

insurance matters. But, it is most significant that the distribution of the ratings from one government category to another does not vary significantly even though local government has no role in insurance regulation, federal government has a minor role, and state governments have the dominant role. This indicates that "... many consumers are obviously unaware of who actually regulates insurance, or if it is regulated at all."¹⁸

An Analysis of Consumer Awareness

With respect to insurance regulation, the Wharton Study focused on consumer perception of the effectiveness of the consumer protection afforded by various agencies. It would appear that a basic related question would be: Are insurance consumers aware that consumer protection is available, and if so, are they aware of who is the provider and what are its forms? Therefore, as a part of the study at hand, a survey was conducted to provide some basis for an assessment of insurance consumer awareness and understanding of the consumer protection function of the Ohio Department of Insurance. The survey proceeded on the assumption that (1) DICP is a valid function of a state insurance department, (2) if DICP is being pursued, insurance consumers will be aware of it, and (3) for insurance consumer protection to be effective, consumers must be aware of the services offered by an insurance department.

Seventy non-commercial automobile insurance policyholders in Wood County, Ohio were selected to participate in the survey. The sample size of 70 and the base of Wood County simply reflect time and resource constraints. It was decided to survey non-commercial automobile insurance policyholders because of the relatively higher incidence of renewal, rating, and claims which make it a more "active" type of insurance than most.

The following is a summary and analysis of the data obtained from the 51 respondents who were willing to participate out of the total of 70 policyholders originally selected. Notwithstanding its limited scope, the results of the survey are instructive.

Who Would You Contact? The Blue Cross and Blue Shield organizations in Ohio have recently sought rate increases for certain categories of subscribers. The refusal of the insurance commissioner to grant the requested increases has been widely publicized in the media in the Wood County area. Therefore, it seemed appropriate for the first question asked each policyholder surveyed to be: "Blue Cross/Blue Shield recently requested rate increases for certain types of policyholders. If you wanted to express your opinion about this increase, whom would you contact?"

Twenty of the 51 respondents would express their opinions directly to Blue Cross/Blue Shield. Eighteen did not know whom they would contact. A variety of other sources were identified. Only one respondent stated that he would contact the insurance commissioner. The response suggests

that policyholders do not perceive that there is a potential for direct communication with the very person or agency responsible for insurance consumer protection.

Are There Agencies? In an attempt to measure the general awareness level by the policyholders of government agency efforts to protect consumer interests and to determine the comparative position of the Ohio Department of Insurance, the second question was: "To the best of your knowledge, are there state government agencies that protect consumer interests?" Thirty-five answered "yes," eight "no," and nine indicated that they did not know. There is no standard against which to compare the 66.7 per cent "yes" response rate. It does not appear to be a particularly good or poor awareness level.

Those who said "yes" were asked: Are there any that come to mind? The response is informative. One-half of the 34 were not able to name an agency. The remaining 17 most often identified the Better Business Bureau (BBB) and the Ohio Consumer Protection Agency (CPA) with each being mentioned six times. The fact that the BBB is not a government agency may or may not be of significance. It is important that only three policyholders named the insurance commissioner or the state insurance department. The response suggests that insurance regulators rate comparatively low as visible protectors of consumer interests.

Where Would You Complain? In order to test the extent to which the policyholders might look toward the Ohio Department of Insurance to register a complaint, the third question was: "Suppose you had the following problem: You were in an auto accident and you don't think you were offered a fair settlement for your loss. Where would you go to complain?" The wording of the hypothetical situation required the respondent to make some judgment as to dollar amount significance and the stage of the impasse, but the results are interesting.

Over one-half (28) stated that they would seek out an attorney or go to court. Fifteen would attempt resolution with their insurance agent or company. The BBB, CPA, and the Department of Motor Vehicles were mentioned by others and a number did not know where they would go to complain. It is most significant that not one policyholder identified the insurance department as a place to take the complaint. This clearly indicates that policyholders are not generally aware of the consumer services offered by the insurance department and of the DICP function.

Is There An Insurance Department? The awareness issue was pursued by the next question: "Please answer this question with "yes," "no," or "I don't know." To the best of your knowledge, is there an Ohio government agency that oversees the insurance business?" Twenty-three answered "Yes," 22 "I don't know," and only six said "no." As with question two, there is no standard against which to compare the responses. However, the 45 per cent "yes" response rate would not seem to reflect a generally positive level of awareness. Perhaps many gave this answer because some type of regulation would be logical in view of the technical nature of the contract and the seeming "bigness" of the insurance business.

The 23 "yes" respondents were asked: "Do you know the name of it?" Nineteen did not know the name and one incorrectly gave the Department of Motor Vehicles as the answer. Only three identified the insurance department precisely or approximately. The titles given were Ohio Insurance Commission, State Insurance Board, and State Department of Insurance. These three were the same who identified the insurance department in the more open query in question two. The responses to the more direct question at hand confirms the relatively low awareness level among policyholders of the existence of a state insurance department and its consumer protection function.

Is There A Hotline? Finally, each policyholder was asked: "Are you aware that there is a toll-free hotline to Columbus to hear consumer complaints about insurance?" Thirty-nine said that they were not aware, three said "I don't know" and nine answered "yes." The proportion who were aware of the hotline compares favorable with the awareness levels indicated by the responses to the previous questions. However, an analysis of the nine "yes" answers is informative.

The toll-free hotline may be thought of as an invitation to contact the insurance department for information or to make a complaint. It is interesting that the three respondents who were included in previous questions as having identified the state insurance department did not know that the hotline is available. Apparently, their knowledge of the department is based on other experiences or information.

It is most significant that all those who knew about the hotline made no reference to the insurance department in response to the hypothetical situation in question three. The relationship is all the more informative in that the word "complain" was specifically used in question three. Seven of the nine who answered "yes" to the hotline question indicated that they would complain to an attorney given the problem in question three. The other two would complain to their insurance agent or company. Comparing the responses to question three (the problem situation) and the hotline question suggests that the policyholders have not been informed of the purpose of the hotline and are not aware that the insurance department offers the consumer service and intermediate step of processing complaints.

Summary Statement. The results of the survey indicate that the policyholders in Wood County are generally not aware of the existence of the Ohio state insurance department and of its consumer protection function and that the DICP function is not being actively or effectively pursued. The generalization of these results would be subject to further research, but there is no reason to doubt their representativeness.

Recommendations and Conclusions

A basic position that could be taken is that there is no need for a well-defined active relationship between insurance regulators and insurance

consumers as long as indirect regulation is effective. In fact, some may argue that any general unawareness by insurance consumers of the consumer protection function of insurance departments is evidence that insurance regulation as currently practiced is effective and consumers seldom have reason to complain or seek information. But there are reasons for insurance departments to be complete insurance consumer protection agencies.

The Charge to the Commissioner

Why should we expect more of our insurance commissioners in the area of consumer protection (policyholder treatment) and more specifically in DICP? A basic reason is that they are charged with protecting insurance consumers. The regulatory scope of an insurance department is broad and the statutory and discretionary powers of a commissioner are extensive. For example, the following charge to the Ohio Insurance Commissioner is representative:

The superintendent of insurance shall be the chief executive officer and director of the department of insurance and shall have all the powers and perform all the duties vested in and imposed upon the department of insurance. The superintendent of insurance shall see that the laws relating to insurance are executed and enforced.¹⁹

The superintendent of insurance shall adopt, amend and rescind rules and make adjudications, necessary to discharge his duties and exercise his powers,...²⁰

The superintendent of insurance, or a person appointed by him for that purpose, may make an examination of the affairs of any insurance company doing business in the state as often as he deems it expedient for the protection of the interests of the people of this state but not less frequent than once each three years.²¹

The charge is not so narrow, for example, as to provide that the commissioner is appointed primarily to guaranty the solvency of insurers. Solvency regulation is a means to an end, not an end. The charge clearly requires the commissioner to protect the insurance consumer in the broadest sense.

