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**Venezuela Nationalizes Its Largest Power Firm**

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MELISSA BLOCK, host:

From NPR News, this is ALL THINGS CONSIDERED. I'm Melissa Block.

ROBERT SIEGEL, host:

And I'm Robert Siegel. This month, the government of Venezuela has been signing papers that will make the country's main telephone and power companies property of the state. President Hugo Chavez says the nationalization of these businesses are steps in the direction of what he calls 21st century socialism. That's a big change from the free-market reforms that had been in fashion in Latin America. As NPR's Tom Gjelten reports, government control is now making a comeback.

TOM GJELTEN: Two weeks ago, the Venezuelan government announced it would pay about \$700 million for majority control of Electricidad de Caracas. Last week, it said it's buying out the U.S. Verizon Company's share of the main Venezuelan phone company. In both cases, the private owners will lose money, but they weren't in much of a position to negotiate.

The next question is what'll happen to electric and phone service once these nationalizations go through and the companies are run by the state? These issues have come up before.

Professor JERRY HARR (Business, Florida International University): This is back to the future. I mean, this is really going backwards.

GJELTEN: Jerry Harr, a business professor at Florida International University, points out this is the second time Telefonos de Venezuela is

being taken over by the government. The first time was in 1950. Forty-one years later, the Venezuelan government decided that nationalizing the phone company had been a mistake, and it sold the company back to private investors as the country's minister of trade and industry, Moises Naim, pushed for the privatization, and for good reason. Service, he says, was terrible when the phone company was in government hands.

Mr. MOISES NAIM (Former Minister of Trade and Industry, Venezuela; Editor, Foreign Policy Magazine): Offices had helpers whose job was to pick up the phone and wait for a line. And in - on average, it took about five to 10 minutes to get a line, a dial tone. Meanwhile, the company was again a massive source of deficits, of losses.

GJELTEN: Stories of disastrous nationalizations are plentiful around the world. British Rail, taken over by the government in 1948, subsequently became the butt of national jokes in Britain for its inability to keep the trains running on time.

In Venezuela, Hugo Chavez may care more about ideology than efficiency. He told a group of students last week that he wants to build socialism in Venezuela as opposed to, in his words, capitalism and perversion.

But there are some practical reasons for reviving a nationalization policy. Moises Naim, not the editor of Foreign Policy magazine, says governments may be forced to re-nationalize companies if earlier privatizations were poorly handled.

Mr. NAIM: These were privatizations that were distorted by corruption, that were essentially mishandled. Public utilities were a company's railroads, airlines that were privatized during the '90s, and essentially, instead of being sold to the best operator and the highest bidder, were sold to cronies and people that did not know how to run it. And they, essentially, literally, ran them to the ground.

GJELTEN: This happened in Argentina, for example, where the government failed to regulate the companies being privatized, and, subsequently, had to take them over again. Bolivia is another country that's re-nationalizing some companies, notably in the oil and gas industry. Bolivian President Evo Morales concluded his country wasn't benefiting from higher oil and gas prices. Former World Bank economist Joseph Stiglitz, the author of "Making Globalization Work",

says governments of resource-rich countries have good reason to be upset.

Dr. JOSEPH STIGLITZ (Author, "Making Globalization Work"): Part of the appeal for nationalizing industries is the fact that the international - the multinational companies often give these countries a bad deal. The contract isn't a fair contract, and it's very difficult for the developing countries to enforce the contract.

GJELTEN: In fact, some countries have nationalized their mineral industries and done very well. In 1972, Chilean President Salvador Allende, a socialist, took over his country's copper mines, arguing they should operate for the good of the Chilean people. Allende was overthrown by a right-wing dictator, Augusto Pinochet, who implemented a range of private enterprise reforms. But many of those copper mines nationalized by Allende were left in the hands of the state, and today they are just as profitable as the private ones. International business professor Jerry Harr says there's no obvious reason that government- owned nationalized companies cannot be run efficiently.

Prof. HARR: If you have top quality management, it doesn't matter whether it's the public sector or the private sector. The National Parks Service in the United States. What really counts is do you have good planning? Do you have good organizing? Do you have a good monitoring system? Do you evaluate performance fairly? Are you following some level of metrics that can put you above the industry average? You can run a public enterprise as if it were a private concern.

GJELTEN: But you do have to have management expertise available. Critics say the government of Hugo Chavez in Venezuela is already overstretched in its management ranks, with a serious shortage of administrators and skilled professionals capable of running the country's public enterprises and agencies. And now there'll be two more to handle: a big light company and a big telephone company. Management capability could also be an issue in Bolivia. The bottom line, from economist Joseph Stiglitz...

Dr. STIGLITZ: When you privatize, you have to have regulatory oversight. When you nationalize, you have to make sure that you have the requisite expertise.

GJELTEN: For governments in developing countries, there just aren't any simple solutions. Tom Gjelten, NPR News.

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