Chapter 2

Why renationalise? Contemporary motivations in Latin America

By M'Lisa Colbert

Three decades after liberalisation, privatisation, and austerity measures uprooted the public and drastically reduced popular access to the state, Latin American governments are renationalising their essential services. A region-wide survey we conducted of renationalisations occurring from 2000 to 2016 in essential service sectors such as waste, water, telecommunications, finance and energy revealed that the transitions have not been easy, with many cases facing seemingly insurmountable challenges. Most motivations for renationalisation were directly related to discontent with the results of privatisations brought on by the Washington Consensus in the 1990s.

This chapter presents a contemporary observation of the motivations behind present day efforts to renationalise and democratise essential services in Latin America. It begins with a brief overview of the context surrounding these renationalisations and then provides an analysis of the expressed motivations behind why de-privatisation happened in the region. At the core of the chapter, exemplary cases of renationalisation that have been accompanied by democratisation and a renewed commitment to public ethos are highlighted. The cases are drawn out in detail with emphasis being placed on illustrating the concrete benefits that these transitions have had.

Strictly speaking, the service de-privatisations and subsequent renationalisations that we have seen in the region are not cases of 'remunicipalisation' because new concessions for these services have been granted by national governments (not municipal authorities), which in most cases are also the new operating authorities. Nevertheless, the lessons learned from these cases are relevant to the subject matter of this book because, although they operate on a different scale, they represent a renewed commitment to public ethos in an increasingly privatised world.

Why de-privatise?

In Latin America, essential services such as water, electricity, telecommunications and waste disposal were privatised in the 1990s as part of structural adjustment programs on the recommendation of international institutions like the World Bank and the International Monetary Fund (IMF). They had hoped that this would stabilise the economy during the debt crisis of the 1980s, but privatisation did not achieve the success that was forecasted. Brief economic stability due to an increase in cash flow from the sale of public companies was achieved,[1] but for the most part, growth mostly benefited multinational companies and large economic groups. It never surpassed the levels of growth seen under the Import Substitution Industrialisation (ISI) policies of the 1980s, and due to low rates of taxation and royalties, interest payments on debt and profit maximisation mentalities, a large portion of the income and benefits from any growth that was experienced was sent back to developed countries.[2] The consensus held that the more market governance there was, the less corruption, cronyism and inefficiency in the state would affect economic stability. Even in cases where companies were not fully privatised, 'public' companies started to implement corporatisation and New Public Management focusing on efficiency and profit maximisation as opposed to public values such as equity and affordability. This initially dealt with some of the issues resulting from corruption but it also undermined control and accountability.[3] The survey data highlight that in most cases it created spaces for new corruption where private companies started to circumvent regulation, deny transparency, neglect contractual obligations and ignore quotas for reinvestment because it became more difficult for the government and society to oversee actions in the private sector.

Within a decade of the transition, inequitable development was rampant, profit became more important than people, and the ownership and control of essential services was taken away from the people who used them. This provoked immense discontent, and the popular perception of privatisation's negative impacts soared in the region. By 2001, 60 per cent of respondents to a region-wide *Latinobarómetro* survey either 'disagreed' or 'strongly disagreed' with privatisation as an instrument to improve social welfare.[4] People were conscious of the fact that not only did privatisation limit access to services and make them more expensive, it was also accompanied by less and less popular control over decision making. Due to privatisation, the culture and practice of policy within state institutions had become shaped by the pursuit of economic liberalisation and this drastically reduced popular access to the state, and supported the view that the people's perspective was not valuable in these processes.[5] Around the turn of the new millennium we started to see a decline in right-wing political parties amidst immense political pressure from social movements demanding the redistribution of social goods and citizenship from below.[6] From the *Piqueteros* in Argentina, the Landless Movement in Brazil, the *Cocaleros* in Bolivia and the *Zapatistas* in Mexico to the Council of Social Movements in Chile, these new social movements were instrumental in shaping the succession of left-leaning governments that were elected in the region after 2000.[7] Between 2010 and 2015 leftist presidents were elected and held office in half of the countries in Latin America including Argentina, Bolivia, Brazil, Dominican Republic, Ecuador, El Salvador, Nicaragua, Uruguay and Venezuela. Many of them were elected specifically because they campaigned on redressing social issues associated with the failures of privatisation, renationalisation being one of the means to this end.[8]

Expressed motivations

We looked at the motivations behind 33 cases of renationalisation found in Venezuela, Bolivia, Ecuador, Argentina, Belize, Uruguay, Nicaragua and the Dominican Republic. The data collected for the cases came from a desktop study of executive decrees, public broadcasts, executive speeches, news coverage and a review of the literature on renationalisation cases. We focused on objectives and values in cases that prioritised transparency, equity, universal access, affordability, environmental sustainability, quality services, public participation and/or fair pay for secure service jobs. Research was thorough and conducted systematically, but due to time and resource constraints, the survey does not include all renationalisation cases in the region, and thus the conclusions drawn here regarding what were found as the most prominent motivations for renationalisation in Latin America should be read with these limitations in mind. An analysis of the data revealed 10 separate motivations were expressed in the research across the 33 cases we considered in the survey. These motivations were tallied across the 33 cases to see how frequently they appeared. The frequency of each of the motivations appears in Table 1 and they are listed from most to least frequent.

