

Chapter Eight

**New Regimes, New Capacities: The Politics of
Telecommunications Nationalisation and
Liberalisation¹**

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One of the most important and influential ideas of globalisation is that the capacity of states to govern is constrained and diminished by increased liberalisation and competitive markets. This chapter examines the validity of this claim through a comparative historical analysis of the role of the state in the telecommunications industry since the invention of the telephone. Telecommunications had been an extreme case of *étatisation* as it has experienced nationalisation almost all over the world. Starting in Europe as early as 1880, nationalisation spread across the globe, leaving the provision of telecommunications

¹ In Weiss, Linda (ed.) 2002, *States in the Global Economy: Bringing Domestic Institutions Back In*, Cambridge University Press.

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under private ownership in only a handful of countries, most notably the United States.³ Indeed, among the infrastructures of the modern world economy only the delivery of post was more *étatist* than telecommunications. This has changed drastically, however, since the 1980s, when the telecommunications industry experienced radical degrees of liberalisation, Europeanisation, and globalisation. Increasingly telecommunications equipment is traded on competitive rather than protectionist rules. Foreign direct investment in the sector is booming and global alliances have proliferated. Single national networks have been replaced by multiple and competing networks which may operate within traditional technologies (wire telephony) or new and competing technologies (e.g., internet telephony, mobile telephony, and cable telephony). These striking changes are especially evident in the Europeanisation of the telecommunications sector (Schneider et al. 1994; Schmidt 1997; Thatcher 1999; Levi-Faur 1999a). They are also manifested in a series of international agreements, such as the WTO agreement on the liberalisation of government procurement (1994), the Information Technology Agreement (1996), the WTO agreement on trade in basic telephony (1997), and the Mutual Recognition Agreements on the testing and certification of telecommunications equipment (1997) (Levi-Faur 1999b).

The long period since the invention of the telephone is divided roughly into two distinct eras, the era of telecommunications nationalisation (1880s-1970s) and the era of

³ My accounts of the history of world telecommunications industry are based on Bennett (1895); Holcombe (1911); a series of publications by Noam (1992; 1994; 1997; 1998; 1999); as well as systematic collection of secondary sources from various countries.

telecommunications liberalisation (1980s-).⁴ Each of these two eras gave rise to a remarkable political paradox: the paradox of nationalisation and the paradox of liberalisation respectively. These paradoxes are especially visible in the dynamics of nationalisation and liberalisation in Europe and Latin America. While Latin American and southern European countries were very slow to nationalise, western and northern European countries were quick to do so. These findings run counter to the neo-liberal assertions about the negative relations between government ownership and higher level of economic development, so we call this the paradox of nationalisation. Yet in the era of liberalisation Latin American countries have been very quick to privatise, while European (including the southern Europe) countries have been much slower. Moreover, liberalisation in Europe has been manifested primarily in the creation of regulatory institutions for the promotion of competition while in Latin America the emphasis has been on privatisation rather than on the promotion of competition.⁵ Indeed, more regulation in Europe has resulted in more competitive markets while less regulation in Latin America seems to have resulted in less competitive markets. We call this puzzling

⁴ The invention of the telephone in 1876 by Alexander Graham Bell also marked the start of the nationalisation period since some important countries like Germany and Switzerland monopolised the services from its very beginning and thus gave other countries an example to follow (see also the next section of the chapter). The era of nationalisation starts with the divestiture of AT&T (1984), as well as Thatcher's privatisation of Cable and Wireless (1981) and British Telecom (1984). Notable also is the privatisation of Nippon Telegraph and Telephone (1985).

⁵ These observations are based on my own database of telecommunications governance, and on the regulatory database of ITU (www.itu.org) which deals only with liberalisation.

outcome the paradox of liberalisation.⁶ This chapter suggests that while these two paradoxes have unique aspects they are best explained by the notions of state capacities and strength of the state.

In a radical break from conventional wisdom, it is argued here that nowadays telecommunications liberalisation represents the most ambitious effort ever to use telecommunications as a tool for economic development. For almost a century, governments, business, and telecom-users failed to understand the critical economic and social importance of telephony, and subjected the development of their nationalised telephone network to the constraints of the state budget. We know better now, and this knowledge serves as one of the most important rationales for liberalisation. Still, this new knowledge is not a sufficient factor for liberalisation. A critical component is the strength of the state and its capacities as it is that strength that allows the creation of new capacities and it is these that allow competition to work. This proposition disputes the globalist argument about the demise of the nation-state in the field of telecommunications - one of their most important cases.⁷ The telecommunications sector commonly serves, it is argued, as '[a] classic, extreme example of one process by which authority has shifted massively away from the governments of states to the corporate management of firms'. Furthermore, 'The result of this shift has been to narrow the options open to supposedly sovereign states, and to extend the opportunities - and risk - of those enterprises engaged in the supply of services and the hardware by which the services are offered on the

⁶ This paradoxical outcome was captured elegantly by Steven Vogel's (1996) title 'Freer markets more rules'. Vogel's study includes mainly banking and telecoms, but these features are now common across the entire economy, from electricity to transport, and from finance to water supply.