As indicated earlier in this paper, some commissioners have used their expansive authority to practice forms of DICP. However, the current emphasis on indirect regulation and the infancy of DICP may be a result of the infrequent inclusion of the DICP function in the charge to the commissioner.

A few states have laws similar to the following:

1. General. The Commissioner may prepare books, pamphlets, and other publications relating to insurance and sell them in the manner and at the prices he determines.

2. Free Distribution. The Commissioner may furnish free copies of the publications prepared under subparagraphs (1) and (2) to public offices and libraries in the state and elsewhere.²²

Such a statute gives the commissioner a base upon which to broaden DICP but it is not a clear charge.

In a search of all the state insurance does only one code was found in which the commissioner is explicitly charged with practicing the DICP function. The Alaska Code provides:

Duty to Inform the Public

The director shall regularly inform the public of matters concerning the purchase, price, coverage, benefits, and rights of insurance marketed in this state and make available information on availability of the services of the division of insurance. The director shall prepare, publish and revise as it becomes useful or necessary to do so, an information pamphlet on insurance and the rights of a consumer of insurance and on how to take advantage of the services of the division of insurance.²³

In order to advance insurance consumer protection, DICP, and the effectiveness of insurance regulation, and for it to become clear that insurance departments are insurance consumer protection agencies, it is recommended that all states include the Alaska statute in their charge to the commissioner. An insurance department will be a complete insurance consumer protection agency only if it is readily available to consumers and if they are aware of that availability.

Resource Availability

Are resources available to be expended by the states to expand their consumer protection and DICP functions? Earlier in this paper, it was noted that some departments have curtailed their DICP efforts because of the lack of resources. There are many demands and needs for state funds, but the state revenues and fees generated from the operations of the insurance business and the regulatory function suggest that insurance departments may not be getting their fair share for use in carrying out the regulatory function including consumer protection and DICP.

In Table 3, the states are distributed according to the funds spent for the operation of the insurance department as a per cent of premium tax and fee collections by the state (including the District of Columbia). Premium taxes are assessed by all states and are usually a per cent of an insurer's premiums collected. Not all premiums are subject to taxation. Fees are assessed for various activities of the insurance departments, such as for agent and company licensing and examination. The data

are for the 1974 calendar year which are the latest available. The lag is accounted for by the time needed by the states to finalize premium tax collections and to audit for accuracy and the lack of centralized collection of this type of data.

Table 3

<u>Operating Funds as a Per Cent of Premium Taxes and Fees^a</u>	<u>Number of States</u>
2.5 or less	5
2.6 - 5.0	25
5.1 - 7.5	15
7.6 - 10.0	3
10.1 or more	3
Total	<u>51</u>

Source: The Independent Insurance Agents Association of Ohio, Inc., Agency Bulletin (Columbus, Ohio, March 7, 1977).

^aIn ten states which contract for examiners, the departments' expenditures do not include this cost.

It is interesting to note that in most states the operating costs of the insurance department are between 2.6 and 5.0 per cent of the total revenue generated for the state from insurance. Many states fall in the 5.1 to 7.5 per cent category. There are even a few states in the 2.5 per cent or less group. The lowest was 2.2 per cent with the top of the range being 15 per cent.

It would be dubious to argue that all revenues generated by a business should be allocated to its regulation, but the data are at least suggestive for the resource question. Is there a lack of resources or is it a general misallocation of resources that hinders the insurance consumer protection and DICP functions of insurance departments?

The data in Table 4 add to the evidence. The states are distributed according to the funds spent for the operation of the insurance department as a per cent of fee collections only by the state (including the District of Columbia). The fees result directly from the functioning of the department, such as the fees from agent and company licensing and examination referred to earlier.

Table 4

<u>Operating Funds as a Per Cent of Fees</u>	<u>Number of States^a</u>
50 or less	2
51 - 100	10
101 - 150	21
151 - 200	5
201 - 250	5
251 - 300	4
301 or more	1
Total	<u>48</u>

Source: Same as for Table 3.

^aThree states did not report any fees collected.

Twelve states spend less for insurance department operations than they collect in fees. Another 21 states fall within the 101 to 150 per cent category. The highest per cent was 344 for one state. The concentration of states at 150 per cent and below suggests that insurance departments may not be receiving their fair share of revenues for regulation.

Finally, per cents based on totals in Table 5 are instructive.

Table 5

<u>Type of Revenue</u>	<u>Total Operating Funds of All States as a Per Cent</u>
Total Premium Tax and Fee Collections	5.1
Total Fee Collections Only	127.0

Source: Same as for Tables 3 and 4.

For all of the states combined, only 5.1 per cent of the total revenues are spent to operate the insurance departments. The 127 per cent for fees only indicates that as a group the departments are not far from being self-supporting.

The above data indicates that resources are available for allocation to insurance departments for expansion of their insurance consumer protection and DICP functions. Why is a claim for additional resources justified? Because premium taxes and department fees are passed on to and paid by insurance consumers.

It is recommended that insurance consumers and organized consumer groups push for a larger allocation of their funds to state insurance departments to help them become complete insurance consumer protection agencies. Placing more emphasis on DICP and establishing a more visible regulator-consumer structure, if nothing else, will enable the insurance department to better assess the level of consumer satisfaction and thereby regulate more effectively in the area of policyholder treatment. Why regulate with an incomplete structure and on the basis of incomplete information?

FOOTNOTES

1. William Jennings Bryan, "The Purpose of Insurance Regulations," 1914 Proceedings, National Convention of Insurance Commissioners. Reprinted in Insurance, Government, and Social Policy, Spencer L. Kimball and Herbert S. Denenberg, Editors (Richard D. Irwin, Inc., 1969), p. 19.
2. Ibid.
3. Samuel C. Cantor, "Market Conduct Surveillance - An Overview and Status Report (Part 1)," Best's Review - Property/Casualty, Vol. 77, No. 1 (May 1976), p. 82.
4. Robert C. Siddall, "Life Insurance Consumerism and the Reaction by Industry Regulators," (Unpublished Research Report, Bowling Green State University, 1975), pp. 21-31.
5. Samuel C. Cantor, op. cit., p. 82.
6. Ibid., p. 86.
7. See "Strengthening the Surveillance System - Final Report," NAIC Proceedings, Vol. II, 1974, pp. 225-379.
8. Ibid., p. 232.
9. Ibid., p. 240
10. Ibid., pp. 242-243
11. Ibid., p. 246.
12. Ibid., pp. 274-275.
13. Ibid., p. 281.
14. NAIC Model Market Conduct Examination Handbook (Adopted by the NAIC, June 10, 1976), pp. 1-81.
15. See J. David Cummins, Dan M. McGill, Howard E. Winklevoss, and Robert A. Zelten, Consumer Attitudes Toward Auto and Homeowners Insurance (Department of Insurance, Wharton School - University of Pennsylvania, 1974), pp. 1-281. The study was sponsored by the Sentry Insurance Group and conducted by the Wharton School Insurance Department with the assistance of Louis Harris and Associates. The study was based on responses to a questionnaire administered to a random sample of 2,462 individuals.
16. Ibid., p. 250.
17. Ibid., p. 204.

