

TABLE 1. Sample descriptive: categorical variables (N=28 stores)

Characteristic	Variable Name and value	Number in Sample	Percentage of Sample
<u>Location:</u>			
	LOCATE		
free standing	1	9	32.1
strip with anchor	2	10	35.7
shopping mall	3	4	14.3
regional shopping center	4	3	10.7
other	5	2	7.2
<u>Parking:</u>			
	PARKING		
limited	1	1	3.6
adequate	2	6	21.4
more than adequate	3	21	75.0
<u>Access:</u>			
	ACCESS		
no easy access	0	26	92.9
easy access	1	2	7.1
<u>Payment Policy:</u>			
	STORECC		
no store credit card	0	16	57.1
store credit card	1	12	42.9
<u>Salesperson Training:</u>			
	TRAINING		
none	1	5	17.9
general	2	16	57.1
specialized	3	7	25.0
<u>Return Policy:</u>			
	RETURN		
unquestioned	1	6	21.4
proof of purchase	2	22	78.6
<u>Return Limit:</u>			
	LIMIT		
30 days	1	9	32.1
30-90 days	2	1	3.6
90 days +	3	18	64.3
<u>Service:</u>			
	SERVICE		
point of purchase	1	11	39.3
central repair facility	2	4	14.3
authorized independent repair facility	3	8	28.6
manufacturer	4	4	14.3
other	5	1	3.5
<u>Warranty:</u>			
	WARRANTY		
store	1	4	14.3
store/manufacturer	2	7	25.0
customer/manufacturer	3	13	46.4
first 30 days store/then customer/manufacturer	4	4	14.3

TABLE 2. Sample statistics: Continuous variables (N=28 stores)

Characteristic	Variable Name	Mean	Standard Deviation	Range
Number of hours per week open for business	TOTALHRS	73.30	9.10	48 - 90
Number of alternative methods of payment accepted	NUMPAY	4.78	1.07	4 - 8
Number of brands of irons	IBRANDS	2.77	1.69	1 - 5
Number of models of irons	NUMIRONS	6.26	5.59	1 - 17

TABLE 3. Price variation in the market for small appliances in Columbus, Ohio, 1988 (N=28 stores)

Small Appliance	Variety	Maximum Price	Minimum Price	Relative Range	N
Irons	1	59.99	34.99	0.71	13
	2	38.59	29.99	0.28	7
	3	31.99	25.94	0.23	5
	4	29.99	16.99	0.77	5
	5	29.99	26.97	0.11	5
	6	24.99	18.99	0.31	6
	7	24.99	16.93	0.48	7
	8	23.99	14.99	0.60	5

TABLE 4. Calculation of Store Search and Risk Scores

Score Component	Store Characteristic	Variable Value	Component Value
S <sub>1</sub>	LOCATE	1, 5	1
		2, 3	2
		4	3
		1	0
S <sub>2</sub>	PARKING	2, 3	1
		0	0
S <sub>3</sub>	ACCESS	1	1
		< = 73.3	0
S <sub>4</sub>	TOTALHRS	> 73.3	1
		0	0
S <sub>5</sub>	STORECC	1	1
		< = 5	0
S <sub>6</sub>	NUMPAY	> 5	1
		1, 2	0
S <sub>7</sub>	TRAINING	3	1
		number of models of irons in store	
S <sub>8</sub>	NUMIRONS/	number of brands of irons in store	
		IBRANDS/	
S <sub>9</sub>	LIMIT	1, 2	0
		3	1
S <sub>10</sub>	RETURN	1	1
		2	0
S <sub>11</sub>	SERVICE	1	1
		2,3,4,5	0
S <sub>12</sub>	WARRANTY	1, 2	1

