This book, a fruitful research under the auspices of the Social Science Research Council and the Ford Foundation, presents the results of insightful case studies of firms in the telecommunications sector conducted by Walter T. Molano in four countries of the Southern Cone of Latin America: Argentina, Brazil, Chile, and Uruguay. In the introductory chapter, Molano sets the theoretical approach, followed by four chapters devoted exclusively to the analysis of the privatization of telecommunications in each country. The book ends with a chapter, which as a conclusion, aims at generalizing the argument of the study.

A key characteristic of the book, from beginning to end, is the commitment of the author to provide a clear rationale for any aspect discussed in it. From the outset, Molano indicates why telecommunications constitutes the unit of analysis of his research. He argues that telecommunications stands out for many important reasons that range from historical, to political, to economic, to strategic, and to technological ones. For example, from a historical standpoint, the first privatization of a telephone company occurred in the government of Margaret Thatcher in 1981 with the sale of British Telecom. This was an important event which was not at all ignored in Chile, if ideological factors are added as well (Schneider, 1992). Furthermore, if the capacity of telecommunications to generate employment and economic activity is also considered vis-a-vis the huge investments needed to make it a viable industry, it is clear that both political and economic factors emerge as decisive in assessing the importance of this sector. Moreover, since telecommunications is, by definition, a strategic sector, its privatization represents a major departure from traditional development strategy, i.e., rather than pursuing a strategy rooted in public ownership, the new strategy is market driven.

In addition, the influence of two fundamental vectors that shape the world today, globalization and technology, provides meaningful reasons for choosing the telecommunications sector for the study of privatization. Finally, as Molano argues, "the sheer magnitude of privatization activity in the telecommunications industry [which] could absorb an estimated $145-$150 billion by the end of the century, thus becoming an important phenomenon that needs to be understood" (p. 4).

It is clear then, as pointed out by Ramamurti's (1996) interesting metaphor of the plum and the lemon, why firms in the telecommunications sector rank so high in meeting the criteria for targeted privatization. Nonetheless, Molano goes further in emphasizing that "by comparing oranges with oranges, an intricate level of understanding about a particular phenomenon [can be] achieved... due to the immense number of privatizations that are yet to come." (p. 125). In addition, the choice of a particular region of the world, like the Southern Cone of Latin America, is consistent with the aims of this study.

Walter T. Molano seeks to answer in this book the following three fundamental questions:

Q1: How does the microeconomic performance of a state-owned telephone company impact the
likelihood that a privatization program will be approved?

Q2: How do the macroeconomic conditions in the privatizing country shape its privatization policies?

Q3: How does the political environment affect the implementation of privatization policies?

In other words, the study focuses on the variance of the outcome, i.e., acceptance or rejection of privatization. In doing so, Molano's inquiry looks first at the set of initial conditions that may prompt a government to pursue or desist privatization; and second at the economic and political conditions of success for implementing privatization programs in telecommunications. Indeed, the author of The Logic of Privatization provides a fresh and realistic view of the privatization process by advancing an interesting thesis that goes beyond Machiavelli's Latin maxim to advise a prince: "Divide ut regnes." Molano's basic premise in the logic of privatization rests upon his observation that the ability of the national executive to control the bargaining process by dividing the plunder to defeat the opposition is critical to the success or failure of the privatization program. Argentina's Menem is an interesting case in point of "captivating alliances" with interest groups, such as business people, labor, and even the military.

Although the theoretical approach of the study is based on conventional analyses of microeconomic issues, as well as macroeconomic factors, consistent with the premise of the research, the author develops a provocative political framework for the implementation of privatization policies. In all likelihood, Molano neglects neither the relevance of a microeconomic factor like efficiency, nor the significance that country-specific macroeconomic factors, such as fiscal crises, external debt, inflation, and the role the multilaterals, may play in the privatization process.

