CONSUMERISM: ORIGIN AND RESEARCH IMPLICATIONS

by

E. Scott Maynes

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Center for Economic Research
Department of Economics
University of Minnesota
Minneapolis, Minnesota 55455

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Among consumers across the land there exists a widely shared feeling of being ill-served by our present production and marketing arrangements and of a need to take corrective actions. Their complaints: poor quality, poor service, dishonored promises, unsafe products, polluting products, deceptive advertising, fraud. To the articulation and dissemination of their views and to the effort to secure corrective measures, we append the label "consumerism."[1]

This paper seeks, in Part I, to trace the economic and historical origins of consumerism and, in Part II, to spell out the implications for research of the growth of consumerism.

I. The Economic Origins of Consumerism

The Argument in Advance

It may help the reader to present a capsule preview of the argument of this section.

Traditional economic theory suggests -- with qualifications of course -- that our present economy should serve up the best quality products at their single, lowest prices. Instead, consumer markets are characterized by the coexistence of high and low prices, high and low quality, high and low price-per-unit-of-quality as well as by dishonored promises.

Why is it that consumers are so ill-served?[2] The culprit is consumer information. Often consumers are unable to assess quality or to obtain accurate information regarding money prices. Sometimes, too, they fail to

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act upon the relevant information even when they possess it. With its information component in poor repair, the reward-punishment mechanism at the heart of our market economy works badly, giving the results just noted.

The delivery of poor quality, high priced goods is certainly one of the bases for consumerism. But consumerism is grounded in another manifestation of market failure: the high volume and unsatisfactory resolution of consumer grievances. Consumer grievances include performance failures, misunderstandings between buyer and seller, misrepresentation-deception-fraud, and failure to take account of the environmental effects of products.

It turns out that the technical complexity of products, the impersonality of buyer-seller relations, the difficulty of placing responsibility for consumer complaints, and the dominance of sellers in buyer-seller disputes account for both the high frequency and the unsatisfactory resolution of consumer grievances in 1972.

Three Examples as "Parables"

Try yourself on the following "test" of the functioning of markets. The test pertains to life insurance. Consider the price paid for $1,000 of protection (not face value) by a standard insured person for a straight life insurance policy, sometimes called "ordinary life" or "whole life." If among 88 reliable companies the lowest priced company charges $4 per $1,000 of protection, what does the highest priced company charge? Is it $4, $4.10, $4.25, $4.50, $5, $7.50, $10, $13, $20?

If markets for life insurance were informationally perfect -- meaning that consumers could, with little effort, come to know the correct price -- then the highest price charged should be in the close vicinity of $4. Unhappily, to calculate the "price of protection" with any accuracy, one

must be a hardworking student of insurance, endowed with considerable mathematical ability, possessed of considerable data-collection and computer resources, and ready to make fairly strong assumptions.[3] With this explanation it should come as no surprise that consumers are not able to ascertain the lowest price and hence that this market does not work well. The result is that the highest price is $13, a whopping three times greater than the lowest price [2].

In our second example the inability of consumers to assess quality lies at the heart of the market failure. This example concerns coffee urns and stereo receivers. According to Consumer Reports (May, 1969) list prices for a representative set of 19 coffee urns ranged from $13.95 to $45.95. Of the 19 tested, five were "check-rated," meaning that these models were "significantly superior" to other models tested. For the check-rated urns list prices (rounded) were as follows: $14, $26, $35, $40, $42. Similarly, in August, 1970 Consumer Reports check-rated stereo receivers with prices listing from $270 through $450.

Why is it that some consumers will continue to pay higher prices for equivalent quality? Our tentative answer is, again, that consumers are unable or unwilling to obtain the relevant price-quality information and are unable or unwilling to act upon the information they possess.

A third example concerns a family who purchased a three-speed bicycle from a large mail-order house. A year and a half after purchase, they experienced a crisis when their son fell from his bike and broke a critical part, rendering the gearshift mechanism inoperative. Since the mail-order repair center was 15 miles away -- on the far side of their metropolitan area, their first response was to seek a replacement part at the local

cycle shop, a large establishment dealing with all sorts of bikes, both simple and sophisticated. "We don't carry <u>their</u> parts," the local repairman told them somewhat condescendingly.

Being unable to locate the repair list for the bicycle they next took the bicycle itself to the repair center, confident that the catalogue people would be able to identify and supply them the necessary part. An hour later, the parents emerged from the repair center, defeated, unworkable bike in hand. Though the repair center had sought to be helpful, they had not been able to identify the missing part, despite much consultation with microfilmed parts lists.

At home there ensued a renewed search for the missing parts list. After three-quarters of an hour, success. With renewed hope they telephoned the repair center. Imagine their dismay when, an hour later, the repair center phoned to say that they could not locate the relevant part in their inventory system. "What should we do next?" the owners asked. From the telephone: "I don't know. I'm sorry, but there's nothing more I can do."

The next and final act was a humiliating trip back to the local repair shop where, after three-quarters' hour search for similar parts, the local cycle repairman was able, in the spirit of the ingenious Yankee of the last century, to fashion a new "homemade" part.

After four hours of fidgety waiting time, three trips, the bike out of service for three weeks (between successive efforts to repair it), and $5 of expenses, their $40 bike was back in service. From such frustrations comes consumerism.

We are now ready to undertake a systematic analysis of the informational imperfections of consumer markets and of the origins of consumer grievances.

The Informational Imperfections of Consumer Markets

Conditions for Effective Functioning of Markets

The consumer's role in a well functioning market is to identify and reward good performance on the part of sellers. To perform his role effectively, the consumer in turn needs to know the following:

1. What products, brands, sellers exist and where to buy them;
2. What characteristics of a product are desirable ("general" product information);
3. The extent to which particular product-brand-seller combinations possess the desired characteristics;
4. Prices of product-brand-seller combinations.

It goes without saying that consumers must not only possess the required information, they must be willing and able to act on it, all at low cost.

Additional conditions are that there exist numerous alternative brand/seller combinations, and that resources be mobile.

Markets and Consumers in 1776

Consider the functioning of retail markets in 1776, notable as the year in which Adam Smith published his Wealth of Nations, the first satisfactory analysis of the working of a market economy.

In general, the amount of information required then was much less than now. In the rural, small town markets of that time the identity and location of sellers were common knowledge, available at almost zero cost. What is more, the number of choices to be made was much less than now: due to smaller incomes, access to fewer products and fewer sellers.

At the same time information was easier to obtain. Products were simple.

From common experience people knew what characteristics of products were desirable and the extent to which particular items possessed them. Consider the horse as transportation. No one had any difficulty in understanding how a horse "worked". And, despite a classic literature on "horse trading" and the people taken in thereby, most people could identify good-performing and poor-performing horses.

The main defect of these local markets was structural: the small size of the market led to local monopolies. Little wonder that this is the defect which economic theory has stressed from that time to this.