Search Score:

$$S_s = S_1 + S_2 + \dots + S_9$$

Risk Score:

$$S_r = S_{10} + S_{11} + S_{12} + S_{13}$$

TABLE 5. Regression results for two varieties of irons<sup>a</sup>

	Dependent Variable - Irons			
	Variety A		Variety B	
	Model 1	Model 2	Model 1	Model 2
Intercept	3531.71** (557.18)	3201.56** (627.86)	2402.87** (149.33)	2440.72** (198.61)
Search Score	80.17* (32.89)		-40.54* (13.42)	
Risk Score	-112.42 (184.46)		123.16 (77.98)	
Product Depth		73.36* (35.94)		-33.57 (11.48)
N	13	13	7	7
R <sup>2</sup>	0.27	0.39	0.63	0.69
F	4.17**	3.04*	8.54*	4.60*

Note: <sup>a</sup> Standard deviation in parentheses  
 \*\* Significant at the .01 level  
 \* Significant at the .05 level

## A HUMAN CAPITAL MODEL OF CONSUMER SEARCH

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This paper proposes a human capital model of consumer search, designed to predict optimal (not actual) search. The model should be helpful to consumer educators. Empirical tests of the model would make possible the identification of the determinants of optimal search, some of which could be influenced by consumer education.

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### THE PROBLEM: WELFARE LOSSES FROM INFORMATIONALLY IMPERFECT MARKETS

There are two dominant facts of the consumer environment that must challenge any consumer educator. First, most consumer markets are informationally imperfect, i. e., characterized by substantial price dispersion, quality constant. Second, most consumers engage in little search. (In our usage search is "each attempt to secure and act on information relevant to the proposed purchase.") Before proceeding further, documentation of these "facts" is in order.

In assessing the extent to which local consumer markets are informationally imperfect, successive researchers have confirmed and reaffirmed the findings of their predecessors. For example, Maynes, Douthitt, Duncan, Geistfeld (1984, p. 195) concluded: "Our results corroborate the 'chaos of competition' that Morris and Bronson (1969) found, in a pathbreaking and under-appreciated article, when they documented for a large sample of products the low or near-zero correlations between CU's quality ratings and list prices." Essentially the same conclusion was reached by Geistfeld (1988, p. 169) in his masterful review of the entire literature on the price-quality relationship in consumer markets: "Existing research suggests that consumer markets are not working well as indicated by weak price-quality relationships." Maynes et al (1984, p. 196) went on to spell out the threat posed by such markets: "To the extent that consumers pay more for a given level of quality, their purchasing power and hence their economic welfare are decreased."

Despite the possibilities for enormous gain or loss in informationally imperfect markets, the available evidence strongly suggests that most consumers engage in little search. As James Morgan commented in a paper reviewing our state-

of-knowledge (Morgan, 1988, p. 278): "It [the finding that consumers search little] started with the pioneer work of George Katona and Eva Mueller (1955) and their findings were reconfirmed in the recent study by Wilkie and Dickson (1985). Briefly put, there was, even in major purchases, a startling lack of deliberation, of specification of qualities, of consideration of brands, and not even a substantial span of time from thinking of buying to purchase."

Striking examples of little search are easy to come by. In Wilkie and Dickson's (1985) study of durables purchases, "Independent sources" such as friends and relatives and Consumer Reports were hardly consulted at all with a modal number of 0 consultations and a median of 1. "Marketer sources of information" such as salespersons, ads were consulted somewhat more with a mode of 1 and a median of 2. Even more striking, Furse, Punj, and Stewart (1984) reported that 25 percent of new automobile purchasers do not search at all.

Even for the most major purchases of all--homes and life insurance--the typical consumer engages in appallingly little search. Hempel (1972) reported that the median number of homes seen by purchasers of new homes was 1. As for life insurance, consider the following findings and conclusions from two major studies of life insurance:

