

## CHAPTER ONE

# Consumer Movements

## *New Social and Political Actors in Latin America*

CONSUMER GROUPS SUE *TELEFONICA* OVER PUBLIC  
TELEPHONES

BUSINESS AND USERS POLARIZED

CONSUMERS COMPLAIN MORE AND GET MORE  
RESULTS

GOVERNMENT AND TELEPHONE COMPANIES  
PREPARE FOR DECISIVE BATTLE

PLAN TO GRANT TELEPHONE LICENSES TO BE  
DEBATED AT PUBLIC HEARING

PRIVATIZED BUSINESSES FEAR CONGRESS WILL GIVE  
ITSELF PRICE-SETTING POWERS

Several years before the Argentine economy collapsed and produced a political crisis in December 2001, newspaper headlines like the ones above already had begun to reflect people's dissatisfaction with the outcome of economic reforms enacted during the 1990s.<sup>1</sup> Among such reforms, the privatization of state-owned public services such as the national telephone company resulted in especially angry and organized protest under the banner of consumer protection. Political mobilization around economic policy issues certainly was not a new phenomenon in Argentina, but consumer protection was a novel mobilizing

principle in a country where political debates historically have been organized around production rather than consumption.

The growth of Argentina's consumer movements was not an isolated phenomenon. Indeed, not just in Argentina but throughout Latin America, in the 1990s consumer movements emerged as one of the most visible new forms of political mobilization countries had seen since the movements against military rule. While analysts from in and outside the region noted the declining power of many traditional class-based organizations in this era of globalization, some innovative Latin American politicians and political parties, along with grassroots organizations and other civil society leaders, increasingly were using consumer protection issues to build political capital and influence public policy.<sup>2</sup> As a result of their activities, economic regulation, formerly the exclusive turf of technocrats in the executive branch of government, became an arena where presidents, bureaucrats, and businesses scuffled, at least occasionally, with activists working for nongovernmental organizations (NGOs), legislators, and other nontraditional actors.<sup>3</sup>

In this book I explain that the privatization of state-owned public services such as telecommunications was a primary impetus for the wave of consumer mobilization that began in the 1990s. I do not argue that privatization was consistently a failure across the region; to the contrary, it injected much-needed investment into the service sector.<sup>4</sup> Despite frequent rhetorical claims that privatization and the promise of eventual economic competition would benefit consumers, however, often the immediate practical result was private monopolies that provided problematic service at higher prices than the former state-owned companies had charged. Their monopoly status legitimized people's complaints against the new private operators of public services. The higher prices for certain services, poor quality of services, and other abusive treatment of captive users affected large groups of people uniformly, making collective grievances easy to identify and collective action relatively easy to coordinate. Thus, the specific characteristics of public utilities—including the mass nature of services essential to everyday life and the regulatory problems associated with the transition from

state-owned monopoly to operation by the private sector—provoked and facilitated the new consumer movements.

The relationship between privatization and consumer mobilization occurred because it was embedded in the political context of democratization.<sup>5</sup> The confluence of democratic transitions with the economic reforms such as privatization altered what scholars of social movements refer to as the “opportunity structure” of legal professionals and political activists.<sup>6</sup> Most crucially, the deepening of democracy codified political and legal rights and led to a greater political role for democratic institutions such as legislatures and courts as well as civil society organizations. At the same time, globally driven economic and technological changes resulted in a decline in the power of organized labor, greater exposure to the consumption habits of wealthier countries, and increased importance of telecommunications services. Against this backdrop of larger changes, the new consumer consciousness was forged by Latin American politicians, lawyers, and activists, whose organization of consumer movements contributed, very tentatively, to changing the substance of democratic politics in the region from a class base to a consumer base.

Local activists in the region received support from global civil society. While economic policies such as privatization openly favored global business, improved communications technology and changing norms during the 1980s and 1990s also made it easier for NGOs to operate on an international scale.<sup>7</sup> The latter half of the 1990s saw the development of transnational Latin American consumer advocacy networks that received technical and financial aid from abroad. International activism had a snowball effect on locally initiated consumer movements and in some countries, including Chile, served as a catalyst for consumer mobilization where little or none had existed previously.