Monopoly aside -- and this is an important exception -- consumers could usually identify good and poor performance on the part of sellers. Under these conditions the reward-punishment system at the heart of a market economy worked well. Through an effective market the presumably selfish motivations of sellers were channeled to a constructive end. Markets tended to be cleared by a single low price.

Consumers and Markets Now

Two hundred years later the picture has changed drastically. The volume of information which consumers require is now massive. Why? In the first place, consumers have more income to spend. Secondly, there are more products, brands, and sellers. Thirdly, not only are there more products and brands, but variants of brands have proliferated.[4] As every car buyer knows, you must decide on body type, "line", transmission, motor size, type of brakes, numerous accessories. The same phenomenon applies, though on a reduced scale, to other products which until recently were single-variant products. Fourthly, model changes are becoming more frequent, except (thankfully!) for automobiles.[4] Finally, given urbanization and the auto-

mobile, each consumer now has access to more product/brand/seller combinations.

On the other hand the cost of obtaining price and quality information is much greater. Here we properly count as costs not only money outlays devoted to the search for information, but also such subjective but real factors as the utility of activities given up in order to undertake shopping (e.g., the tennis match sacrificed to shopping) and the disutility shopping itself may have for an individual. As Staffan Linder has so cogently pointed out [10], affluence has brought us more goods, but we are still stuck with the 168-hour week. Interpreted: time is worth more now; hence, the cost of shopping has increased drastically. In addition, the task per se of obtaining price-quality information has become more difficult. The accumulated experience of the consumer and his acquaintances, acquired at near-zero cost, no longer enables the consumer to know prices and qualities. The culprit of course is the technical complexity of products. To solve the life insurance problem cited at the beginning of this section, one must be an insurance scholar, or be able to hire such a person, or to locate and digest his results. None of these is easy. And an analogous problem exists for most modern products. This difficulty applies to the ascertaining of prices and the extent to which a brand possesses the desired characteristics as well as knowing what characteristics are desirable. Regarding the latter, we may ask rhetorically: who -- before Ralph Nader -- had any idea whatsoever of the characteristics of a "safe" automobile?

The widespread dissemination of price and quality information is not per se sufficient to assure the effective functioning of markets. Consumers must be willing to act on the information. Everyone "knows" that new automobile prices are bargainable, but many consumers find bargaining distasteful

or lack the essential skills or the supporting information required to bargain effectively. Similarly, even if most consumers were aware of the wide range of prices for a standard package of automobile insurance ($124 to $227 for a "standard" package for an identical driver in Minneapolis),[5] many would not make the effort to search out the lowest priced company.

While the local markets in which consumers deal have deteriorated informationally between 1776 and 1972, they have improved structurally. Due to the automobile, urbanization, and the development of mail-order organizations (especially from 1900 to 1940), the typical consumer today has access to a larger number of product-seller-brand combinations than formerly. Thus, he faces a local monopoly less often. But not all structural developments are favorable. While the consumer typically has access to more local sellers, the number of brands may be smaller, due to economies of scale in both production and selling. The very same economies of scale may, of course, lower the price of products marketed.

The net effect -- a judgment, of course -- is the coexistence for the same product of high and low prices, good and poor quality, and most important -- high and low prices-per-unit-of-quality.

The Matter of Consumer Grievances

The analysis above explains in large part why consumers often fail to obtain the best quality at the lowest price. And the delivery of poor quality, high priced goods is certainly one of the bases for consumerism. But consumerism is grounded in another manifestation of market failure: the high volume and unsatisfactory resolution of consumer grievances. It will be the task of this section to account for this phenomenon.[6] We start by enumerating a "catalogue" of consumer grievances.

A Catalogue of Consumer Grievances

The most common consumer grievances may be classified as follows:

A. Peformance Failures

1. Good or service ordered, but not delivered or delivered tardily.
2. Good or service delivered, but not as specified. For example, a car is delivered minus the power steering with which it had been ordered.
3. Good fails to perform as might reasonably be expected.
   a) Due to production failure, e.g., the particular specimen is defective, because a worker on the auto assembly line fails to install a gasket properly, and the radiator coolant leaks.
   b) Due to design failure, all specimens suffer same defect. This would be the case where the design permits water to seep into brakes and hence they operate unreliably during rain.
4. Seller fails to correct production fault or design fault after it is called to his attention.
5. Product is unsafe (an extreme form of 3a or 3b).

B. (Innocent) Failure of Communications

1. Seller and buyer have different understanding regarding what seller (purchaser) promised with respect to:
   a) What characteristics the good possesses;
   b) Price;
   c) Terms other than price.

C. Misrepresentation, Deception, Fraud (clear, deliberate intent to deceive)

1. Seller does not intend to deliver goods or services promised.
2. Seller misrepresents price or other terms.
3. Seller asserts that the product or service has characteristics it lacks.
4. Seller asserts that product is safe, when he has evidence that it is unsafe. (This is what Nader alleged to be the case with General Motors and the Corvair.)

D. Environmental Effects of Product Not Taken into Account

Except for the last category, all these classes of complaints existed in 1776, but it is probably true that their number was smaller relatively, and their disposition more satisfactory to consumers than now. Why?

Consumer Grievances in 1776

Let us put "performance failures" aside for the moment and turn our attention to the matter of innocent and not-so-innocent failures of communication.

If, as we argued earlier, consumers in 1776 were in a better position to know price and to assess quality, then it seems plausible that fewer consumer complaints would arise. Consumers, we argued, could "see through" the exaggerations and omissions of sellers. But factors other than those cited earlier probably contribute also to the expectation of fewer communications grievances.

The most important was that, under the conditions of 1776, the buyer was likely to have a personal and long-run relationship with the seller. This prompts the question: How many sellers have the temerity to look a

personally known buyer in the eye and then to mislead him deliberately?

And what of the instances where deception and innocent failures in communication did occur? Except for the colorful case of the traveling "flimflam man", the placement of responsibility was relatively easy due to the prevalence of small, locally owned, long-lasting retail units whose principal decision-makers were likely to be personally known to the buyer.

And if a dispute should arise between buyer and seller, the "contest" in those days was not likely to be as unequal as it is now. In 1776 it would have been unlikely for a retail organization -- even the term sounds alien to 1776 -- to have a complaint department or a staff (additional alien concepts!) specialized in the handling of complaints. By the same token, the less harried, less affluent consumer of 1776 undoubtedly had more time to invest in the prosecution of his complaint. Not the least of the consumer's levers was the need of the seller -- unless he was in fact a monopolist -- to maintain his reputation in a small, gossip-prone community where bad news traveled fast.

We are now ready to consider performance failures under conditions of 1776. It is worth repeating: given simpler products, the consumer was better able to detect and avoid performance failures prior to purchase. But even if he should encounter a performance failure, he was in a better position to deal with it.

