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# From Privatization to Re-nationalization: What went Wrong with Privatizations in Argentina?

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## Abstract

The privatization process in Argentina is analysed. Beginning with a very ambitious programme, a weak regulatory environment was created because of lack of experience and as a result of the lobbying power of the newly created enterprises. Numerous exclusive privileges were assigned to these sectors, making them the most profitable industries during the 1990s. As the economy crashed in 2001 and the local currency was devalued, a new government took office, which renegotiated all contracts. This resulted in re-privatization and re-nationalization of many services. The pro- and anti-privatization arguments are reviewed, using empirical evidence from Argentina. An in-depth study is also provided of the three sectors where this negotiation was most intense: the railways, water and sewerage and postal services.

# Notes

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<sup>1</sup> Argentina, like many other Latin American countries that had experienced the debt crisis of the 1980s and were forced to renegotiate the debt with creditor banks and the IMF, was pressured to adopt neo-liberal policies, which included the privatization of public enterprises.

<sup>2</sup> John Williamson ([1990](#)) summarized the contents of this consensus: fiscal discipline; redirect public expenditure; tax reform; financial liberalization; adopt a single, competitive exchange rate; trade liberalization; eliminate barriers to foreign direct investment; privatize state-owned enterprises; deregulate market entry and competition; and ensure secure property rights.

<sup>3</sup> Most privatization knowledge was based either on the UK experience or that of a few developing countries (e.g. Chile).

<sup>4</sup> President Carlos Menem was in office for two consecutive periods: 1989–95 and 1995–99.

<sup>5</sup> Petrecollo et al. ([1993](#)) put it this way: "... [C]ontrary to what happened in other national privatisation experiences, and in spite of what had been recommended by experts and by the international organisations with previous experience in this area, the operation did not include cleaning up the firms in order to reestablish their productive capacity. On the contrary, the performance of public firms to be privatised worsened in the period before privatization ... [T]he authorities ended up using the situation of quasi-collapse of the firms and the consequent deterioration in the provision of public services as an argument, widely accepted, in favor of massive privatisation" (p. 71).

<sup>6</sup> It is worth mentioning that dismantling of the labour union power resulted in the emergence of a new political force: "piqueteros" (unemployed workers who blockade

roads as their main way of protesting), which was decisive in the 2001 political crisis.

<sup>7</sup> While the Convertibility Law was sanctioned in April 1991 and indexation was explicitly prohibited, another law (Decreto 2585/91) allowed telecom companies to follow the US evolution of prices as a main reference. In turn, this was applied to other public services. The legal interpretation of this “exception” was that the Convertibility Law referred to indexation only in local currency, as no mention to other currencies was in the Law.

<sup>8</sup> For instance, Edenor S.A., one of the two biggest privatized electricity companies, showed losses due to the devaluation and crisis of about US\$330 million, which was bigger than the accumulated gains from its constituency (own calculations based on information provided by interviews in Edenor S.A.). Aguas Argentinas S.A., water and sewerage for the City of Buenos Aires, declared a loss of US\$400 associated with the devaluation (Press Office, Aguas Argentinas S.A.).

<sup>9</sup> In February 2003 the water and sewage concession in the capital of the Philippines, of which Suez owned over 20%, was terminated. In March 2003, blaming a “global financial pitch”, Suez backed out of a contract they had won in Ho Chi Minh City to provide Vietnam's first build–operate–transfer water treatment plant. In January 2004, Ondeo, Suez's water management subsidiary, pulled out of what was to have been a 10-year contract to manage water services for all of Puerto Rico. In 2005, a Suez subsidiary in Bolivia administered water and sewerage in La Paz and El Alto. Massive popular protests in the latter city were generated by the firm's actions (Hacher, [2004](#)).

<sup>10</sup> Electricité de France is also involved in other developing countries: in Latin America (Brazil and Mexico), Asia (China, Laos and Vietnam) and Africa (Egypt and Ivory Coast).

<sup>11</sup> In August 2005, the City of Buenos Aires suffered a gigantic blackout, mostly in the area operated by Edenor S.A. The enterprise blamed the tariff freeze for necessitating the use of cheap maintenance inputs (Clarín, 25 August 2005). See later for the performance of railways after the devaluation.

<sup>12</sup> For a list of pending cases, see <http://www.worldbank.org/icsid/cases/pending.htm>.

<sup>13</sup> The nationalization merged more than 15 private railways into size relatively independent companies with track networks.

<sup>14</sup> The following web site has a summary:

[http://www1.hcdn.gov.ar/dependencias/ari/Informes/informe\\_ferrocarriles.pdf](http://www1.hcdn.gov.ar/dependencias/ari/Informes/informe_ferrocarriles.pdf).

<sup>15</sup> Página/12, 27 June 2005.

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