18. Ibid.
19. Baldwin's Ohio Revised Code Annotated, Section 3901.011.
20. Ibid., Section 3901.041.
21. Ibid., Section 3901.07.
22. Wisconsin Statutes Annotated, Section 601.47.
23. Alaska Statutes, Section 21.06.115.

UNJUSTIFIED COMPLAINTS

Dr. Stephen A. Graham*

Every public consumer protection agency which receives complaints receives unjustified and unruly complaints. Consumers ask for relief to which they are not entitled and they ask consumer protection agencies to do things which such agencies cannot or should not do. How should these complaints be handled? This article attempts to answer this question on the basis of unjustified and unruly complaints received by the South Carolina Department of Consumer Affairs.

Public interest in consumer protection began with the realization that the doctrine of caveat emptor presupposes an equality of economic bargaining power between buyer and seller which does not exist in the American consumer marketplace. Caveat emptor may be a realistic maxim in a market composed of buyers and sellers whose financial resources and entrepreneurial skills are approximately equal. Among businessmen in many industries the doctrine is probably good advice. But between an individual consumer and the businesses from which he buys most of what he needs for himself, his family and his home, the consumer is at a disadvantage.

The converse of the doctrine of caveat emptor is that if the consumer is not wary, and is taken advantage of by a merchant, he has only himself to blame. According to the doctrine, self-help is the consumer's only protection. The only possible function of consumer protection is education: "forewarned is forearmed."

Consumer protection as we know it today, however, is not limited to consumer education. All of the states and many cities and counties have established consumer complaint handling systems to prevent the abuse of the private marketplace by business enterprise and to provide a means of redress for consumers who have been the victims of such abuse. It is not the buyer but the seller who must beware so that the buyer will not complain to the local Department of Consumer Affairs. But the complaint systems operated by public consumer protection agencies are not a panacea. No public agency, regardless of the scope of its legal authority or the size of its budget, can offer a remedy to every consumer who files a complaint. In some cases a public agency can only hope that the complainants it cannot help will be better informed about their rights and responsibilities as consumers in the future. In this sense the doctrine of caveat emptor is not obsolete. The buyer must still beware. The point is that public consumer protection agencies cannot bring consumers to the position of full equality with businesses which caveat emptor presupposes.

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The South Carolina Department of Consumer Affairs

The South Carolina Department of Consumer Affairs was established by the Consumer Protection Code to enforce the provisions of that Act (Act 1241, 1974 Acts). Since the law incorporates most of the Uniform Consumer Credit Code, the Department of Consumer Affairs is responsible for the regulation of the consumer credit industry in South Carolina.

In addition, Section 6.117 of the Consumer Protection Code (Section 8-800.387, Code of Laws of South Carolina, 1962, as amended) requires the Administrator of the Department of Consumer Affairs to "receive complaints of individuals pertaining to any consumer transaction arising out of the production, promotion or sale of consumer goods and services." The Administrator must "endeavor to determine the probable basis and merit" of such complaints and to "advise the complainant of such determination." This is the first job of the Department's Complaint Analysts: to determine whether a complaint concerns goods and services purchased for personal, family or household use as opposed to items purchased for business or commercial use. Although Department personnel assist everyone who calls or writes the Department, the complaint process is a service performed for the ultimate consumer.

A more difficult decision for the Complaint Analyst stems from his responsibility to determine the merit of every complaint he receives and to communicate his determination to complainants. Since most people who contact the Department do so initially by telephone, the Analysts' determination that a consumer complaint is unjustified is sometimes communicated during this telephone conversation. Other telephone calls are made by consumers with problems which fall within the jurisdiction of other agencies. All Department personnel, including Secretaries, who take calls from consumers maintain an up to date file of public and private agencies to which such problems can be referred. Finally, there are telephone calls from consumers who need advice and information. Many of these callers do not have a complaint. They need a sympathetic listener.

Each month approximately four hundred complaint forms are mailed to consumers who telephone the Department about complaints which seem to justify a response. About one-half of these forms are returned to the Department. Before the Department asks a business to reply to a written complaint, a Complaint Analysts must be able to answer three questions: namely, What is the complaint? Who is the complaint against? What does the complainant want the business complained against to do to resolve the complaint? The Analysts identify many unjustified complaints through the use of these questions. A complaint may be considered unjustified, for example, if no consideration (money) is lost.

The three questions can also be used to identify unruly complaints. An unruly complaint is, for example, one where the Analyst responsible could not determine from what the complainant stated what he wanted the business or our Department to do. The request may be that the Department should investigate the merchant's business and make sure that he obeyed the law. It may be that the consumer is entitled to a refund from the merchant. And, although there is no law in South Carolina

requiring businesses to make refunds on returned merchandise, it is possible that the merchant named in his complaint is violating some provision of the Consumer Protection Code. Such complaints are not necessarily unjustified. They are "unruly" only if, on the basis of the information supplied by the complainant, the Department can neither contact the merchant and attempt to obtain a refund, nor can it investigate an alleged violation of law. Another example of an unruly complaint may be one where the consumer no longer has an interest in the merchandise. For example, a complaint involving an automobile that has been repossessed and resold by the bank would be considered unruly because the consumer no longer has any interest in the automobile.

Generally speaking, public consumer protection agencies cannot depend on businesses' being willing to do more than they must to satisfy consumers and resolve complaints. Consumers who file unjustified complaints should be told that their complaints are unjustified and they should be told why their complaints are unjustified.

Sometimes the human service performed by consumer protection agencies is more important than the enforcement of the law. Very few complaints received by the Department allege a violation of the South Carolina Consumer Protection Code. In many cases the complainant is unaware that his complaint contains a violation of the Code. Although such complaints are investigated to make sure that the business complained against is aware of the law and will comply with it, the Department's first responsibility is to resolve the consumer's complaint.

Unjustified complaints impose another limitation on public consumer protection. When all of the relevant facts are furnished by the complainant, it is better to tell him that his complaint does not justify a response from the business complained against than to mislead him by contacting the business. When the complainant does not furnish all the relevant facts and it is obvious from the business' reply that the complaint is unjustified, he should be so advised.

Unruly complaints also limit consumer advocacy. Responding to a consumer's needs instead of investigating his complaint regardless of his needs is difficult if he does not express his needs.

The doctrine of caveat emptor would treat all complaints as unjustified. The consumer advocate, on the other hand, might investigate all complaints to vindicate the rights of the complainants. There is a middle ground which consumer protection agencies can occupy. It is difficult to offer a general prescription for handling unjustified and unruly complaints. Each complaint expresses a consumer problem to which complaint analysts must respond. Every effort should be made to determine whether the complaint accurately articulates the problem. Complaints are often unruly or unjustified because they do not reveal the complainant's problem. In many cases consumer advocates will be frustrated by their inability to discover the problem and to act accordingly. Insofar as public consumer protection agencies speak as an advocate of consumer interests they must cope with this frustration.

CONSUMER EDUCATION--ISSUES AND
THE OFFICE OF CONSUMERS' EDUCATION EFFORTS

Dr. Dustin W. Wilson, Jr.*

The perception of consumer education from the Federal vantage point of the Office of Consumers' Education is broad and provides information and insight not easily gained at locations in universities, local or state agencies, or at local community organizations. It is a composite of all of these. The diversity of applicant agencies, the people with special needs they identified, and the issues and concerns selected for consumer educational attention unmistakably highlight the national concern for this field. Clearly consumer education is not the sole province of the professional educator. It must be shared with other equally concerned groups.