Being more often a jack-of-all-trades, he could sometimes correct defects himself. If he had to turn to the seller for the correction of a performance failure, conditions were favorable. As noted above, he would have no difficulty in identifying a responsible representative of the seller: in many cases, it was the owner; in most cases, he knew the individual personally.

Finally, the seller was often the maker of the good. If not, either the seller could effectuate a repair himself or he could quickly contact the maker of the good who was likely to be close at hand.

In sum, in 1776 the relative simplicity of products, the personal relationship between seller and buyer, and the unambiguous placement of responsibility for performance or communication failures contributed to the minimization of consumer grievances and to their satisfactory resolution.

Consumer Grievances Today

Unfortunately, conditions in 1972 are worse in all three respects. And though we are probably unaware of it, the deterioration in all three conditions stems from the increasing complexity of products. But first we will deal with the immediate consequences of complex products.

The technical complexity of modern products by itself is enough to assure a larger number of consumer grievances under the performance failure count. Simply put, the more parts or the more sophisticated the design, the greater the probability that a product will be delivered to market with some defect. By the same reasoning, the more complex the product, either in technical design or number of parts, the less likely it is that the consumer will identify and hence avoid either a defective specimen (of a good design) or a poor design.

Not only is the technical complexity of products likely to increase the number of consumer complaints, it also is likely to affect adversely the correction of complaints. In the first place, it is now less likely that the buyer can correct the faults himself. Second, it becomes less likely that the retailer -- now unlikely to be the maker of the product -- can correct the defect, short of replacing the product. (Lives there many owners

of 35 mm. cameras who have not, at some time, had their camera returned to the factory for difficult repairs?)

Finally, the large number of parts in modern products coupled with the larger number of products available produces an inventory organization problem of massive dimensions. (Sears, for example, maintains 500,000 "inventory units" for some 65,000 merchandise items.)[7] Only a large and necessarily bureaucratic organization can administer the large inventories characteristic of modern retail establishments. And the size and complexity of this inventory assures numerous delays in identifying, locating, and retrieving the correct part to effect a particular repair. The bicycle example at the beginning of this paper is hardly unique.

Product complexity also affects the incidence of complaints arising from innocent and not-so-innocent failures of communication. Since there is more to tell (regarding the characteristics of the product), the probability of an innocent failure in communication is greater. And, unfortunately, the same inability of consumers to assess quality enhances the opportunities for deception and fraud.

But product complexity is not the only factor giving rise to more consumer grievances and their less satisfactory resolution. A large part of the problem must be chalked up to the vastly changed character of retailing in 1972. Given (1) the mobility which the automobile confers, (2) economies of scale in advertising, financing, and procurement, (3) time economies of scale to consumers in shopping in a single location, (4) the risk insurance feature of multi-establishment enterprises, it follows that the retail outlet of 1972 is likely to have the following characteristics:

1. It is large in terms of personnel, financial resources, and -- except for specialized outlets -- the number of products, brands, and product variants offered;
2. It is not locally owned, but is part of a multi-establishment organization, and perhaps of a multi-establishment, multi-industry organization;
3. It is not the maker of the goods it sells;
4. Its handling of various functions is performed by specialists in advertising, complaints, credit granting, etc.

The consequences for the consumer are unfortunate. First, he is unlikely to deal with persons he knows either by name or by sight. Thus, the personal factor which in 1776 minimized the number of consumer grievances and facilitated their resolution will usually be missing in 1972.

In the second place, when a grievance arises, the consumer complainant is likely to encounter difficulties in placing responsibility for the grievance. Why so? The first part of the answer is that the consumer is now dealing with very large organizations, subject to all the infirmities to which bureaucracies fall prey -- excessive rule-following, the protective avoidance of responsibility, and the ambiguous division of responsibility. Since these large organizations contain many "parts" and are often themselves parts of even larger organizations, the opportunities for buck-passing are considerable.

Finally, since the retailer is no longer the manufacturer of the product, there arise problems as to the allocation of responsibility between the retailer and the manufacturer. As many car buyers have discovered to their

chagrin, auto dealers and manufacturers tend to have conflicting understandings of their respective responsibilities under new car warranties.

With impersonal buyer-seller relations and an ambiguous placement of responsibility, little wonder that more grievances occur and that the probability of satisfactory resolution of grievances is less than two centuries ago.

On the communications front the use of the mass media for advertising assures that there will exist no personal relationship between seller and buyer which might inhibit the tendency to dissimulate.

A final, undesirable feature of buyer-seller relations in 1972 is that when the consumer seeks correction of a grievance, the contest between the two parties is now vastly unequal. This inequality is explained largely by differences in the nature of the seller's interest in a consumer complaint and the buyer's interest in the same complaint. The seller has a deep, abiding, and highly focused interest in the products he sells and any complaints they generate. By contrast, the complaining consumer has a transient interest in his complaint which could tomorrow be replaced by a different complaint arising from another of the thousands of purchases he makes in a year.

Consider now the capacity of each party to defend his interest. The seller is a specialist in complaints affecting his products. He has accumulated immense experience in handling and defending against complaints. Dealing with many complaints (often of a similar character), he can hire specialized talents at "wholesale" rates (reflecting economies of scale) and develop standardized procedures for dealing with them. His financial resources are enormous as compared with the buyer's. Finally, reflecting

the ascendancy of merchants in our society, the laws of contract have usually been drawn to protect sellers and hence tend to make the consumer's right to "his day in court" an imaginary, not a realistic right [16].[8]

By unhappy contrast, the consumer's capacity to further his complaint is limited indeed. First of all, he is an amateur confronting a professional. Second, the inconvenience and time costs of achieving redress are often large as compared with the money value of the grievance. Third, if legal action is necessary to achieve redress, then it is highly likely that the legal costs will exceed the money worth of the complaint. Remember that experienced lawyers charge from $40 to $100 an hour and that even the simplest case will involve interview time with the complainant, time to draft a complaint, time to research the law, time to ascertain and confirm the facts, time to track down and interview witnesses, and finally time to try the case. It follows that there are few cases indeed where the consumer complainant would get off for less than $500 to $1,000 of legal fees. Philip Schrag concludes: "The barriers that the legal system has erected to consumer litigation go a long way toward explaining the relative unconcern of merchants and manufacturers about truthful selling and the quality of their products," [16, page 6].

To all of these disabilities there is one major offsetting factor: the interest of most sellers in retaining the consumer complainant, and those he may influence, as possible future customers. Against this must be balanced the cost of correcting the consumer complaint. If the type of complaint is infrequent or the cost of correction "small", then it clearly pays the seller to provide redress politely and willingly. If, however, the cost of correction is "large" or the complaint applies to a large number of consumers, some conscious of the wrong and others unconscious of it, the

seller may feel his interests best served by correcting the complaint for only the most competent and most persistent complainants. In so acting, he would hope that, due to consumer ignorance, his organization's standing with others would not be adversely affected. This explanation is consistent with the routine manner in which automobile manufacturers and distributors have sometimes sought to notify car purchasers of the need to replace defective parts.

