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The Political Economy of Privatization: Uruguay's Attempt to Divest Administracion Nacional de Telecomunicaciones del Uruguay (ANTEL)

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XII Jornadas Anuales de Economía (BCU) 1997 third question asks whether the formulation and initiation of privatization policies depend on the political situation. These questions lead to a structure consisting of cases that examine the microeconomic, macroeconomic, and political factors shaping privatization policies.

THE PRIVATIZATION OF ANTEL

The Uruguayan case is fascinating because it was a failed attempt. The government received initial privatization support from all of the major and traditional political groups in the country, but was unable to win over public opinion and popular support. This paper explores the political factors that shaped the attempt to privatize ANTEL. Specifically, it examines the role of the national executive, interest groups, and institutional rules in the privatization process.

In 1989, while Uruguay was undergoing a severe economic crisis, Luis Alberto Lacalle was elected president. He had campaigned on a platform of neoliberal economic reform and privatization. The new administration was granted a mandate to initiate a program of fundamental economic reforms. A year into his term, President Lacalle signed decrees 718 and 720, authorizing the privatization of ANTEL by the end of 1992. The Uruguayan Parliament also approved a sweeping package (*El Proyecto de Desmonopolization*) that allowed the government to restructure the economy (CERES, 1991). The privatization legislation allowed the government to sell 49% of the company; 38% would be sold to a set of qualified investors for cash, 8% would be transferred to workers, and 3% would be sold to domestic investors. Although the electorate was originally in favor of privatization, a mass publicity campaign by the public-sector unions, along with a set of crippling strikes, resulted in an overwhelming rejection of the ANTEL privatization during a referendum held in 1992, thus terminating the project.

Formation and Early History

The first Uruguayan utility company providing electricity and telephone service commenced operations in 1886, and was called Compañíia Telefónica y de Luz Electrica del Rio de la Plata. Despite the small size of the country and its economy, the Uruguayan government maintained a deregulated business environment to foster competition. Therefore, a host of other privately owned telephone companies, including Compañíia Telefónica la Uruguaya, Compañíia Telefónica de Montevideo, Sociedad Cooperativa Telefónica Nacional, and Compañíia Telegráfica y Telefónica del Plata, soon emerged to provide telephone service throughout the country.

In 1915, however, Uruguay underwent a powerful political and economic transformation with the election of Jose Batlle y Ordóñez. President Batlle supported the creation of *entes autónomos* (state enterprises) to enhance the general welfare of the state, increase competition in services, and ensure international sovereignty of the country (Weinstein, 1988). These state-owned companies were granted monopoly rights by the 1917 Constitution and were authorized to absorb all of the private-sector companies in their line of business.

One of the first *entes* was *Usinas Electricas y Los Telefonos del Estado (UTE),* which provided both electric and telephone service (Alisky, 1969). UTE's creation was based on the concept that monopoly rents would be used to increase investment in the network and provide telephone service to all Uruguayans. Although the two utilities operated under the same roof for over twenty years, the telephone portion of the company was separated from UTE in 1931; but it was not until July 1974 that the government formally established ANTEL. That year, Law 14325 granted ANTEL a monopoly on local, long-distance, and international telecommunications services. Unlike the Brazilian and Chilean cases, where public ownership of the telephone companies was a short-lived phenomenon, the Uruguayan case had a seventy-five-year long tradition of state ownership.

Corporate Control

As outlined in the 1917 Constitution, corporate control of the *entes* was designed to ensure political harmony and prevent drastic changes in the management staff. Article 100 of the Constitution called for plural directorships of the firm, and this included minority representation by the opposition party. ANTEL's board of directors consisted of five individuals—three were chosen by the government in office and two were from the opposition party. During the military governments of the 1970s, however, the company structure changed slightly when it was made part of the Ministry of National Defense. Nonetheless, company operations remained relatively autonomous. The company was granted dual powers to provide telephone service and regulate itself; therefore, there was no external oversight of the firm.