⁷ Telecommunications and finance are the archetypal cases in globalist theory building.

market' (Strange 1996: 100).⁸ As competition increases and markets widen, telecommunications may become a paradigmatic case for political and economic change. This makes it a critical case in the debate about the relations between globalisation and state capacity for economic governance.

The following question is therefore raised here: what can we learn about the role of the state in the telecommunications sector from the conflicting approaches to nationalisation and liberalisation across Europe and Latin America? The research design that supports the discussion of this question is broad in two senses. First, it compares two different political periods, namely the era of nationalisation (1880s-1960s) and the era of liberalisation (1980s-). Second, it maximises the range of countries studied by including a variety of states: old and new, economically developed and underdeveloped, liberal and *étatist*. By doing so it follows the logic that variations in a data-set have to be maximised in order to boost the validity of its argument.⁹ Variations are maximised within each era and between eras.

The current process of liberalisation includes many components. Particularly important are the policies of privatisation, deregulation, and regulation-for-competition (Levi-Faur 1998). The relative mix of privatisation and regulatory reform and their sequencing have strong implications for the success of the policy. Unfortunately, the globalist literature places too much emphasis on the policies of privatisation and far too little on the content of regulatory reform. Moreover, regulatory reforms are identified

⁸ Similar suggestions were made by Hulsink (1999) and Sandholtz (1998)

⁹ In Przeworski and Teune's (1970) terminology, we follow a 'most different system' design.

mostly with deregulation rather than reregulation.¹⁰ In fact, the reregulation aspects rather than the deregulation aspects of the reforms tell most about the strength of the state and are the most critical aspects for the success of liberalisation. Indeed, it is the strength of the state rather than its retreat that allows effective liberalisation. This last suggestion turns the tables on the neo-liberal argument that liberalisation, especially competition in telecommunications, is a product of state retreat.

Regional and national trajectories of nationalisation

States all over the world, with only few exceptions, nationalised the provision of their countries' telecommunications services. Cross-national and regional variations are however significant. These variations are observable in regard to the timing, the origin, and the scope of nationalisation, as well as to the degree to which it was directed against foreign domination. On the basis of these variations, five major trajectories of nationalisation may be identified: *étatist*, timid *étatist*, colonial, communist, and anti-imperialist.¹¹ While most European countries have followed the trajectories of *étatism*

¹⁰ A notable exception is Vogel's work (1996).

¹¹ Space constraints limit our discussion to these three trajectories alone. The colonialist trajectory encompasses all the countries that inherited their *étatist* provision of telecommunications services from the colonial government and kept it intact. The communist trajectory includes all countries that nationalised their industry following the rise of communist parties inspired by Russian or Chinese models of socialism. The most notable exception among countries outside these trajectories is the United States' telecommunications regime, which was based on regulated private ownership. Demands for nationalisation and objections to private ownership are observable also in the US case, but unlike other cases they did not result in public ownership except for about one year during the First World War.

and timid *étatisme*, the Latin American and the southern European countries fall into the anti-imperialist trajectory.

The *étatist* trajectory includes countries that nationalised their entire telephone network before First World War and created a highly stable and uncontested *étatist* order for the governance of telephony. In this trajectory, which was highly influential as to the future governance of telephony all over the world, the government became the owner, the regulator, the policy maker, and the service provider of telecommunications services. The *étatist* trajectory includes mostly European countries and their extension to the New World: Germany (nationalisation since 1878), France (1889), Australia (1887), New Zealand (1880), Japan (1889), Luxembourg (1889), Switzerland (1880), Austria (1895), Belgium (1896), and Britain (1912).

The trajectory of timid *étatisme* includes all the countries that entered early (before WWI) into the provision of long-distance telephony services but maintained a considerably fragmented structure, compromising private, municipal, regional, and provincial forms of supply in the local networks during the postwar period. The timid trajectory covers a relatively small number of countries from northern Europe, such as Denmark, where a telecommunications act passed by the Danish Parliament in 1897 gave the state monopoly over the provision of telephony but allowed concessions to private companies. While the Danish government kept private ownership intact, it acted to promote consolidation and reorganisation on a regional basis. The number of telephone providers was first reduced from fifty-seven companies to eleven by the turn of the 20th century and to four by 1953. Other countries that followed similar policies in that period, and therefore are included in this trajectory, are the Netherlands, Finland, and Norway.

