

ed" are often used interchangeably, but not so in the Act. Payable is defined as the absolute right of the saver to earnings. For example, earnings which compound daily are payable daily, although they usually are not paid or posted daily, but are left in the account to accrue and be posted (credited) quarterly. On the other hand, earnings which compound quarterly are payable quarterly and not daily. If they were payable daily, they could be reinvested daily, and thus compound daily (not quarterly). The saver has no right to any mid-quarter earnings, but must wait until the end of the quarter if quarterly compounded.

Rates are useful for comparing savings accounts. The rate that is actually paid at the end of each compounding period is the cornerstone of the rate structure. Subsection (6) defines "compounding period" and (7) the "periodic percentage rate" which is the rate actually used to calculate earnings. Since rates are more commonly expressed in annual terms, the Periodic Percentage Rate is annualized. As defined in subsection (8) the "annual percentage rate", the APR, is the PPR multiplied by the number of compounding periods in a 365-day year. This identifies the word annual with 365 days. The effects of compounding is measured by the difference between the yield and the simple APR. The "annual percentage yield" is defined in subsection (9).

#### Disclosures

Sections 5 and 6 specify what information must be disclosed at the various times of disclosure: prior to opening of an account, upon opening an account, when changes are made in the contract terms, when earnings are paid, and in advertising.

Cognizance has been taken of the current concern that consumers may be suffering from what is termed "information overload". This has been met by (1) requiring that only the daily rate (and its annualized equivalent) be disclosed if all of the money which the consumer has on deposit earns interest every day that it is on deposit, and (2) requiring full disclosures and terms only for the more complicated and less advantageous plans for the consumer. Special provision is made for institutions which cannot quote a rate in advance, such as credit unions. The number of disclosures is reduced from full disclosure to only those which would alert the consumer to less advantageous conditions. For example, the annual percentage yield would be disclosed only if it is less than the yield resulting from daily compounding. Likewise, the method of computing balances need be disclosed only if it is other than the daily balance. And the dates at which earnings are payable need be disclosed only if it is other than daily. Restrictions on access to the funds and any charges or penalties would need to be disclosed. Thus, the basic rudiments of disclosure consist of two disclosures, namely, the rate that is paid each pay period (PPR) and its annualized format (APR), and then further disclosures only if earnings are not compounded daily on daily balances.

Implicit in the disclosures are certain corrective measures:

- (1) A standard rate table is recognized. It is the Morse Daily Rate Tables, developed as a research publication of the Kansas Agricultural Experiment Station (Section 5 (d)).
- (2) A standard of accuracy is established in the comments to this subsection. It designates the number of decimal places required for the degree of accuracy desired.
- (3) The word annual is identified with 365 days in the definition of the annual percentage rate.
- (4) The earnings report made to the saver requires itemized reports of deposits, withdrawals, charges and earnings with the applicable dates thereto. The intended significance of the word "applicable" is so that the effective dates be disclosed. The dates posted in the passbook generally do not reflect transaction dates, that is, the dates on which deposits begin to earn interest. Most institutions keep two sets of books: the one given the customer and the one used to figure earnings.
- (5) The consumer will routinely be provided a copy of the contract; and henceforth will have it readily available and will not be beholden to "hear-say" communications with inadequately trained personnel.
- (6) The earnings statement will supply additional information that the saver can use, with the use of a simple four-function calculator to verify the accuracy of the earnings statement. Such consumer surveillance will provide at no cost to the financial institution a valuable check on the accuracy of the institutions' computer operations.
- (7) Finally, the savings institutions will no longer be free to change the terms of the savings account without 30-day notice to the saver.

Section 6 specifies the disclosures to be made in advertising. For savings accounts which are paid daily on daily balances, the only required disclosure is the annual percentage rate. The annual percentage yield may or may not be disclosed, but if it is disclosed, it must be in equal prominence to the APR. However, if the savings account does not pay daily on daily balances, then it must disclose the annual percentage rate, annual percentage yield, periodic percentage rate if other than daily, and the method used in determining the balance on which the periodic percentage rate is applied. In summary, institutions which tend to have more complicated systems and deviate from paying interest every day on all the money the consumer has on deposit every day must bear the cost of the added disclosures. Furthermore, consumer educators would probably encourage consumers to be wary of savings with many disclosures and to shop for

the highest daily and annual percentage rates. The other requirements governing advertising follow current guidelines of not using the term profit and not permitting disclosure of the yield for a period in excess of one year. If compounding is less frequent than one day, such as continuous compounding, the monetary difference in earnings on a principal amount of a thousand dollars should be stated. This is intended to have a chilling effect on over-dramatizing the benefits of frequent compounding such as "by the heart beat" or "by the second."

#### Summary

The Model Truth in Savings Act is designed to meet the need for corrective action by addressing the deficiencies and limitations of savings account plans currently marketed. State actions seem appropriate in the absence of action at the national level. Every effort has been made to standardize terminology and to require disclosure of only the essential information needed for the consumer-saver at those times when such information is needed.

The Act accents the theme "Simple is Sensible." It does not require full disclosure, but reduces to a minimum the required disclosures. For those accounts which meet the assumed expectation of consumers that they receive interest every day on all the money they have on deposit every day, it merely requires the rate paid each day and its annualized equivalent (APR) to be disclosed. On the other hand, the Act is non-restrictive and allows financial institutions to have systems which are confusing and pay less, but they then must make full disclosure.

The Act also authorizes the regulatory agency to write additional regulations needed to clarify procedural details. For example, the time of day by which deposits must be made in order to be counted as a day of deposit should be specified. Also, the regulatory authority might make a requirement that standard rate tables be supplied or made available to all consumers.

The Act provides a vast improvement over the present confusion, and supplies a mechanism by which consumers can police the accuracy of the computer-operated accounting. This will reduce the potential for white collar crime in this area. Also, with better informed consumers, the better decisions made will be to the advantage of financial institutions which meet the needs of alert savers.

As more states adopt a Truth in Savings Act, whether the Model format or otherwise, it may be expected that eventually the Federal regulatory agencies or the Congress will respond by imposing nationwide standards that will preempt state legislation. The greater the number of states which adopt the terminology and procedures of the Model Act, the greater the likelihood that a national

standard of simplified terminology will prevail.

Perhaps the two greatest obstacles to adoption of the basic concepts of Truth in Savings are the reluctance to identify the word "annual" with "a 365-day year," and failure to accept the concept of the periodic percentage rate. Both are necessary if the annual percentage rate is to be defined.

It may come as a surprise that such common sense reforms should become major obstacles. I am thus hesitant to propose mandatory adoption of the cleanest form of rate computation and disclosure, which is disclosure of the simple annual percentage rate and annual percentage yield based on continuous compounding. Earnings for any time period would be computed by continuous compounding, using a simple rate which bears the same relation to the APR that the number of days in the time period bears to 365.

Eventually, it is hoped the standardized rate terminology will gain acceptance in all areas of finance, such as insurance, annuities, money market certificates and other securities, and even be adopted by the federal government in its marketing of government securities.

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THE FUTURE RELEVANCY OF TRUTH-IN-LENDING:  
A CHALLENGE TO CONSUMER EDUCATORS

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Abstract

This study shows that although awareness of the annual percentage rates of interest (APR) for consumer credit has improved since the advent of truth-in-lending regulations, many consumers cannot translate that information into dollar costs. One result is that consumers often report they are willing to pay more dollars for credit than they can legally be charged. This result was unrelated to levels of income or attitude towards credit.

The preamble of Title I of the Consumer Credit Protection Act of 1968 better known as the Truth-in-Lending Act, states, "It is the purpose of this title to assure a meaningful disclosure of terms so that the consumer will be able to compare more readily the various credit terms available to him and avoid the uninformed use of credit."<sup>3</sup> Effectiveness of this legislation has been studied by the National Commission on Consumer Finance (NCCF) using surveys conducted before and after the legislation became effective (Day and Brandt, 1973; NCCF, 1972; Shay and Schober, 1973). These studies showed that between 1969 and 1970 consumer awareness of the annual percentage rate of interest (APR) on open-end credit accounts increased 20.4 percent for users of retail revolving charge accounts and 36.8 percent for users of bank credit cards.<sup>4</sup> A recent survey conducted by the Board of Governors of the Federal Reserve System (Durkin and Elliehausen, 1978) showed that between 1970 and 1977 consumer awareness of APR increased by another 9.2 percent to a level of 64.7 percent for users of retail revolving accounts; awareness among users of bank credit cards increased another 7.9 percent to a level of 71.3 percent.<sup>5</sup>

These figures appear to indicate that consumer's awareness of APR increased substantially after July, 1969 when Truth-in-Lending legislation became effective. This might lead some to conclude that the legislation has been successful in achieving its objective. If one asks, however, whether knowledge of the APR is meaningful infor-

mation which allows consumers to compare offers and make informed decisions, a different picture evolves. For example, studies have shown that knowledge of the APR is not readily translated into knowledge about the dollar cost of credit (Day and Brandt, 1973; Durkin and Elliehausen, 1978) and costs, in dollar terms, are more meaningful to consumers than the more abstract rate of interest. Even though the APR is a useful guideline it is not sufficient for determining the least cost method of financing a given purchase. The next section of this paper discusses the reasons why knowledge of the APR does not avoid the uninformed use of credit and is not a sufficient tool for comparing costs of various credit offers.

The second section of this paper elaborates on relationships among knowledge of APR, actual dollar finance charges and finance charges consumers considered to be "fair" using the results of surveys conducted in four states during the 1970's. Financial and socio-economic characteristics of households which explain knowledge of the APR and knowledge of corresponding dollar finance charges are identified through the use of probit analysis of data collected in Minnesota in 1977.<sup>6</sup> Results from estimating the probability of consumers knowing the APR are reported according to income, education, age, and size of community. Further results indicate most consumers accept, as reasonable, dollar finance charges in excess of those that result from maximum legal interest rates on open-end credit.

Relevancy of Annual Percentage Rate

Three main problems arise when using the APR as a measure of the cost of various credit arrangements. (1) A large number of consumers are still unable to distinguish properly between an APR and an "add-on" rate. (2) Annual percentage rates cannot be used to compare effectively the cost of an open-end plan. (3) APRs cannot be used to compare costs between two different open-end plans.

The confusion surrounding APR compared to "add-on" rates results because many individuals do not realize that an APR is a rate computed on the declining monthly balance of an account (or average unpaid balance) whereas an "add-on" rate is based on the original amount of the loan. Consumers have a tendency to compute the dollar finance charge involved in a transaction by multiplying the appropriate APR (if they are aware of it) times the total amount of the loan. For example,

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<sup>3</sup>15 U.S.C. 1601 (a) (1976) P.L. 90-321.