To the extent that unequal relations between buyers and sellers prevent the satisfactory resolution of consumer grievances, it must be written down as a cause of consumerism.

Unsafe Products

Product safety, arising from either failures in production or in design, deserves our special attention. With the generally simpler products of 1776, the common experience and common sense of consumers usually enabled them to detect, and to avoid or correct unsafe products. To the extent that this assumption was true, the cost of design failures was born by producer-sellers.

As products have become increasingly complex, the ability of the consumer to detect unsafe products has decreased until it must be near zero for many classes of products. Unable to identify unsafe or badly designed products, many consumers will purchase them. And unfortunately these consumers will bear the costs of the defective design in the form of bodily or property injury, or uneconomic performance on the part of the product. And what recourse does the consumer-victim have? The answer -- until recently -- has been, "None!" Legal doctrines, conceived in an era when consumers could be assumed capable of identifying seriously defective products, held that makers and sellers

were not liable for harmful effects derived from their products [19]. It turned out that for many sellers, it was less costly to market a potentially unsafe product than to incur possible heavy costs in further testing, redesign, or postponement of the introduction date.

So it is hardly surprising that in recent years many unsafe products have found their way to market. And it is equally unsurprising that the marketing of unsafe products has given a strong impetus to consumerism and to strong demands that the rules be changed so as to reduce the probability of unsafe products being put on sale.

Environmental Effects

Though economists -- Pigou, Kapp, and Coase, for example [13, 9, 5] -- have long been aware that the production and consumption activities of one set of people could have adverse (or beneficent) effects on others, environmentalism only became a popular "cause" in the mid-sixties. It is a cause which extends far beyond consumerism. However, it should be catalogued here because, as anyone who has attended a consumer movement meeting can attest, complaints against sellers who fail to take account of environmental effects in designing and selling products are shared by all who identify themselves as consumerists.

A Chronology of Consumerism

As we have seen, the spelling out of the economic origins of consumerism is a difficult task, made so by the complex, amorphous nature of the case. Not so the historic growth of consumer concerns. This is graphically mirrored in the circulation growth of Consumer Reports, the consumer movement's most enduring institution:

1936	3,000	
1937	40,000	
1942	80,000	
1947	175,000	
1952	480,000	
1957	780,000	
1962	800,000	
1967	1,100,000	
1972	2,200,000	(estimated)

To flesh out the growth of consumerism and to underline in a different way the growth of consumerism, it is perhaps useful to set down a chronology of consumerism:

1927 -- Stuart Chase and Frederick J. Schlink publish Your Money's Worth [4].

1929 -- F. J. Schlink starts Consumers Research, Inc., the first consumer product-testing organization, publisher of Consumer Bulletin.

1934 -- Two New Deal agencies, NRA and AAA, establish "Consumer Counsels" to represent the consumer interest.

1936 -- Consumers Union, publisher of Consumer Reports, is formed from a breakoff of staff members and supporters from Consumers Research.

1955 -- Office of Consumer Counsel established in New York State.

1957 -- Consumers Association is formed in Great Britain to publish Which?.

1960 -- International Organization of Consumers Unions (IOCU) is formed. By 1970 IOCU included 56 organizations from 32 different nations.

1962 -- President Kennedy's Special Consumer Message enunciates the four rights of consumers: to safety, to be informed, to choose, to be heard.

1964 -- President Johnson appoints a Special Adviser on Consumer Affairs.

1965 -- Unsafe at Any Speed is published by Ralph Nader.

1968 -- Consumer Federation of America (CFA) is formed to coordinate the activities of 189 local consumer organizations.

1969 -- Truth-in-Lending Bill is passed by Congress.

1970 -- President Nixon announced that all government product test information will be made public.

1971 -- Consumer Interests Foundation (CIF) is established by Consumers Union to undertake pro-consumer research other than product tests of interest to individual consumers.

1972 -- Department of the Consumer is established in the Federal Government (estimated).

II. Research Implications: A Sampler of Possible Pro-Consumer Research

To research about consumers economists, home economists, market researchers, sociologists and others have contributed in full measure, as Robert Ferber's review of the consumer behavior literature attests. By

unhappy contrast, relatively little research has dealt with either the causes of consumerism or consumerism's "causes." It is the thesis of this section that social scientists owe an undischarged debt to consumers and further, that the repayment of this debt will turn out to be both fruitful and satisfying.

Let me see if I can "make the case" by introducing a sampler of potential pro-consumer research proposals.

The Documentation of the Imperfection of Consumer Markets[2]

It was argued in Part I that consumer markets work very badly. Instead of being served the best possible product at a single lowest price, consumer markets are characterized by wide variations in money prices, quality, and, most importantly, price-per-unit-of-quality. To amplify the last point: quality differences emphatically do not compensate for differences in money prices. The foremost reason for this failure of markets: the inability and sometimes the unwillingness of consumers to obtain and to act on relevant price-quality information.

But the illustrative evidence and argumentation of the previous section will fail to convince many. What is greatly needed is careful documentation of the imperfections of consumer markets. Specifically, we need to ascertain for a representative set of consumer goods just how much variation exists in local markets with respect to price, quality, and price-per-unit-of-quality. If convincing evidence is obtained of substantial variations on these variables, then we may properly conclude that markets are operating badly and turn our attention to further diagnosis and to consideration of corrective actions.

There are two compelling reasons for undertaking such a study. In the

first place, numerous groups in the economy -- professional economists, politicians, civil servants -- are unaware of the imperfections of consumer markets and need to be convinced that markets do perform badly (if in fact they do). Secondly, such a study would reveal to intelligent consumers the substantial payoffs in terms of lower prices and higher qualities which are to be had in response to effective searches.

A study of the imperfections of markets poses some intriguing conceptual problems. For what set of product-seller-brand combinations is it meaningful to measure price and quality variations? We propose to answer this question by defining a product as "the set of goods for a given range of outlay which is believed in the consumer's mind to serve the same general purpose." Thus, "intermediate station wagons", "35 mm. cameras under $100", and "gourmet restaurants" might constitute recognizable and plausible product categories. Presumably different specimens within a "product" class would have rather similar characteristics. The concept is subjective.

The concept of "market" is more difficult. Rational shopping procedures imply that a consumer should continue to search for information as long as the expected gain from a search exceeds the expected cost of that search. But costs will properly include such subjective matters as the individual consumer's distaste for shopping and the utility of alternative activities he gave up in order to shop, e.g., an afternoon of sailing. And the expected gain will be dependent upon his perception, correct or incorrect, or variations in price and quality. The concept of consumer market which we propose is "the set of sellers the consumer would consider if he had perfect knowledge regarding sellers, prices, and qualities." This definition permits the boundaries of a market to be narrowed as a result of high search costs, but not because

of ignorance of price, quality, or the existence of sellers. Note that this definition, too, is subjective. Note, however, that the extent of the market is limited by net payoffs from the search, not spatially. It could include mail-order sellers, for example.