The third trajectory of nationalisation is the anti-imperialist. This trajectory includes all countries that nationalised their telecommunications networks in the postwar period. In all cases they nationalised their telecommunications companies from ‘foreign’ owners as a declaration of economic nationalism and economic and technological independence. Nationalisation in this trajectory had a mixture of a populist and a nationalist hue. For example, in Argentina Peron nationalised telegraph and telephone in 1946. In his words, they constituted ‘the nervous system of the nation’. For him, foreign control of the system was an anachronism ‘incompatible with sentiments of national sovereignty and the level of domestic development’ (Petrazzini 1995: 56). All the Latin American countries (except Uruguay, where nationalisation occurred in 1915) and many of the southern European countries, notably Spain (1945), Portugal (1969), and Greece (1945), belong to this trajectory. Graph 1 presents the cumulative number of nationalisation occurrences for the two groups of countries. While the take-off stage of the process of diffusion started as early as the 1880 for the 13 northern and western European countries that were studied here, it started as late as 1943 for Latin America and southern Europe.

Insert Graph 1 about here

What explains the late nationalisation in Latin America and southern Europe?. How was it that those states, wherein telephony spread so poorly and slowly, followed for so long a liberal regime of private foreign ownership, when highly developed capitalist countries in western and northern Europe nationalised the sector so early and so thoroughly? The next

section of the chapter shows that the major cause, which will also help us to shed light on the paradox of liberalisation, is the variations in state capacities and in the strength of the state.

Resolving the paradox of nationalisation

The variations in the timing of nationalisation between western and northern Europe on the one hand and Latin America and southern Europe on the other are not unique to telecommunications but represent a more general trend across sectors and policy arenas. Late-nationalisation in Latin America and southern Europe is evident in other sectors as well: in water and in electricity, in broadcasting and in the provision of welfare services. Thus, unlike in Europe, telecommunications nationalisation in these countries is not a distinct sectoral process but a reflection of national conditions. This observation leads us to suggest that the origins of telecommunications nationalisation are not to be found only in the sector's special characteristics and particular pattern of interest intermediation. They also lie in the broader political characteristics of the two groups of countries, namely late nationalisation reflects the belated process of state building in Latin America and southern Europe. Accordingly, early nationalisation reflects a more successful process of state building in western and northern Europe. The relations between nationalisation and state strength are however not causal. Nationalisation does not necessarily enhance the strength of the state. In fact, when it finally reached Latin America and southern Europe it created such pressures on the budget and administrative capacities of the state that it might even be argued that the state was weakened in those countries after nationalisation.

Could it be that nationalisation represents an attempt to solve efficiency problems? Indeed, this is how nationalisation is often portrayed: a response by the state to the problem of natural monopoly on the one hand and networks integration on the other.¹² This functionalist interpretation makes sense, but only to a certain extent. If world-wide nationalisation was primarily motivated by a problem-solving logic, it is reasonable to suggest that the slow spread of telephony in Latin America and southern Europe under private ownership made their telecom industries better candidates for nationalisation than in western and northern Europe. Yet, we know that the opposite had happened. Thus, the fact that the telephone was not nationalised in these areas points to the limits of the problem-solving approach in policy analysis. Alternatively, nationalisation may be understood as an exercise by European politicians, and later by Latin-American politicians, to express their ability to act for their own preferences in respect of business (domestic and foreign). Their purpose was to solve economic problems (natural monopoly rents and incentives and network integration) on the one hand and to tackle problems of social support (legitimacy) on the other. These two goals of state action are intimately linked to the notions of strong and weak states and may explain many of the variations in the timing of nationalisation in the two groups of countries. However, before doing that we should first clarify the concept of state strength and its relation to the notions of autonomy and social support. In doing so we rely on Eric Nordlinger's study of state autonomy and strength of the state (Nordlinger 1981; 1987). According to

¹² Network integration allows the subscriber of one telephone providers to contact the subscriber of another telephone providers. Evidences from the early history of telephony demonstrate that competing providers did not allow network integration under reasonable terms. For many subscribers this meant that they had to subscribe to two telephone services in order to achieve maximum benefits from the telephone networks.

Nordlinger, states vary according to their ranking on two variables: autonomy and support. 'Strong states are those that enjoy high autonomy and support. They are doubly strong in that they regularly act on their preferences and have societal support in doing so... [Weak states] strive to act autonomously despite divergent societal preferences, but failing to do so, they rank low in both autonomy and support' (Nordlinger 1987: 369).