Table 1. Frequency of expressed motivations

Expressed motivations	Frequency
Private sector mismanagement (corruption, bribery, breach of contract, excessive dividends, profits above contractual limits, etc.)	60%
Regain public ownership and control	54%
Redistribution between the rich and the poor	33%
Prioritise and increase reinvestment	30%
Increase the general rents of the state	15%
Lower the cost of basic services	15%
Increase access to services	15%
Social programming/benefits	12%
Implement socialist values	12%
Centralisation	12%

Table 1 highlights that the most commonly expressed motivation among these cases were instances of private sector mismanagement. In 20 of the 33 cases or 60 per cent of the cases analysed, this registered as a central concern underpinning the decision to renationalise. For instance, in Argentina in 2004 the Néstor Kirchner government renationalised French-owned telecommunication company Thales Spectrum SA citing insufficient investment, failure to pay royalty payments and posting profits above contractual limitations. In Bolivia in 2010, the Evo Morales administration renationalised the French-owned electricity distribution company *Electricidad Corani* and renamed it *Empresa Nacional de Electricidad* because high levels of financial insolvency, environmental concerns and the mismanagement of plant operations were altering effective capacity and threatening energy security in the country. In Ecuador in 2014, the Rafael Correa administration renationalised the private pension fund scheme amidst coverage inequalities, volatile returns and complaints that payments for unemployment benefits were not being made. In Venezuela in 2007, the Hugo Chavez administration renationalised majority US-owned CANTV due to unfulfilled investment obligations, excessive dividends and company mismanagement. These examples highlight that private sector partnerships and liberalisation are not strong solutions for financing public service infrastructure effectively. Not least of all, this approach is at odds with the desire of many of these countries to reprioritise society in economic and political policies. This is evident in the fact that motivations that prioritise people such as equitable distribution, reinvestment in services, universal access and lowering the cost of services were widely expressed in these cases. The following section highlights that several of these cases – though not without their limitations – show exemplary commitment to democratisation and public values that illustrate the benefit of public ownership of essential services.

Key renationalisations in Latin America

Bolivia, oil and gas sector, 2006

In 2006 under pressure from the public and various activist groups, President Morales declared he would make good on his election promise to nationalise the country's hydrocarbon sector. By executive decree, the Morales administration drafted an addendum to *Ley de Hidrocarburos* citing the unconstitutional nature of the private contracts that had been signed in the 1990s because they gave away the people's constitutional right to own and control mineral deposits both below and above ground. The private contracts stripped the state of the right to commercialise and retail the deposits once they left the ground. The executive decree put an end to what was popularly understood by civil society groups as the unjust subversion of the constitutional rights of Bolivians by private actors. Subsequently, Morales expropriated all the gas and oil fields in the country and multinational companies were forced to sign new contracts in which they received minority stakes, while the state-owned *Yacimientos Petrolíferos Fiscales Bolivianos* (YPFB) gained a majority stake and all ownership rights. The new division meant in practice that private companies would now take home 18 per cent of profits in the sector and the state 82 per cent, rather than the other way around.[9] This nationalisation is particularly important because it has become the backbone of the Bolivian economy and symbolises Bolivia's return to a commodity economy. The revenue generated from the oil and gas sector that is paid into the treasury is a key pillar of the government's wealth distribution and social inclusion initiatives. Moreover, regaining control and increasing revenue from the oil and gas sector is also what facilitated subsequent nationalisations in the electricity, pension and telecommunications sectors.[10]

Benefits. The 10th anniversary of the nationalisation was celebrated in 2016, with Morales announcing that US$31.5 billion in revenue had been generated following the 2006 decision, in comparison to the prior decade when revenue was only US$3.5 billion. The nationalisation tripled Bolivia's gross domestic product from 2005-2015 and increased investment in public spending by over 750 per cent in the last nine years.[11] Furthermore, in comparison to other renationalisations in the hydrocarbons sector, the Bolivian experience seems to exhibit a stronger commitment to public values. In Venezuela higher instances of transparency issues and corruption in contract assignments seem to plague the process, and the legislated 50 per cent state ownership quorum is not being met. In contrast, in Bolivia the government held a referendum in 2004 to gauge the public opinion about nationalisation, state ownership and the 1996 privatisation law. The results of the referendum showed that 92 per cent of voters supported nationalising Bolivia's gas and oil sector and 87 per cent supported repealing the 1996 privatisation law.[12]