All consumer professionals have their own perceptions and understandings of consumer education. Because the Office of Consumers' Education received 839 proposals last year, and funded 66 projects, the Federal perception of consumer education is necessarily a broad and also an enlightened one. First, the incredible diversity of the applicant agencies is striking. While half of the applications came from education groups, the other half came from public and private non-profit agencies. The most obvious conclusion one can draw from this response is clearly that consumer education is not the sole province of education. It must be shared with other groups.

A second perception of consumer education gained from the national view is the intensity of concern applicants have towards an extraordinarily broad range of clients or target groups. While the numbers of applicants reveal a high level of interest, they alone do not provide an adequate measure of the deep concern for a more equitable opportunity for the low-income consumer.

The topics and problems raised by the applicants provide still another insight into the field of consumer education. Though money management and related issues remained the most frequently mentioned problem areas, the human services of health, education, and other social and civic services emerged as major new topics. An interesting commentary on the human services as a consumer education topic developed during the proposal review period. The readers, many from traditional consumer education backgrounds, debated among themselves the appropriateness of them as consumer education topics. They discussed whether or not education was itself a consumer education subject, the same for health, welfare, or the corrections system. It was a learning experience for the readers.

*Director, Office of Consumers' Education, Department of HEW

Energy, housing, and transportation surfaced as consumer issues. The energy topic was frequently coupled with regulatory and rate setting bodies. Clearly, a more active role for consumer education was proposed in these projects. I might add parenthetically, these were not "active" in the sense of boycotts or picketing, but more toward an understanding of the process and how one can influence that process.

Curriculum and other materials were other repeatedly stated needs. These were usually expressed in terms of specific target groups--low income, limited English-speaking, rural and urban, Indians in cities and on reservations--for example. The oft-voiced observation that consumer education is a white middle class program was never more apparent than in these issues.

From the grant proposals, three areas were identified reflecting needs within the consumer education field: practical problems about the program itself; educating consumer educators; and identifying problems and raising questions about issues which the professional consumer educators should examine. These three were addressed by this office mostly by means of the contract authority of our legislation. With this, the office can specify the problem or topic to be considered and let contracts accordingly.*

On the immediate and practical level, four publications were prepared. One is a brief flyer describing the program and how one gets into the act, entitled "Some Questions and Answers About Consumers' Education." The second, "If You Are Writing Your First Proposal...", is written in laymen's terms providing some guidelines for writing an application. Third, "The Community is Your Classroom" is a description of the resources available in most communities which a teacher can use in her or his classroom. The last of the papers is entitled "Guidelines for Consumer Activity", this is a manual for community based groups suggesting effective and simple procedures to use when establishing and maintaining consumer efforts.

The second category of materials was developed to educate consumer educators who have been assigned responsibilities in teaching consumer education but who have minimal experience or training in the field. There are four of these--"State of the Art" by Lee Richardson; "Consumer and Economic Education--An Historical Perspective" by Gayle Trujillo; "How to Survive in Consumer Education" by Sidney Margolius; and "A Guide to Instructional Resources for Consumer Education" by Bill Johnston. These four were designed for teachers in schools or in other organizations.

The third group of materials is directed toward the profession of consumer education. They were intended to identify issues which appear to be emerging or which need clarification and development. They address specific topics--"Mayors and Consumer Education"; "Consumer Education and the Human Services"; and "Analysis of Consumer and Economic Education."

*These materials are available from the Office of Consumers' Education.

The future of the Office of Consumers' Education is a challenge primarily to this organization, the American Council of Consumer Interests, the only national professional organization of educators.

Although the potential base of support is broad, and the personal level of interest is high by the people in the field, the field is not organized. Simply stated, consumer education will never get together if this group does not become the dominant force behind it. The nation needs an informed, active and assertive consumer citizen. This organization is the only one that can currently assist in reaching that goal.

HISTORY OF THE DEVELOPMENT OF NATIONAL ASSESSMENT'S
CONSUMER SKILLS ASSESSMENT

Mr. Richard Hulsart*

National Assessment of Educational Progress (NAEP), a project of the Education Commission of the States (ECS) in Denver, Colorado, will conduct a nationwide assessment of the consumer skills of 17-year-old students in the Spring of 1978. This assessment will assess the attitudes and skills of 17-year-olds in the following areas: personal finance, consumer protection, consumer economics, consumer behavior, and energy.

The consumer area was first identified as one of the basic skills to be included in National Assessment's Basic Life Skills (BLS) Assessment. The consumer skills exercises developed for the BLS Assessment focused primarily on the areas of personal finance and consumer protection. When National Assessment explored the possibility of doing an assessment of consumer skills at the 17-year-old level, consultants indicated that the development should be expanded to include exercises measuring both consumer economics and consumer behavior, in addition to the areas of personal finance and consumer protection.

Since National Assessment did not have the time or the funds necessary to develop a comprehensive set of consumer skills objectives the project relied on objectives prepared by the Consumer Education Curriculum Development Project staff of the Duval County Public School System in Jacksonville, Florida. This comprehensive set of consumer objectives had been developed by Duval County under a Title III ESEA grant as a guideline for the development of a consumer education program.

During the Fall and early Winter of 1977, members of the National Assessment consumer development team worked with various consultants to develop approximately two hundred consumer skills exercises. These exercises were field tested in February, and a final selection of exercises for the Consumer Skills Assessment was held in March. The Consumer Skills Assessment of 17-year-olds is scheduled to be administered in the Spring of 1978.

The following is a list of the major topics to be covered by the Consumer Skills Assessment.

*Area Development Coordinator, National Assessment of Educational Progress

National Assessment of Educational Progress (NAEP) is funded through the National Center for Educational Statistics and administered by the Education Commission of the States (ECS) in Denver, Colorado.

Consumer Behavior

- Environmental Influences
- Psychological Influences
- Perception
- Needs, Wants, Motives
- Decision-Making

Consumer Economics

- Income
- Money and Credit
- Economic Fluctuations
- Principles of Economics
- Business
- Production
- Marketing
- Supply and Demand
- Government Economic Policy
- Government Services, Taxes and Spending

Personal Finance

- Money Management
- Shopping Skills
- Use of Credit
- Goods
- Services
- Insurance
- Savings
- Investing

Consumer Protection

- Causes of Consumerism
- Outcomes of Consumerism
- Need for Protection
- Business and Consumer Action
- Government Action
- Product Safety

Energy

Due to the importance of energy as a concern in the consumer area, appropriate energy exercises from the Science Assessment were added to the Consumer Skills development. Energy, therefore, appears as a separate consumer area.

Consumer exercises from the BLS Assessment are currently available to interested people. Reports of the results of the BLS Assessment will be available sometime after January of 1978.

Exercises from the Consumer Skills Assessment will be available after the completion of the Consumer Assessment in May of 1978. Reports of the results of the Consumer Assessment will not be available until 1979.

Copies of the consumer materials can be obtained by contacting:

Richard Hulsart
Area Development Monitor
National Assessment of Educational Progress
1860 Lincoln Street, Suite 700
Denver, Colorado 80295

AGENCY FOR CONSUMER PROTECTION: DISCUSSION

Ms. Sandra Willett*

The Agency for Consumer Protection does the following:

- A. Creates a Federal Agency for Consumer Protection
- B. Authorizes ACP to:
 - 1. Represent consumer interests by participating or intervening in Federal agency proceedings and activities and appealing for judicial review of such decisions, if necessary.
 - 2. Gather and disseminate information of importance to consumers.
 - 3. Act as a clearinghouse for consumer complaints by receiving, reviewing and transmitting complaints from the public.
 - 4. Study and survey consumer needs and preferences and report annually to Congress and the President on ways to improve the Federal government in the protection and promotion of consumer interests.
- C. Authorizes \$15 million dollars in the first year (approximately 25¢ for the average family paying taxes). ACP is authorized for three years only after which Congress must reassess its functions and performance.