Firm Performance

ANTEL has had one of the best performance records in Latin America. As shown in Table 7, the company's small size did not prevent it from providing one of the best telephone penetrations (lines per 100 inhabitants) of the four cases. Its relatively high performance explained the positive level of consumer satisfaction. In a 1992 survey, most customers considered ANTEL's telephone service to be very good (*Latin Finance*, April 1993). The company, however, had poor financial performance. One reason for the low level of revenue per line was due to low tariffs (see Table 7). Despite the low tariffs, the company managed a 15% rate of return on capital, indicating an efficient use of financial resources.

Technology

Like Chile, Uruguay never developed its own telephone equipment industry. Instead, it relied on foreign equipment manufacturers; consequently, the country was able to outfit the network with the latest technology from Europe, Japan, and North America.[2] All long-distance service was supplied by microwave links or satellite service, with surface lines used only in urban areas. In

1985, the company's management initiated a program to install fiber-optic, cellular, and digital technology in the Montevideo market. In 1989, this was updated into a four-point plan to expand and modernize the network, improve efficiency, increase competition, and integrate regional and international services. The latter two objectives allowed the establishment of foreign-owned cellular phone systems and the network's integration into global satellite communication systems, further improving the technological condition of the company. A comparison of the different levels of digitalization (Table 8) shows how the Uruguayan telephone company clearly outperformed two of the three other telephone companies. It was outperformed only by the Chilean Telephone Company (CTC), another well-managed company.

Investment and Financing

Although ANTEL's management attempted to maximize the use of scarce financial resources, the firm still suffered from a lack of capital. Due to its small size, ANTEL was excluded from international and domestic capital markets; hence, most investment capital came from self-generated revenues and government loans. One of the driving motivations to privatize the firm was to increase the level of investment. As indicated in Table 9, in 1986, ANTEL was able to invest more per line than the other three Southern Cone telephone companies; however, the company's level of investment gradually began to decline. After its 1987 privatization, CTC dramatically overshadowed ANTEL's level of investment.

Labor

Organized labor has a long tradition in Uruguay. Immigrant workers from southern Europe organized labor unions before the turn of the century. The election of President Batlle in 1915 strengthened organized labor by providing it with a powerful ally, especially since both advocated a statist type of government. While the older trade unions were traditionally based on skills and industries, modern confederations or peak associations began to emerge in 1940, with the establishment of the Unión General de Trabajadores (UGT). When the UGT was infiltrated by Communist factions during the late 1950s, a new centrist confederation, the Confederación General de Trabajo (CGT), was established (Alisky, 1969). The CGT, a more conservative group, was based on foundations similar to the Peronist labor movement in Argentina. Both advocated a strong state sector and cooperation between labor and government. Following the repression of the military period, the CGT re-emerged as the PIT–CNT, which included the workers in ANTEL.

Despite its impressive technical performance, ANTEL had the most bloated payroll, after Telebras in Brazil, in the Southern Cone. Table 10 shows that in terms of lines per employee and gross revenue per employee, the company performed very poorly. As the details of the 1992 privatization were known and it became clear that there would be a sharp reduction in the ANTEL payroll, the unions were galvanized into action. In 1992, a walkout by the company's workforce paralyzed the country's communication systems. This was followed by a seventy-two-hour general strike that brought the country to a standstill. Furthermore, a massive publicity campaign prior to the national privatization referendum warned consumers of higher tariffs, with little improvement in service. It also asked Uruguayans why they were going to give their national telephone company away when it was one of the most efficient telecommunications companies in the region.