We come finally to the pièce de resistance, the definition of quality. We define the quality of a specimen (a product/brand/seller combination) as "the extent to which the specimen possesses the characteristics which a consumer desires". We take "characteristics" to be an elementary term. Durability, beauty, safety might be examples of characteristics. Essentially, quality, as we conceive it, is a weighted average of characteristics where the weights and judgments regarding the degree to which the specimen possesses a given characteristic are subjective.

Formally, Q_{ijk}, the quality score assigned by the i^{th} individual to the k^{th} specimen of the j^{th} product is defined as follows:

$$Q_{ijk} = \sum_{\ell=1}^{n} (W_{ij\ell} \cdot Ch_{ijk\ell})$$

where:

Ch = a scale with values from zero to 1.0 denoting the extent to which a specimen possesses a given characteristic.

$Ch_{ijk\ell}$ = the rating by the i^{th} consumer on the ℓ^{th} characteristic of the k^{th} specimen of the j^{th} product.

$W_{ij\ell}$ = the weight (relative importance) assigned by the i^{th} consumer to the ℓ^{th} characteristic of the j^{th} product.

Note that the weights for a given characteristic are the same for all specimens of a given product, that is,

$$W_{ij1\ell} = W_{ij2\ell} = W_{ijm\ell}$$

where there are specimens 1 through m .

For convenience, weights will be set so that

$$\sum_{\ell=1}^{n} W_{ijk\ell} = 1.0$$

If P_{ijk} is the money price reported for the k^{th} specimen of the j^{th} product by the i^{th} consumer, then we arrive at the quality-adjusted price, P^*:

$$P^*_{ijk} = \frac{P_{ijk}}{Q_{ijk}}$$

If "excessive" variation is observed in P^*_j , the quality-adjusted price for a product as reported by all consumers in a market, then we will conclude that a particular market is working badly.

The thoughtful reader will note at once that some variation will arise in P^*_j because of differences in tastes. That is, some consumers will prize characteristics which others disdain. A difficult problem is to determine at what point variation in P^*_j is so "excessive" as to justify the conclusion that a market is working badly.

That measurements of variations in P_j , Q_j , and P^*_j are feasible is suggested by the following estimates for mattresses, food blenders, wool carpeting, and automobile insurance obtained for subareas of Minneapolis by four students in Home Economics in 1970.[9]

	Variation in:		
	P_{ij}	Q_{ij}	P^*_{ij}
Mattresses	$ 89.00 to $279.00	.72 to 1.0	$104.00 to $278.00
Food Blenders	$ 15.00 to $ 50.00	.60 to 1.0	$ 18.00 to $ 56.00
Wool Carpeting	$ 10.20 to $ 20.95 (per yard)	.45 to 1.0	$ 12.00 to $ 42.11
Automobile Insurance	$124.00 to $227.00	.50 to 1.0	$198.00 to $348.00

One qualitative footnote to these estimates: when questioned, all four students expressed the opinion that (1) others undertaking the same investigation would arrive at highly similar results, and (2) that if they were to repeat their own investigation a second time, the results would be relatively unchanged.

An Information- and Quality-Explicit Theory of Consumer Markets Supply and Demand

The development of a theory of consumer markets incorporating both imperfect information and quality differences constitutes a second major challenge. A "good" theory incorporates the chief elements of reality, and no more. If the analysis of Part I is approximately correct, then theories which fail to take account of imperfect consumer information as well as differences in product quality will mislead rather than illuminate. Thus, the challenge here is for economists to improve the body of economic theory and thus our understanding of the economic system.

An additional reason for suggesting the development of an information-explicit and quality-explicit theory of markets is that theory tends to organize the efforts of the economics profession. For example, the existence

of a theory of markets focusing on structural defects as the source of market failures has given rise to the field of industrial organization. Within this field the efforts of a large body of economists are channeled towards the elaboration of theory in this area and also to the development and evaluation of appropriate public policies.

On the other hand, the activities of Consumers Union in producing and distributing information on product quality have failed to obtain direct support from the economics profession. The same is true of "consumerism" more generally. In my judgment, the incorporation of imperfect information and quality differences into the theory of consumer markets would do much to change this.

A Survey of Consumer Grievances

No matter how important imperfect consumer information is in accounting for market failures, what energizes consumer activists most is the high volume and unsatisfactory resolution of consumer grievances -- those instances where individual consumers feel themselves wronged by particular actions or non-actions of sellers.

The rising tide of consumerism is a matter of interest, and sometimes concern, to politicians, civil servants, businessmen, consumerists themselves, and students of consumer behavior. It follows, as a derived relationship, that these groups should be greatly interested in the "facts" of consumer grievances. Perhaps surprisingly, no one has yet made a systematic effort to collect the facts on consumer grievances.[10]

To collect the facts on consumer grievances, what is needed is a "Survey of Consumer Grievances", to be undertaken on a recurring basis. Such a survey might collect data of the following kind with respect to the major classes of

consumer grievances: relative frequencies, the nature of the grievance, dollar estimates of damages, subjective importance to consumers, actions taken by consumers in seeking redress, disposition of the grievance, the consumer's satisfaction (or dissatisfaction) with the disposition of the grievance, the time and money cost invested by the consumer in seeking redress.

Obviously consumer grievances should not be accepted at face value. The design of such a study should provide for the collection of information on the same grievance from both consumer and seller. This would enable the investigators to identify "genuine" (confirmed) grievances, bogus grievances (where the investigators conclude that the consumer was not wronged), and disputed grievances (those alleged grievances which cannot be placed in either of the foregoing classes with confidence).

Earlier research suggests that the poor, blacks, ghetto dwellers experience more frequent and more serious (relatively) grievances [8]. The sample design, data collection techniques, and field arrangements of any SCG should be designed so that the consumer grievances of these groups will be well measured.

To students of family or consumer behavior it is perhaps not untoward to suggest that an SCG might be a suitable successor to the Surveys of Consumer Finances.[11]

The Effectiveness of Consumer Search Procedures

When the intelligent consumer asks the consumer economist, "How much should I shop?", the standard answer derived from the economist's model of utility maximization is likely to be: "Shop (search) as long as the expected gain from the next search exceeds the expected cost of that search." This

response, of course is a non-answer, leading to the further questions: "How do I know what the expected gain will be?" "On what does it depend?" "What do you mean by the 'cost' of the search?"[12] Easy questions first. The costs of the search might include direct, objective costs, e.g., the operating costs of the car on a particular shopping expedition; direct, subject costs -- the dollar equivalent of the disutility of shopping, for example, with a carful of children; the indirect, objective costs -- income foregone in order to undertake shopping; indirect, subjective costs -- the dollar equivalent of the activity in which the consumer might otherwise have engaged, e.g., reading, a picnic, tennis. The sum of these comprises the cost of the search.