<sup>4</sup>See Table 2-1 in Durkin & Elliehausen, 1978.

<sup>5</sup>Ibid.

<sup>6</sup>See Appendix 1 for a brief description of these surveys.



when the APR was 12 percent, the most frequently given estimate of the dollar cost of financing a \$100 purchase over 12 months was \$12. This corroborates findings from previous national surveys (Brandt et.al., 1975; Day and Brandt, 1973).

Although some might argue that the ability to translate a given APR into its equivalent dollar cost is not really essential for choosing the least expensive credit alternative, a second problem remains. Knowledge of the APR on a closed-end (installment) plan and on an open-end (revolving) credit account does not enable consumers to compare their relative cost. The APR stated on closed-end credit contracts is usually the actual cost of the credit extended. The APR stated on open-end credit arrangements is a nominal rate; the effective rate can only be determined retrospectively. Two examples of this dilemma are presented in Appendix II.

The third problem with using APRs is that two open-end accounts cannot be compared effectively. The dollar finance charge and the effective interest rate on a revolving credit plan will vary according to several factors: (1) the method used to determine the balance on which the finance charge is based (i.e. previous balance, adjusted balance, or some type of average daily balance, and, if so, how that average daily balance is computed); (2) the repayment schedule; (3) whether or not minimum finance charges are imposed; (4) whether or not unpaid finance charges are included in the balance on which the finance charge is based; and (5) how the customer actually uses his/her account over time (i.e. whether she/he pays in full each month or makes partial payments, and if so, how often; the timing of purchases and payments, etc.).<sup>7</sup>

The true cost of using a revolving credit plan cannot be measured or determined prospectively unless certain rigid assumptions are made regarding the activity to be expected. The dollar cost and the true or effective APR can be determined only retrospectively -- after all activity has been measured and analyzed over an extended period of time. Empirical studies performed on actual revolving account histories indicated that it was not uncommon for over one-third of the store's credit card customers to avoid finance charges entirely; actual rates paid by credit card customers were often found to be less than the stated APR.<sup>8</sup>

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<sup>7</sup>For a more thorough discussion of the effect of method of assessing financing charges and other factors on customer costs see: McAlister, 1975 and McAlister and DeSpain, 1978.

<sup>8</sup>A Texas study of one company showed 26 percent of the customers never paid a finance charge (McAlister, 1975). A more recent study of 15 retailers in Minnesota showed an average of 33 percent paying no finance charges with the percentage of "free riders" ranging from 10 to 61 percent depending upon the store.

Awareness of APRs may be increasing, but an understanding of what an APR means and how it works is still lacking among many consumers, as the next section of this paper documents. Sole reliance upon APRs as measures of relative credit cost can lead to erroneous and expensive decisions when comparing open-end plans with one another or when contrasting open-end plans with closed-end arrangements.

#### Awareness of Credit Costs: Survey Findings

Household surveys focusing on use of consumer credit were conducted in Minnesota in 1977 and somewhat earlier in three other states. These surveys included questions about consumer's knowledge of the APR and dollar finance charges on open-end credit accounts. Only 32 percent of the Minnesota respondents knew the legal maximum APR whereas 66 percent of the Washington respondents, 51 percent of the New York respondents and 57 percent of the Texas respondents knew the APR in their respective states. Earlier in this paper it was reported that 64 percent of a national sample knew the APR. That percentage was based, however, on credit card users as opposed to all respondents. Among those Minnesota respondents who had (and presumably used) at least one credit card, 41 percent knew the legal maximum APR on credit card accounts.

Facility for translating the APR into a reasonably accurate dollar finance charge was not found to be impressive. Most people applied the interest rate they believed correct to the original balance for one year; thus arriving at \$12.00 per \$100 of credit for a 12 percent interest rate. Forty-three percent of the respondents indicated they did not know what the dollar charge would be. There appears to be much room for consumer education and improved information about finance charges on (open-end) credit transactions.

#### Who Knows The APR?

The probability of knowing the legal maximum interest rate on open-end credit accounts was subjected to probit analysis using data from the Minnesota survey.<sup>9</sup> The total sample was stratified disaggregating it into four income groups, three educational levels, four age groups and rural and urban residents. Separate probit regressions were run on each stratum. The hypothesis that members of households belonging to different income groups (age groups, education groups, and areas of residence) had equal probabilities of knowing the legal maximum interest rate was rejected on the basis of Chi square tests for all

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<sup>9</sup>Probit analysis is a nonlinear regression technique designed to handle binary dependent variables. Estimates of parameters are unbiased and consistent since probit corrects for the problems of heteroskedasticity present in ordinary least squares estimates with discrete dependent variables. For details about this analytic technique see Finney, 1971.



pairwise comparisons between the four income groups, four age groups, three educational levels and for rural and urban residents.<sup>10</sup> Households with different socioeconomic characteristics had different probabilities of knowing the legal maximum interest rate and different variables were significant in explaining that probability.<sup>11</sup> Probit probability of knowing the correct APR increased with income levels from 10 percent for those with incomes of less than \$10,000 to 39 percent for those with incomes between \$20,000 and \$30,000 annually.<sup>12</sup>

Those who had no college education were about half as likely to know the APR as those with college or post-graduate educations (21 percent vs. 42-47 percent). Higher levels of education tend to be associated with increased incomes which also increases the probability of knowing the APR. In addition, those with higher levels of education are more likely to have credit cards and card holders were more likely to know the APR than the general population.<sup>13</sup> Table 1 details the models used for estimating the probability of knowing the APR. The probability of knowing the APR was .40 for card holders whereas the probability for the total population was .28.

Those who lived in urban areas had a greater probability of knowing the APR than those in rural areas. This might also be explained by the greater number of credit cards held by urban dwellers and their greater use of credit.<sup>14</sup>

TABLE 1. Probit Estimates of the Probability Knowing the Legal Maximum Interest On Open End Credit Accounts (Minnesota Sample, 1977)

Independent Variables	Total Sample	Credit Card Holders
	Estimated Coefficients (t statistic)	Estimated Coefficients (t statistic)
1. Constant	-1.9984 (7.22)*	-1.6332 (5.34)*
2. Total Credit Card Held	.0823 (8.09)*	.0435 (3.93)*
3. Monthly Installment Debt	.1037 (3.06)*	.0987 (2.79)*
4. Attitude Towards Credit	.5306 (4.30)*	.4908 (3.62)*
5. Both Checking and Savings Account	.7614 (3.10)*	.7435 (2.73)*
6. Checking Account Only	.3619 (1.27)	.3552 (1.13)
7. Professional Technical Occupation	.2905 (2.44)**	.2493 (2.03)**
8. Craft Occupation	-.3286 (3.01)*	-.3066 (2.66)*
9. Unskilled Occupation	-.3314 (2.62)*	-.2988 (2.19)**
10. No Regular Employment	-.5166 (4.24)*	-.4343 (3.33)*
Probit Probability <sup>a</sup>	.28	.40
Likelihood Ratio Test Statistic $\chi^2$	264.49	118.45
Degrees of Freedom	9	9
Chi Square Value @ 99% Confidence	21.67	21.67
Ho: All Bi's = 0	Reject	Reject
Adjusted Likelihood Ratio Test <sup>b</sup>	.1579	.0839

<sup>a</sup>Evaluated at the mean of all variables.

<sup>b</sup>Measure of the goodness of fit analogous to  $R^2$  in Ordinary Least Squares Regression. Both measure the explanatory power of a model in addition to the variance explained by the constant.

\*Significant at 99% confidence, i.e.  $t \geq 2.576$ .

\*\*Significant at 95% confidence, i.e.  $t \geq 1.96$ .

<sup>10</sup>Chi square test:  $2[\text{Log likelihood (group 1)} + \text{Log likelihood (group 2)} - \text{Log likelihood (total group)}] \sim \chi^2_{d.f.}$  with d.f. =  $[-d.f. (\text{group 1}) + d.f. (\text{group 2}) + d.f. (\text{total group})]$ . The hypothesis of similarity is accepted if the calculated results are less than the Chi square values for the 99 percent level significance.

<sup>11</sup>In terms of regression analysis, this implies that the slope of the regression line is different for each strata of income or education, or age or place of residence.

<sup>12</sup>Since the Probit model for those earning greater than \$30,000 annually was not significant, little confidence can be placed in the estimated probability of 45 percent, even though it is an intuitively believable result.

<sup>13</sup>Twenty-four percent of those with high school educations and only 10(9) percent of those with college (and post-graduate) educations had no credit cards in the Minnesota sample (McAlister and Kinsey, 1979).

<sup>14</sup>Fifteen percent of urban dwellers and 41 percent of rural dwellers had no credit cards in the Minnesota sample (McAlister and Kinsey, 1979).

It was hypothesized that having an increasing number of credit cards and having a positive attitude towards the use of credit would significantly increase the probability of knowing the APR. This hypothesis was accepted for the total sample (see Table 1) and for each subgroup with two exceptions: (1) Having more credit cards did not increase the probability of knowing the APR for those with post-graduate education. (2) A positive attitude towards credit apparently does not predispose those over age 61 to knowledge of the APR; they are much less likely to know it than are younger people (18 percent vs. 30-39 percent). They are

also less likely to have credit cards.<sup>15</sup>

It was further hypothesized that the more experience one had with banking services or non-cash financial transactions, the more likely one would be to know the APR. Having both a checking and savings account significantly increased the probability of knowing the APR for the total sample and for those with annual incomes between \$10,000 and \$20,000, those with no college education, those who lived in urban areas and those less than age 45. The amount of installment debt carried significantly increased the probability of knowing the APR on open-end credit for the same groups of households except for the age groups. The probability of knowing the APR increased directly with increased installment debt for those over age 45; also for those with post-graduate educations.

The last hypothesis tested with the probit models was that occupational groups requiring less training than white collar occupations would negatively influence the probability of knowing the APR. This hypothesis was accepted. Occupations classified as craft, unskilled or irregular were negatively significant for the total sample; professional and technical occupations significantly increased the probability of knowing the APR relative to white collar occupations which was the category left out in the probit model (see Table 1).

Briefly, knowledge of the APR on open-end credit tends to increase with levels of income, with levels of education, with job status, in urban areas, and with the number of credit cards held. Having a positive attitude towards the use of credit and experience with banking services and installment debt also tend to foster awareness of APR. The next section will reveal, however, knowledge of APR is only one part of knowing the costs of credit.