MACROECONOMIC FACTORS

Fiscal Performance and Inflation

Uruguay's operating performance during the early 1980s was poor, in nominal terms, but representative for the region. The government suffered from high fiscal deficits, stagflation, and overwhelming debt. Many of the economic problems were attributed to the military government's focus on internal security and lavish spending on defense programs. The economic mismanagement subsided when Uruguay made a transition to civilian rule during the mid-1980s. The new civilian governments were strongly committed to reducing the fiscal deficit and bringing order to the public finances. Although they made some progress toward this goal, the trend was reversed in 1989. Political pressures from retirees led to a spike in the fiscal deficit when the government was forced to make up shortfalls in the pension fund system.[3]

In addition to funding pension obligations, Uruguay's fiscal performance was debilitated by its large public sector. State companies dominated about 30% of productive activity and controlled almost 100% of infrastructure services (World Bank, 1994). Most SOEs were very inefficient during the early 1980s. In 1982, the deficit generated by Uruguayan SOEs represented 18.4% of GDP. A modernization and investment program implemented in the late 1980s, however, increased the efficiency and operations of state companies, and by 1987 the deficit produced by SOEs comprised only 4.1% of GDP, and 1.2% by 1992. ANTEL, the state-owned telephone company, received significant levels of investment capital and was soon able to improve its operations. Thus, by the time the government attempted to sell the company, it was the best telecommunications operation in the region. In fact, ANTEL was contributing surpluses to the fiscal accounts.

A similar development occurred on the inflationary front. The Uruguayan inflation rate was relatively constant throughout the 1980s. Furthermore, it was lower than the inflation rates in most of the other nations. However, in 1990, a spike in the fiscal deficit produced a temporary resurgence of inflation. It was during this period that the Lacalle administration was elected. Subsequent government policies readjusted the fiscal balance by streamlining pension fund procedures, and by 1992 the government had cut the inflation rate by half (see Table 14). Hence, Uruguay did not suffer severe fiscal or inflationary distortions in the years of the telephone privatization attempt. Although earlier economic problems had convinced the national leadership that it needed to restructure the economy through the divestiture of state companies, by the time the Lacalle administration decided to privatize the telephone company, the crisis had passed, the economy had stabilized, and economic growth had returned (see Tables 13–15). Therefore, the sense of urgency was gone.

Foreign Debt

During the early 1980s, the military government borrowed excessively to purchase military equipment. The rise in world interest rates and the spikes in global oil prices severely strained the country's ability to meet its foreign debt obligations. As Tables 16 through 18 indicate, Uruguay had the highest debt servicing and the second highest debt level ratios in the Southern Cone. Although it tried several times to reschedule its foreign debt with creditor banks, the obligations were straining the country's thin resources. Finally, in October 1990, Uruguay reached an agreement with its creditors that provided a $267 million reduction in its public debt and a significant reduction in interest rates. The agreement, known as a Brady restructuring agreement, allowed Uruguay to substantially improve its debt servicing situation while allowing it to regain the trust of the international financial community. Therefore, like the fiscal crisis, the debt crisis was over by the time the government decided to privatize ANTEL.

Although Uruguay no longer faced a debt crisis, it still faced an unfriendly international financial market. SOEs desperately needed access to investment capital so as to continue the expansion and modernization programs; therefore, the government considered privatization as a strategic option to upgrade the country's infrastructure. Since Uruguay was not faced with an overwhelming debt crisis, it discarded the option of using debt–equity swaps in the 1991 privatization program. In other words, the new owners of companies such as ANTEL would have to pay cash for their shares in privatized companies. However, the absence of an economic crisis obscured the pressing need for privatization, and most Uruguayans saw the process as a needless divestiture of valuable state assets.

Multilateral Lending Agencies

Multilateral lending agencies played a limited role in the Uruguayan privatization process. Throughout the early 1980s, the IMF worked closely with Uruguay in helping it resolve the debt situation. The organization helped set monetary, foreign exchange reserves, and inflation goals. In 1985, Uruguay negotiated a Standby Agreement with the IMF, and it was forced to slash government spending to under 1.5% of GDP. It also initiated the set of reforms that eventually stabilized the economy later in the decade. In 1989 and 1990, the multilateral agencies provided crucial backing for the restructuring of the foreign debt. Nonetheless, as Table 19 illustrates, the IMF and World Bank did not play major roles in providing the country with assistance—this mostly came from other multilateral agencies such as the Inter-American Development Bank (IADB). The latter was mainly interested in promoting social programs, not the type of structural reforms pursued by the IMF and World Bank. Hence, the major multilateral lending organizations had little impact on the Uruguayan privatization policies (IADB, 1992).