The answer to the first two questions is complex, and necessarily qualified. Perhaps the most convincing and illuminating answer would be to cite the results of studies which carefully simulated sequential searches under realistic conditions. Such a study would serve two purposes: (1) it would exhibit the size of consumer gains (payoffs); (2) it would test the rationality model of consumer choice.

For discussion purposes it is perhaps useful to consider a simulation study of automobile insurance purchases conducted by the author several years ago.[13] The study population consisted of 64 students who either owned an automobile themselves (55%) or whose parents owned an auto (45%). The students were asked to price a standard package of automobile insurance, approaching sellers in the order they would normally use. If they wanted, students could price additional coverages, but they were required to obtain a separate estimate for the standard package. After each price quotation -- and prior to obtaining another quotation -- students were asked to state

whether, under real life conditions, they would "buy now" or "search further". Each student was asked to obtain three price quotations.

The study obtained estimates of gross payoffs, i.e., the reduction in price, if any, obtained from each search. The study was defective in that the gross payoff was not adjusted to take account of possible differences in quality. Nor did the study collect estimates of search costs. It was assumed that "consumers" of the study could judge for themselves whether the payoffs obtained would exceed their own likely search costs.

Some salient results from the study were as follows:

1. The study uncovered evidence of a wide range of prices. The mean of the price range (the highest price minus the lowest of the three obtained) was $60, to be compared with a mean price of $180. Bear in mind that all the price quotations were for cars to be driven by a person under 25. On the other hand, bear in mind that the price quotations were obtained by persons already possessing insurance who were seeking the lowest possible prices.
2. Consumers appeared to know when to "search further" and when to "buy now" on the basis of bids on hand:
   a) The probability of obtaining a lower bid was .47 for those who decided to "search further" as compared with .25 for those who decided to "buy now".
   b) However, the average gain -- the amount by which the search actually reduced the price for those who chose to "search further" or would have reduced the price for

those who chose to "buy now" was about the same for both groups, about $31 on the average.

3. Consumers appeared to be knowledgeable about their own capacity to decide effectively. Those who labeled themselves "high" on a scale with respect to their competence as consumers tended to have obtained their lowest bid on the first search more frequently (61 percent) as compared with those who labeled themselves as less competent (27 percent).

All in all, the data from this study suggest that this group of university students, and perhaps all consumers, are capable of using a rational search framework effectively in making a major purchase.

A single study, too sketchily summarized to permit an adequate appraisal of its quality, can be no more than suggestive. What I do urge is that studies such as this are a proper focus for a pro-consumer research program. Their results should ultimately enable consumer economists to provide intelligent consumers with well supported advice regarding the effectiveness of alternative consumer purchase procedures.

The Efficiency of Regulation

Scratch a consumerist and, chances are, you will discover an economic interventionalist -- one whose almost automatic response to a class of chronic consumer grievances is to propose government regulation.

It is my suggestion that the application of disciplined thinking and research to the question of appropriate remedial policies for consumer grievances would have high payoffs for consumers in general.

Let us consider government regulation. There are at least two steps in utilizing government regulation as a remedy: (1) the specification of the appropriate rules or corrective actions; (2) the allocation of resources sufficient to assure that the corrective rules or actions are enforced with some acceptable level of probability. Let us call the first the "appropriateness" problem and the second the "efficiency" problem. We will discuss each in turn.

The key question in the "appropriateness problem" is whether the proposed corrective rules or actions will achieve the desired end. As an example, consider ghetto dwellers' access to short-run consumer credit. Numerous studies suggest that the poor in general are charged higher finance charges or have their loan applications rejected at a higher rate than the non-poor [17, 18]. As a remedy, most people in the consumer movement would probably support legislation establishing a maximum legal finance rate. Existing legislation in many states already includes such limits. The leading variants of the Uniform Consumer Credit Code also include a limitation of this sort. Enforcement problems aside, would such an enactment achieve its intended end? I believe not, on the grounds of the following simple argument.

Common experience and common sense suggest that lending to the "poor" is a high cost proposition: the "bad loan" rate will be higher than for other groups and if loans to the poor are to be profitable to the lender, he must be able to cover his bad loans by charging a higher overall finance rate. If the legally allowable finance rate is not high enough on the average to enable him to recover his costs, he will not make this type of loan. Hence, rather than enabling the poor to obtain credit at a "reasonable" rate, legal

loan limits at too low a rate (how low?) will cut off credit to the poor -- at least from "legitimate" lenders.

Recent, empirical evidence relevant to this cutoff phenomenon comes from the regulation of revolving credit in Minnesota. When a court decision reduced the allowable finance charge on revolving credit from 18 percent to 12 percent -- an obviously desirable end -- BankAmericard in Minnesota stopped accepting new applications, evidently on the grounds that the new permissable rate was not profitable [15].

The discussion above is too cursory, probably, to be convincing. It is offered as an example of the proposition that the "obvious" corrective measure may not yield the desired objective. What is needed is careful study of alternative means.

Until the "appropriateness problem" is solved for a particular policy matter, the "efficiency problem" remains irrelevant. If the analysis of the previous example is correct -- and I do not assert that the case was in fact "made" -- no amount of resources devoted to enforcing a maximum allowable finance charge will attain the desired end.

But suppose the appropriateness problem is successfully solved, then the "efficiency problem" must be faced: what amount of resources is required to see that the corrective rules or actions are enforced with some acceptable level of probability?

The author has canvassed practitioners and literatures of several social sciences in search of a compact set of principles relating to the "efficiency problem". Finding none -- perhaps due to an insufficient or inefficient searching -- he proposes the following set of propositions for critical review.[14] In general, government regulation will be more efficient when:

1. The number of units to be regulated is smaller. Suppose, for example, one wanted as a matter of public policy to dampen the noise output of snowmobiles. One alternative, adopted by a number of communities, is to enact a local ordinance prohibiting noise emissions above the critical limit. For this approach to be effective, the actions of millions of snowmobile owners must be monitored and, in many cases, corrected by hundreds of communities. A more efficient alternative approach would be to impose a decibel limit by regulation or by tax on the relatively small number (one hundred?) of snowmobile manufacturers.
2. The number of actions to be monitored is smaller. It is more efficient for the Price Board and the Wage Board to monitor the prices and wages of a small number of "important" industries and firms than to perform the same task for all producers.
3. The action being regulated is conceptually simple. It will be easier, and hence more efficient, for an agency to verify the installation of a given set of safety features in new automobiles than to insure that public utilities are charging prices which yield a "reasonable rate of return" on investment. (The latter question has given rise to an entire profession, complete with university courses, professional association, and journal.)
4. The agency is smaller. When regulatory agencies become large, we would expect them to suffer from all the classical defects of bureaucracies.