#### Who Knows The Correct Dollar Finance Charge?

The relationship between knowing the APR and knowing the dollar cost of credit is presented on Table 2. The probability that those people who knew the APR also knew the dollar cost of credit is 21.4. The hypothesis that these two factors were independent was rejected on the basis of a Chi square test. Knowledge of the APR vastly increased the likelihood of reporting a reasonable accurate dollar charge for credit.

TABLE 2. Percent Who Knew the Dollar Finance and the Annual Percentage Rate of Interest<sup>a</sup> (Minnesota Survey - 1977)

		Knew APR		Row Percent
		Yes	No	
Estimated a Reasonable Dollar Cost of \$100 Credit Repaid in 12 Equal Monthly Payments <sup>b</sup>	Yes	6.9 (21.4) <sup>c</sup>	.5 (.7)	7.4
	No	25.4 (78.6)	67.2 (99.3)	92.6
Column Percent		32.3 (100.0)	67.7 (100.0)	

<sup>a</sup>Chi square = 180 with 1 degree of freedom for this cross tabulation. The hypothesis of independence is rejected.

<sup>b</sup>Reasonable Dollar Cost is defined here as anything between \$5.50 and \$6.50.

<sup>c</sup>The conditional probability of knowing the dollar cost (\$) given knowledge of the APR. This could be calculated as  $P(\$|i) = P(\$ \cap i) / P(i) = .069 / .323 = .2136$ . Those numbers in parentheses are the conditional probabilities of reporting a reasonable dollar cost of credit given knowledge of the APR.

Probit estimates of the unconditional probability of knowing the dollar cost of credit were also made.<sup>16</sup> These models were significant and the independent variables which significantly increased the probability of calculating a reasonable dollar cost were the total number of credit cards held, and the amount of monthly debt being carried. Professional or technical workers were more likely and unskilled workers less likely than white collar workers to know the dollar finance charge. College graduates and post-graduates were more likely than high school graduates to know the correct dollar finance charge. Those ages 21-39 are more likely than those age 40-49 to know the dollar credit cost. There was no significant difference between income groups. Interestingly, attitude towards credit had no significant effect on the probability of knowing the dollar finance charge.

An important finding from this analysis was that only 7.4 percent of the total respondents could accurately estimate a dollar finance charge which corresponded with the legal maximum APR but knowing the APR increased that percentage to 21.4. Those variables which explained knowing the APR also tended to explain knowing the dollar finance charge except for attitude towards credit.

<sup>15</sup>Thirty-two percent of the respondents over age 61 had no credit cards (McAlister and Kinsey, 1979).

<sup>16</sup>An attempt was made to use probit analysis to estimate the conditional probability that those who correctly reported the legal maximum APR would also correctly identify the corresponding dollar charge. This was not a successful venture; the log likelihood ratio test statistic indicated that all the parameters were zero and the only t statistic that was significant at the 90 percent level was on a dummy variable indicating professional or technical occupations.

Those groups of households which had a high probability of knowing the APR tended to be the same groups who had a relatively high probability of knowing the dollar finance charge. In most general terms, those were households whose members were better educated, had jobs with above average income and status, and who used credit extensively during their middle years.

#### What Is A Fair Charge?

In addition to asking consumers in Minnesota (1977) whether they knew the APR and corresponding dollar finance charge, they were asked, "What dollar amount of finance charge would you consider to be a reasonable charge for the opportunity to finance a \$100 purchase with 12 equal monthly payments?" A similar question was asked on surveys in Washington (1974) and Texas (1971). The results are reported on Table 3. For Minnesota and Washington where the APR was 12 percent at the time of the survey a response of under \$7.00 would have corresponded roughly with the true dollar finance charge on open-end credit. In Texas where the APR was 18 percent, a response under \$9.00 would have indicated a similar correspondence. In all three states over two-thirds of the respondents who answered the question responded with a dollar finance charge greater than the actual charge in effect in their state; within each state the percentage who thought a fair dollar finance charge was greater than the amount they would actually have to pay does not vary greatly by level of income (see righthand column of Table 3).

A closer examination of the responses on the Minnesota Survey indicated that the "fair" dollar finance charge reported was independent of size of community, occupation, income, age and education. This conclusion was reached using a Chi square test of independence on cross tabulations of the fair dollar charge reported and each of the household characteristics listed. These tests are reported on Table 4.<sup>17</sup>

Even though education was statistically independent of the reported fair dollar charge, there were some notable differences in the fair dollar charge reported between those with less than a high school education and those with a college degree. For example, among those who had less than a high school education (10 percent of the sample) 84.4 percent reported a fair dollar charge greater than \$6.50. (The actual dollar charge was in the range of \$5.50-\$6.50). Among those with a college degree (13 percent of the

<sup>17</sup>This method of analysis was used after discovering that linear regression models designed to explain and predict the fair dollar charge would not do so. Although some independent variables such as total number of cards held, attitude towards credit, knowledge of APR and actual dollar costs were significant, the amount of variance explained was less than .1 in all models estimated.

TABLE 3. Estimate of a Fair Dollar Finance Charge for Repaying \$100 Purchase in 12 Monthly Payments, by Household Income (Percent of Respondents)

Household Income	Minnesota <sup>a</sup>	
	Under \$7	\$7 or more
\$10,000 or less	24	69 <sup>b</sup>
\$10,001 to \$20,000	27	68
More than \$20,000	25	60
All	25	69
	Washington <sup>c</sup>	
	Under \$7	\$7 or more
\$10,000 or less	10	78 <sup>b</sup>
\$10,001 to \$20,000	14	78
More than \$20,000	13	81
All	13	78
	Texas <sup>d</sup>	
	Under \$9	\$9 or more
\$10,000 or less	9	76 <sup>b</sup>
\$10,001 to \$20,000	21	79
More than \$20,000	24	68
All	19	71

<sup>a</sup>Based on responses from all questionnaires received without regard to ownership of credit cards. Question asked was: "What DOLLAR amount of finance charge would you consider to be a reasonable charge for the opportunity to finance a \$100 purchase paid off in 12 equal monthly payments?"

<sup>b</sup>Percentage based on those who gave an answer (omitting "don't know" and "no answers").

<sup>c</sup>Based on responses from those reporting ownership of at least one store card. Question asked was: "What DOLLAR amount of finance charge would you consider to be a fair charge for a \$100 credit purchase paid off in 12 equal monthly installments?"

<sup>d</sup>Based on responses from those reporting ownership of at least one store card. Respondent was asked to indicate the dollar charge on a \$100 purchase. He/she was then asked "Do you consider this amount to be a fair charge for such a credit purchase?" Thus, percentages shown include two types of respondents: those reporting their estimate of actual finance charges as being a fair one and those reporting their estimate of the actual charges to be unfair, and then, citing what they considered to be fair.

sample) approximately 65 percent reported a fair dollar charge greater than \$6.50; 18 to 20 percent thought the actual dollar charges were fair.



Apparently consumers with higher levels of education are more aware of the intertemporal value of money and the relationship between interest rates and dollars paid for credit. In addition, this finding may also reflect the relative position of the educated and uneducated household in the credit market. Those with more education (and generally higher incomes) are unlikely to have trouble obtaining credit and are apparently, therefore, not willing to pay exorbitant prices for it. Those with little education (and lower incomes) may find themselves rationed out of the legitimate credit market more frequently and might be willing to pay higher prices just to be able to obtain credit.

The fair dollar finance charge reported was not independent of knowledge of the APR and the actual dollar finance charge. The cross-tabulation of these responses are reported on Table 5. Of those who knew the APR, only 18.8 percent reported the actual dollar finance charge as fair, whereas 52 percent of those who knew the actual dollar finance charge reported it as fair. Of those who knew both the APR and the actual dollar finance charge, 52.2 percent reported the actual charges as fair. Over 80 percent of those who did not know the APR or the actual dollar finance charges and 76 percent of the total sample thought more than \$6.50 was a fair amount to pay for \$100 of credit repaid in 12 equal monthly payments. Clearly, not knowing what the actual legal charges are in dollar terms predisposes respondents to accepting higher dollar finance charges as fair.

TABLE 4. Chi Square Tests of Independence Between Fair Dollar Finance Charge Reported and Household Characteristics (Minnesota Survey - 1977)

Household Characteristic	Calculated Chi Square <sup>a</sup>	Degrees of Freedom	H0: Independence
Rural-Urban Residence	8.88	14	Accept
Occupation of Head of Household	24.17	14	Accept
Household Income	17.17	18	Accept
Education of Head of Household	25.10	14	Accept
Age of Head of Household	18.99	18	Accept
Knew Actual Dollar Charge	221.47	2	Reject
Knew APR	37.62	2	Reject

<sup>a</sup>The Chi Square value for 14 degrees of freedom at the 99% level is 29.14; for 18 degrees of freedom it is 34.805; for 2 degrees of freedom it is 9.2.

TABLE 5. Relationship Between Knowing APR, Knowing Actual Dollar Finance Charge and the Fair Dollar Finance Charge Reported<sup>a</sup> (Minnesota Credit Card Survey, 1977)

	Percent Who Knew APR		Percent Knew Actual Dollar Charge		Percent Who Knew Both APR and Actual Dollar Charge		Percent Total Sample
	Yes	No	Yes	No	Yes	No	
Fair Dollar Charge	32.3	67.7	7.4	92.6	6.4	93.1	
Less than \$5.50	14.2 <sup>b</sup>	11.5	29.6	11.0	28.3	11.1	12.3
\$5.50 - \$6.50 (actual levels of charge)	18.8	8.1	52.0	8.4	52.2	8.6	11.6
Greater than \$6.50	67.0	80.4	18.4	80.6	19.5	80.3	76.1
	100.0	100.0	100.0	100.0	100.0	100.0	100.0

<sup>a</sup>Fair Dollar Finance charge on \$100 of credit repaid in 12 equal monthly payments.

<sup>b</sup>The percentages in the body of the table are conditional probabilities. For example, 14.2 percent of those who knew the APR said less than \$5.50 was a fair dollar charge.

## Summary and Conclusions

Truth-in-Lending legislation was designed to avoid the uninformed use of credit by providing consumers with a comparable and consistent piece of information at the point of purchase, namely the simple annual percent of interest (APR) being charged for credit being extended. Studies conducted by the Federal Reserve Board shortly before and after the legislation became effective and in 1977 showed that knowledge of the APR increased substantially (Durkin and Elliehausen, 1978; NCCF, 1972). The question is whether the APR is a meaningful and comparable piece of information to most consumers of credit. Studies conducted at both national and state levels have shown that most consumers cannot translate an APR into a reasonably accurate dollar finance charge. Furthermore, most consumers reported they were willing to pay dollar finance charges in excess of the legal maximum charges for open-end credit.