Nevertheless, the political approach defines the originality of this book, though the author acknowledges he has been influenced by a Schattschneider-type (1960) of framework. In a well-developed, two-by-two matrix, the reader gains the insights from a crystal-clear argument on the function of the leadership of the national executive and the power of interest groups. Indeed, a taxonomy of scenarios emerges naturally to explain four results of the privatization policies: stagnation, rejection, acceptance, and desert bidding. It is noteworthy that the pervasive strength-weakness relationship between the leadership of the national executive and the power of interest groups to determine the causal link between a dependent and independent variable may or may not be influenced by an intervening variable, such as the role of institutional rules. The aborted privatization of Telebras in Brazil is a well documented case of the latter.

Among the many merits of Molano's intellectual endeavor, one can cite the rich gold mine the reader finds in each case study, discussed around the conceptual framework introduced in the first chapter. In fact, with a longer view based on meaningful historical observations, the author goes back to basics by pointing out threats and opportunities in each country that may suggest that privatization is not only "the business of the 1990s," but a means to pave the way to the future of these countries. Such a view argues in favor of the notion that privatization helps manage the risks identified in each country regardless of their nature (e.g., technological, political, and market risk).

The argument of The Logic of Privatization is easy to follow because of its coherence and continuity throughout the book. In some respects, the reader benefits from Molano's consistent attention to logic, as practitioners adhere to the gospel of privatization according to Rogozinski's pragmatic ABC, the so-called apostle of privatization, in defiance of economic logic. Molano first finds out the reasons for privatization, analyzes next the role of key actors, and assesses finally the ultimate outcome of privatization. This logic is stressed in the cases of Brazil, Chile, Uruguay and Argentina, respectively.

It is interesting to note, for example, that in the chapter devoted to Brazil, in addition to its specific
aspects, the author develops a set of comparative statistics for performance, digitalization, investment, labor efficiency, and economic measures for the four countries under study. Moreover, the author cares about reworking the statistics from nominal to normalized measures in order to advance his thesis. It is noteworthy that chapters two through five illustrate each possible outcome identified in the political framework. The case of Brazil shows that institutional constraints were mainly responsible for preventing the sale of a strategic state company, TELEBRAS, during the Collor de Mello mandate. By contrast, the sale of CTC in Chile obeyed both macroeconomic and political factors. While the former were a result of a massive fiscal imbalance, the latter resided in the hands of Pinochet's strong centralized power. ANTEL's case in Uruguay connects quite well with the Schattschneider model, in which the rejection was due to misplacing the opportunity window of privatization. While absorbed with the pensioners of the nation, and the fiscal situation prevailing in the agenda of the Lacalle administration, privatization was a third priority.

Finally, the sale of ENTEL in Argentina, consistent with the definition of success as being in the right place at the right time, depicts the swings of a pendulum from Alfonsin to Menem, where the power of the national executive matched a sense of urgency and crisis. Indeed, if Juan Doming Perón nationalized the sector in 1946, a Peronist, President Carlos Menem, led the process to bring back the sector to private hands. In other words, the pendulum swung hard with ENTEL's privatization because Menem made things happen all at once.

After the author examines his thesis in the context of these countries of the Southern Cone, the last chapter seeks to ascertain the basis of good research for generalizing the argument and maximizing the three forms of validity: construct, internal, and external validities. Molano created a database that includes the cases of twenty-three attempted privatizations of the telecommunications sector in developed and developing nations recorded between 1981 and 1995. Through univariate analysis, once again, Walter T. Molano, after transforming his three research questions into six testable hypotheses, demonstrates that the successful privatization in the sector is contingent to the growth rate of the GDP (a macroeconomic variable), and details the role played by two political variables, congressional support and time in office of the national executive. The latter refers to the well known phenomenon of presidentialism in Latin America. More importantly, the author points out correctly that, "Each of the individual factors shaping privatization initiatives does not provide a complete picture of the policy reforms, but analyzed together they provide a better understanding. It is clear that attempts by researchers to understand development phenomena without employing multidisciplinary factors may often result in incomplete explanations" (p. 124).

In conclusion, Walter T. Molano's *The Logic of Privatization* is an excellent book for the mastery of its treatment of the subject. The book provides also an integrative literature review. It is evenly written, with an elegant style, and with helpful notes at the end of each chapter to extend meaningful arguments.

References


March 1998


Reviewed on: March 1, 1998
(c)1998 - Academy of International Business

About JIBS Book Reviews