1. Only 9 percent of buyers rated themselves as "very knowledgeable" regarding life insurance (Collesano, Greenwald, and Katosh, p. 476);
2. 75 percent of buyers contacted only one insurance company (p. 476)
3. 66 percent did not read anything to help in the life insurance purchase (p. 476);
4. 71 percent purchased the life insurance policy the salesman recommended to them (p. 475);
5. For 48 percent it was the salesman who took the initiative in contacting the purchaser; when selected by the consumer, the salesperson was often selected on recommendations of others (p. 477);
6. For most consumers "the choice [of life insurance policy] occurs on some basis other than what is generally considered to be direct decision making by a consumer" (Formisano, Olshavsky, and Tapp, p. 203).
7. "Our explanation for the infrequent occurrence of decision-making based on choice strategies is that life insurance is characterized by a task environment that is

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so difficult relative to consumer information-processing capabilities, knowledge, and time constraints that our respondents chose not to engage in decision making." (p. 203)

The potential loss from informationally imperfect markets is conveyed most graphically in Chart 2, the price-quality map for condoms. Think of how badly you might fare in purchasing condoms if you are an ignorant or inept searcher:

1. You might lose on Price: instead of buying M8 for \$2.75, you might pay \$7.35 for U5--two and one-half times as much for the same quality;
2. You might lose on Quality: instead of buying P5, you might buy I1 (at the same price) which is only one-quarter as good. Buying bad quality in a condom is to invite a disaster, e. g., a disease like AIDS or an unwanted pregnancy.
3. Worst of all, you might lose on both PRICE AND QUALITY: instead of choosing M8, one of the best condoms for \$2.75, you might buy I3, one of the worst for about \$6.75!!

It was contemplation of these dolorous "facts" of the consumer environment that led us to the problems that stimulated this paper. What is it that explains why consumers search so little? What factors explain "optimal search"? Our human capital model of consumer search is proposed as a step towards the answers to these questions.

#### A HUMAN CAPITAL MODEL OF CONSUMER SEARCH

##### Relevant Concepts

As prelude to the specification of the model, we offer several relevant definitions. Capital is "something that will yield a return, either positive or negative, in the future." (Maynes 1976, p. 15) Alternatively, capital is "something purchased or created at some present cost that provides a stream of services, benefits, or output in the future, usually depreciating in the process." (Morgan and Duncan 1980, p. 245) We define the human search capital of consumers as "the accumulated understandings, principles, perceptions, beliefs, views, knowledge, and skills that affect choice-making."

Note that this human search capital of consumers can exert either a positive or negative effect on choice. For example, a consumer with an erroneous view of how well markets work may search less than optimally, resulting in a less-than-optimal purchase.

We shall distinguish between general and specific consumer search capital. General consumer search capital is pertinent to all purchase decisions while specific consumer search capital pertains to a particular purchase. For example, a cycling buff may be ignorant of the functioning of consumer markets in general, but be extremely

interested in and knowledgeable regarding the local market for 10-speed bicycles.

#### THE MODEL

The model we propose consists of a single equation:

- (1) Distance from PIF = f (General Search Capital, Specific Search Capital)

A few words are in order regarding the character and sources of this model. As hinted earlier, a principal motivation in constructing this model was to assist consumer educators in deciding what content is appropriate to courses in Consumer Economics or Consumer Education. For this purpose it is appropriate to be as specific as possible in proposing variables for inclusion.

This model is constructed in the spirit of Consumer Behavior. Thus, with respect to the variables included, it is eclectic, pragmatic, and emphatically not parsimonious. In proposing a model that is rich in variables, we expect to winnow the most important via a sample survey that will obtain the relevant data and a statistical analysis that will sift it. We eschewed the neo-classical utility-maximization model because, despite its perceived high status and rigor, it is capable of only handling a very small number of variables, much smaller than consumer educators would desire.

In the spirit of the Consumer Behavior we have culled widely from the literature of Consumer Behavior, Consumer Economics, and Economics, incurring special debts to (Olshavsky 1984), (Wilkie 1986, especially Table 18-1), (Engel, Blackwell, and Miniard 1986, especially Figure 4.1), (Kerton 1980), (Russo 1988), (Stigler 1961), (Katona and Mueller 1955), (Kolodinsky 1988), (Westbrook and Fornell 1979) and (Bauer 1960).