Detailed examination of findings from the 1977 Minnesota Credit Card Survey revealed that consumers who knew the actual dollar finance charges were much less likely to report as "fair" a dollar finance charge in excess of that which is legal. Knowledge of the costs of credit increased among those with college educations and those with white collar, professional and technical occupations.

One might expect the less educated and those in relatively unskilled jobs are more likely to pay excessive finance charges since they do not know what the legal charges are and if they know the APR, they are less likely to be able to determine what it means in terms of dollars. Eighty-four percent of those with less than a high school education reported they were willing to pay more dollars than necessary for open-end credit.

On the other hand, knowing the APR and being highly educated does not guarantee that one can determine the exact dollar finance charges for any given credit transactions, particularly for open-end credit. Examples were presented to illustrate that relying on APRs as a measure of relative credit cost can lead to erroneous decisions when comparing open-end credit plans with one another or when comparing open-end plans with closed-end arrangements.

The main consideration is whether consumers have meaningful information which allows them to compare alternative credit arrangements and select the ones most beneficial to their financial situation. Since the APR is virtually the same on all open-end accounts in any given state, knowledge of the APR does not permit consumers to bargain or shop for the best open-end credit price. Differences in dollar costs, given the APR, occur because of different methods of calculating finance charges, different ways to use a revolving account, and allowances for free time. It would be useful for consumers to be able to compare dollar finance charges on similar transactions between different creditors. Even though Truth-in-Lending regulations currently require

dollar finance charges as well as APR to be clearly disclosed ex-ante on credit transactions, this is clearly inoperable for open-end accounts.

The importance of Truth-in-Lending legislation and the plethora of accompanying regulation should not be minimized in light of the findings reported herein. Certainly, knowing the APR, and where applicable, knowing the dollar finance charge, greatly reduced the probability of consumers accepting higher than legal finance charges as fair. The danger lies in assuming that mandated information will be properly interpreted by most consumers. It is doubtful whether further regulations could solve this problem, although standardizing the method of calculating dollar finance charges on open-end credit accounts would simplify consumer's calculations considerably. The trade-off for such standardization, however, would very likely be higher finance charges than are currently in effect for almost everyone.<sup>18</sup>

Education in some form appears to be the answer. Large numbers of consumers of credit apparently cannot translate currently required information regarding the APR into meaningful figures. The message to educators in government or in schools is clear. Assuming there is some limit as to how far legislation can go in protecting and helping consumers, it is incumbent upon the informed to help consumers develop their cognitive skills and to recognize their rights and responsibilities so they can effectively use information provided in the marketplace. The purpose of the Truth-in-Lending Act cannot be fulfilled unless all consumers of credit are educated to use the information it provides.

## Appendix I

Twenty-four hundred questionnaires were mailed to a random sample of Minnesota households during the summer of 1977; 1,330 usable questionnaires were returned. Questions were asked about each respondent's credit card use, their attitudes toward credit and credit practices, problems obtaining or using credit, and household financial and demographic characteristics. Comparing the distribution of demographic characteristics for the State of Minnesota as reported by the

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<sup>18</sup>This judgment is based on the typical political process. Credit issuers, who would have much to say about the standardized method to be adapted, would very likely prefer a straight average daily balance method and the elimination of all "free time" if possible. This would insure that all credit card customers paid finance charges equal to the stated APR, even if they paid their bills in full every month. A handful of revolving credit accounts are currently on this method but virtually all allow 30 days free from interest following a purchase if there is no revolving balance on the account.

1970 Census with those of the 1,330 sampled households shows that members of households in the sample represent the Minnesota population except they tend to be somewhat better educated and have somewhat higher incomes. For example, the Census indicates that 4.3 percent of the population had incomes greater than \$24,999; 18.3 percent of the sample were in this upper income bracket. The Census indicates 11.1 percent of the population had four or more years of college whereas 25.2 percent of the sample had this much education.

Similar data were available from earlier surveys in California 1970, New York 1973, Texas 1971, and Washington 1974. These data were used to compare patterns of knowledge about credit terms among various states with different rate ceilings.<sup>19</sup>

## Appendix II

To illustrate the problem involved in trying to use an APR to compare open-end credit with closed-end arrangements, (1) Suppose one were planning to finance a \$100 purchase over a period of 12 months. The alternatives available consisted of a bank charge card at 18 percent APR and an installment loan of 18 percent APR. Even though the APRs are identical, the bank card would probably be less expensive because of the "free time" feature of revolving credit plans not present on installment contracts.<sup>20</sup> In this instance, the open-end plans would cost approximately \$8 (varying somewhat depending upon the balance used for computation of charges) while the installment plans would cost \$10.02.

(2) If the installment loan had a 12 percent APR, credit card plans at 18 percent APR may still be less expensive because of the "free time" inherent in the latter plans. To illustrate, assume the following situation regarding a \$100 purchase on a retail or bank card revolving plan:

June 1	.....	\$100 purchase on account
June 30	.....	Billed for \$100, no finance charge
July 31	.....	\$10 payment on account
July 31	.....	\$1.50 finance charge (based on \$100)
July 31	.....	Billed for balance of \$91.50

<sup>19</sup>For details about these earlier surveys contact Ray McAlister.

<sup>20</sup>"Free time" refers to the number of days between the charging of a purchase and the date the first payment on that purchase is due. Typically, no interest is charged on the credit extended during that first billing period, if there was no outstanding balance on revolving credit accounts at the time of billing. Consequently it is possible credit is extended free for 30 to 60 days depending on the pattern of purchasing, billing and payment.

August 31	...	Paid \$91.50 on account
August 31	...	No finance charge since balance paid in full
August 31	...	Zero account balance

In this instance, the customer will have paid a total finance charge of \$1.50 for the use of \$100 for approximately 90 days. The real or effective rate of charge would be 6.08 percent, determined as follows:  $(\$1.50/\$100) \times (365/90)$ .

Had this purchase been financed on an installment basis at 12 percent APR all other conditions the same, the following would be the result:

June 1	.....	\$100 borrowed
June 30	.....	\$1 finance charge based on \$100 for 1 month
July 31	.....	\$10 payment on account
July 31	.....	\$1 finance charge based on \$100
August 31	...	\$0.90 finance charge based on \$90
August 31	...	Repaid loan (\$102.90)

Thus, the 12 percent installment loan would have cost approximately \$2.90 for the use of about \$100 for 90 days, or an effective rate of 12 percent determined as follows:  $(\$2.90/96.67) \times (365/90)$ .

Whether a closed-end plan at 12 percent is cheaper than an open-end arrangement at 18 percent depends upon how long the customer allows the account to "revolve" before paying it off. If the account is allowed to run for about five months or longer, the installment plan at 12 percent would be less expensive. The main point here, however, is that APRs alone will not enable one to choose accurately the least expensive credit arrangement when comparing an open-end plan with an installment or closed-end arrangement.

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# EFFECTIVE CONSUMER EDUCATION PROGRAMS<sup>1</sup>

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## Abstract

Based on a review of previous studies and consultations with leading consumer educators, this report suggests actions which would contribute to the strengthening of consumer education programs. Fifteen specific suggestions are made, relating to consumer education as a field of study, to the content of consumer education, and to support systems which should be developed on behalf of consumer education.

This report presents an answer to Question I of the Consumer Education Development Program: What are the major factors which contribute to an effective consumer education program in both state and local education agencies and what are the essential modifications for the improvement of such programs? Inputs to the study included a review of relevant literature and previous studies as well as written and oral comments from selected consultants, primarily consumer educators, at a series of convenings of invited participants. This report on effective consumer education programs is divided into three sections, in each of which factors related to effective programs have been identified. They are stated in terms of recommendations for essential modifications in consumer education activity. The propositions put forward attempt to build on the strengths of past programs and incorporate necessary changes into consumer education priorities.

### I. Consumer Education as a Field of Study

1. Consumer educators should work toward a common definition of the scope and focus of the field.

Consumer education has been hampered by a lack of precise definition, or perhaps by the presence of too many definitions. To say that a common definition is needed is not to imply that agreement must be reached on a single set of words which will perfectly describe the field, but rather that a common agreement on the scope and focus of consumer education should be present among its practitioners and proponents. The field must seek not only to unify itself, but

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also to differentiate itself from other fields by identifying its unique area of concern. The element which comes closest to being the differentiating element of consumer education may be its focus on the consumer decisions which result from the interactions between consumers and producers in the economic system. Consumer educators have often pointed out that this includes not only direct marketplace transactions, but also public sector transactions and the reciprocal influences which flow between consumer decisions and the broader environments of which they are a part.

Consideration of the broad environment of both public and private consumer transactions illustrates the overlap between consumer education and the disciplines of economics, political science, and psychology, among others. At the same time, acceptance of the consumer-producer relationship focus for consumer education limits the field within generally accepted boundaries which distinguish it from such related fields as home economics or career education and from related movements such as training in general life skills or citizenship. The fact that consumer education focuses directly on the consumer role in a transaction or in the economic or political system, gives it a distinctive perspective, overlapping but not the same as marketing, economics, public policy analysis, environmental studies or other fields which have different disciplinary parameters, or characteristic elements.

The following elements should be considered as definitional implications of consumer education as well as important priorities within the field:

- focus on the relationship between consumers and producers in both the public and the private sectors;
- consideration of consumer decisions in view of the wide range of alternatives facing them in regard to the use of their resources, including conserving or not spending as well as using or buying;
- acknowledgement of attitudinal and behavioral as well as knowledge elements, based on the belief that consumers should be self-confident and should influence their marketplace environment rather than merely react to it;
- development by consumers of a value system which assumes that societal needs as well as individual desires should be taken into account in consumer decisions.

A definition of consumer education which is consistent with these assumptions is:

Consumer education is the study of the knowledge and skills needed by individuals and groups in managing consumer resources and taking actions as citizens to influence the factors which affect consumer decisions.

2. Consumer educators should identify the core concepts of consumer education.

Concurrent with the definition process, flowing from it but also influencing it, must be the specification of the particular elements which make up the field. The basic concepts of consumer education must be identified and described, outlining a clearly defined body of knowledge. While consumer educators may have differing opinions about the inclusion or exclusion of certain topics, and while different perspectives on what consumer education is may be effective in various settings, there must be a high level of consensus regarding the basic elements of the field if consumer education as a collective entity is to maximize its impact on the educational system.