The Agency for Consumer Protection Bill does not:

- A. Regulate industry.
- B. Supersede, supplant or replace the functions or powers of any Federal agency necessary to discharge its own statutory responsibilities.
- C. Impose fines, set rates or ban products or force business to change their practices.

*Executive Director, National Consumers League

ABSTRACT*

THIS BUSY MONSTER:

REFLECTIONS ON THE CONSUMER SOCIETY

The Honorable George Brunn**

Individuals and families are buffeted by large organizations that do not function in the interest of consumers.

The following are steps that can be taken to develop more equity in our system:

1. Standards of size. Big is not bad, but some organizations, governmental as well as private, seem clearly to have grown beyond their optimum size. Instead of quadrennial campaign rhetoric about big government and big business we need to build on the few studies that have been made. We need to translate what we find into action if we are not to be the victims of an increasingly oppressive gigantism.
2. Standards of concentration. We need to strive for an agreement on what degree of concentration we will tolerate in an industry. The degree need not be the same for each industry. In contrast to our notoriously ineffective anti-trust laws under which we last broke up a large concentrated industry around 1911 and under which the current suit against IBM is expected to take ten years, laws setting standards of concentration could be coherently developed and quickly enforced.
3. Standards of growth. These are related to the two standards just discussed. One approach could be to block acquisitions by any business that has reached a certain size. This would be far simpler and more effective than our present cumbersome laws. Similarly, standards of growth need to be formulated for public agencies. The inclination, which almost amounts to a natural law, toward organizational growth must be counteracted at the core so that any growth is directly related to improved performance of functions that we help determine.

One idea we need to explore seriously is whether we can, without causing harm, undercut the tendency of organizations

*The full text of this paper will appear in a future issue of The Journal of Consumer Affairs.

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toward growth and self-autonomy at the expense of other functions by eliminating their near immortality. Are these institutions, we might ask, where we would be better off to say at the outset--and to mean it--that you have five or ten or twenty years to do your job and no more.

4. Standards of information. There is, of course, the on-going effort, so familiar to all of you, to get clear, accurate and helpful information to aid individuals who buy goods or services in making wise choices. We have a long way to go. But beyond that we need such things as, to mention just two:

--Information on the detailed operation of multinational corporation. I have alluded to the problems posed by such organizations. No government, let alone the public, now gets sufficient data about their activities to set public policy effectively. Ongoing, accurate information is of critical importance. The alternative, in essence, is government of, for and by IT&T and its counterparts.

--Standards aiming at uniformity of accounting and other data collection within an industry or layer of government so as to facilitate intelligent comparison and analysis.

5. Standards of consumer impact. We can measure, to a degree, environmental impact. By the same token, the impact of a host of business and government actions on the consuming public can be ascertained at least to a point and standards can accordingly be fashioned. This is not simple and it is susceptible to the same any-opinion-for-a-price abuses that have cropped up with environmental impact reports, but it may be central to the functional approach that I have suggested.

6. Standards of monopoly performance. If we are to tolerate the existence of monopolies, such as utilities, at all, we need to develop and enforce very clear standards that embody our reasonable expectations of their performance. We permit these monopolies on the theory that they are regulated by the public. Traditional regulation has become almost wholly unworkable. We watch helplessly as the energy industry doubles, triples and quadruples its prices, all the while feeding us and the regulators a stream of fraudulent propaganda.

Note that even if we nationalize monopolies, such performance standards will still be needed and, like other standards, they should ultimately be set by us and not be self-styled experts.

7. Appropriate technology. Thanks to Schumacher and a handful of others we are at last beginning to think about technology appropriate to genuine human needs and to the fragile life on this planet. Schumacher's concepts apply not only to developing societies; they apply perhaps most cogently to us.

8. Effective methods of participation. The present corporate society wants us to be passive and acquiescent consumers, a thoroughly dehumanizing role. We need to develop channels of active participation in many of the decisions that affect us, particularly decisions on the kinds, quality and cost of the goods and services available to us and on government policies that significantly affect us. In short, we need to develop for ourselves, as consumers, analogs to collective bargaining. Embryonic methods of participation already exist in a number of local groups.

9. Effective methods of consumer complaint resolution. We need fast, fair, easily accessible, inexpensive mechanisms for resolving not only individual complaints but those that raise systemic questions. This area is closely related to the previous one. With a significant degree of active consumer participation in the economic processes we can develop workable grievance and arbitration machinery. In the meantime there are interim steps we can take. For example, we already know quite well what makes a good small claims court and, in fact, such courts function in several states. It is well within our present capacity to get good small claims courts, free of lawyers and collection agencies, throughout the country.

10. A far more serious effort to combat inflation. Politicians love to thunder against inflation whenever the polls show high public concern about it. Politicians say little about the fact that government has a built-in conflict of interest in this area, both as the largest debtor and as a beneficiary of receipts that, except during a bad recession, rise faster than the rate of inflation because of our tax structure.

There are at least two useful steps we might consider. One is to change individual income tax laws, so that to the extent one's income goes up to keep pace with inflation one does not move into a higher tax bracket. The second is to change the corporate income tax structure so as to penalize price increases not warranted by cost increases and to reward price reductions.

There are complexities about each of these concepts and they are obviously not the whole answer. I mention them because of the pressing need for some fresh thinking and for some new tools.

THE CONSUMER SIDE OF REVOLVING CREDIT--AN OVERVIEW

William C. Dunkelberg*

Although revolving credit comprises a small percentage of consumer credit, it is the fastest growing component of such credit. In 1976 it was estimated that about 330 million revolving credit accounts were in active use. The increasing popularity of such credit is explained by the services available through the use of a credit card. Because of the rapid growth of revolving credit, it has come under growing public scrutiny and is the target of new legislation. The major challenge lies not in regulation, but education if consumers are to benefit from advantages the credit system provides.

Revolving credit is the fastest growing component of consumer credit, making up about 15 per cent of total outstanding credit today. Although revolving credit still makes up a fairly small percentage of consumer credit, its importance to the payments mechanism is much larger. Large retail firms estimate that half or more of their volume is "charged" on some type of credit card. In 1976, it was estimated that there were about 330 million revolving credit accounts used by consumers, in comparison to about 135 million non-revolving accounts. There are about 1.5 credit cards for each account, on the average, indicating use of about 500 million cards.

In 1976, it is estimated that these cards were used for about \$80 billion in expenditures. Since consumers have the choice of numerous credit sources, one must presume that revolving credit is growing rapidly because it provides better and/or cheaper services than alternative sources. Overall, credit use has not increased relative to income, indicating that, in managing their portfolios, consumers are substituting revolving credit obligations for other sources of credit.¹

Since 1960, the market shares of various lenders has changed substantially, due to competition (especially for automobile financing), more effective disclosure, and the innovation of revolving credit. Revolving credit has grown to 15 per cent of the market in a very short period of time. Banks in general have increased their market share, with over \$20 billion in new bankcard extensions. Finance companies have lost considerable market share, having 42 per cent of the market in 1960, and about 25 per cent in 1976.²

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Because of its rapid growth, and the potential importance of the plastic medium in the growing Electronic Funds Transfer system, revolving credit has come under growing public scrutiny and the target of substantial amounts of new legislation, including The Fair Credit Billing Practices Act and the Equal Credit Opportunity Act. Although this legislation applies to all types of credit, many of the concerns dealt with by the acts were spawned in the revolving credit market. These regulations are complex, and, while they help some consumers, they harm others.