Variations in the autonomy of the state between these two groups of countries serve as our point of departure. A positive decision to nationalise the telecommunications industry requires not only political entrepreneurship, skills that were probably available in Latin America and southern Europe, but also a supportive institutional framework. Such a framework is supplied by strong states that enjoy penetrative policy capacities. These strong states are generally to be found in Europe and their origins are usually related to their capacity to mobilise resources to compete militarily through the development of an extractive state apparatus (Tilly 1975). State formation in Latin America was characterised by comparatively low levels of warfare and by a long period of Spanish and Portuguese patrimonial rule, which was hostile to the creation of *corps intermediaires*. Both factors led to the creation of relatively weak states in Latin America (cf. Anglade and Fortin 1985: 287). In this regard, Latin American state formation is similar to that of Greece Spain and Portugal. Nationalisation of telecommunications or of any industry in this weak institutional context required more than the creativity of an individual or even of a committed group. State ownership of the telecommunications industry required policy capacities that were barely at the disposal of Latin American and southern European states at that time. It required a legal framework, financial resources, and technological and managerial capacities, whose absence impeded

telecommunications nationalisation. The high costs of nationalisation, due to these difficulties, were not balanced by its benefits in terms of social support. Not that it was impossible to build a coalition in favour of nationalisation or that there was any significant social opposition to such a move. On the contrary, it was possible to carry out this policy and to design a telephone regime that would reward its entrepreneurs with social support. However, the oligarchic regimes in Latin America and southern Europe were not interested in the maximisation of social support and regime legitimacy. Telecommunications nationalisation had to wait until populist politicians such as Vargas in Brazil and Peron in Argentina found it politically beneficial and useful to enhance their legitimacy.

The demand for legitimate political action is greater in societies where social participation is on the rise or where there are changes in social orientations. European state elites in the late nineteenth century and the first decades of the twentieth faced popular demands and pressures for democratic change. These pressures challenged the legitimacy of the state in the sense that they created a new agenda and new criteria for good governance. Specifically they made economic development and the economic welfare of the population a political matter, hence a legitimate sphere for state action. Evidence of these developments in Europe is widespread. Probably the most notable evidence, but not most widely studied, concerns the *étatisation* of certain social services that later became the basis of the welfare state. While there were significant variations in the timing of these developments within Europe, the widest were between northern and western Europe and Latin America and southern Europe. Political pressures from labour

and other groups existed in both regions.¹³ While it is difficult to compare the weight of social pressures in these two groups of countries, the way these pressures were accommodated seems to have differed. Western and northern Europe experienced the institutionalisation of a highly competitive party system, a process that occurred only marginally in Latin America and southern Europe. These differences made the state in the latter regions less responsive to social demands because it lacked the means to hear them and to direct them towards constructive political projects.

Trajectories of telecommunications liberalisation

Telecommunications liberalisation reflects a radical change as to what policy makers, professionals, and lay persons perceive as a desirable and efficient governance regime. In contrast to the recent past, private provision of telecommunications is now widely accepted. To some extent it is part of a more general trend of ‘hegemony breakdown’ (Kalyvas 1994: 316) and ‘paradigmatic change’ (Hall 1989) that exert an effect well beyond telecommunications. Yet it has peculiar sectoral characteristics, something that is often understood to reflect policy learning. The argument that much of the change reflects ‘learning’ is plausible especially since it downplays the origin of liberalisation as an expression of right-wing ideology in highly divided countries (such as Thatcher’s Britain and Pinochet’s Chile). Instead liberalisation is embraced and legitimised as a pragmatic step and a ‘rational’ policy option. It is nowadays advocated by political leaders of the left as well as the right, by engineers as well as economists, in highly economically developed countries as well as in less developed ones. Indeed, the train of

¹³ See Collier and Collier (1991) on labour incorporation in Latin America.

telecommunications liberalisation seems to move up the hills and down the dales at varying speeds - but in general with sweeping power. Some evidence of this sweeping power is presented in graph 2, showing the diffusion of privatisation and regulatory authorities around the world. Before the early 1980s the number of these institutions was marginal but after the establishment of Oftel (the British telecommunications regulator) in 1984 they became widespread all over the world. In fact their spread was faster than that of privatisation, the most celebrated component of the liberalisation programme.

Insert graph 2 about here

As in the case of nationalisation, different trajectories of liberalisation may be distinguished among the world's countries. Three trajectories that have originated since the early 1980s are especially important for our analysis. These are the deregulatory (ideologically-driven) trajectory, the privatisation-oriented trajectory, and the market-enforcing trajectory. These distinctions are based on the timing and scope of privatisation and liberalisation, as well as the extent to which they also involved regulatory reform. All three trajectories are part of the liberalisation process, and demonstrate the sweeping nature of change in the way in which states govern the utilities sectors in general and telecoms in particular. Yet as in the case of nationalisation, the commonalties are accompanied by considerable variation, which reveals much about the new role of the state in the economy.