Consumer educators have regularly pointed out the lack of consistent organization of the content of the field. While many areas of the field are well developed, conceptually and practically, emerging areas of consumer concern need identification. The classification of concepts should build on and synthesize the strengths of past formulations, as impressive curricular work has been done in many areas, taking the form of guidelines, learning objectives or subject matter outlines. Important categories remain relatively undeveloped, however, particularly in relation to collective consumer action and the relationship between consumers and the changing marketplace environment.

3. Consumer educators should adapt the core concepts to the needs of special groups and identified audiences.

To meet the diverse needs of the consumer population, the generalized consumer education concepts should be modified or expanded as appropriate to various circumstances. Such groups as senior citizens, low income consumers, and women in transition, among many others, have special needs which must be identified and addressed. In many cases, this means that consumer educators must go beyond the traditional classroom setting to understand the needs which exist in the community. Not only must the core concepts be adapted to acknowledge these groups, but materials and programs must be developed to meet their specific needs.

4. Consumer educators should work toward structural independence for consumer education, while developing extensive integration of subject matter with other academic fields.

Related directly to the call for definition and delineation of concepts for consumer education is the need for consumer educators to develop a self-consciousness about their field, which leads them to support it in programmatic and substantive interactions with other fields. Consumer education is multidisciplinary, which is to say that it draws from and contributes to many other academic disciplines. Its development has been, and still largely remains, in many separate disciplines: economics, law, psychology, mathematics, and the applied areas of home economics and business

education, among others. In terms of establishing its own role and identity, it thus becomes important not only to describe what consumer education is, but also to define its relationship to other disciplines.

As departments of consumer education are virtually nonexistent, consumer education courses are offered in other departments, generally home economics, business education or social studies at the secondary level. Over the years, studies of high school consumer education courses have shown their content to vary considerably from department to department. Consumer education offerings are therefore dependent on the emphasis and approach of their departmental setting. Perhaps the first imperative of this situation is that consumer education firmly establish organizational independence and strength in academic programs and become the primary and ongoing interest of certain educators in many settings. Without this, it risks a lack of continuity in programs and personnel and the loss of its identity within the approaches and emphases of other disciplines. Consumer education must be able to preserve and replicate itself and to identify the unique contribution of the consumer perspective.

Within this framework of independence, consumer education must be the mechanism through which the insights of a number of disciplines are applied to consumer concerns and through which consumer perspectives are integrated into other disciplines. Consumer education should foster both independent consumer education programs and the infusion of consumer education concepts into a wide variety of disciplines and instructional settings. The integration of the various disciplines around consumer questions must occur at both practical and theoretical levels. Under this design consumer education should strengthen its communication with other fields of study, allowing dialogue and reciprocal influence to flow among them in analyzing the consumer perspective on particular issues. In order to lead and monitor these discussions, it will be necessary for consumer education to have a solid intellectual and organizational base, so that it is not submerged under the approaches of the disciplines whose insights it is attempting to apply.

Because of the historical structural ties of consumer education to home economics and business education, it is the emphases of those fields, such as financial management and buying goods and services, which are most fully developed in consumer education at the present time. Given the changing economy and broadening perspective on consumer issues which is occurring, additional emphasis is needed on the social science concepts which may be useful in consumer education. Not only will economics remain relevant, but the insights of political science, sociology, public policy analysis and psychology should be emphasized and applied to consumer education in more extensive and rigorous ways than has traditionally been the case.

5. Consumer educators should establish research centers in consumer education.



The establishment of academic research centers would contribute to the development and stature of consumer education as a field of study through theoretical analysis, the implementation of a research agenda, and the provision of forums for the interaction of various disciplines in regard to consumer questions. Such centers could also stimulate the development of teaching materials which would incorporate a multidisciplinary perspective to a consideration of emerging consumer issues which require the insights of economics, political science, psychology, and many other fields. A similar contribution to lawmakers, interest groups and government agencies could be made through analysis of public policies and policy proposals.

Much of what is now labeled "consumer research" comes from a marketing perspective and is narrowly concerned with the overt choices made by consumers among existing products and services. A broader research perspective must be encouraged within consumer education.

The emphasis of this section on consumer education as a field of study does not imply that practical implementation of effective consumer education programs must await uniformity of definition, definitive identification of core concepts or agreement among disciplines as to their respective roles and proper interaction in relation to consumer questions. While these are important concerns for the discipline as a whole in terms of its unified impact on the educational process, it is vital that concurrent program delivery continue and expand. Conceptual development and practical implementation are parallel necessities which should build on each other.

## II. The Content of Consumer Education

6. Consumer educators should train active consumers who are able to influence the marketplace rather than passive consumers who can only react to it.

The assumption of the desirability of a more active consumer population leads to a teaching posture which urges students to go beyond learning how to choose among marketplace alternatives within the limits of their resources. Beyond that, a series of steps might be contemplated which would give consumers, individually and collectively, a more active participant role in shaping the choices which they have. Consumer education should address a progression of consumer skills from coping to questioning and to action for change, as illustrated in Figure 1.

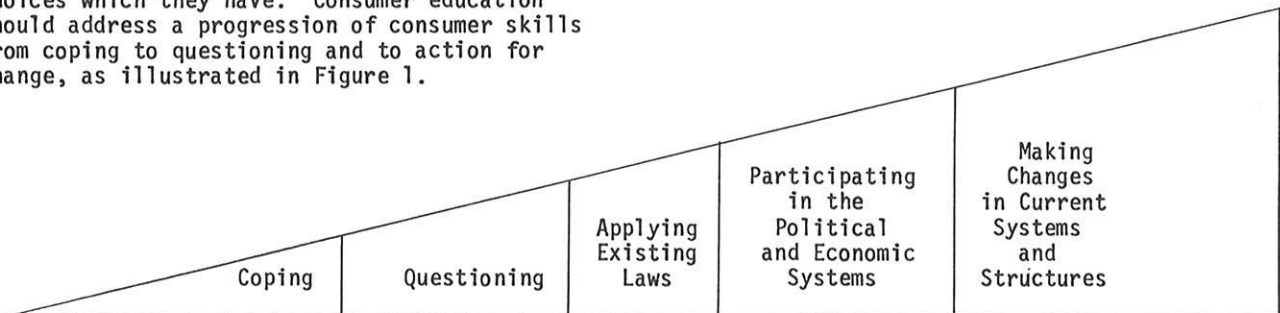


Figure 1.  
Consumer Skill Levels

While this entire continuum may not apply to all consumer activities and many consumers will continue to operate at the coping stage, consumer educators must be able to apply concepts and develop materials at all levels in order to address the full range of consumer needs.

It is at the coping level that consumer education has done its best work; a variety of excellent materials has been developed and implemented through programs at many levels which have taught students skills for operating effectively in the marketplace. These skills are still needed and must continue to be the basis for much consumer education activity in the future. Moving up the consumer skill hierarchy, however, less and less consumer education activity has been devoted to each level. It is these levels that need to be addressed more by consumer educators if consumers are more actively to influence their environment.

These subjects may have been avoided over the years in part because of their potentially controversial nature. This is not, however, a reason to avoid a commitment in this area, but rather an argument for the development of curriculum materials and the generation of open discussions which confront directly the problems and opportunities involved in stimulating consumers to a more active role. Whereas community educators may have more freedom in this area and more opportunity to implement these ideas in teaching situations, educators in all settings need proper stimulation and appropriate guidelines in regard to making consumers conscious of their role in the marketplace.

7. Consumer educators should relate consumer education directly to the student's life in the marketplace.

Consumer education content must be related as closely as possible to the life situation of the consumer in the learning situation. Student motivation is encouraged by participation, so teachers should go beyond the limits of printed materials and include activities that give students experience in the marketplace and the political system.

In setting goals for a program and in evaluating the level of success in meeting these goals, it is useful to do so whenever possible in terms of

the behavior or actions of the students. The results of the educational process are not secure until learning is applied to performance. The development of behavioral objectives based on identified consumer education concepts thus is an appropriate task.

It is easier to transmit information than to inspire action and it is less complicated to measure knowledge transfer than behavioral change. A number of assessments of the consumer competencies of consumer education students, teachers, and the general public have been carried out, with results that have generally been disappointing in terms of performance levels. In these studies, competency was generally measured in terms of knowledge or information, without which effective consumer behavior is impossible. Had behavioral standards been applied, the results might have been even lower.

8. Consumer educators should integrate consumer concerns with the economic, political, social and physical environments within which they operate.
9. Consumer educators should confront the future implications and global ramifications of consumer behavior.

Consumer education should consider the economic, political, social and physical environments of the marketplace. Whereas most consumer education programs and materials focus on the individual level of values, decision-making and wise use of resources, the changing economic setting and a commitment to democratic processes demand an enlargement of the scope of consumer education. Consumer educators should examine public and private sector political and economic decisions which directly affect the marketplace, and educate the public about their ramifications. Students should learn how to evaluate the social and economic impact of their decisions.

Consumer education must recognize new political and economic realities such as the depletion of resources, pollution of the environment, growing service needs, the growing influence of government, greater social controls, negative taxpayer responses and continuing inflationary pressures. The context of analysis for these problems must be global, recognizing the increasing interdependence of all nations and their peoples. Future possibilities as well as present realities must be considered when making individual and collective consumer decisions.

While continuing to provide a framework for making individual economic decisions, consumer education must broaden this framework to include analysis of the impact of these actions on the broader environment and consideration of the results of collective as well as individual action. Consumer education must therefore train consumer-citizens, persons who are able to analyze their consumer roles as participating and responsive citizens.

The above position, which describes consumer

education as a potential enabling agent for change, does not imply agreement among all consumer educators on the proper consumer stance or on the best public policies to aid consumers, any more than economists agree on the proper way to fight inflation or political scientists agree on whether Republicans, Democrats or a third party will best meet the goals of a democratic society. One issue which may provide continuing disagreement among consumer educators, for example, could be the proper balance between cooperation and confrontation in the relationship between consumers and producers. While sharing a goal of consumer welfare, consumer educators might differ greatly on tactics. While not asking for unanimity or ideological conformity, consumer education has an important role in assuring that issues are analyzed from consumer perspectives and that these perspectives are not limited to the immediate consumer choice decisions of the individual nor to non-controversial issues.