POLITICAL FACTORS

National Executive

An analysis of the Uruguayan national executive commences with an analysis of the transition to democracy. The research on Brazil and Chile has indicated that the transitional process is a fundamental part of understanding the inherent power structure of the presidency.

Like all of the countries in the Southern Cone, Uruguay experienced a long period of authoritarian control, from 1974 to 1982.[4] The return to democracy started in September 1981, when General Gregorio Alvarez was sworn in as transitional president. Significant progress was posted for the first two years, but in 1983, negotiations with the main political parties broke down when the military refused to hold open elections. The impasse culminated in a national strike on January 18, 1984, because the military leaders refused to acquiesce, fearing that open elections would allow certain popular political factions to call for human rights trials.

In March 1984, the military government reiterated its offer to hold elections, although the conditions remained heavily circumscribed. The major political parties finally agreed, and Julio Maria Sanguinetti, of the Blancos, was elected with 38.6% of the vote: Alberto Saenz de Zumaran, of the Colorados, received 32.9%. The Frente Amplio candidate received 20.4% of the vote. President Sanguinetti took office in March 1985, only to find a vast array of economic and political problems; his first priority was democratic consolidation (McDonald, 1988).

As in Brazil, the Uruguayan presidency was intentionally weakened by the out going military regime. While the military retreated to their barracks, they remained a real, visible, and constant threat to the fragile democracy. Military leaders made very public statements, often critical, about government policies, thus limiting the national executive's free range of policy options. Furthermore, the administration's failure to wrest all political power from the military was seriously criticized by several political factions, thus undermining some of the administration's congressional support. The military threat did not recede until 1986, when the Ley Caducidad, approved by Congress, granted amnesty to the military and preventing prosecution of military leaders. With political issues absorbing most of the administration's resources and focus, it was unable to implement many economic reforms. Therefore, the overall economic situation in Uruguay continued to deteriorate throughout the late 1980s. However, national elections were looming, and it was becoming too late to commence a painful structural economic reform program.

The economy turned out to be the main issue of the 1989 presidential campaign. Luis Alberto Lacalle, of the Blancos, criticized the government's outdated statist policies and campaigned on a platform of neoliberal economic reform and privatization. Indeed, many Uruguayans voiced disappointment with the country's economic situation and expressed a need for change. Therefore, he won the election with 39% of the vote, compared with 30% for the Colorados candidate. President Lacalle, however, lacked a full and unrestrained mandate for policy change. Unlike the previous administration, which enjoyed strong party support in the Congress, the new administration faced a Congress controlled by the opposition party. During the honeymoon period following the inauguration, congressional leaders openly stated their support for the new administration's economic reforms, but their support was not unconditional—especially with regard to privatization.

Uruguay is a country with a long tradition of state-owned companies. Therefore, the sale of these companies would be highly controversial, especially among the more traditional political factions. Privatization, however, was supported by some of the more centrist factions in both political parties. Jorge Areco and Jorge Batlle, of the Colorados, negotiated a bipartisan pact with the Blancos known as the Coincidencia Nacional, that committed congressional support to the economic reform program. The new alliance established a set of three major goals for economic change: reform of the social security system, fiscal reform, and privatization of public-sector companies.[5]

Economy Minister Enrique Braga implemented a set of austerity programs to rein in some of the major economic imbalances. First, he sought to improve the social security system by rationalizing services, raising the minimum retirement age, reducing the social security agency's employment levels, and curtailing some pension benefits. Second, he addressed the fiscal situation by cutting government spending, reducing pay raises, and boosting revenues through new, temporary taxes. Third, he announced that most of the state-owned companies would be sold to the private sector. Although the reforms were necessary to reduce of the macroeconomic imbalances, the social impact of all three programs was severe. Soon, the administration's popularity began to slip in the polls; however, privatization was the program that produced the strongest reaction.