Well over half of all families in the U. S. use credit cards. Twenty-five per cent of all retail credit card users in New York used 10 or more cards.³ The reason for the rapid growth in credit cards is explained by some as the result of pressure on consumers from lenders who would profit from credit card use. However, a closer examination of consumer behavior and attitudes suggests another explanation--that credit cards provide a more convenient and less expensive source of credit for many consumers, and provide a set of other valuable financial services.

First consider the credit services available through a credit card. A consumer must be creditworthy and fill out an application to get any loan. But, this need only be done once for a credit card. Then, the consumer is extended a line of credit, that can be exercised and repaid at the convenience of the user.

Many feel that 18 per cent APR is too high a price to pay for credit. Indeed, for many, it is. Certain consumers would be foolish to borrow \$1000 at this rate. For others, it would be a bargain. But, few banks will lend less than \$500 or \$1000, and usually such loans must be repaid over a period of at least a year. Loans obtained through credit cards are not subject to such restrictions. Small amounts can be borrowed, and repaid as soon as funds are available.

The intelligent consumer minimizes the cost of using credit (thus maximizing the net value of its use). This involves more than simply finding the cheapest loan. It takes time and money to get credit, and this must also be considered. The following expression, although overly simplified, provides insights into the total cost of credit to the consumer:

TABLE 1
ESTIMATED NUMBER OF CREDIT ACCOUNTS: 1975
(millions of accounts)

<u>Revolving Credit</u>	
Bank Credit Cards	40
Retail Credit Cards	170
Check Credit	3
T & E, Airline, Rent-A-Car, Other	20
Oil Company	97

	330 million
<u>Non-Revolving Credit</u>	
Banks (except mortgages)	37
Single Payment (banks)	7
Retail	26
Credit Unions (some revolving)	24
Finance Companies (some revolving GECC, etc.)	41

	135 million

Credit Research Center, Purdue University

TABLE 2
 CONSUMER USE OF CREDIT CARDS AND INSTALMENT CREDIT BY
 INCOME AND LIFE CYCLE GROUPS: 1970

<u>INCOME</u>	<u>USE CREDIT CARDS</u>	<u>PERCENT WITH INSTALMENT CREDIT</u>
Under \$3,000	17%	19%
\$3,000-4,999	24	31
\$5,000-7,499	39	52
\$7,500-9,999	54	61
\$10,000-14,999	67	65
\$15,000-19,999	74	
\$20,000-24,999	84	49
\$25,000 or more	81	
 <u>LIFE CYCLE</u>		
<u>Under Age 45</u>		
<u>Single</u>	39%	41%
<u>Married</u>		
No children	64	63
Children-youngest under 6	60	71
Children-youngest over 6	65	71
<u>Age 45 or over</u>		
<u>Married, has children</u>	58	57
<u>Married, no children</u>		
Head working	58	43
Head retired	35	15
<u>Unmarried</u>		
Head working	46	29
Head retired	23	14
<u>Any Age, Unmarried, has children</u>	27	53
<u>ALL FAMILIES</u>	50%	49%

Katona, et.al., 1970 Survey of Consumer Finances, Survey Research Center,
 University of Michigan.

TABLE 3
NUMBER OF CREDIT CARDS USED BY CONSUMERS

<u>NUMBER OF CARDS</u> ^{a/}	<u>PERCENT OF NEW YORK RETAIL CREDIT CARD USERS (1973)</u>	<u>NUMBER OF CARDS</u> ^{a/}	<u>PERCENT OF U.S. FAMILIES (1970)</u>
		None	50%
1-5	30%	1-5	2%
5-9	45%	5-8	22%
10-14	20%	9 or more	16%
15 or more	5%		
	<hr/> 100%		<hr/> 100%

^{a/} Includes retail store cards, bank cards, T & E cards, gas cards and other miscellaneous credit cards.

Robert Shay and William Dunkelberg, Retail Credit Card Use in New York, Katona, Et. a., 1970 Survey of Consumer Finances, Survey Research Center, University of Michigan, 1971.

Where R = the total cost of the loan

r = the rate of interest or finance charge

B = the amount borrowed

W = dollar value of an hour of time

T = time (hours) required to get a loan

k = cost per lender contacted

N = number of lender contacts

Clearly, once a consumer has applied for, and received a credit card, the values of T and N become zero, leaving only the finance charge component of total cost. Thus, for certain sizes of loans and for short term borrowing, the use of the credit card can indeed be the cheapest source of credit. For many users of credit cards, there may be no cheaper source of credit.⁴

Beyond cost of credit considerations, the credit card offers other services of value to consumers. Already mentioned is the fact that very small extensions (charges) can be made at a variety of stores, and that the amounts charged (owed) can be repaid at the customer's convenience. The credit card also consolidates many purchases into one payment, saving the consumer the cost of many checks, or the risk of carrying cash, and the difficulty of planning cash needs.

Credit cards provide identification that makes certain transactions simpler (checking into a hotel; cashing a check); the differing due dates allow expenditures to be distributed; credit cards provide emergency cash and a means to make unexpected transactions when funds are not immediately available.

Studies of credit card usage indicate that many consumers use them primarily for their non-credit services. About 25 per cent of retail credit card accounts are used without the payment of any finance charge. The full balance is paid each month.⁵ Another 50 per cent of the accounts pay no finance charges in some of the months that balances are owed. An even higher proportion of bank credit card users never pay finance charges. In some states with low interest-rate ceilings, consumers pay annual fees for the use of bank credit cards, indicating the value of services provided. Similarly, consumers have long paid annual fees for the use of travel and entertainment cards (American Express, etc.).

TABLE 4

RETAIL CARD USE BY INCOME AND TOTAL NUMBER OF CARDS^{a/}
(New York Retail Credit Card Users, 1973)

<u>INCOME OF CARD USER</u>	<u>Percentage Distribution</u>	<u>Average Annual Net Sales</u>	<u>Average Finance Charges</u>	<u>Number of Revolving Months</u>	<u>Percent of Sales Revolved</u>
Under \$7500	9.0%	\$149	\$ 6.48	4.1	67.0%
\$7501-10,000	8.9	\$250	\$21.26	6.6	68.7%
\$10,001-15,000	26.5	\$219	\$18.95	5.9	63.1%
\$15,001-20,000	26.2	\$232	\$14.95	5.2	58.5%
\$20,001-25,000	12.4	\$205	\$ 6.74	4.0	41.4%
\$25,000 or more	17.1	\$224	\$17.36	4.8	51.6%
All New York Retail Card Users	100.0%	\$218	\$15.21	5.2	58.0%
<u>NUMBER OF CREDIT CARDS USED^{b/}</u>					
Under 5 cards	29.6%	\$233	\$20.29	6.5	67.3%
5-9	45.4	\$231	\$15.21	4.8	55.0%
10-14	19.7	\$190	\$10.19	4.7	50.1%
15 or more	5.3	\$130	\$ 5.65	3.4	53.4%
All New York Retail Card Users	100.0%	\$218	\$15.21	5.2	58.0%

^{a/}Data are based on a sample of 100 account histories selected from 17 major New York retailers operating their own credit plans.

^{b/}Includes all types: retail, oil company, bank and T&E cards.

Robert Shay and William Dunkelberg, Retail Store Credit Card Use in New York, Columbia University Press, 1975.