The deregulatory trajectory includes all countries that privatised or restructured their operators in the first half of the 1980s and made a sustained effort to eliminate

regulatory constraints on the supply of services by business actors. This trajectory carries a particular ideological (neo-liberal) shade, which may be illustrated best by the attitudes of policy makers to the regulatory design of the regime and especially the sector's regulatory authority. Major examples in this trajectory of liberalisation are the American divestiture of AT&T (see Tilton, Chapter 9), the British privatisation of British Telecom in 1984, as well as the privatisation of Chile's telecom operators since the end of 1970s. In all three cases the policy process started considerably earlier than in other countries, and justifications for privatisation (and in the American case divestiture) were legitimised on ideological grounds, namely the preference for private ownership, increased competition, or self-regulated markets.

The privatisation-oriented trajectory covers all countries that directed their efforts to the comprehensive transfer of ownership from public and private hands but turned only limited attention (or effort) to re-designing the regulatory framework governing the supply of services. In short, these countries substituted public monopoly with private monopoly either by delaying the establishment of regulatory authorities for the promotion of competition or simply by explicitly committing themselves to the monopoly provision of telecommunications. The group of countries that fits squarely into this trajectory is that of Latin America – which implemented sweeping and comprehensive privatisation of the telecom industry (more than any other region) but at the same time preserved the old monopolist structure (Manzetti 1999:1; Wellenius 2000:191).¹⁴ In doing this group gave priority to short-term revenue considerations (maximising the revenues from

¹⁴ For country-by-country data see the ITU regulatory database, <http://www.itu.org>

privatisation) over the long-term prospects of their telecom markets (which largely depend on maximising investment opportunities and competition).

The market-enforcing trajectory embraces all countries that followed the logic of privatisation but gave precedence to regulatory reform. The emphasis on regulatory reform was reflected in these countries' moves to ensure the establishment of a strong pro-competitive regulatory framework before privatising, and when privatising, doing so slowly and gradually. The outstanding example of this gradual but steady process of liberalisation is that of the EU member states. Instead of acting unilaterally, like the British, the member states used the institutions of the EU to maximise their gains from liberalisation and to reduce the conflicts and pain involved by taking more than a decade to implement full liberalisation (Levi-Faur 1999a). Telecom liberalisation in some cases was implemented on its own terms but also as part of international deals among the member states, and thus was used to increase their gains from this policy step.¹⁵ Most of the Asian countries also belong to this trajectory, although they are following this road in a very cautious (read 'timid') fashion.¹⁶ In the next section we propose an explanation for the paradox of liberalisation and for the different trajectories followed by Latin America and Europe. We propose that the paradox of liberalisation and the variations in its

¹⁵ See, for example, the Franco-German deal in telecoms (Schneider and Vedel 1999).

¹⁶ Outside these trajectories are steadily dwindling groups of countries that include mainly Middle Eastern and African countries. But if the current rate of 'jumping onto the liberalisation bandwagon' continues, one may safely predict that these countries will also liberalise their telecommunications industries in the coming decade.

trajectories can be understood by means of the same framework used to explain the paradox of nationalisation.

The paradox of liberalisation

The different trajectories of change in Latin America and Europe have important implications for economic performance in these regions. Without a reliable mechanism of governance that can promote competition and level the field for new competitors, the gains from privatisation will be limited and most probably will find their way to a limited group of managers and shareholders. They are important, however, also because of the evident paradox of liberalisation: more regulation in Europe seems to have resulted in more competitive markets while less regulation in Latin America seems to have resulted in less competitive markets. This evidence is especially puzzling because win-lose interpretations of state-market relations assert that competitive markets are compatible with the retreat of the state.

Before offering our explanation for the trajectories of liberalisation and for the paradox of positive-sum relations between some regulatory mechanisms and competitive markets, let us examine the explanatory power of some prevalent approaches to the study of telecommunications. Starting with labour power, one may ascribe the sweeping change towards privatisation in telecommunications in Latin America to the weakness of the unions in these regions, compared with the power of unions in western and northern Europe. This seems a valid explanation when liberalisation is narrowed down to the component of privatisation alone, but as already suggested liberalisation also means the promotion of competition. The threat of competition to the power of labour and to the

union leaders' position of power is more ominous than the threat of privatisation (layoffs and pay cuts are more extensive under threats of competition). If the power of unions is a critical factor in the explanation for the differences between the Latin American and western European trajectories of liberalisation, the promotion of competition may be expected to face the greatest obstacles in Europe rather than in Latin America. Evidence to the contrary deeply undermines explanations that concentrate on the power of labour. Evidence of the spread of liberalisation around the world suggests that while labour is indeed an important actor in the process of liberalisation it does not have the power of veto nor is it the factor that has shaped the particular governance structures of the sector.

