCO from privatizing. With the return to democracy, the left recovered its political power and greatly influenced opposition to the privatization of CODELCO. As a main protagonist in the process of democratization, the copper labor union maintained its political power in spite of the downturn of labor movements in Chile.

In Bolivia, the state was not able to sustain COMIBOL without a reform, but it could not overcome strong opposition to privatization. The labor union of COMIBOL, the FSTMB, was the most persistent opponent to privatization. Also, the left helped veto to privatization. As with the CODELCO case in Chile, constitutional restriction on privatizations and the high proportion of leftist voters in Bolivia helped enhance the power of the left. The powerful military was also ready to oppose the full-privatization of

an important natural resource, tin, believing that privatization could be a threat to the national security.

In Argentina, no political opponent had enough power to derail the full-privatization of YPF. Unlike in Chile, neither the left nor the military were able to veto policies thanks to the effective leadership of President Menem and the Peronist party. The petroleum labor union also proved to be a weak opponent because of its lack of autonomy. As a longtime political partner of the ruling Peronist party, the leaders of the petroleum union accepted privatization in return for the organizational survival of the union and some economic rewards. The Argentine case also demonstrates that the country's macroeconomic situation and political events affect the timing of public enterprise reform, although they do not determine the type of reform.

The three cases also show that the strength of public opinion against privatization, which was influenced by the nationalization process, also shaped reform outcomes. That is, the major political events that surrounded the nationalization process, such as the socialist experience in Chile and the 1952 national revolution in Bolivia, strengthened public opposition to the privatization of important public enterprises.

Finally, the three cases showed that some institutional features such as the existence of constitutional restrictions on privatization also change the degree of political opposition to privatization. That is, constitutional restrictions on privatization bolstered political opposition to privatization in Chile and Bolivia, while no constitutional rules regarding on YPF weakened the negotiating power of the opposition in congress.

OTHER CASES

Both economic benefits and the scope of political opposition to privatization determine the type of public enterprise reform. To explore the broader applicability of my theory, in this section I discuss other important public enterprise reform cases in the

mineral sector. In so doing, I focus my discussion on two important public enterprise reforms in the Latin American mineral sector: PEMEX of Mexico and CVRD of Brazil.

Many Latin American states chose not to privatize their important public enterprises in the mineral sector while implementing some reform measures. PEMEX of Mexico, PDVSA of Venezuela, and PETROBRAS of Brazil are good examples. My theory is also applicable to these cases. Here, I briefly survey the no-privatization of PEMEX.

Mexico has sustained PEMEX as the largest public enterprise in the country, as well as the sole monopoly player in the petroleum industry. As the largest company in Mexico, PEMEX has been the nation's cash cow for decades accounting for some 35 percent of tax-related federal government revenue. In 2004, PEMEX sent US\$44 billion to state coffers while assuming 23.2 percent of total exports and accounting for 6 percent of Mexico's GDP.¹ Also, when Mexico went through a serious currency crisis in 1994, PEMEX's oil was "designated as a guarantee to the US\$51,759 million credit package granted by the IMF, of which the US government contributed US\$20,000 million."² Thus, PEMEX and its oil functioned as the country's finances of last resort. A majority of the Mexican population, including many policy decisionmakers, do not want to change the structure of ownership or management control of PEMEX and its resource not only because PEMEX's presence in the whole economy is too big to be privatized but also because it keeps contributing to exports and the national revenue. Andrés Manuel López Obrador, ex-mayor of Mexico City and the presidential candidate of the PRD (Partido de la Revolución Democrática), supports the no-privatization of PEMEX, suggesting its economic benefits. He argued, "Petroleum is the best business in the world; extracting

¹ Laguna, 2004: p. 2036.

² Laguna, 2004: p. 2037.

one barrel with everything including administration costs US\$3, and the barrel of petroleum is being sold for US\$40. This is a business for the Mexicans.”³

The scope of political opposition to the privatization of PEMEX is extensive and strong. First of all, the strong and self-interested petroleum labor union, STPRM (Sindicato de Trabajadores Petroleros de la Republica Mexicana), has maintained its objection to the privatization of PEMEX. In terms of all indicators of strength, STPRM is the most powerful labor union in Mexico, although traditionally the union has not been autonomous from the ruling party.⁴ Ironically enough, however, the collapse of the PRI (Partido Revolucionario Institucional) ended its corporatist structure, which started in 2000, has strengthened the autonomy of STPRM because PRI lost its ruling party status that propped up the relationship with STPRM.