##### The Dependent Variable

As our text has perhaps foreshadowed, we will confine our attention to consumer purchases even though it is possible to develop a human capital theory that would apply to other phases of consumer choice, e. g., saving or time use. Since our interest is normative (responding to the needs of consumer educators), the goal of choice will be optimal purchase, i. e., one that is the outcome of a utility-maximizing process undertaken under the assumptions of full information and full understanding.

Operationally, an optimal purchase lies on the Perfect Information Frontier. The Perfect Information Frontier, hereafter PIF, consists of the points (and the line segments connecting them) for which a given level of quality may be purchased at the lowest possible price. See Chart 1 for an illustrative PIF (B6, H6, G8, Q7, S2, 3, P6 and the points connecting them).

Our dependent variable will be Distance above the PIF, expressed as a percent of the range above the PIF of all prices, excluding outliers. We will use Chart 1 to illustrate the concept. We identify W3 as the price most distant from the PIF. (We exercised judgment and discarded X1 as an outlier.) The range then is the price of W3, \$8.50 less the frontier price, \$2.50 or \$6.00. For W3, our dependent variable, the distance above the PIF, would take a value of 1 ( $= \$6.00/\$6.00$ ). Alternatively, the dependent variable for M8 takes a value of 0 ( $= \text{distance}/\text{range}$ , or  $0/\$5.50$ ) while the dependent variable for D5 takes a value of  $0.49 = (\text{distance}/\text{range})$ , or  $[(\$5.75 - 2.35)/\$6.90]$ .

In terms of interpretation, our dependent variable expresses in percentage terms the extent to which a consumer has paid more than necessary (the frontier price) to purchase a given level of quality. This variable is expressed as a percent to make it commensurate across products.

In adopting these procedures we assume that (1) the data on price, quality, the retail stores included in the "market" and the varieties include in the "product" set are accurate, and (2) that consumers make uniform assessments of quality.

#### The Specification of Independent Variables

The following list of headings provide an overview of what we consider to be human capital for consumer search purposes:

1. Current Mental and Physical Endowment;
2. Cognitive and Shopping Competence;
3. Accumulated Knowledge of Consumer Markets and Purchase Process;
4. Beliefs About Consumer Markets and Shopping;
5. Surrogate-Directed Preference Performance, e.g., brand loyalty;
6. Delegated Preferences, where consumers "delegate" choices to someone else, e.g., a friend, a salesperson.

Table 1 contains a complete set of independent variables and their expected effect (+, ?, -) on our dependent variable, Distance from PIF. Where there are any doubts about the direction of the scaling of the independent variable, we have included the sign to indicate which end of the scale is higher (+) or lower (-).

We believe that all the independent variables can be approximated empirically though responses to survey questions.

Since the rationale for each of the independent variables and its expected effects seems self-evident, we forego (mercifully?) any such discussion.

## IMPLICATIONS

### For Consumer Economists

This model may be better than its predecessors. As compared with Stigler's model (Stigler 1961) and Maynes' prescription (Maynes 1976, Ch. 3), this model is richer in variables and content.

As compared with the consumer behavior models of Engel, Blackwell and Miniard (1986, Figure 4.1) and Wilkie (1986, Table 18), this model has several advantages. First, it distinguishes general from specific human capital (or "factors"). Second, it is designed to assist consumers (and their advisors) rather than sellers. Third, it embraces more economic as contrasted with psychological variables.

This model should contribute substantially to our knowledge of consumer behavior, identifying those components of human capital that are related to optimal purchases and specifying the nature of the relationship.

The model may be tested empirically to determine its predictive value in six steps. To test:

1. Obtain a probability sample of purchasers of specified consumer products in a single local market;
2. Ascertain by ex post questioning (1) the variety of product purchased and (2) the price paid;
3. Prepare price-quality maps of the local markets for the products under study and use these to estimate the dependent variable, Distance from PIF, for each variety purchased;
4. Approximate the general and specific consumer search capital of each respondent by asking survey questions pertaining to each component;
5. Regress the components of general and specific consumer search capital on the Distance from PIF;
6. Reach and communicate the conclusions implied by the results.