### III. Support for Consumer Education Programs

10. Consumer educators should maintain a broadly based support network for consumer education.

The establishment and maintenance of effective consumer education programs demands support from within the field and from outside sources. Elements of this support structure include teachers and administrators, state and local education agencies, legislative and executive governmental sources, universities, private sector business and labor union executives and organizations, community agencies, and consumer oriented interest groups. Whereas none of the potential sources of outside support may be as directly vital to effective programs as are the magnitude and quality of consumer educator involvement, actions from any or all of these sources could be very important to consumer education in particular settings. Consumer educators must use collective action and cooperative efforts to solicit support from all of these sources.

It is important, moreover, that consumer educators concentrate on external support systems which may be as important as any developed within the field. Stimulus for the field, in fact, may occur independent of anything consumer educators play a direct role in, arising from social conditions (e.g., the rise of bilingual education), historical events (e.g., the increase in math and science education after Sputnik), or political actions (e.g., the mandating of consumer education in Illinois). In this regard, the current energy crisis and call to action by the president, along with the ongoing fear of inflation, could provide political vehicles supportive of increased emphasis on consumer education. Consumer educators should organize to take advantage of the opportunities presented by these national needs.

11. Consumer educators should develop an ongoing corps of competent leaders in strategic positions.

Quality leadership is a necessity for any

educational program, and consumer educators should identify and establish strategic leadership positions to be filled with competent people. Whatever the formal position -- whether in education agencies, teaching positions, university staffs, community agencies, consumer groups, business or unions -- effective leadership is needed to organize programs, to mobilize resources, and to translate personal energies into effective program delivery. No single formal position is key to the establishment of effective programs, but committed leaders at many levels can give legitimacy to consumer education and affect others on behalf of the field.

12. Consumer educators should encourage additional budgetary and administrative support for consumer education from state and local education agencies.

Like many other groups in the educational system, consumer educators must compete for support from outside sources, particularly in the form of budgetary and administrative assistance from state and local education agencies. Professional associations and committed groups of teachers on the local level are particularly important to presenting the case for consumer education to state and local decision-makers. In areas where there is a small but active corps of supporters, visible support responses can often be expected.

While many kinds of aid can contribute to effective consumer education programs, there is probably no single outside support mechanism which is either necessary or sufficient to insure effective program delivery. While available funding is undoubtedly a key factor in high quality programs, excellent programs can be implemented with limited resources wisely used. Other things being equal, however, more money is better than less money, for consumer education as well as for consumers, but no one should expect that funding alone will assure quality programs.

The same can be said about other political or administrative actions which can be taken on behalf of consumer education. State and local mandates that all students take consumer education have been a great stimulus to the field and have increased the availability and exposure of consumer education in many places. Some of the strongest programs, however, have been developed in the absence of any mandate and often without significant policy leadership from political or administrative sources.

13. Consumer educators should strengthen preservice teacher training programs.
14. Consumer educators should intensify their personal and professional commitments to consumer education.

A primary area of importance in terms of institutional and professional support for consumer education is the development of strong teacher training programs and high levels of personal commitment among consumer educators. Training and commitment may not be totally interrelated,

but a strong connection exists between them. In combination, they undoubtedly constitute major support mechanisms which are necessary to the delivery of effective educational programs.

Both preservice and inservice training in consumer education are in need of strengthening. Strong programs at the preservice training level have the following characteristics: a sense of what is important to the field and a firm knowledge of these essentials, local program visibility with adequate resources and administrative support, and a strong sense of personal and professional commitment on the part of the staff.

While preservice teacher training is necessary to provide a stable input to the field, in many ways it is inservice training programs which are most important in the short run to effective consumer programs. In recent years, many teachers have been asked to teach consumer education who have little or no formal training in the field. Widespread availability of inservice training in consumer education is likely to be of ongoing importance into the future. Universities must continue to increase their flexibility in offering non-credit courses using non-traditional formats and settings. As more and more consumer education is done in a community setting, community educators must be brought into the network of available inservice programs.

In addition to whatever formal training and support mechanisms are available for educators, research has shown that teacher commitment is a vital if intangible factor in effective program delivery in any field. The multidisciplinary nature of consumer education is another reason why professional interaction and cooperation is vital to consumer educators. Such association is the mechanism through which identification with the field can be stimulated and communication among various institutional and disciplinary settings can occur. Professional associations and activities of consumer educators are necessary to the development of self-conscious identification with the field and the dissemination of analytical developments and curriculum materials.

15. Consumer educators should broaden materials development into new areas and expand information systems in the field.

An extension of the need for teacher training is the importance of curriculum materials and information systems as support mechanisms. Many excellent materials have been developed in consumer education, but two specific needs are visible -- a network through which materials can be disseminated, and a broadening of emphasis in materials development into emerging areas of consumer concern which relate to the changing economic environment within which consumers must act. The Consumer Education Resource Network (CERN) is designed to meet the first need and to provide additional professional communication and information flow among consumer educators. The Consumer Education Development Program will address the second need through an emphasis on analysis and materials development related to those areas of consumer



education which address the new issues arising from current economic change.

### Conclusion

In recent years the marketplace, through technological developments and global pressures, has become increasingly complex. Consumers live in an environment in which changes in the economic system, patterns of work and new life styles require a high level of consumer competence, understanding and action. The changing conditions of American life have implications for consumer education. Consumers, individually and collectively, should have the skills to develop new roles in order to influence current and emerging social and economic trends. Consumer education will not be effective in meeting the new demands until consumer educators are themselves educated to the new realities.

Building on the strength of past programs, effective consumer education must identify strategies for enabling consumers to respond to and influence the changes which are occurring. Recognizing the constraints which exist and seizing the opportunities which are presented, consumer education must mobilize to meet the challenges of a new generation.

CURRENT AND FUTURE PURPOSES AND OBJECTIVES  
OF CONSUMER EDUCATION

Sandra L. Willett<sup>1</sup>

In response to the demands of an increasingly complex economy and diverse socio-political pressures, consumer education has branched well beyond the traditional classroom. It now reaches into English and law courses, different media presentations and community services, and educational programs for differing age groups and ethnic populations.

However, the field in its growth has not yet matured into an identifiable discipline. In its current stage of evolution, consumer education is a creative but fragmented endeavor, enriched by the newcomers but reined in by some limiting traditions, challenged by new technologies and shifting economic forces, but only partially equipped to establish the foundations required of a serious field of study capable of meeting current and future consumer demands.

The National Consumers League paper in its entirety responds to the question posed by the Office of Consumers' Education (OCE): "What are the underlying purposes and objectives for consumer education today, and how should they be modified to meet current and future demands?"<sup>2</sup>

Consumer Education Parameters and Definitions

The description of consumer education offered by the Office of Consumers' Education suggested initial parameters for CEDP's research:

Consumers' education means developing skills, knowledge, and understanding that will help consumers to:

- Recognize economic alternatives in purchasing goods and services, including social and civic services;
- Cope with the pressures to which they are exposed as members of the buying public;
- Prepare for and adjust to rapidly changing economic conditions and issues;

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<sup>2</sup>NCL developed a 100-page research document under contract to the Office of Consumers' Education (HEW) and in collaboration with the City University of New York and Eastern Michigan University, as a major task in the consumers education development program (CEDP). NCL commissioned six analytical papers from consumer education leaders and obtained substantive comments from 30 consumer experts, in addition to drawing heavily from its 80 years of work in the field, as background for the paper.

- Make educated choices in light of personal values, citizenship responsibilities, and social, economic, and ecological considerations; and

- Participate effectively as consumer-citizens in the economic and governmental systems, including the regulatory processes and the delivery of public services.<sup>3</sup>

These parameters cover conventional marketplace transactions between consumers and producers, and they do much more. Reflecting the political and social factors emerging in an increasingly complex economy, these parameters cover public sector services as well as private sector production. They point to society as well as to the individual and they suggest "coping" means addressing psychological pressures, in addition to dollars and cents transactions.

With these parameters in mind, we identified the following as priorities for new and expanded consumer education purposes and objectives:

- A focus on the relationship between consumers and producers in both the public and the private sectors;

- Consideration of consumer decisions in view of the wide range of alternatives facing them in regard to the use of their resources, including conserving or not spending as well as buying and using;

- Acknowledgement of attitudinal and behavioral as well as knowledge elements, based on the belief that consumers should be self-confident and should influence the marketplace environment, rather than merely react to it; and

- Development by consumers of a value system which recognizes that societal needs as well as individual desires must be taken into account in consumer decisions.

To synthesize the analysis we have conducted to date and to push the field closer to a relevant intellectual foundation, we have developed and adopted the following definition:

Consumer education is the study of the knowledge and skills needed by individuals and groups in managing consumer resources and taking actions as citizens to influence the factors which affect consumer decisions.

<sup>3</sup>U. S. Office of Consumers' Education, Office of Education, Department of Health, Education, and Welfare, "Financial Assistance for Consumers' Education Projects", Federal Register, Vol. 44, No. 96 (Wednesday May 16, 1979). p. 28759.

## New and Expanded Purposes and Objectives

The roots of consumer education are found in traditional economic theory. The marketplace determines price based on interactions between supply and demand. The individual consumer is accorded a role of great importance. Adam Smith, in his Wealth of Nations (1776), testified to the importance, in fact the sovereignty, of the consumer:

Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer.

Belief in consumer sovereignty is coupled with the theory of rational decision-making by individuals in a competitive marketplace where many firms produce different goods and services of differing quality, amounts, and price. Consumers decide, based on perfect information, to cast their ballots in favor of the highest quality product at the lowest price. Inferior goods selling at unreasonable prices are eliminated by consistent, rational consumer purchasing.

Traditional economic theories and corresponding assumptions dominate consumer education today. With few exceptions, consumer education conducted in the classroom, in the various community settings, by business, by labor, by government, and through the media, has as its primary purpose: to teach individuals to become more skilled and rational buyers. Consumer education is for the most part limited to helping individual consumers cope. Teaching consumers to gather information, compare statistics, determine personal values, apply selected factors to the choice, behave responsibly in the care of a product, and seek redress where necessary, are the core objectives for the majority of today's consumer education programs.

Such purposes and objectives are at best limited, and at worst irrelevant, naive or false. The gap between what is taught today and what consumers need to know to function as active citizen consumers is significant, and growing more so.<sup>4</sup>

However, even the theoretical objectives are not being met. In the classroom, traditional approaches to teaching the basics of buymanship leave vast numbers of students ignorant of the facts and incapable of applying consumer information to everyday circumstances. Studies substantiate the dismal fact that most students derive minimal practical benefit from consumer education. The National Assessment of Educational Progress in June 1979 released the results of its survey of the consumer skills and attitudes of 17-year olds. Whether students had

taken a consumer education course or not, the results were shocking. The average correct response to questions on savings accounts, contracts, auto repairs and basic economics was 57 percent. Very few, if any, difficult questions were asked about inflation, unemployment and the energy crisis, and neither conservation nor OPEC were mentioned. On the questions regarding action or application of math skills to consumer problems, scores were even lower.