The data in Table 4 indicate how consumers in various income groups and card ownership classifications used their retail accounts at 17 major New York retailers. Annual sales were between \$200 and \$250 for all consumers except those in the lowest income group. Fewest revolving months were found in the lowest and highest income groups, while the proportion of sales revolved declined with rising income. Use of the convenience aspects of credit cards also rises with the number of credit cards used. Average sales, finance charges, months revolved, and per cent of sales revolved, all decline as the number of credit cards used increases.

Although revolving credit use has increased substantially in the last ten years, there has also been a corresponding decline in the use of credit from other sources. Credit is used to help make important transactions. Thus, consumers prefer to spend as little time and money getting credit as is possible. Many aspects of revolving credit make it an inexpensive source of credit compared to traditional lenders. In addition, credit cards provide other services of value to consumers.

Strict restrictions on debt collection result in higher credit standards, making it more difficult for lower income consumers to get credit. Low rate ceilings have the same effect. To the extent that credit availability does not decline, retail prices for goods and services must rise to make up for low finance charge revenues and higher bad debts. This induces subsidies to credit users from those who cannot or do not wish to use credit.⁵

With such a mixed record, it is not clear that protective legislation is assisting consumers. Some may benefit, but others pay the cost. Even attempts to inform the consumer (Truth in Lending for example) have met with only moderate success, and have been least successful among the most disadvantaged.

Indeed, such regulation can be only part of the solution. To realize the benefits available in the credit system, consumers must be actively involved in the market. We can make information available, but we cannot make consumers use it. It does little good to protect them if they are not well informed enough to enter the credit market. Thus, the major challenge lies not in the area of regulation, but in education. Only if all consumers are well educated in the fundamentals of credit use will they be able to use it to their advantage and avoid the costs of over-extension.

FOOTNOTES

1. The ratio of debt to disposable income did exceed 16 per cent in 1973, a period of rapid inflation and apparently general misperception about the state of the economy. Some consumers may also have been taking advantage of debtor positions during inflation, a benefit often overlooked by observers of the consumers' condition. This ratio should not be confused with the ratio of annual installment debt payments to income. Data were taken from the Survey of Current Business and Statistical Release G-16, Board of Governors, Federal Reserve System).
2. "EFTS and Consumer Credit," William C. Dunkelberg and Robert W. Johnson, Working Paper #2, Credit Research Center, Purdue University, 1975.
3. Shay, Robert and Dunkelberg, W. Retail Store Credit Card Use in New York, Columbia University Press, Columbia University, New York, 1975.
4. See "A Multivariate Analysis of Retail Revolving Credit Usage", by K. Reiners, unpublished doctoral dissertation at Purdue University for a much more detailed consideration of these points.
5. Shay and Dunkelberg, op. cit.

ABSTRACT*

THE EFFECT OF DEPT ON HOUSEHOLD WELFARE

Dr. Jean Kinsey and Dr. Sylvia Lane**

Does using consumer credit make families feel worse off? Much of the traditional literature on consumer credit implies that it will. Economic investment theory implies that utility will not decrease with the use of consumer credit. This study presents the results of applying logic analysis to the question of the effect of changes in debt-asset ratios and other financial and demographic variables on perceived changes in financial well-being.

Changes in debt-asset ratios were generally not found to be significant variables in influencing family units' perceptions concerning changes in their financial well being. However, there were some notable exceptions which lead to the conclusion that increasing installment debt to acquire commodities does not make families feel worse off. Increasing investment debt for stocks and bonds did tend to make families feel worse off whereas the reaction to increasing investment debt for real estate received mixed reactions.

*The full text of this paper will appear in a future issue of The Journal of Consumer Affairs.

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ABSTRACT*

TOWARD A FRAMEWORK FOR CONSUMER POLICY ANALYSIS

Dr. Lawrence Shepard**

Consumer research could materially benefit by adding a modest degree of structure prescribing both how the consumer subdisciplines are related to each other and how persons working in each subdiscipline might address what are common policy problems. To this end, the first section discusses the various subdisciplines. An attempt is made to broadly define them and to relate them to each other through an informal taxonomy. The second section proposes a framework for analyzing consumer problems in comprehensive case studies which integrate the subdisciplines falling under the consumer studies rubric area.

*The full text of this paper will appear in a future issue of The Journal of Consumer Affairs.

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A THEORY OF CONSUMERISM

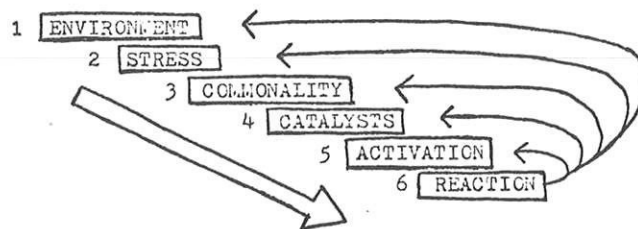
Dr. Gregory Gazda*

Consumerism, the efforts to increase the satisfaction of consumers with goods or services, is an important factor affecting businesses in the United States. But, analysis of consumerism has been hindered by the lack of a viable theoretical framework. This paper describes a sociological theory of consumerism. It suggests that there are six major factors or determinants of consumerism and that interaction between these factors results in a particular consumer movement. These factors are: Environment, Stress, Commonality, Catalysts, Activation and Reaction.

INTRODUCTION

Consumerism, the efforts to increase the satisfaction of consumers with goods or services, is an important factor affecting businesses in the United States. There has been some attempt to describe the consumer movement, but analysis has been hindered by the lack of viable theoretical framework.¹

This theory is mainly a sociological one and is based on a model of collective behavior.² It is suggested that there are six major factors of determinants of consumerism and that interaction between these factors results in, or inhibit the formation of, a social movement. A diagram of the basic model is shown below:



These factors tend to progress from general to more specific occurrences. Also, each of these determinants is affected and limited by those that have preceded it. When the final factor--reaction--occurs, it then can affect any of the preceding factors much like a closed loop system. Each of these six major determinants of consumerism will be briefly explained below.

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Environment

This refers to the basic values held by the citizens of a particular country. Values like free enterprise or communism would be environmental variables and would help to determine whether overt hostile reaction or other types of consumer protest are used.

Stress

This is conflicting attitudes or relations that develop between consumers and others, such as the government, labor, or business, in a particular country. This stress stems from the basic values implicit in the environment.

Commonality

Beliefs that are shared by members of a society as a reaction to the stress that they perceive is the definition of commonality. This perception of common problems which at first may only vaguely be felt is often aided by extensive mass communications media.

Catalysts

These are specific events which tend to support the common beliefs mentioned above. Usually only major problems or changes will act as catalysts.

Activation

Activation is the organizing of consumers for action in order to solve the group's common problems. This is usually accomplished with the aid of dynamic individuals who act as leaders.

Reaction

This is the response of other members of society such as the government or business to the activation by consumers. It is the attempt to control the spread of consumerism and it may consist of tacit support or, more commonly, opposition.

This reaction can change any of the preceding factors. It may result in new basic values; it could prompt further stress; and it could reinforce common beliefs. The reaction itself could be a catalyst and certainly could prompt activation on the part of consumers.

APPLICATION OF THE THEORY TO THE UNITED STATES

To help clarify this theory of consumerism, it will be applied to the consumer movement in the U.S.