Second, unlike Argentina, the left led by the PRD has grown into a meaningful political power in Mexican politics. In addition, the presence of a significant proportion of leftist voters, strong opposition among the public to the privatization of PEMEX, and constitutional restrictions on the change of the petroleum industry bolster the leftist position against the privatization of PEMEX. Constitutional rules which guarantee PEMEX a monopoly over the oil industry, from exploration to the sale of gasoline at the pump, are a symbol of Mexico’s political and economic independence from its powerful neighbor, the United States of America. However, unlike in Chile and Bolivia, the traditionally weak Mexican military has no influence on the issue of PEMEX privatization. Finally, after the intense debate in the early 2000s, President Vicente Fox (who once proposed the privatization of PEMEX) had to admit, “PEMEX is not only a part of our economy, but also a part of our history. Therefore, it has not been for sale, nor

³ Noguez, 2005.

⁴ *The New York Times*, November 14, 1996.

will it be.”⁵ In sum, the PEMEX case in Mexico supports the argument of this study that the combination of high economic benefits of a public enterprise and strong political opposition to privatization leads to no-privatization of the public enterprise.

Meanwhile, the semi-privatization of CVRD under the Cardoso regime drew my attention because the case represents another kind of variation on the dependent variable. In 1997, the Brazilian state surprised the world by privatizing its profitable public mining enterprise, CVRD. However, as Amann demonstrated in his study on ownership structure in the post-privatized Brazilian steel industry, “despite privatization, the state, paradoxically, has continued to hold important roles in the development of the steel sector mainly as a provider of equity and loan finance.”⁶ That is, the Brazilian state, via the national development bank BNDES (Banco Nacional de Desenvolvimento Econômico e Social) and public pension funds such as Previ, maintains direct and indirect stakes in the privatized CVRD. Therefore, by the semi-privatization of CVRD, the Brazilian state pursued economic benefits not only from the sale of a major portion of the stocks but also from dividends from the remaining stakes. Furthermore, through its remaining stakes, the state retained influence over the company and its resources. As I explained in the introduction, however, the state is only likely to choose and implement semi-privatization only when there is the combination of high economic benefits and low political opposition.

As the largest producer of iron ore in the world and Latin America’s most important gold company, CVRD has been a profitable company as well as the largest exporter in Brazil. In 1994, CVRD recorded net sales of US\$2.87 billion and profits of US\$645 million.⁷ Thus, the economic benefits of CVRD to the national economy are

⁵ *El Universal*, May 12, 2003.

⁶ Amann, 2004: p. 28.

⁷ EIU, *Country Report: Brazil*, 4th quarter, 1995: p. 23.

high enough for a public enterprise. Although persistent resistance delayed the process in 1997, the scope of political opposition was not extensive enough to prevent the semi-privatization of CVRD. In particular, three possible opponents to the privatization of CVRD showed either weakness or apathy to the privatization of CVRD. First, unlike its counterpart in PETROBRAS⁸, the labor union of CVRD is not a strong opponent in terms of the degree of autonomous political power. In fact, according to Schmitz, Jr. and Teixeira's study,

While the CVRD privatization process was not completed until 1997, both CVRD management and union officials were unanimous in agreeing that by 1989 it was evident that CVRD would be privatized. By the early 1990s, CVRD was undergoing major reforms and changes in its organization to prepare for privatization. Hence, in choosing a date that marks the onset of the privatization process we chose 1989.⁹

Meanwhile, the position of two possible opponents--the left and the military--to the privatization of CVRD was interesting. The Brazilian military, which retained traditionally strong nationalistic sentiment to the strategic sectors of the economy, did not actively oppose the privatization of CVRD. Rather, the military expressed its support for the privatization of CVRD. General Alberto Cardoso, head of the Joint Chiefs of Staff, asserted,

This is a way to transform potential riches into reality. If the state has no financial resources to realize the country's economic potential, it becomes necessary to break the state monopoly. In this sense, the state monopoly is not a national security issue anymore. There is no threat to our sovereignty or territory. CVRD, for example, still belongs to Brazilian citizens.¹⁰

⁸ PETROBRAS's labor union was a strong and consistent opponent to the privatization of PETROBRAS. For example, in 1995 when congress discussed the end of the PETROBRAS monopoly in the petroleum market and the possible privatization of PETROBRAS, PETROBRAS's labor union went on strike for more than twenty-seven days. *Gazeta Mercantile*, May 15, 1995; May 22, 1995; May 29, 1995.

⁹ Schmits, Jr. and Teixeira, 2004: p. 11.

¹⁰ *Gazeta Mercantile*, May 26, 1997.

Finally, the left in Brazil did not have effective political power to derail the implementation of CVRD privatization, although it opposed the plan. There are several explanations for this. First, during the period of 1995-1997, the leftist parties did not have enough members in congress to block the CVRD privatization. In fact, the total number of congressmen from leftist parties such as the PT (Partido dos Trabalhadores), the PDT (Partido Democratico Trabalhista), the PSB (Partido Socialista Brasileiro), and the PC do B (Partido Comunista do Brasil) was only 121 out of 513 deputies.¹¹ In fact, with an insufficient number of deputies, the left failed to counter the constitutional amendments, which ended the monopoly of the state in several key industries including petroleum, mining, and communication.