Serious limitations also beset explanations centred on potentially more powerful actors, namely business in general and big telecommunications users in particular. Economic globalisation has made telecommunications on the one hand a growth sector that stands at the centre of the new information economy and on the other a vital source of economic competitiveness for multinationals, which buy, sell, plan, and produce on global scale. Economic actors that targeted this growth sector and others irritated by the slow, inefficient, and expensive telecommunications services that they got from public providers finally became organised and used their collective power to push towards reform. This explanation is especially attractive because it relates the powerful interests of capital to a seemingly desired policy outcome. In addition, one of the most international business organisations, the International Telecommunications Users Group (INTUG), provides empirical support for this explanation. On international platforms INTUG represents the interest of users, and it actively promoted the idea of telecommunications reform. Its members include national associations mostly from

economically developed countries as well as big corporations such as American Express, Bank of America, and Aloc. In a self-evaluation of its role, the association claimed, 'It is not an exaggeration to say that the Green Paper of 1987, which committed member states to deregulation, was largely the work of INTUG and a few other user organizations' (www.intug.net/background/george_story.html)

Indeed, variations in the extent and scope of cross-business cooperation between Europe and Latin America seem to lend additional support to this explanation. The robustness of organised users in Europe as compared with Latin America (INTUG, for example, has no Latin American members) seems to be compatible with a more liberal and competitive environment in telecommunications.

Despite the apparent power of business-centred explanations, their usefulness in explaining the variations between the two regions is still limited in diverse ways (see also Tilton, Chapter 9). First, to emphasise business power when liberalisation occurs is only partly convincing. Where were business users before the 1980s? True, telecommunications services are more important nowadays, but does this really account for their passive role for almost a century? After all, business was the major user of telephony from the first days of the industry. Second, while INTUG and the national associations were important factors in pushing for liberalisation, any examination of their resources (budgetary and human) reveals their limits. Not only did most users fail actively to support the association (and thus acted like free-riders) but in most countries liberalisation moved forward without any apparent role for business users. Third, business was united in its support for liberalisation. Core members of the old telecommunications community – suppliers of telecommunications equipment for users

and operators – generally opposed liberalisation as it threatened their privileged position in their respective markets. So internal divisions in the capitalist camp weaken this explanation. Finally, the role of the state and state agencies in encouraging the formation of business associations is underestimated. In the case of INTUG, the initial trigger for its formation in 1974, came from the European Commission’s concerns about the lack of user input in its policy process (www.intug.net/background/george_story.html). Similar evidence exists in the case of the Trans Atlantic Business Dialogue (TABD), a most impressive business association of European and American multinationals that works for the creation of a New Transatlantic Marketplace (NTM) permitting goods, services, and capital to flow more easily across the Atlantic. Here the initial push for the creation of the association came from the European Commission and the US government, and its agenda was closely co-ordinated with these public bodies.

A more powerful explanation for the variations in the trajectories of liberalisation starts with the variations in the strength of the state in these two regions. Weak states in Latin America emphasised privatisation but failed to promote regulatory structures for the promotion of competitive markets. In doing so they most probably sacrificed the long-term prospects of their telecom industry in favour of short-term revenues that they received from selling their telecom operators. Stronger states in Europe¹⁷ were able to use the institutions of the EU to promote a controlled process of change, which was slower in

¹⁷ Unlike the era of nationalisation, which saw similar patterns of state-society relations, in the era of liberalisation the southern European states departed from the Latin American pattern. The entry of these states into the European Union represents a critical juncture in their politics. One may speculate that it represents a potential break from their ‘Latin’ tradition, the full implications of which may be traced through an in-depth study of their new regulatory structures.

regard to privatisation, but on the other hand much more vibrant in its creation of an institutional design that promoted competition. These propositions are developed, as in the case of nationalisation, by drawing on Nordlinger's two critical variables: social support and state autonomy. Below it is argued that social support for liberalisation and state autonomy in designing and implementing telecom liberalisation was greater in Europe than in Latin America, not least because of the role of the European Union.

While the focus of the discussion of social support for liberalisation in Europe and Latin America usually focuses on ideological preferences for market or social forms of governance of the economy, other sources of social support and legitimacy may be as effective. One of the most important sources of legitimacy for telecom liberalisation lies in the support of professional groups. The critical element in the sphere of social support that was readily available in Europe but missing in Latin America was the existence of a vibrant professional community of telecom specialists and telecom interest associations that could support the implementation of liberalisation in all respects. Professional associations and interest groups supply information and knowledge that are critical for the implementation of complex policies. At the same time they represent an authoritative voice outside the circle of the government and international institutions that may function to increase the legitimacy of liberalisation. Moreover, professional associations and interest groups act as the watchdogs of the policy makers. Their existence makes public policy more efficient and rational because policy makers know that they are being watched and that some members of the public understand what they do and what they do not do. Note that professional information and knowledge are critical whenever complex policies are considered. In direct application to our case, it is reasonable to suggest that

the deliberation-gap, which expresses the variations in the attention of professional groups to the details of liberalisation, was critical when regulatory institutions had to be designed. It was less important for privatisation, which requires less complex administrative work; to the extent that privatisation required legal and financial expertise, this was readily available for hire from American investment banks.