Other benefits include prioritising local and national investment over investment from international companies. Local content commitments that employ Bolivians working in locally owned businesses in the manufacturing sector such as welders, administrators and engineers are now a part of negotiations for gas industry contracts. Consultation processes were also improved with local communities. Morales issued Supreme Decree N. 3058 in combination with Law 3058 making environmental consultation with local communities and indigenous populations living around development sites mandatory. Although this is an achievement for participation, the extent and impact of participation continues to be considered as that law makes it clear that wherein consensus cannot be reached, decisions will be made in the national interest.[13] Lastly, the nationalisation has helped Bolivia achieve greater independence internationally. The earnings from the hydrocarbon sector redirect to the Central Bank, which has stabilised adequate levels of US currency to cover the country's import expenses (international reserves). This prevents the administration from balance-of-payment crises and eradicates the need to resort to IMF loans that Bolivia was heavily dependent upon prior to the decision to nationalise in 2006.

Bolivia, national pension fund, 2006

Prior to the decision to nationalise, Bolivia's pension fund was organised as a privately owned, individually funded pension fund (IFF) wherein the private sector controlled investment decisions and a Spanish and Swiss consortium managed the pension fund. In 2010 Bolivia announced it would replace the IFF pension system with a public pay-as-you-go system and constructed a universal, non-contributor pension benefit for Bolivians over the age of 60 called *Renta Dignidad*. The benefit expanded eligibility to more citizens and increased the annual benefit amount by 25 per cent from 1,800 Bolívianos (US$235) to 2,400 Bolívianos (US$314). Also, the benefit differentiates payments, so that eligible citizens who already contribute to or receive an old-age pension from another source only receive 75 per cent of the regular *Renta Dignidad* amount that others receive.[14] The main motivations in this case were to lower the minimum retirement age, to better distribute benefits and to take back control of investment management. The reform reverses the instruments put in place as part of the 1997 structural adjustment program by eliminating the private management of the funds and replacing them with a single government-owned asset management agency. Since the Morales administration took control of the pension fund management, financing comes from a fixed share of the special direct tax on the newly nationalised hydrocarbon sector, through contributions from all levels of government, and dividends from other recently nationalised public enterprises such as the electricity and telecommunication sectors.[15]

Benefits. The reformed pension fund has received excellent assessments from national and international organisations. Overall, it has significantly improved the quality of life for the elderly population in Bolivia and has helped reduce the rates of extreme poverty in the country. For instance, the Morales administration made benefits available at the age of 60, and lowered the minimum age for retirement from 65 to 58 making the retirement age more realistic given the average life expectancy is 68 years of age for males and 73 years of age for females. The amount of the universal benefit is approximately US$340 annually for those not already receiving a social security benefit, and 75 per cent of that amount for those that are, and benefits can be paid monthly or, as a new feature of the public system, recipients can choose to accumulate benefits for up to 12 months for one annual pay-out. This is a significant increase in monthly pension payments that represents a more equitable distribution of the benefits and pay outs across different social groups. Of the 800,000 beneficiaries who received the benefit in 2010, 83 per cent were not already receiving a pension from the Social Security Scheme because they had worked in the informal sector and/or experienced extended periods of unemployment. Since the benefit was launched in 2008, over US$500 million has been redirected from profit margins in the private sector to the Bolivian people.

Argentina, postal service, 2003

Correo Argentino (CORASA) was the first public service to be nationalised under President Kirchner's administration. Prior to nationalisation *Correo Argentino* had been privatised under the Carlos Menem administration in 1997 using an executive decree. The Argentine investment firm called *Grupo Macri* gained control of the sector and was awarded a 30-year concession as provider. Contract stipulations included: that Group Macri had a commitment to pay a biannual fee to the state for operating the service, and that they must continue the employment of the current workforce, unless they revised existing contracts within the first 180 days of the concession. In exchange, the government would continue to pay a regional subsidy to Group Macri for having to operate at a loss in more remote parts of the country to continue providing service to all of Argentina.[17] Just two years after the concession was signed in 1999, Group Macri stopped making the royalty payments to the government, service quality remained poor despite forecasting improvements, rural routes were poorly serviced and prices increased several times during the concessionary period. In 2003 on recommendation from the auditor general, the Kirchner administration terminated Group Macri's concession and renationalised the postal service.

Benefits. Although the postal service was operating at a severe loss due to the privatisation, the Kirchner administration managed to improve service provision and to reprioritise the rural route connections that had been neglected by Group Macri. Moreover, they lowered the cost of service provision and increased reliability and accountability in operations.

