1. Consumer protection policies and development.

With the move towards democracy and measures to liberalise domestic sectors and foreign trade, policymakers in Central America and elsewhere have taken a greater interest in the linkages between consumer protection policies and economic and sustainable development. This has manifested itself in a greater commitment to implementing and enforcing national consumer protection statutes and to adhering more closely to the UN Guidelines For Consumer Protection (United Nations 1999). Before discussing the developmental impact of these policies, a few preliminary comments on the nature of consumer protection policies are in order.

1.1 Consumer protection policies: motivation, instruments, and implementation

Although consumers’—or more generally, purchasers’—interests can be perceived very broadly to include the prices, quality, reliability, safety, etc of goods and services, consumer protection policy is said to have a narrower set of objectives. Mexico, in its Annual Report on Consumer Policy Developments in 2001 to the OECD, argued that the objective of its consumer protection policy was:

• “To protect and to defend consumer’s rights in order to avoid that their patrimony is damaged because of undue practices or suppliers’ abuses,”

• “To educate suppliers to the purpose of diminishing the incidence of complaints to create a culture of service to the client” (Mexico 2002, pages 2 and 3).

In Mexico and elsewhere these objectives are typically accomplished through a combination of the following means:

1. Legal measures that articulate the rights of purchasers, including forms of redress.

2. Legal measures to codify certain standards that suppliers—taken to include wholesalers and retailers and not just producers—must adhere to.

3. Legal measures that permit a state agency to approve, under certain circumstances, standards proposed by suppliers.

4. Legal measures empowering state agencies to verify and investigate whether any legal standard has been met and to change those standards, where appropriate.

5. Legal measures permitting investigations by a state agency into whether consumers’ rights have infringed.

6. Legal measures to create tribunals or other bodies for the purpose of informally and formally resolving consumers’ complaints and other infringements of these laws. Such tribunals may be judicial or administrative and may have the power to award compensation and to impose fines or other forms of punishment.

7. State funding of research, testing, and information dissemination on matters relating to consumers’ rights and the obligations on producers.
8. Measures to encourage the participation of civil society and international organisations in the design of, debate on, and implementation of, consumer protection policies and laws.

The sectoral coverage of such policies is also specified by law, and may well include exemptions for state industries and enterprises. In recent years, financial, transportation, and communication services have been brought within the ambit of these laws, in recognition of their growing role in developing economies. Moreover, initiatives have been undertaken to raise awareness of sustainable consumption (e.g., water and energy use), which is an element of the UN Guidelines.

It should also be noted that the above list of measures (associated with consumer protection laws and policy) are quite distinct from those associated with competition law. In some discussions these two bodies of law are incorrectly conflated.

1.2 Consumer protection policies and development

In discerning the effects of these policies on development, it is important to appreciate that effective implementation of the associated laws and policies is a necessary condition for any positive developmental impact. As Edwards (2003) has argued:

“Many leading commentators have noted that unimplemented laws and toothless consumer protection institutions make any legislation marginal. In addition, legislation must be complemented by effective information and education, representation in policy and decision procedures, accessible and enforceable redress mechanisms, action to promote competition and deter abusive business practices, and policies to promote sustainable production and consumption.”

As in the case of competition law, the enforcement of consumer protection law can have distinctive corrective, pre-emptive, and deterrent effects. When such laws are properly implemented what are the effects on economic and social development?

The first effect is to ensure that the health and safety of consumers is not threatened or harmed after they make purchases and that any quality or other assurances given by producers are honoured. Apart from obvious and important health considerations about poor quality food, unsafe medicines, and dangerous goods and services, all of the latter contribute towards reduced and more variable (and therefore, less reliable) labour force participation through sickness. Women are especially affected here as they are often the ones who have to take time away from work to look after unwell relatives and family members.

The second effect relates to the commitment value of consumer protection policies. Once firms know that they can and will be held to promises that they make on quality, reliability, etc., then those firms that can deliver improved goods and services will now be able to credibly make announcements to that effect. Before, consumers would not have believed any promises about quality improvements, warranties, and the like. This argument highlights that certain innovations by firms—which benefit consumers—are
actually contingent on effective consumer protection policies. Furthermore, such innovative firms have an incentive to see such laws properly enforced—and so consumer protection policies need not pit purchasers against suppliers.

The third effect of consumer protection policies is to create a cadre of **discerning consumers**. Although this may seem a little odd, it is worth noting that Michael Porter in his account of the competitiveness of nations gives considerable weight to the role that discerning consumers can play in provoking competition between firms and innovation by them. In contrast, docile consumers provide little to suppliers to improve their products, services, delivery times, reliability, etc. Firms that are able to supply demanding domestic consumers are more likely to be able to meet the needs of foreign consumers, providing a link between consumer protection policy and competitiveness also.

Counteracting these three positive effects of consumer protection law on development are the legitimate concerns that inappropriate or inadequate enforcement can lead to bureaucratic harassment of the private sector and a more uncertain business climate. Such concerns can be remedied by better governance policies and not throwing the baby out with the bathwater and not implementing consumer protection laws in the first place.

**References:**