On July 15, 1990, President Lacalle sent the legislation package outlining the privatization program to the Congress. Resolution no. 1122 proposed the privatization of ANTEL and of Pluna, the national airline. Although the Congress was receptive to the idea, it was slow to approve the measure. In order to expedite the process, in January 1991 the government hired Booz Allen & Hamilton, a major international consulting firm, to assess the company's assets and design the privatization process. The Chamber of Deputies finally passed the legislation on September 27, 1991, but with some important modifications. The law, known as the Act on Public Enterprises, allowed the government to sell a concession for the operation of public services to the private sector, but it was to retain some control over the new enterprise. The Congress ordered the government to maintain a minority share in the new joint venture and a seat on the company's board of directors. Specifically, the legislation allowed the government to sell 51% of the telephone company (49% to foreign buyers and 2% going to domestic buyers). It also established a new regulatory body for the telecommunications industry.

Soon after the legislation was approved, Booz Allen & Hamilton released a report estimating the value of the firm at $1 billion. Since the government would sell only half of the company, then it would gross approximately $500 million. After paying most charges and fees, an estimated $450 million would be left. The report produced an immediate outcry from some of the members of the opposition party. While the privatization law stipulated that the proceeds be invested in social security, public health, and education, it was vague on implementation details. Some members of the opposition party were concerned that the administration would use the proceeds to enhance its standing in the upcoming national elections, especially since the privatization would occur shortly before the 1994 campaign season. Therefore, the Coincidencia Nacional began showing its first signs of strain.

Nonetheless, President Lacalle remained firmly in control of the privatization initiative. In December 1991, he appointed the Managing Director of ANTEL, Rosario Medero, to direct the privatization process. Her first step was to solicit international telephone companies to participate in the privatization process. She retained the services of Morgan Grenfel, a major investment bank, to structure the financial aspects of the deal. Medero then moved to the prequalification phase. Over forty firms expressed interest in the deal, but only eight chose to participate in the prequalification process: Telefonica de Espagña, France Telecom, STET, NYNEX, Southwestern Bell, GTE, Bell Atlantic, and Bell South; in July 1991, the government disqualified Telefonica de Espagña and STET.[6]

Although support for the economic changes was never unanimous, dissension among members of both parties was growing. The president's own vice-president, Gonzalo Aguirre, and members of his own party, led by senators Carlos Pereyra and Alberto Zumaran, were becoming vocal opponents of the privatization program. In May 1991, Health Minister Jose Alfredo Solar resigned because of his opposition to privatization. It was becoming clear that the administration's initiatives were losing some of their momentum.

On the Colorados side, an entire faction (Foro Batllista), led by former President Sanguinetti, strongly opposed the sale. Furthermore, there was growing grassroots opposition to all of the government's economic policies. The cuts in fiscal spending had successfully addressed many of the major economic problems, but they also had introduced an atmosphere of austerity. Indeed, there were already calls for a national referendum on the privatization program.[7] Early in 1992, a political alliance consisting of pensioners, leftist parties, and small factions of the opposition party failed to win the votes necessary to call a referendum, but a technicality in the law allowed for a second chance to amass the necessary votes. Once the tide of public opinion turned against the administration, it was unable to recover the initiative.

To make matters worse, it found itself facing a recalcitrant military. Although the Lacalle government did not renew the move to prosecute military leaders, it reduced of the military's size, prerogatives, and budget appropriations. Furthermore, it imposed the same controls on wages that were placed on other civil servants. In October 1992, two communiqués issued by the Centro Militar (an association of active and retired military officers) demanded salary raises. The following month, the national police went on strike, and the government was forced to acquiesce to their demands.