However, as of February 2017, the postal service has been the object of protest in Argentina. Discontent is linked to a deal that newly elected President Mauricio Macri (son of Franco Macri, the owner of the late postal concessionary Group Macri) struck with his father's company a few months after taking office in 2015. While still concessionary of the postal service, Group Macri had declared bankruptcy in 2001 and owed over US$128 million to the government. While a repayment deal was never reached under the Kirchner administration, Macri recently revalued the debt at US$19 million and allowed the company to repay it over 15 years at a low interest rate of 7 per cent,[18] raising concerns regarding conflicts of interest and transparency in his presidency.

Argentina, air transport, 2008

The governments of presidents Néstor Kirchner (2003-2007) and Cristina Kirchner (2007-2015) made national unity, inclusion and equity an important part of their economic, political and social policies during their time in office in Argentina. In 2008 the government of President Christina Kirchner decided to renationalise the airline company *Aerolineas Argentinas*. Prior to the nationalisation, the airline had been owned by a Spanish consortium called Group Marsans. At the time of nationalisation, the private company had amassed a deficit of US$900 million due to poor management, corruption and excessive dividends to top-ranking executives. As a result of the nationalisation, Group Marsans filed an international litigation suit with the International Centre for Settlement of Investment Disputes (ICSID) headed by the World Bank citing unfair treatment during the expropriation of *Aerolineas Argentinas*. Group Marsans demanded that the government pay them US$1.4 billion in damages. The dispute remains unresolved and Group Marsans has since filed for bankruptcy. The main motivation behind this nationalisation was to unite rural and urban areas of Argentina by providing domestic routes that were deemed unprofitable under the private scheme. The Kirchner administration wanted to regain public control to make up for years of underinvestment, excessive dividends and poor operational management in the private sector. They hoped that reorganising the airline would increase passenger traffic to lower the cost of domestic airfare and establish state control over the domestic market.

Benefits. Since the nationalisation, the airline's financial standing has improved dramatically. Passenger traffic for the group reached a record 8.5 million in 2013, which represents a 57 per cent increase from the time of its renationalisation in 2008. Revenues rose to a record of US$2 billion in 2013, which represents an 85 per cent increase from revenues recorded in 2008.[19] New domestic routes included connecting the port city Buenos Aires to Rio Gallegos located in the Southern tip of Argentina, and Cordoba and Salta located in the North. It currently covers over 80 per cent of all domestic flights. However, with the election of centre-right President Mauricio Macri, the administration is keen to reprivatise some of the sectors nationalised by the Kirchner administrations. As part of his administration's recent inquiry into an 'opening the skies' initiative *Aerolineas Argentina* is being considered for reprivatisation. Although public protests have been ongoing since December 2016 and the public scheme designed by the Kirchners has made significant improvement in growth since renationalisation, the new pro-market policies of the Macri administration classify the company as unprofitable.[20]

Conclusion

As these examples illustrate the renationalisation of public services in Latin America is not without its challenges. Though expressed discontent for privatisation and a desire for change were at the heart of most of these cases, very few achieved this expressed desire for a full departure from private sector participation. Many governments ended up having to retain unpopular economic strategies to finance social programming, or rolled out programs that satisfy only a fraction of the initial demands. In other cases, debts incurred due to privatisation have had a negative impact on extending the quality of services in the region. For certain, it has become increasingly more difficult for countries in the region to break the private sector mould and go fully public because of the consequences they face from the earlier implementation of neoliberal instruments. Also concerning is the reality that change is coming about in a lot of these cases by executive decree, and consensus is not being built. Moreover, some countries are reverting back to the top-down centralised statist approach of the 1950s and reinstating commodity economies that provide stability in the short term, but carry the risk of boom-and-bust phases in the long term as the price of the commodity rises and falls.[21] Finally, prominent affluent social pockets with long-standing family ties continue to control a lot of important industries in the region, and this continues to jeopardise what governments can do toward achieving democratisation along with a conversion to public ownership.

Yet, the examples also highlight that returning to publicly owned essential services is not only an expressed desire in the region, but a viable alternative. Bolivians received US$500 million that would have otherwise made its way into private pockets were it not for renationalisation. Argentinians living along rural routes were given the ability to send and receive mail regularly in their home towns as a result of renationalisation. With many of these renationalisations occurring as early as 2012, it is unclear yet what the long-term outcomes may be. Whether renationalisation will succeed in satisfying social demand for basic services democratically, or whether the sheer size of the task amidst the pressure of neoliberal constraints and recent electoral shifts to the right will overwhelm efforts for change. Uncertain as it may be, we can take inspiration from these transitions. The findings of the survey highlight that these cases are spaces in the region where progressive policy alternatives are being thought about and implemented, and where debate and politics[22] in an increasingly apolitical world[23] have emerged and weakened the hegemony of the Washington Consensus in the region – and that is no small feat.

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