Second, in 1995, the leftists' main concern was not CVRD but PETROBRAS because CVRD had already been prepared for privatization since 1989. In 1995, the Brazilian state held only 51 percent of the stake of CVRD. In the end, the left blocked the full-privatization of PETROBRAS while accepting reluctantly the privatization of CVRD. In terms of political importance, PETROBRAS has been more significant than CVRD because of the importance of PETROBRAS' resource, petroleum. "The popularity of the phrase, *O Petroleo e Nossa!* (The Oil is Ours!), over the past five decades demonstrates the high symbolic value of PETROBRAS for the Brazilian public".¹² Therefore, the PETROBRAS reform distracted the left's opposition to the privatization of CVRD.

The third and final explanation for the leftists' failure to oppose the privatization of CVRD was low public opposition to privatization in Brazil. According to a public opinion survey of September 1996 conducted by IBOPE (Instituto Brasileiro de Opinião

¹¹ EIU, *Country Report: Brazil*, 2nd quarter, 1995: p. 8.

¹² Lewis, 2004: p. 29.

Pública e Estadistica)¹³, only 30 percent of Brazilians opposed the privatization of public enterprise while 36 percent agreed to privatization and 34 percent had no opinion. Therefore, the left experienced difficulty in garnering public support to oppose the privatization of CVRD.

In sum, the CVRD case of Brazil confirmed that the Brazilian state decided and implemented the semi-privatization of CVRD because of the combination of high economic benefits of CVRD and low political opposition to CVRD privatization. In addition, differences in the scope of political determinants between PETROBRAS and CVRD –the autonomous power of the labor unions and the symbolic importance of each public enterprise--determine different results of public enterprise reforms in Brazil, although the two cases shared many common economic and political features.

GENERALIZING THE ARGUMENT AND IMPLICATIONS FOR THEORY

The findings from the main cases in this study and other cases in the Latin American mineral sector support my theory of public enterprise reform. That is, the combination of different degrees of economic benefits and the scope of political opposition yields different kinds of public enterprise reforms. Here, I attempt to generalize my theory of public enterprise reform in terms of general market-oriented reform and privatization theory.

Many literatures on market-oriented reforms have argued that the macroeconomic factors of a country explain the different speed and depth of market-oriented reforms across countries and industries. The empirical evidence, however, is not consistent with the idea that macroeconomic performance determines the type of market-oriented reform. Rather, the findings in this study demonstrate that macroeconomic performance decides not the type of market-oriented reform but rather the timing of the reform. Therefore, this

¹³ Instituto Brasileiro de Opinião Pública e Estadistica, 1996.

study clarifies that economic benefits, which are measured by the microeconomic performance of a company as well as by the role of a public enterprise in the macroeconomic performance, account for different types of policy choices. Yet the causal relationship between economic benefits and the type of reform cannot explain all the features of public enterprise reform because it is also conditioned by political variables.

The political variables structure the political constraints of market-oriented reform whereas the economic determinants shape the economic feasibility of the reform. In this sense, the political and economic determinants in my theory are the opportunity and the barriers to the state in dealing with market-oriented reform.

Vast numbers of scholars suggest the role of state capacity as a key independent variable to explain different depth and speed of market-oriented reform, arguing that economic crisis and subsequent market-oriented reform tends to fragment and weaken traditional social interest groups. Contrary to this argument, however, my findings in this study highlight the importance of popular interest groups in policy formation. First, I suggest, market-oriented reform can be changed or even derailed when it meets a strong opposition from traditional popular political forces such as the left and labor unions. Second, I argue that the military is a powerful political source of opposition to market-oriented reform. Contrary to extant arguments, the military is not merely a passive and spent political force in the process of market-oriented reform. To be sure, I do not simply dismiss the role of executive authority and formal political institutions. Rather, the study demonstrates that the role of executive authority and formal political institutions are limited to provide general conditions in which social interest groups negotiate, mobilize, and struggle. Third and finally, in a similar vein, I argue that several historical and institutional features also determine the type of market-oriented reform. Thus, the

constitutional rules governing market-oriented reform limits the chance of successful reform while historical events such as revolution may bolster the opponents of reforms.

Additionally, the findings in this study suggest that a theory of privatization should consider both political and economic aspects together. That is, this study confirms that the political economy approach is useful in overcoming traditional disciplinary limitations in developing a privatization theory.

In recent years, public enterprises in the mineral sector have drawn a great deal of attention because it has become a major subject of market-oriented economic reform as well as the source of international conflict. Many public mineral enterprises, particularly in developing countries, are not just companies that produce commodities but also historic institutions. They not only account for the most important economic activity in their countries but also have important symbolic value and political meaning. In this dissertation, I developed a theory to capture the complexity of reforming these public enterprises. To find a better type of reform is not the aim of this study. However, the theory of public enterprise reform presented in this dissertation will help other countries searching for appropriate reforms for their valuable resources.

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