Therefore, the increasingly embattled administration was finding itself short of the resources needed to hold the ruling coalition together and continue with the economic reforms. The outgoing military had purposely weakened the office, and the president was unable to regain the initiative. At the same time, the interest groups opposed to the privatization program were becoming better organized and more powerful.

Interest Groups

A historical rivalry between powerful rural and urban interest groups allowed the development of a strong two-party system.[8] Indeed, an extremely violent and bloody civil war in 1904 had left an indelible mark on Uruguayan politics. In order to prevent similar conflicts in the future, the ensuing political system provided both parties with significant guarantees and power-sharing arrangements (Weinstein, 1988). The bipolar balance also led to the development of catchall parties, which later contributed to the factionalization of the two-party system (Geddes, 1994). Both parties fractured into three major groups dispersed along the political spectrum (right, center, and left).[9] In order to provide unified party tickets in national elections, the parties often assembled intraparty coalitions from a wide assortment of political ideologies. This was the case in the 1989 campaign. Luis Lacalle, a free-market proponent, was teamed with Gonzalo Aquirre, an advocate of traditional statist policies.

The two-party system was weakened in the 1970s with the emergence of a third political party, Frente Amplio (FA). This new political group was a broad-band coalition of leftists who had defected from the main parties or had operated from outside the political system during the periods of military repression; nevertheless, they served to destabilize the power of the two main traditional parties. In the 1980s, Nuevo Espacio (NE) emerged as a similar type of organization. Although the two main parties supported Uruguay's well-established interest groups, such as trade unions and business groups, many emerging interest groups, such as disgruntled pensioners, found that the new political parties were more willing to help articulate their concerns.

One of the groups naturally opposed to the economic reforms was the unions.[10] The salary controls implemented by the Lacalle administration were especially hard for unionized workers because most of them worked in the public sector. Furthermore, the administration introduced a new set of proposals limiting the power of unions. The trade unions replied by staging five general strikes during the first six months of the administration, but infighting among labor leaders prevented the leadership of the peak labor association, PIT–CNT, from establishing a dialogue with the government (Filgueira and Papadopulos, 1994). After the administration's first year, the union's internal conflicts allowed the level of labor militancy and opposition to the privatization program to decline. Hence, the government discarded organized labor as a viable opponent to the privatization program.

As was the case in Chile, Uruguay never developed a domestic telecommunications industry. Most Uruguayan private-sector businesses were dedicated to the export of beef, hides, textiles, and wheat. These industries had steadily declined in performance and revenues since the 1950s. Therefore, they were poorly organized and relatively weak, and they did not oppose the sale of ANTEL. Nonetheless, the government sought their approval for the overall economic program. As a concession to the Camara de Industrias del Uruguay (CIU), the nation's peak business association, the government agreed to slow the pace of tariff cuts in the new Mercosur trade arrangement among the Southern Cone countries (*Latin American Weekly Report*, 1993). Indeed, the administration was able to neutralize most of the traditional bases of power, but it did not foresee the impact of the non-traditional ones. Specifically, it never anticipated that a grass-roots movements could muster the power to affect the government's policies.

The social security reforms that were implemented early in the Lacalle administration resulted in the mobilization and organization of a new and very powerful interest group consisting of retirees and pensioners (Filgueira and Papadopulos, 1994). Uruguay's social security system was one of the best-developed and best-funded pension systems in the region. Indeed, most Uruguayans saw their benefits as one of their inalienable rights. The government's reform of the system was seen as an attack. Furthermore, many pensioners saw the sale of the state companies as the dismantling of the country's most valuable assets. At local rallies, speakers denounced the government's move to divest the national patrimony and pride, especially since ANTEL was seen to be the nation's crown jewel. Last of all, the protest against the sale of ANTEL was not just against the sale of the telephone company, it was against the entire privatization program. The opposition believed that if the first privatization initiative was derailed, then the government would be unable to sell the other companies. The retirees and pensioners initially gained the traditional parties unresponsive to their pleas, but soon found support among the emerging political parties, Frente Amplio and Nuevo Espacio.