The public is demanding more and better consumer education. The 1977 Sentry Insurance survey, conducted by Louis Harris, found that 92 percent of the public felt consumer education should be mandatory in high schools. The U. S. Congress in 1972 mandated under PL 92-318 the first federal consumer education program "to bring consumer education to the public." The Congress was ready to act to fill some of the gaps between what is currently offered, quantitatively and qualitatively, and what the American consumer must have in order to cope on a daily basis and to understand and participate in a changing marketplace.

Many traditional purposes and objectives of consumer education are, at best, limited or at worst irrelevant, naive and false. Because economic theories about consumption no longer ring true and because the emerging economic, political and social factors are changing the world we have known, new purposes and objectives, with attending educational processes, must be put in place to meet current and future consumer demands.

A different and expanded role exists for consumers. The expanded role is comprised of different steps, reflecting a hierarchy of knowledge and ability to act. It follows a logical progression from coping with daily decisions to involvement in shaping economic activities, product choices and information, and to influencing public as well as private sector decisions.

The objectives of consumer education aimed at meeting current and future demands of individual consumers include teaching consumers:

- to cope and to evaluate choices before purchasing,
- to understand basic economics and individual decisions in a societal context,
- to question, to analyze and to ask for redress,
- to conserve resources,
- to participate in governmental and business decisions, and
- to influence improvements in the private and public sectors by developing alternative production and delivery systems.

<sup>4</sup>For a full discussion and substantiation of this thesis, please refer to NCL's complete paper.

## Coping

Consumers make millions of choices about buying goods and using services. Each individual has an improved chance of avoiding mistakes, waste and pain if basic tools are used. Teaching consumers to cope will continue to be fundamental to consumer education.

Obtaining objective information (perhaps the most difficult task): selecting important characteristics of a product (including price, energy consumption, durability); comparing information about different attributes of different products; thinking over how important the item might be in relation to need for it or another type of product; exploring alternatives; purchasing and following through with warranties and maintenance--this rational script is repeated over and over again in consumer education classrooms.

What is less well known and what is a vital element of teaching coping skills is what is omitted from the script. What about emotional impulses? What about taking out a loan to generate the ability to pay? What about not being able to get objective information? What about having insufficient time? What about responding to heavy sales pressure? What about feeling lazy or spiteful or confused? What about the difference between being able to memorize the script, but not knowing how to use the facts with confidence? What about not buying?

What the traditional script does not teach consumers is what may be more important to learn to achieve effective coping skills. Consumer education must address these practical and emotional aspects of learning to cope.

## Understanding

Being able to grasp basic micro- and macro-economics is important in giving a consumer the framework in which to understand aspects of the modern world. Profits, the labor force, banks, production systems and the retailing function, for example, are common issues today. Introducing these issues to the consumer, enabling individuals to understand basic elements of fiscal and monetary policy, and helping consumers to discuss inflation, recession or OPEC prices will help prepare individuals to understand, rather than fear, what happens outside the classroom. Addressing the basics of economics may also enable consumers to develop more certainty about the marketplace, more self-confidence, and a greater sense of how individual decisions in the aggregate can affect society.

## Questioning

Teaching students to question assumptions, to analyze problems, to challenge what advertising, politics or the marketplace report as being "true" should be high on the list if objectives for consumer education.

Instilling inquisitiveness and teaching analytical skills will help consumers build effective coping skills and assertive behavior. The "think for yourself" attitude must be encouraged.

Asking questions before the point of purchase is a powerful preventative tool, and can help individuals avoid unnecessary or unwise purchases. Speaking up in personal defense is an essential component in obtaining an adequate resolution to a problem. Voicing a complaint every time a consumer experiences a "rip off" will help resolve individual problems. Perhaps more importantly, it will apply pressure so that the general problem is resolved for future consumers. Effective, assertive questioning must be taught to most people, and is an important objective for consumer education.

## Conserving

Limited access to OPEC oil, limited domestic reserves, and limited enthusiasm for nuclear power force the U. S. economy to address questions the American consumer did not anticipate 10 to 20 years ago. Although current concern centers on oil and gas supplies, we face similar shortages and similar economic and political dependencies with regard to most of the industrial minerals, for example, tin.

Conservation is therefore becoming a national policy, a new industry, and necessary way of thinking. Consumer education must teach individuals both the importance and the "how to's" of conserving. Recycling tin and aluminum, insulating the home, and driving less, for example, may become as important steps for consumers as the "how to" of buying.

Consumers are looking at consumption differently. In addition to emphasizing the choice of "not buying," consumer materials on conservation can also stimulate people to question the costs and benefits of building highways across the country, suburbs around every city, and our traditional dependence on the automobile. What might be alternatives in a future economy where energy resources are limited and expensive? What about mass transit systems? What about building smaller, more efficient cars?

The June, 1979, gasoline lines and consequent drop in summer tourism may be only a hint at the disruptions possible as known energy resources diminish and before we have safe and cost-effective alternatives. Teaching and stimulating serious conservation attitudes now will prepare consumers to prevent major future disruptions.

## Participating

Becoming involved in human services (such as health care), in government policies and programs, and in corporate marketing decisions allows individuals to understand, contribute to, and shape the different markets and institutions which are intended to serve consumers. Without consumer participation, these services, programs and products may be far less responsive and far more



manipulative of the consumer's interest.

Consumer education should teach "engagement" in the human services. Curing a sickness or teaching someone to read is not a one-sided process. The patient and the student need to be more than the recipient of medicines and books. They need to be involved and participate in the healing and learning processes by asking questions, telling the other party what they are experiencing, and sharing control of the situation.

Participating in government decision-making is sometimes referred to as "citizenship." Given the increasing politization of economic and social decisions, consumer education must expand to teach consumers how to participate in government decision-making. It must go well beyond the basic theories on how the different branches of government work to address ways individual consumers can make their views known.

Further, consumer education can teach those interested to participate in the regulatory hearing and licensing processes. Presenting testimony on a particular topic, for example food labeling, will let young and adult students understand the necessity of balancing labor, farm and food industry interests with the consumer's concerns, as well as what kinds of decisions are made when the consumer viewpoint is not part of the debate.

Consumer education for some students must go further still. To play an effective role in government decision-making, consumers have to present their research in a way that fits the setting. They have to understand, for example, the technical job of a licensing board in order to direct comments to specific aspects of that job.

Our democratic system requires that people be involved in the governmental processes. To reach some balance among competing interests, government officials must encourage the consumer viewpoint. Since the trend toward extensive special interest and corporate lobbying is likely to continue, it is even more important that consumer education teach individuals to understand, participate in, and attempt to shape government decisions.

Training individuals to participate in corporate decision-making, although far more difficult, is a legitimate and important new objective for consumer education. Instead of being the target of marketing research, consumers directly or through organizations can assist in identifying new markets, developing consumer materials and solving problems. Because educated consumers bring a different set of interests, perspectives and sensitivities to the corporate boardroom, they may raise original points not addressed by others. For example, the insurance industry does not want to insure many inner-city homeowners or businesses at affordable rates. Consumers, however, need coverage. Instead of continuing the defensive justifications for "redlining," several chief executive officers of major insurance companies have agreed to fund projects where consumers and

industry experts will develop joint recommendations for solutions. Consumer participants have suggested instituting individual incentives for better care of properties, improved training programs for agents, and ways companies can spread their risks, thereby influencing company policy and programs as decisions are being made.

Educating consumers to participate in the delivery of human services and in government and corporate decision-making is educating consumers to leave behind the passive role of recipient and to take on the active role of active participant. Informed and assertive consumer participation is a requirement for a responsive democratic society.

### Influencing

Each of the new and expanded objectives for consumer education touches on the basic goal of making consumer education relevant to a changing economy. The objective of educating individuals to influence the economy and business requires additional areas of knowledge and action. This objective aims to teach individuals to develop alternatives to the traditional theories, institutions and economic systems when these established mechanisms fail to provide adequate information, choice, and safe conditions at reasonable prices.

Developing food cooperatives, organizing self-help medical groups, and forming community legal clinics are options consumers are now taking to develop production and delivery systems within their control to meet their stated needs. Going outside the established commercial channels not only provides consumers with alternatives, to the supermarket chain for example, but gets the attention of the establishment. Developing alternatives which consumers control is delivering a powerful message to those who control the public and private sectors that the status quo is not fulfilling basic consumer needs.

Teaching consumers about alternatives to the established means of production in today's marketplace is not teaching revolution. Rather, it is analogous to teaching consumers alternatives to buying one item or another, or of not buying. Teaching individual consumers that there are indeed alternative production and delivery systems and the development of such alternatives is an important purpose of consumer education.

### Societal Goals for Consumer Education

Consumer education, as it evolves to address future consumer needs, will want to incorporate purposes and objectives that reach beyond the individual and teach more than "individual-directed" issues.

New and expanded goals for consumer education will want to include challenging the conventional economic theories of consumption and consumer sovereignty, in favor of new theories which do not assume as "givens" individual consumer wants, needs or rationality. Instead of restricting the theoretical base of the field to economic

consumption, individualism and production, consumer education should have as a prominent goal the development of new theories to describe social consumption, interdependence of consumers, and problems of distribution.

New intellectual foundations will also ask that consumer education address ways to plan for potential disruptions in a society where natural resources are limited and there is only "so much room at the top."

The real economic pie available for real distribution is no longer growing. Increases in living standards by one group can only be had at the expense of others.<sup>5</sup>

In a similar fashion, consumer education is likely to look critically at the institutions which are supposed to serve the consumer. New and expanded goals for the field will want to cover the study of the inherent conflicts between consumer and business interests, and to develop educational tools for addressing these tensions in a constructive manner. Further, relevant consumer education will want to challenge government's role in the marketplace.

Looking beyond the individual, consumer education goals will want to look at values and ways to address social tensions emerging as our political and social framework evolve. At a minimum, one new and expanded goal for the field is to look at how values are taught or not taught in order to determine whether value clarification should be objective, as it unsuccessfully attempts to be, or whether consumer education should teach values such as conservation.

