

DEREGULATION AND POLITICAL PROCESS
REGULATORY OPPORTUNISM IN PERU'S ELECTRICITY INDUSTRY REFORM

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Abstract

This paper discusses the deregulation and privatization of Peru's electricity industry within the context of the 1990s political process. The paper's analysis exposes how political forces shape institutions and influence the course of a reform. The retreat of Peru's electricity reform in the late 1990s provides an example of sophisticated and disguised regulatory opportunism, which is the result of a change in the government incentives in connection with the reform, in the context of weak legislative and institutional restraints to regulatory opportunism.

The paper has three parts. The first one provides a synthesized conceptual background on the economic structure of the electricity industry and the application of the theory of deregulation to said industry. The second part discusses the history of Peru's early 1990s electricity crisis and of the process of deregulation and privatization undertaken since 1992, including a description of the initial success of the reform.

The third, and main part of the paper, analyses the Peruvian government's regulatory opportunism of the later years of the reform. Including a discussion of actual cases, the incentives that motivated the government decision to

behave opportunistically, the reasons for the failure of the institutional and legislative restrains, and the effects of the regulatory opportunism negative to the reform. A concluding section explores the structural problems that lead to cycles of regulator's cooperation and opportunism towards deregulation and private investment in infrastructure industries.

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