Consumer mobilization took a variety of forms, including mass protests such as the refusal to pay telephone bills or coordinated boycotts of telephone service (called *colgazos*, or “great hang-ups” by some advocates and reporters), expanding membership in grass roots consumer protection associations,

complaints filed with NGOs or government agencies or reported to the media, individual lawsuits, class action lawsuits, and support for politicians who campaigned under the banner of consumer rights. Different acts of mobilization yielded wins and losses for the participants, but the overall result was formal and informal recognition on the part of government and business that Latin American consumer movements had the power to claim a voice in the policy process. By the end of the 1990s, in quite a few Latin American countries economic regulation had lost at least some of the technocratic mystique it held at the onset of the economic reform process and had become subject to the rules of a more democratic game.<sup>8</sup>

### **Explaining Variation in Consumer Movements**

Economic reforms such as privatization affected all Latin American countries, but at different rates and intensities, in different forms, and with different consequences. The speed and sequence of different types of economic reforms and their synchronization with democratic reforms, as well as the ideologies and interests of political parties, affected both the economic and political structure of industries after privatization.<sup>9</sup> Rapid and early privatization of the telecommunications industry often produced private monopolies and weak regulatory regimes. The case of Argentina is emblematic of the category of fast and early privatizers. In 1991 the government divided its state-owned company in two and sold the halves as guaranteed regional monopolies for seven years with the possibility of an extension for three additional years. In contrast to its neighbor Argentina, Brazil privatized telecommunications more gradually and later compared to other sectors. Brazil promoted partial competition in the telecommunications market almost immediately after it sold off the state-owned monopolies, and its new telecommunications regulatory agency was stronger and more respected than that of Argentina.

Institutional factors such as the nature of political parties and the level of prior state organization of consumers largely determined the repertoires of contention available to consumer

movements after privatization.<sup>10</sup> Under the leadership of politicians and activists, Argentine consumers engaged in highly contentious collective action. Some of them refused to pay telephone bills in protest of higher tariffs and organized boycotts of telephone service. The Argentine Congress threatened to give itself the power to set the prices of public utilities. Brazilian consumers also mobilized to protest tariff increases and service problems, but they did so through existing channels such as the court system and state consumer-protection agencies. The disputes were not as confrontational as in Argentina and were less central to presidential and congressional political campaigns. The reasons for the more muted mobilization in Brazil included the relatively gradual privatization process, the existence of surprisingly respected state governmental consumer-protection bureaus that dated from the 1970s, a more developed consumer advocacy network, and the class-based ideology of the principal political party that opposed privatization.

Chile was the first Latin American country to privatize its telecommunications sector but one of the last to experience consumer mobilization. The military government of General Augusto Pinochet sold the state company in a gradual process that began in the late 1970s and was completed a decade later. In addition to being first, Chile was unique in Latin America in that it carried out privatization under an authoritarian regime that repressed any political mobilization. By the time democracy returned, Chilean consumers already had born the brunt of the transition costs of privatization, making the same type of contentious protests seen in Argentina and Brazil less likely. The combination of the return of civil liberties and growing international consumer activism led to an incipient consumer movement in Chile by the end of the twentieth century, however.

### **Consumers as the Missing Link Between Economic Reform and Democracy**

The advocates of privatization generally have ignored the importance of a political voice for consumer advocacy in Latin American countries. Economic studies that do mention consumer

involvement warn that any changes in policy might result in accusations that the government was renegeing on its commitments to business.<sup>11</sup> Many political economists and business specialists seem to view the participation of consumers and consumer advocates in regulatory decisions as unnecessary politicization of technical policy arenas. Some political scientists even consider the expression of discontent through social movements to be disruptive and undesirable in new democracies generally. Others view political protest generally as a positive thing, but distrust the idea of consumer protection, or “consumerism,” as a mobilizing factor.