5. The agency is younger. Like people, government agencies appear to exhibit with the passing of time both the favorable and the unfavorable effects of aging.

6. The agency is independently and adequately financed. Suppose that a state tax department were (1) authorized to hire additional personnel up to the point where the expected additional revenues of the last employee hired just equalled his salary. Suppose further that the department's budget represented a first claim on tax revenues. We could then say that this department was independently and adequately financed. Under such conditions one would expect a much more vigorous and equitable enforcement of tax laws. Agencies whose budget is dependent upon legislative appropriation are vulnerable to "starvation through underappropriation". A standard second line of defense for opponents of particular regulations or agencies is to reduce the agency's budgets so that it lacks the resources to perform its assignment effectively.

7. The agency is armed with meaningful enforcement levers. For example, a $5,000 fine to a giant corporation is not a meaningful lever. By contrast, the requirement that ITT Continental Baking Company dedicate 25 percent of its advertising budget over a six-month period to the dissemination of the message that its product, "Profile Bread is not effective in [attaining] weight reduction", is a meaningful lever.[15]

The above list, probably incomplete and perhaps defective, is submitted as exemplifying the type of propositions which would help consumerists and others in forming judgments regarding the desirability and form of government regulation in particular instances.

The Consumption Function from the Consumer's Viewpoint

It was argued earlier that economists have a responsibility to assist consumers in making better choices -- at a level of abstraction and reality which is useful to them.

As an example, consider the consumption function. Vast efforts have been expended by economists seeking to develop and test theories explaining how consumers do in fact divide their income between consumption and saving. But turn the question around and you have a subject which is almost untouched: What fraction of its income should a family save, year in and year out? Specify that the household wishes to save for (1) the children's college education, and (2) retirement income, and, with careful specification, you have a researchable problem. The pro-consumer viewpoint produces a new and interesting question. If the results are successfully communicated on a wide scale, they should prove helpful to consumers.

A second example concerns life insurance. It is an interesting socio-economic question to ask whether families purchase enough (or too much) life insurance to provide the level of after-death income for survivors which the husband-wife really want. If they fail to do so, they suffer from a life insurance "deficit". A research problem on which the author has already conducted a pilot study [12], is to ascertain the size, distribution, and determinants of the life insurance deficits of American households.

A "Truth Tax" to Finance a "Consumer Information Corporation"

Research on behalf of consumers can also involve the development and refinement of policies and institutions designed to improve the functioning of markets from the viewpoint of consumers. The proposal for a "Consumer Information Corporation" (CIC) is an example.

In 1970, according to estimates made by Professor Ivan Ross of the University of Minnesota, businesses devoted $67 billion to informing and persuading consumers. It was distributed as follows:

Advertising	$21 billion
Sales promotion Including direct mailings	7
Personal selling (the information and persuasion efforts of all sales personnel)	36
Public relations	3
Total	$67 billion

By contrast, consumer organizations spent but $13 million for the same purposes.[16]

The business expenditures on consumer information and persuasion were financed by what is, in essence, a 10.9 percent "sales tax" on consumer spending. That is, prices on the $616 billion of aggregate consumption expenditures were set high enough to enable the businesses involved to recover the $67 billion they expended on consumer information.

Is this arrangement, sanctioned by long usage, in the best interest of consumers? I think not. We know, from both vivid personal experience and

from a priori argument based on the self-interest of sellers that the price-quality information provided by businesses is biased by exaggeration or omission. Nonetheless, business-provided price-quality information might be acceptable if we could be reasonably sure that consumers could "see through" the distortions and omissions. Unfortunately, they cannot, due to the technical complexity of products and other factors cited in earlier sections of this paper.

For consumers to obtain accurate price-quality information, it follows that some information-providing resources should be shifted from business to consumer control. How might this be achieved? Perhaps by levying a tax -- a "Truth Tax" if you will -- on business promotion expenses (the four categories listed above) and transferring the proceeds to a consumer controlled Consumer Information Corporation (CIC).

Such a corporation might in the near future (1) conduct product tests, (2) collect data on consumer satisfaction with providers of services (plumbers, lawyers, doctors, automobile repair agencies), (3) use the mass media as well as the printed word to disseminate such information, (4) append comparative rating labels to products marketed. In the more distant future, CIC might investigate new technologies for performing its role, for example, the use of cable television or the telephone to provide consumers with two-way access to computer information "banks".

* * * * * * *

The foregoing represents examples of pro-consumer research. It is my hope that they will inspire our several professions to undertake more research from this viewpoint.

FOOTNOTES

** For 1971-72, Visiting Professor of Economics, University of California, San Diego.

1. Colston Warne, President of Consumers Union, speaks succinctly of efforts to develop a "national consumer consciousness" [20]. Presumably this represents his definition of consumerism.

   Virginia Knauer, President Nixon's Special Adviser on Consumer Affairs, offers a more detailed definition.

   > "Consumerism is nothing more and nothing less than a challenge to business to live up to its full potential -- to give consumers what is promised, to be honest, to give people a product that will work, and that is reasonably safe, to respond effectively to legitimate complaints, to provide information concerning the relevant quality characteristics of a product, to take into consideration the ecological and environmental ramifications of a company decision, and to return to the basic principle upon which so much of our nation's business was structured -- 'satisfaction guaranteed, or your money back.'"

   From a speech by Mrs. Knauer in Indianapolis on January 14, 1972.

   Finally, Aaker and Day [1] define consumerism as "the organized efforts of consumers seeking redress, restitution, and remedy for dissatisfaction they may have accumulated in the acquisition of their standard of living."

2. Lest the reader be misled, let me state at the outset that this paper does not essay a comprehensive assessment of the effectiveness of markets. Instead, it focuses on those aspects of market failure which, in the author's judgment, account for the rise of consumerism.

3. For example, he must be willing to assume that the future path of policy dividends will closely resemble the past pattern.

4. These points were suggested to me by John Hancs, Director of Marketing Information for Consumers Union.

5. Data were obtained by Letha Phelan. a graduate student in Home Economics at the University of Minnesota from a set of seven insurance companies thought to include both low- and high-priced companies. When the data were deflated roughly to take account of quality, the range increased somewhat from $198 to $348.

6. We will usually use the term grievance rather than complaint. In our usage grievances are instances of consumer dissatisfaction, whether communicated to other persons or not. We reserve the term complaint to those grievances where the dissatisfaction has been communicated to someone else.

7. Source: Sears 1969 Annual Report, page 10, and letter from William P. Zabler, National Manager of Service for Sears, dated December 6, 1971.