Variations in the autonomy of the state between Europe and Latin America had their own effects as well on the particular trajectory of liberalisation in the two regions. The creation of institutions for the governance and especially the promotion of telecom competition is a very demanding task and requires an autonomous state machinery. Here again the professional discussion as far as it dealt with autonomy tended to focus its attention on struggles between state and societal actors, particularly the opposition of labour unions to privatisation (e.g., Petrazzini 1995; Molano 1997). Yet this is only part of the story since autonomous states need not only the ability to overcome opposition but also the capability to create the administrative structures and regulatory machinery that will support their quest for more competitive markets.

The apparent similarities between Europe and Latin America in the creation of independent regulatory institutions are less convincing when the evidence of persistent variations in the strength of the state is considered. These institutions represent an innovation in the administrative tradition of the state and there are considerable similarities in their institutional design across countries. For example, they are most often independent of the supervising ministry through financial autonomy and the fixed-term nomination of their managing directors. Yet, these new features, which potentially could eliminate the old distinctions between types of state, are embedded in the old institutional

structure and stable traditions of economic governance (see also Mark Tilton's chapter in this volume). Different administrative traditions, different resources, and different ideational, political, and economic contexts may well result in different degrees of administrative capacity and effectiveness. Regulatory reforms will have varied effects depending on the context of their implementation and, in particular, the type of the degree of state strength (autonomy and social support) and its economic orientation (mercantilist, liberal, social-democratic). What thus seems to be a convergence of Latin American and European practices of governance of telecoms may well hide new divergencies, which carry significant implications for policy outcomes.

Conclusions

In his seminal book *Political Order in Changing Societies* Samuel Huntington argued that a major distinction among states lies not in their type of government but in the degree to which the government really governs (Huntington 1968: 1-2). Paraphrasing Huntington, it is possible to suggest that the major distinction among different types of states lies not in their pursuit of nationalisation or liberalisation but in the degree to which they can use their domestic institutions effectively to create and sustain effective markets for telecommunications. The room for manoeuvre of states in the world economy is largely influenced by their ability to co-ordinate economic responses by political means. In both eras examined here the Latin American states were less capable than the European countries of doing so. The telecommunications markets in Latin America did not suffer from too much state intervention but from the wrong kind of state intervention. It is the strength and autonomy of the state in Europe, not its withdrawal from the market,

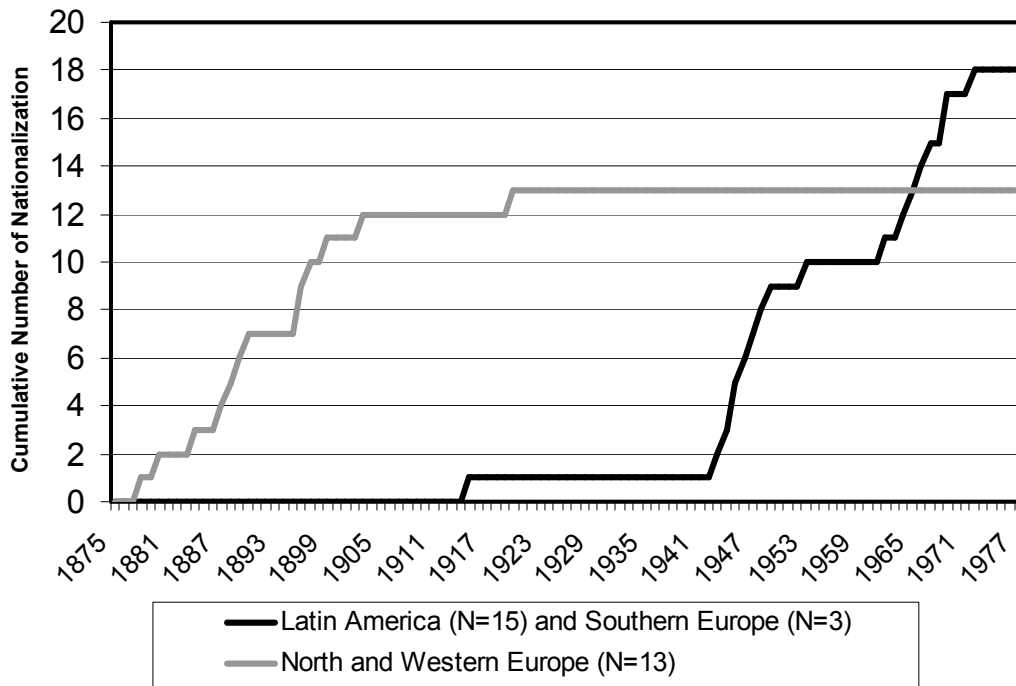
that makes competition feasible nowadays (despite many problems already clearly visible in the telecommunications sector). Similarly, it is the strength and autonomy of the state that allowed the nationalisation of this industry in Europe so early. The ability of European countries to move slowly and gradually towards privatisation, yet to perform more effectively than the Latin Americans in perfecting regulation-for-competition capacities reinforces observations of a highly autonomous state at the centre and a weak one on the periphery. In this context the differences between 'neo-mercantilist' and 'liberal' countries at the centre are of less importance than the inequalities in state capacities at the 'centre' and on the 'periphery'.