Environment

When considering the environmental factor, the emphasis is on basic societal values such as the ground rules for the marketplace where

buyer and seller interact. In the U.S., an underlying value of free enterprise pervades the interaction in the marketplace. Free enterprise refers to

the freedom of private business to organize and operate for profit in a competitive system without interference by government beyond regulation necessary to protect public interest and keep the national economy in balance.³

In contrast, there does not appear to be any American value which talks about the freedom of the consumer in the marketplace, except perhaps the questionable concept of consumer sovereignty. One must consider, however, that the Federal and state governments can and do intervene in the public interest. Congress has passed numerous consumer protection laws since 1965. The Federal Trade Commission is requiring more product information in ads, and the Food and Drug Administration plans on taking products like saccharin off the market. This action by the government, although helpful in achieving some of the goals of the consumer movement, may be creating problems between consumers and the government.

Stress

One source of stress felt by American consumers is caused by advertising that implies benefits that are not attainable from use of the product. Another factor is the large distance between the producer and the consumer which has been prompted by mass production and mass distribution. Feedback from consumers through middlemen is subject to lags and distortion. This may be a significant reason for the stress felt by some consumers in trying to get faulty products fixed or returned--a major consumer problem.

Additional stress comes from the great number of product offerings available to consumers. Although this is a consumer benefit in one sense, consumer decisions can be quite difficult without adequate information about product quality, safety, and price. Thus, this product profusion problem may stem from a desire for growth and newness, a desire shared by consumers in many countries.

Ironically, the U.S. government appears to both be causing and reducing stress. In one sense the government has been passing laws to protect consumers against various business practices (i.e., Truth in Lending, Fair Credit Reporting Act, Consumer Product Safety Act) which help to reduce some of the consumer's problems. However, to the extent that these laws are not fully implemented because of inadequate funding or narrow interpretation, additional stress is prompted. The problems may be between consumers and government as opposed to consumers and business. Colston Warne touched on this issue a number of years ago. He said that with the government setting standards in a variety of industries, Consumers Union felt that it must keep one eye on manufacturers and the other on the government.⁴

Commonality

The realization of stress often leads to the spread of common beliefs. The common belief that appears to be at the basis of consumerism is that the consumer does not have effective power in the marketplace. The growth of this belief of the disadvantaged consumer in the marketplace has occurred partially because of the active and large communications networks (mainly radio, television, and newspapers) which relay the belief to other consumers. In particular, the rapid growth in consumer action programs on television, often during newscasts, has helped spotlight problems that individual consumers may have thought were unique to them.

Catalysts

Although individual difficulties with products may help to validate the common belief, major difficulties experienced by a large number of consumers or widely communicated to many consumers are often needed to precipitate a consumer movement.

In the past, there have been a few catalysts such as the Thalidomide reaction, the Corvair problems, the meat boycott, and the aerosol scare. The lack of other such occurrences has kept the consumer movement from advancing more quickly. Recently, however, another potential catalyst may have occurred--the banning of saccharin by the Food and Drug Administration. This action has caused an uproar among businessmen and consumers alike. However, the FDA now appears to be retreating somewhat from its position of taking saccharin off the market. This potential catalyst is especially noteworthy because it has been prompted by the government. This may be a precursor of future government-consumer problems.

Activation

The effective activation of participants of a consumer movement is usually accomplished by a recognized leader. In the U.S. this leader to a considerable extent has been Ralph Nader. Until his death, Senator Philip Hart of Michigan fought for consumer protection legislation, but never received national recognition as a consumer leader.

Ralph Nader's status as the leader of the consumer movement is still widely recognized; and his ability to expose practices not in the consumer's interest--backing his statements up with facts--has helped in his gaining the wide-spread publicity necessary to mobilize a large group of people. However, Nader has defined his goal as the improvement of the quality of life in America, a goal much broader than that of consumerism, and this could have a limiting effect on the growth of the consumer movement. Perhaps the recent influence of Ralph Nader with President Carter indicates a resurgence of Nader as the consumer leader.

Reaction

Counterforces must also be considered in assessing the growth of consumerism as a social movement. These forces basically are large business organizations and the government. The current flood of "we are concerned

about you, the consumer" advertisements can be seen as an attempt by business to reduce the stress perceived by consumers and thereby establish the company's image as one of helping the consumer solve his problems. In one sense they are attempting to dissuade consumers from the need for consumerism. This will only be effective if in fact noticeable differences are seen in the price, safety, and quality of products. If these ads are not accurate, then they may only serve to intensify the stress.

Hostile reaction is usually a great stimulus to a social movement. In the 1960's businesses' reaction was indeed hostile. More recently their overt hostility has diminished, thus diminishing the potential for an active consumer movement.

The second major force is government, which has been quite supportive of consumerism since the early 1960's as evidenced by the great number of consumer protection bills. While such support was diminished somewhat by the Nixon and Ford Administrations, the Carter Administration appears to be offering renewed support.

One of Carter's top priorities is the creation of the Agency for Consumer Advocacy (ACA), which most likely will occur in 1977. Carter's proposals are designed to:

1. plead the consumer's case within the government;
2. reimburse consumer groups so they can speak for themselves in agency and judicial procedures;
3. give citizens more opportunity to sue the government;
4. expand class action opportunities.⁵

While such a bill has long been an objective of consumerists, its passage will result in the institutionalism of the consumer movement. Consumers may feel that they need no longer be as concerned because the ACA is looking out for their welfare. Thus the consumer movement could diminish in importance.

OVERVIEW AND IMPLICATIONS

In looking at the consumer movement in the U.S. in terms of this theory of consumerism, one finds the environment conducive to the formation of social action. Although various stress factors exist, the activation of consumers has been hampered by few real catalytic events, by the diffusing of Ralph Nader's interests, and by the reduced overt hostility of business.

What, then, is the future of consumerism in the U.S.? First, the stress felt by members of the consumer movement may be reduced by the apparent resurgence of support by the federal government (President Carter's support of and probable passage of the Agency for Consumer Advocacy).

This further institutionalizing of consumerism may sap the vitality of the consumer movement and reduce the apparent need for individual participation.

Second, the chances of major catalysts occurring will probably be increasing not only because of the increased complexity and number of goods and services provided by business, but also because of governmental action or lack of action. Although the recent saccharin problem prompted by the FDA will most likely not become a major catalyst, it suggests the possibility of future problems prompted by the government.

Third, there is no longer a strong national leader of the consumer movement as a result of the fragmentation of the interests of Ralph Nader. No other national leader has emerged. Perhaps because of this, consumerism may be switching more to the state and local level and thus the issues in the future may become more specific and localized. This supports the views of a recent Advertising Age article that said, "if marketers have learned nothing else, they should know that there is no longer a single universal consumer movement."⁶

FOOTNOTES

1. See Robert O. Herrmann, "Consumerism: It's Goals, Organization and Future," Journal of Marketing, Vol. 34 (October, 1970), pp. 55-60; Richard Buskirk and James Rothe, "Consumerism--An Interpretation," Journal of Marketing, Vol. 34 (October, 1970), pp. 61-65; George S. Day and David A. Aaker, "A Guide to Consumerism," Journal of Marketing, Vol. 34 (July, 1970), pp. 12-19.
2. Neil J. Smelser, Theory of Collective Behavior (New York: The Free Press, 1963).
3. Webster's Seventh New Collegiate Dictionary (Springfield, Mass.: G & C Merriam Company, 1969), p. 333.
4. "Consumers Union Puts on Muscle," Business Week (December 23, 1967), p. 85.
5. "Consumerists Confident They'll Get New Agency," Advertising Age, April 11, 1977, p. 112.
6. Lorraine Baltera, "'New Consumer' Wants More Attention to Individual Needs," Advertising Age, February 7, 1977, p. 12.