8. For two graphic examples of consumers' difficulties in using the law to seek redress, consider [18, 17].

9. The students were Susan Clausen, Patricia Gangelhoff, Letha Phelan, and Ruth M. Sargent.

10. In 1971 Consumers Union collected some information regarding consumer complaints in its Annual Questionnaire. About 55 percent of respondents reported making a complaint. Of those reporting complaints, about 41 percent were satisfied with the disposition as against 59 percent who were dissatisfied. (The 14 percent who did not answer the satisfaction question are excluded.)

    The CU data, though helpful, are of limited use since subscribers to Consumer Reports differ greatly from the average American consumer and respondents to CU's Annual Questionnaire differ from nonrespondents.

11. Though only a relatively small number of close friends knew of it, the venerable Survey of Consumer Finances (SCF), for 24 years a fixture in the research establishment, passed away last year. More accurately, the 1971 Survey of Consumer Finances will be the last of the annual reports updating series on consumer income, durables spending, debt, liquid assets, etc. Henceforth, it is expected that comparable data will be collected and published on a biannual or triannual basis.

    The Survey Research Center will continue the quarterly series of surveys on which its Index of Consumer Sentiment is based.

    It might be an apt turn of events if the late SCF were to be succeeded by SCG, the Survey of Consumer Grievances. The Survey Research Center which conducted SCF for so many years is admirably equipped to undertake a SCG. A continuance of the SCF basic data series, via a SCG, would be a welcome byproduct for the research community.

12. For an analysis showing the consumer how to locate payoffs from the search, see [11].

13. The questionnaire is attached as Appendix A. The study has not been written up.

14. For the reader interested, however, in a searching review of government procedures for evaluating alternative socioeconomic policies, see Alice Rivlin's little book [14].

15. At about the time this statement was written, it was proved wrong, a victim of the "appropriateness" problem. More specifically, the author failed to take account of two factors: (1) the psychological principle cited by Gwen Bymers that individuals do not differentiate carefully between negative and positive messages, and (2) the ingenuity of advertising copywriters in perverting a negative message.

    This is the negative advertising message televised on behalf of Profile Bread:

    > I'm Julia Meade for Profile bread. And like all mothers I'm concerned about nutrition and balanced meals. So, I'd like to clear up any misunderstandings you may have about Profile bread from its advertising or even its name. Does Profile have fewer calories than other breads? No, Profile has about the same per ounce as other breads. To be exact Profile has about seven fewer calories per slice. That's because it's sliced thinner. But eating Profile will not cause you to lose weight. A reduction of seven calories is insignifcant. It's total calories and balanced nutrition that count. And Profile can help you achieve a balanced meal. Because it provides protein and B vitamins as well as other nutrients.
    >
    > How does my family feel about Profile? My children love Profile sandwiches. My husband likes Profile toast. And I prefer Profile to any other bread. At our house delicious taste makes Profile a family affair.

    Quoted in Consumer Reports, February, 1972, page 64.

    Consumer Reports quoted an official of ITT Continental as stating that this advertisement "has not proved detrimental" to the company.

16. As noted in the text, I am indebted to Professor Ivan Ross for this estimate of business expenditures for consumer information purposes.

    Sources and assumptions were as follows:

a) Advertising -- $21 billion. From S. Banks, R. Reisman, and C. Y. Yang, Advertising Age, June 7, 1971, page 27.

b) Sales promotion -- $7 billion. From A. W. Frey and J. C. Halterman, Advertising, Fourth Edition (New York: Ronald Press, 1970), page 40.

c) Personal selling -- $36 billion. There exists no satisfactory estimate of expenditures on personal selling. However, Brink and Kelley are quoted in Boyd and Levy as asserting the existing of a 3-to-1 or 4-to-1 relationship between expenditures for personal selling versus advertising. Splitting the difference and applying the 3 1/2-to-1 ratio in 1970, we estimate total personal selling expenditures at $72.8 billion. Assuming arbitrarily that one-half of the efforts of sales personnel are devoted to informing and persuading, we arrive at the $36 billion estimate (= 1/2 x $72.8 billion). Cf. Harper W. Boyd, Jr., and Sidney J. Levy, Promotion: A Behavioral View, (Englewood Cliffs, New Jersey: Prentice-Hall, 1970), page 10.

d) Public relations -- $3 billion. The estimate for public relations expenditures is even cruder than those for other components. Ross accepts a forecast by Kalman Druck (Business Week, July 2, 1960, page 42) that public relations expenditures, estimated at $2 billion in 1950, would be $6 billion in 1969. He assumes, again arbitrarily, that one-half of public relations expenditures activities are directed toward consumers.

e) Aggregate personal consumption expenditures -- $616 billion. From Survey of Current Business, July, 1971.

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[19] Peter Vanderwicken. "Toward the Socialization of Injury." Fortune, November, 1971.

[20] Colston E. Warne. "The Impact of Consumerism on the Market." The San Diego Law Review, February, 1971.

APPENDIX A

Economics 20
Consumer Economics
E. Scott Maynes

Spring, 1965

Automobile Insurance: The Payoff for the Search

Class Research Project

I. Purpose

To ascertain:

(1) The payoff, in terms of lower prices, achieved through additional "searches".

(2) The factors which influence initial choice of "agents".

(3) The factors influencing initial choice of companies.

II. Instructions

1. Simulate an actual insurance purchase. Do what you would do if you were actually planning to purchase insurance and were not simply participating in a class research project. (In fact, most of you -- either yourselves or through your parents -- are purchasers of automobile insurance and hence have an interest in the price and quality of the auto insurance you purchase.)

2. Obtain quotes for the following coverages -- or as close to this as possible:

   a. Property liability: $10,000

   b. Personal liability: Maximums of $25,000 liability for each person affected, $50,000 for each accident.

3. If you own a car, price insurance for this car. If you have access to a car, e.g., your parents', price insurance for this car. If you neither own nor have access to a car, price the insurance with respect to a hypothetical car you plan to buy (and perhaps a driver's license you plan to take out).

4. Obtain price quotations from three different companies. The sequence of contacts should be that which you would follow in an ordinary purchase of this sort.

5. Immediately after each search -- and before contacting another seller -- answer the questions regarding the first contact. This should eliminate the second-guessing problem.

6. You may get quotations on additional insurance coverage in which you are interested, but be sure to get separate quotations for the coverages mentioned above.

III. For Each Seller Contacted, Obtain and Record:

1. Name and address of agent.

2. Name and address of company (if different).

3. Why did you contact this agent (company) first?

4. What was the source of your information about this agent (company)?

5. Was information obtained by personal interview or telephone?

6. Price?

   a. Any dividends?

   b. Any membership fees or special first-year costs which do not recur?

   c. Any nonstandard provisions in policy which could not be priced separately?

7. If this were not a class exercise, would you buy from this seller, or would you seek further price quotations?

For Second or Third Sellers Contacted:

8. Did you "bargain"? How? With what effect? Record pre- and post-bargaining prices.

9. Did you inform seller of previous price quotations?