By early 1992, the growing opposition to the economic reforms and the privatization program was unraveling the Coincidencia Nacional, the ruling coalition. In January, Batllismo Radical, another faction of the Colorados, defected from the ruling group. This left only one Colorados faction in the Coincidencia, Union Colorado y Batllista; therefore, the government lost the political resources to corral and control the different groups affecting the privatization process. On October 1, 1992, the second vote on the referendum was taken, and more than the minimum 30% required of the electorate voted in favor of calling the referendum. It was set for December 1992, and Frente Amplio mobilized a nationwide campaign to repeal the measures. This position also was backed by Foro Batllista and former President Sanguinetti.

On December 13, 1992, 78% of the electorate rejected the five critical articles of the privatization law that had been passed in October 1991. The government immediately suspended privatization of ANTEL and sought to open the issue to a nationwide dialogue. A series of nationally televised debates attempted to change the public's perception of the privatization, but it was to no avail. The opposition argued that there was no reason to privatize such a profitable company. The government countered by arguing that ANTEL lacked the necessary funds to make investments for the future, but it did not specify what investments were necessary, especially since the company already had the highest state of technology and digitalization in the region. Despite these last-ditch efforts by the government to change public opinion, the sale was shelved indefinitely.

Institutional Constraints

It is clear that Uruguay's political institutions played an important role in the attempt to privatize ANTEL. First, the structural rigidity and inflexibility of the Uruguayan political party system did not allow the incorporation of new social groups, such as pensioners and retirees. Second, the country's unusual electoral system fragmented the party and political structure, thus leading to highly divided government. The Uruguayan political system allows any party to put up several candidates. The party that wins the most votes (for all of the candidates) wins the election and the candidate within that party who secured the most votes is named president.

Gonzalez (1991) has argued that the country's double simultaneous vote—in other words, primary and runoff elections in the same process—means that the president can make no claim that he or she helped other party factions win an election. Since electoral alliances are built on expediency, and not ideology, they tend to crumble soon after the election. Furthermore, the factions within the Uruguayan political parties tend to be very divided and competitive.

Third, the country's constitutional rules allowed social movements to veto or alter major policies. The accessibility of the referendum mechanism allows groups to defeat unpopular government policies. Last, the privatization initiative was almost antithetical to the Uruguayan political system. The statist political arrangement that had been established after the 1904 civil war allowed the development of a political-economic system known as coparticipation. The system allowed both political parties to appoint members and staff to the state-owned companies, *entes* (Geddes, 1994). This arrangement ensured the sharing of power and distribution of economic rents between the two most powerful groups in the country. Therefore, the sale of the state-owned companies would lead to the breakdown of this arrangement, especially since there were still rents to be had. While many of the centrist, market-oriented factions of the parties were in favor of change, the more traditional factions, such as the Foro Batllista of the Colorados and the Movimiento Nacional de Rocha of the Blancos, saw the change as a critical breakdown of the power-sharing arrangement.

CONCLUSION

ANTEL suffered from low levels of investment and a bloated payroll. Nonetheless, an effective management staff allowed the company to provide relatively good communication services to its clients, despite the thin resources. Furthermore, it had the highest rate of digitalization in the region and was profitable. Hence, on a company level, pressure to privatize the firm was relatively low; however, macroeconomic problems were forcing the government to consider selling state assets. Uruguay suffered from relatively serious macroeconomic problems, including a high fiscal deficit, a high rate of inflation, and a large foreign debt, but the symptoms had not yet reached crisis proportions. Hyperinflation had not ravaged the economy, nor had the country faced the form of economic breakdown that had been experienced in some of the neighboring countries. Thus, when the administration turned to privatization as a way to initiate macroeconomic reforms, it was able to negotiate political approval from the Congress, but there clearly was no common sense of urgency. This situation created an opportunity space for opposition groups to exploit and, eventually, a grassroots movement halted the sale.