Encouraging the evolution of consumer education in order to make it relevant to today's consumer and societal demands, therefore, means encouraging the adoption of new and expanded purposes and objectives for both the individual and society.

#### Some Necessary Modifications

Unlike Alice who told the Cheshire Cat she had lost her way in Wonderland and was told in return she had no way--that "all ways here are the Queen's way"--consumers in our socio-political economy do have rights. To the question "what modifications need to be made in the purposes and objectives of consumer education so that it meets current and future consumer demands?" must come "ask consumers and consumer education experts" who experience personally and professionally what is lacking from the field and where some of the solutions lie. The CEDP staff has searched their own experiences and has asked over 50 consumers and experts, not to paint a Wonderland, but to identify specific ways to encourage the evolution of consumer education.

#### Consumer Education as a Discipline

The focus of consumer education to date has been widely varied and generally unclear. Its evolution as an academic step-child of home economics, business, vocational courses and other fields has obscured its purposes and blurred its objectives. Linked to the outdated and erroneous assumptions and conventional economic theory, consumer education has never developed as a discipline in its own right.

Saying what "it" is and identifying core concepts are academically important steps. Identifying new purposes and objectives is necessary to give direction. Rethinking past concepts and developing new ones to form the foundation is essential. This paper is one step in the challenging process of clarifying and distinguishing consumer education from other disciplines. A definition is suggested as part of this paper, along with new and expanded purposes and objectives set in a framework where emerging economic, political and social factors are identified. Additional steps in the process of clarifying consumer education have been suggested:

- Review extant literature to determine what is available and useful and what may be needed to provide substance and scope where gaps exist,
- List possible concepts with commentary to define contexts, perspectives and practical settings, or case studies, to show where they have been relevant,
- Challenge traditional economic theory and develop alternative theories that reflect a socially interdependent society rather than an individualistic, production oriented one. NCL's work suggests that simply to learn a fact will not be sufficient for consumers as the marketplace becomes more complex and as consumers understand their dependencies on other people and institutions. Facts must be applied, and applied with self-confidence. Cognitive development is viewed as necessary, but not sufficient. Behavioral development--action, practical application of the facts in effective choice-making--is of major importance.

Consumer education leaders will emerge in the classroom and the community to the extent the field takes on a relevant, assertive approach to education, to the extent revitalized materials and teacher training programs are made available, and to the extent there is a need and support from the larger community outside the classroom.

Specifically, the following modifications and actions, among others, will be necessary:

- Development of effective teacher training modules based on new consumer education concepts and assuming the importance of consumer education and therefore the importance of consumer educators, as a distinct discipline.

<sup>5</sup>Dennis C. Pirages, "The Role of the Consumer in a Changing Economy." November 1976.

- Development of academic and community materials to balance the inordinate availability and usage of business-generated materials.

- Encouragement of community leaders to lend their experience and expertise to the classroom, and of teachers to lend their skills to the communities.

Finally, success stories are needed to indicate to others what works and why. The results of the Office of Consumers' Education's grants should be evaluated and widely disseminated. "What works" should be singled out for adaptation in other settings.

#### Consumer Education and the Consumer Movement

Consumer education in the classroom can become dull and petty if all it "preaches" is how to pinch pennies. On the other hand, consumer education in the community can be naive and simplistic if all it advocates is "boycotts."

There is much more to be gained by closer working relationships between consumer educators and consumer activists than is currently happening.

If there has been consensus on any one point from those who participated in the development of this paper, it has been that consumer education must become more relevant and action-producing. The corollary is that more of what happens in community consumer education should find its way into the classroom. Consumer educators should ideally have some community-based training. Materials used effectively in the community can be moved into the classroom, including the newspaper, pamphlets from a local consumer office, testimony, and research on food prices. Finally, perspectives from different community groups must also find their way more regularly into the classroom, for example, from women, labor and senior citizens organizations. Introducing community-based resources and attitudes to the school program, means integrating real experiences and community views with the other academic components necessary to the learning process.

As different participants in the consumer movement interrelate more often and more successfully, conflicts will arise. According to many observers, tensions between consumer and business interests are real and will always exist. While the community consumer educators recognize and address these conflicts, classroom consumer educators usually avoid them for fear that industry pressure will curb their effectiveness or have them fired. Rather than ducking the tensions, however, classroom teachers can work with consumer activists on ways to convey the points without violating the unspoken school codes.

#### Consumer Education Targets

Consumers learn continuously. Consumer education is a life-long learning process. Whereas the "education for life" was a prominent concept for consumer education in the 1930's today consumer education is compartmentalized, according to limited age groups. It should not be; con-

sumer education is necessary throughout the lifetime. There are no age limits.

Consumer education must be targeted, however, to the age, skill level and environment of the students. Different approaches and materials are needed to address the different needs and behaviors of certain populations, such as the elderly, and to fit in to the environment so that students will accept the information. For example, the National Consumers League revised its Assertive Consumer program to make the same material acceptable to inner-city Hispanic consumers. Different cultures have very different ways of being assertive; thus the adaptation to meet cultural factors was essential.

#### Consumer Education Research

Intellectual "toughness" is often scarce in the consumer education field. Community leaders direct their attention to short-term action programs. Classroom leaders seem overwhelmed by teaching responsibilities and restricted to available theory and materials. There is no consumer education "think tank" and little research on the broad macroeconomic aspects of the field.<sup>6</sup>

Consumer education needs more brilliant minds to advance research, for example, in the areas of consumption behavior, social affects of individual decision-making, and new methods for teaching relevant topics.

#### Clout for Consumer Education

Prestige, political muscle, financial resources, a strong constituency--consumer education today lacks the basic ingredients of an effective movement.

Fear of lobbying inhibits many consumer educators. Confusion about definitions and concepts makes consumer education difficult to sell. Inherent conflicts between conventional and new theories, and purposes and objectives make a consensus difficult. Without a coalition promoting it for all ages to teach action as well as coping skills, consumer education will continue to be weak, its potential unfulfilled.

#### Conclusion

Consumer education, still in the process of evolution, is at a crossroads. It can remain a "step-child" of other disciplines. It can limit itself to individual buymanship skills. It can avoid issues shaping our economy today, including high inflation, increasing corporate concentration and limited natural resources. It can assign social issues, such as anxiety and poverty, to some other field.

<sup>6</sup>Robert O. Herrmann, "The Historical Development of the Content of High School-Level Consumer Education: An Examination of Selected Texts, 1938-1978, prepared for the Office of Consumers' Education, Contract P00770640, July 1979.

Or it can implement in stages new and expanding purposes and objectives which reflect new demands by consumers to attain greater knowledge, self confidence and skills, and the ability to participate in the democratic political, as well as economic, marketplace.

Different goals are called for when the political and social framework of the economy changes, as it is more and more rapidly. Being able to cope and make choices, to understand basic applied economics, to question and analyze, to conserve and not buy, to participate in the democratic political process, and to influence the market by developing consumer-controlled systems will enable the consumer to gain some equality with the producer and governing forces in an increasingly complex and interdependent economy.

As these purposes and objectives are accepted and met, consumer education will gain the strength required to improve the marketplace and the consumer's well-being.

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THE EDUCATED CONSUMER:  
AN ANALYSIS OF CURRICULUM NEEDS IN CONSUMER EDUCATION

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Abstract

Current consumer education curriculum topics tend to focus on individual rather than social consumption issues and tend to ignore wider social context. The truly educated consumer considers decisions to consume or not to consume in broad social terms, thinks imaginatively about alternatives to marketplace consumption and acts from a strong sense of identity as consumer.

The traditional focus and content of consumer education has been the subject of a number of national studies. Within this decade, the consumer education field has been studied with some intensity, albeit with varying emphasis by Uhl (1970), Lucy Creighton (1976), Langrehr and Mason (1977), Education Commission of the States (1979), Consumer Education Resource Network (1979), Herrmann (1979) and the Consumer Education Development Program (1979).

I. Introduction

Consumer education, like the consumer movement in general, is at a crossroads, in terms both of its basic purposes and its methodology. An early child of the field of home economics, consumer education has grown beyond any one discipline, developing rapidly in response to a changing socio-political environment and the widespread popularity of the consumer movement. It exists now as a melange of topics and issues, presented in formal and informal settings, carefully guarded by public and private interests alike. A field with so many participants (educational systems at all levels, business, labor, government, community groups, social service agencies and the media) will arrive at a commonly-held set of purposes and curriculum needs only with difficulty.

This paper, the result of study and dialogue with experts within and without the field, is intended as a starting point for discussion among consumer education professionals about curriculum needs. The task is facilitated as much by the theoretical research on curriculum development done in the university as by the wide range of practical experience in consumer education of local and national consumer organizations.

The paper presents a general assessment of what is known about past and present consumer education curriculum, an examination of expert opinions regarding the determination of curriculum needs, a rationale for ranking and selection of consumer education. The full version of this paper, which is not printed in these proceedings, covers each of the above issues in depth.

The approach used in the full version is to summarize the compendium of written and oral opinions on what is missing in consumer education, assess these gaps against CEDP's list of priority curriculum needs. Here, we focus almost entirely on those gaps identified and on ways to remedy them.

The broad range of studies cited above which surveyed consumer education programs in the public and private sectors, in formal and informal education settings during the years 1938-1978, reveal significant programmatic trends: (1) topics have stressed individual consumption skills rather than social ones; (2) topics chosen for classroom consumer education have emphasized buying skills; (3) the economy has been taken as a given; (4) the context in which consumer decisions are made, and the broad social implications of such decisions are made, and the broad social implications of such decisions have been ignored; (5) service consumption has been downplayed especially in such areas as education and health; and (6) issues, of public versus private consumption have been ignored.

II. The Educated Consumer

To be an educated consumer in the 1980's and beyond will require cognizance of the social, political, psychological and ecological complexities of consumption. Educated consumers will require a contextual view of consumption, weaving individual and social consumption into global and futuristic considerations. Consumers will require knowledge of new and emerging issues: energy, utility rate setting, health, education, and legal service systems; regulatory agencies; international affairs and food prices; inflation and jobs; all in all, a changing marketplace.

Consumer education must expand beyond the limitations of concentrating on coping and reaction skills. Effective consumer education will allow consumers to progress through a hierarchy of knowledge and abilities which lead to influencing their economic environment.

Consumers find themselves in a rapidly changing world, one in which economic, political and social changes make new demands on competence in the marketplace. A review of some of these changes studied in depth by three major CEDP papers will give a clearer indication of what the consumer needs to know today and tomorrow to function in and influence the marketplace.

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