If one accepts that direct positive relations exist between the strength of the state and the extent of competition in telecoms, it follows that the relations between state and markets are not mutually exclusive. There is wide room for win-win policies, as proposed in the introduction to this book as well as by several of its contributors. The liberalisation of telecommunications requires a strong and autonomous state, a conclusion at odds with the view that openness and global competition globalisation equals a retreat of the state from the market. Certainly, some components of liberalisation such as privatisation, when not accompanied by new regulatory mechanisms, may result in state withdrawal. But the evidence indicates that the more likely outcome is that strong states will not be weakened because they constitute a new mechanism for governing the market. Accordingly, weak states will continue to stay weak or become even weaker as they fail to integrate privatisation and regulation into one coherent framework. A more optimistic view is grounded in the expectation that through policy imitation and policy learning many developing countries are now acquiring the new regulatory capacities. While many will

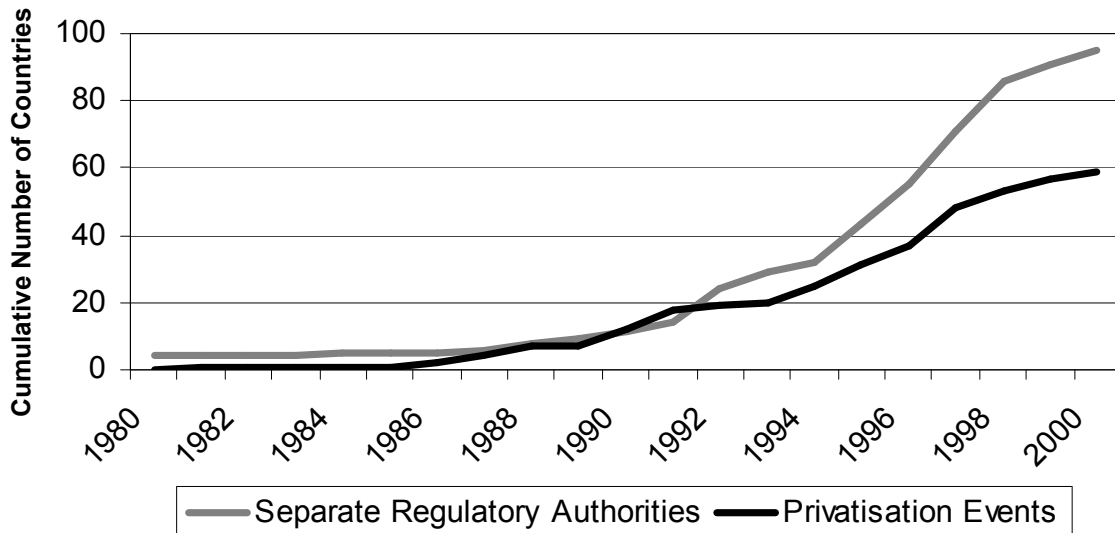
fail, some have fair chances of success, not least because international bodies like the World Bank now promote regulation-for-competition rather than pure privatisation.¹⁸ While they are constrained by older state structures and patterns of relations between state and society, success and failure are not preordained. Regulatory effectiveness, however, requires domestic political change as well as external resources in the form of material aid and policy advice. Without them, despite liberalisation, there will be no significant change in the welfare gaps between the centre and periphery of our world.

¹⁸ It seems that in the field of infrastructure regulation, the World Bank embraces more readily the notion of mutual empowerment of state and economy than in other fields, most notably international trade.

**Graph 1:
The Diffusion of Nationalisation**



**Graph 2:
The Diffusion of Liberalisation**



Source for Graph 1: The author's regulatory database. Based on various accounts of a country's economic developments and online histories by a country's incumbents and by government agencies. Bennett, (1895); Holcombe, (1911); Noam (1992).

Source for Graph 2: The author's regulatory database. Books by Noam (1992; 1998), Petrazzini (1995), Molano (1997) and Manzetti (1999) and paper by Wellenius (2000). In addition, interviews and e-mail exchanges with regulatory authorities and ministries were used such as EU regulatory developments (<http://www.ispo.cec.be>), the ITU regulatory database (www.itu.int/ITU-D-TREG/), OECD (www.oecd.org/subject/regreform/) and World Bank Papers on Regulatory Reforms (<http://econ.worldbank.org/topic.php?topic=14>).

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