Like the other cases analyzed so far, the country's leadership strongly considered the privatization option during a time of macroeconomic crisis. The desire to pursue this option was widespread enough to elect a new president committed to structural reforms; however, the passing of the crisis removed the pressure to privatize. The recovery of the Uruguayan economy in 1991 provided the opponents of the privatization initiative with the votes needed to overturn the program. Hence, it is now becoming clear that macroeconomic forces do play a major role in the privatization process. When macroeconomic conditions are negative, they create pressures for divestiture; when conditions improve, the pressure is removed. However, macroeconomic factors still do not provide a complete explanation of the privatization phenomenon.

From a political standpoint, the Uruguayan case is somewhat complex because it has a reversal in the balance of power halfway through the privatization process. It is clear that the Lacalle administration enjoyed an initial honeymoon period during which it received high levels of support from the Congress. The government, however, spent most of its honeymoon period implementing changes in the pension fund system and the fiscal situation; the privatization of the state-owned companies was a third priority. Changes in the pension fund system, however, mobilized a powerful political force consisting of pensioners who came to oppose the government on all its policies. Failure to incorporate this group into the political system allowed the government to move ahead with its policies while oblivious to the grassroots opposition movement that was growing.

As the new group's strength grew, it was able to siphon off borderline factions from the ruling coalition. It was at this time that the balance of power between the executive and interest groups swung in the opposite direction. The administration's inherent lack of support in the Congress and the fragmentation of the party system eventually left it weak, isolated, and unable to control its third policy initiative, privatization. Faced with a referendum calling for the repeal of the privatization measures, the administration attempted to expand the issue to open debate; however, it was unable to regain the initiative and the policy was shelved. Therefore, the Uruguayan case is almost a text book application of the Schattschneider model.

NOTES

1. The following should be noted. First, since the cases in my research involved international investment banks, which issued shares on global markets, the transfer date will also be recorded in public documents such as stock prospectus. Second, the dependent variable in this analysis is the divestiture of state-owned telephone companies.

2. Although Uruguay subjected its imports to high tariffs (10–45%), telephone equipment purchases made by ANTEL were exempt from all duties except a 10% port tax

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3. Uruguay's demographics have endowed it with an usually aging population; thus, the requirements of the pension fund system are unusually high. Approximately 60% of the population is economically inactive, and 17% of GDP is devoted to social security expenditures (CS First Boston, 1994a).

4. In 1972, the military waged a brutal internal war against the Tupamaros, a band of leftist guerrillas. The government granted the military forces wide powers to conduct operations. In 1973, the military took control of the government when it persuaded the elected president, Juan Maria Bordaberry, to dissolve the Congress and establish a twenty-member Council of State in its stead.

5. Uruguay has one of the most mature populations in Latin America, and this has put immense burdens on the social security system. In 1991, the system consumed 17% of GDP and 20% of the population received social security benefits (Filgueira and Papadopulos, 1994).

6. Although the government announced that the companies were disqualified for technical reasons, these were the two principal companies involved in the privatization of the Argentine telephone company. Recently there had been reports about corruption in the that process. Hence, it is believed that the government disqualified the two companies to reduce the level of controversy in the Uruguayan process.

7. The referendum became a popular vehicle of public protest in Uruguay. In April 1989, a petition was submitted requesting a referendum on the law granting amnesty to the military. While the law was upheld by 55% of the population, it set a powerful precedent that unpopular laws would be contested.

8. The rural interests who wanted a federalist type of arrangement, marked their party affiliation by white (blanco) headbands. The urban groups who wanted a republican type of arrangement, were identified by their red (colorado) headbands.

9. The Colorados' three major factions are Union Colorado y Batllista (UCB), Batllismo Radical (BR), and Foro Batllista (FB). The Blancos' three major factions are Herrerismo (H), Movimiento de Renovacion y Victoria (MRV), and Movimiento Nacional de Rocha (MNR).

10. In the late 1980s, Uruguay had 90 major trade unions, with a combined membership of 240,000, and most were concentrated in the public sector (Gargiulo, 1989).