Most political scientists and economists, as well as politicians and policy activists, agree that new stakeholders in economic reforms must be created for such reforms to be sustained politically.<sup>12</sup> Yet while consumers would appear to be among the most obvious potential beneficiaries of reform, most analysis of privatization in the developing world rarely identifies consumers explicitly as political actors. Given their agreement about the importance of stakeholders, the widespread ignorance and even outright rejection of consumer-based politics on the part of policy specialists is a puzzling contradiction. In the 1990s scholars were aware of political mobilization around “postmaterial” issues such as the environment and human rights (as well as traditional causes such as unemployment and access to land), but real existing consumer movements were assumed away in much of the analysis of Latin America’s experiments with market-oriented (or the more critical “neoliberal”—I use both terms interchangeably throughout the book) reforms.<sup>13</sup> Evaluating the outcome of reforms from the standpoint of consumers improves our understanding of the mixed record of market reforms as well as the growing rejection of neoliberalism in much of the region.

A recent book about global financial policy poses the question “what’s democracy got to do with it?”<sup>14</sup> The author argues that political questions about who participates and how policy decisions are made are becoming as important as technical questions even in the highly sophisticated arena of international finance. This book about telecommunications regulation pro-

vides additional evidence in favor of the argument that democracy matters a great deal for the regulation and development of market capitalism. As democratization deepens throughout the world, and particularly in Latin America, formerly arcane areas of policy become subject to citizen pressure. Where public services are involved, much of that citizen involvement concerns people's interest as consumers. It would be premature to claim that much of Latin America has undergone a full and irreversible swing toward consumer-based politics, but I do contend that when members of the middle class and some of the working class as well begin to find it feasible and worthwhile to exercise their rights as consumers as well as workers, this is a trend that bodes well for the codevelopment of pluralist democracy and regulated markets in the region.

### **The Salience of Telecommunications**

Telecommunications is a good starting point for an analysis of consumer mobilization because it is emblematic of the issues the new Latin American consumer movements addressed. Unlike in previous eras when only the wealthy could contemplate paying for telephone service, in the 1990s telecommunications policy affected members of nearly all social groups in some way. Technological advances and private sector investment reduced the initial cost of and waiting period for basic telephone service, which meant that a larger segment of the population could afford to have telephones.<sup>15</sup> The information revolution meant that basic service, whether through a private line or a public telephone, and also more advanced services such as the Internet, increasingly were necessary for active participation in social and economic life.

Privatization led to greater investment in telecommunications, but also to a number of problems. Under state ownership, relatively few people had telephones, but those members of the middle classes who did benefited from a system of cross subsidies from business and long-distance customers. Privatization meant the end of these subsidies, and indeed sometimes

reversed them so that residential consumers were subsidizing the corporate sector. People who were accustomed to receiving subsidies naturally did not care to lose them, and when activists and politicians gave them the chance to voice their ire, they protested against the changes. Many other consumers were subjected to overcharging, poor service, and unclear pricing structures and complaint procedures. They, too, began to respond to the invitation to support organized consumer movements. Indeed, telecommunications generated greater numbers of official consumer complaints than any other sector in some Latin American countries in the 1990s; however, the mass nature of services and the regulatory problems associated with the transition from state-owned monopoly to private sector provoked similar consumer responses to the privatization of all public utilities, including electricity, water, and mass transit services.

### **Chapter Outline**

Chapter 2 of this book summarizes what is known about consumer mobilization in the United States and parts of Western Europe and lays out my theoretical argument explaining the emergence of consumer movements in Latin America in the 1990s. Chapter 3 shows how authoritarianism preempted the rise of consumer movements after telecommunications privatization in Chile, and then explains how activists slowly began to build consumer movements after the transition to democracy. Chapters 4 and 5 analyze the emergence of a contentious consumer movement after the privatization of telecommunications services in democratic Argentina. Chapters 6 and 7 explain how milder consumer mobilization occurred after privatization in democratic Brazil. Chapter 8 discusses the relationship between privatization, regulation, and consumer mobilization throughout the Latin American region, and concludes that consumer mobilization is essential for democratic development to accompany market development.