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Explaining hydrocarbon nationalization in Latin America: Economics and political ideology

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ABSTRACT

Recent hydrocarbon nationalizations in Bolivia, Venezuela, and Ecuador have renewed debates about the dangers of radicals, populists, or leftists. But, while some of these presidents have acted aggressively towards multinational owners, as a group their policies have not differed greatly from non-leftists facing similar circumstances. To test our hypothesis, we provide a detailed three-variable coding of every Mexican and South American president (for all countries with oil resources), as well as a coding of their policies towards the hydrocarbons industry. The historical review shows that political leaders from all sides of the ideological spectrum have advocated, pursued, or sustained nationalizations, and thus there is no clear relation between these political labels and nationalization policies. An examination of two alternative hypotheses – timing and starting point – finds that while nationalizations and privatizations do come

in bunches, the hydrocarbon policy and economic circumstances that presidents inherit are more likely to determine the policy that they pursue.

KEYWORDS:

Latin America

oil

gas

hydrocarbons

nationalization

populism

petroleum

Notes

*Numbers in boxes refer to the nationalization typology listed in [Table 4](#). When there are more than three examples in a box, we list the type of nationalization followed by an x and the number of occurrences; 7×5 implies five examples of nationalization type seven (leave nationalized).

1. Bolivia did take control, with compensation, of two small oil refineries owned by Petrobras in addition to renegotiating operating contracts with some foreign investors. See *Business Latin America* (2007: 5).
2. Others have also adopted the “two lefts” argument. See, for example, [Shifter \(2006\)](#) and [Mohr \(2007: 17-19\)](#).
3. See [Kobrin \(1980, 1984\)](#) for an analysis of all types of nationalizations.
4. See [Grosse \(1989\)](#) for a complete list of nationalized industries across Latin America.
5. [Kobrin \(1984\)](#) for example focuses on “expropriation,” which he defines as forced takeover of a single firm or the entire industry. Even this more specific focus, however, is problematic since it fails to account for the difference between taking of a single firm versus a full industry, whether the country took majority control or 100 per cent of a firm or industry, and whether there was a mutually agreeable compensation agreement or not.
6. Taxes on profits imply different symbolic control from royalties on resources, and they can change incentive systems, too. In this paper, however, we treat these changes together, since they still leave management control in private hands.

7. We have also placed Uruguay in this box, but ANCAP (Administración Nacional de Combustibles, Alcohol y Portland) was given a monopoly on importation, production, and distribution of gas and oil (but not extraction); it lacked the refining capacity to meet this mandate until 1937.

8. The 1930 reform went further, giving the state full control of the industry. Parts of that reform were repealed by the military that ousted Yrigoyen in 1930.

9. The 2006 “nationalization” of Occidental was in actuality a court ordered cancellation of a single agreement for exploration coupled with a newly established windfall tax on oil and gas profits. (Business Latin America, 2009, 1).

10. Though Chile's 1968 copper nationalization process would fit here, it would better fit in the monopoly box after 1970.

11. There is some dispute about compensation for the nationalization of US firms in Peru. In 1974 Peru and the US government agreed to an overall compensation of \$76 million, but some sources indicate that some of the money (\$23 million) likely went to the oil company. See Sigmund (1980) and Schwalb Lopez-Aldama ([1979](#)).

12. Even under Allende, however, a constitutional amendment was passed to provide some compensation for nationalized firms. See Sigumnd (1980).

13. For an exception, see Kobrin ([1984](#)) who states that ideology “affect[s] the circumstances of the takeover – such as timing, negotiating, and negotiating posture – [rather] than...whether the expropriation takes place or not” (p. 337). The goal of his paper, however, was more to document waves of nationalization rather than test this hypothesis.

14. See Schamis (2006) for a review of populism, leftism, and policy stances in Latin America.

15. Roberts also notes that personalistic leaders who subordinate themselves to the will of autonomous social movements, such as Evo Morales, are not populists. Our operationalization of populism, however, focuses specifically on political parties.

16. A term is defined as a continuous term in office. Reelection does not add another term, but in a few cases when a president has either changed his ideology between elections or converted himself between institutional types, we have included more than one observation for that president. Those with more than one observation are:

Alessandri (Chile 2), Banzer (Bolivia 2), Barrientos Ortuno (Bolivia 2), Belaunde (Peru 2), Betancourt (Venezuela 2), Caldera (Venezuela 2), Fujimori (Peru 2), Lleras Camargo (Colombia 2), Paz Estenssoro (Bolivia 2), Peron (Argentina 2), Perez (Venezuela 2), Siles Suazo (Bolivia 2), Sanchez de Losada (Bolivia 2), Velasco Ibarra (Ecuador 4). The Argentine generals from 1966-73 and 1976-83 are entered once each.

17. International loans are not usually forthcoming to support nationalizations, but Mexico, for example, did receive credit guarantees in the amount of its payouts to the US companies (Sigmund, [1980](#)).

18. In some cases (e.g. Peru, Ecuador, and Chile) the state has successfully maintained investment flows by encouraging private firms to work in particular sectors of an industry.

19. Statistics from Bloomberg.com “Chile Copper Windfall Makes Bachelet Unable to Placate Laborers,” <<http://www.bloomberg.com/apps/news?pid=20601086&sid=aKuaKcxM9gHc&refer=news>> (accessed on 21 July 2010).

20. Cited at <http://www.petroleumworld.com/SF07112501.htm>, but similar figures given elsewhere (accessed on 21 July 2010).

21. Information about the tax increase comes from two BBC reports, “Venezuela raises oil drilling tax,” by Iain Bruce, October, 11, 2004, <http://news.bbc.co.uk/2/hi/americas/3732224.stm>, and “Chavez doubles tax for oil firms,” May 8, 2006, <http://news.bbc.co.uk/1/hi/world/americas/4750473.stm>. The latter article also reports that Chavez raised the tax on production of heavy crude from 34 to 50 percent (both accessed on 21 July 2010).

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