### For Consumer Educators

This model and its empirical testing should provide both a rationale and a guide to consumer educators. Presumably the "educated" consumer is a person who possesses the kind and amount of consumer search capital that will lead him/her to a purchase that is optimal, given this consumer's preferences.

When empirically tested, this model will identify the various components of human capital that are related to optimal search and will indicate their importance. These data should be helpful in helping consumer educators decide what concepts, understandings, etc. should be taught.

## For Consumer Policymakers

When analyzed, this model should show to what extent consumers make suboptimal purchases, which consumers are most prone to make suboptimal purchases, and what deficient components of their human search capital contribute most to sub-optimal consumer purchases. These findings should convert policymakers into proponents of effective consumer education. The argument would be that effective consumer education should produce substantial gains for consumers in terms of increased purchasing power and economic well-being. In addition, sufficient gains in consumer effectiveness should contribute to the disciplining and hence effective functioning of consumer markets to the benefit of all, the educated and the uneducated.

One caution. Economists and consumer "advocates" alike are wont to assume that it is the actions of consumers that are most likely to perfect informationally imperfect markets. Let me call your attention to the arresting hypothesis of Daniel Padberg (1977). It is his argument that consumer-induced regulations such as unit pricing, open dating, etc. are made effective by the actions of sellers, not consumers. What typically happens, Padberg argues, is that regulations sensitize sellers to the problems they are intended to correct. Then, the sellers, their attention forcefully focused on "problems" or on conditions that might bring on more unwanted regulation, take actions on their own that obtain at least part of the desired effect. For example, open dating may have induced sellers to adopt better inventory control policies and reduced spoilage, thus possibly decreasing the seller's costs and at the same time averting consumer pressure for more intrusive regulation.

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TABLE 1. The Specification of Independent Variables and Their Expected Effects on Distance from the PIF

<u>General</u> Search Capital	<u>Direction of</u> Expected Effect	<u>Specific</u> Capital	Effect
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1. Current Mental and Physical Endowment

- a. Physical Capacity, health, energy -

Illustrative interpretation: We hypothesize a negative relationship (-) between Physical Capacity and Distance from PIF, meaning that a person who is "high" on physical capacity is likely to be close to the PIF (low value), ceteris paribus, and vice versa.

- b. Intelligence -

- c. Personality:  
(1) Perfectionist (+) +  
Vs. Satisficer (-)

Interpretation: The positive sign next to "Perfectionist" denotes the assignment of high values to someone who tends to be "perfectionistic"; contrariwise, to "satisficers."

- (2) Personal Efficacy -

- (3) Conformist (-) vs. Independent (+) -

- (4) Naive (-) vs. Sophisticated (+) -

- (5) Open (+) vs. Closed Mind (-) -

- (6) Curious (+) vs. Incurious (-) -

- (7) Achievement Motive, Desire to Win -

2. Cognitive and Shopping Competence--Ability to Specify, Collect, and Process Information, and to Deal with Sellers

Applied to Product Under Search

Cognitive Competence:

- |  |   |                              |   |
|--|---|------------------------------|---|
| a. Extent of Ability   | - | Extent of Ability            | - |
| b. Confidence in Cog. Cap.   | - | Confidence in Cognitive Cap. | - |
| c. Knowledge of Decision-Making Principles, Concepts, e. g., marginal rule, price discrimination | - | Knowledge of Decision-Making | - |

Shopping Competence:

- |  |   |   |   |
|--|---|---|---|
| d. Confidence in Ability to Deal with Salespersons | - | Confidence with Salespersons                | - |
| e. Perception of Own Bargaining Skills             | - | Perception of Bargain. Skills               | - |
| f. View of Importance of Purchasing Agent Role     | - | View of Importance of Purchasing Agent Role | - |

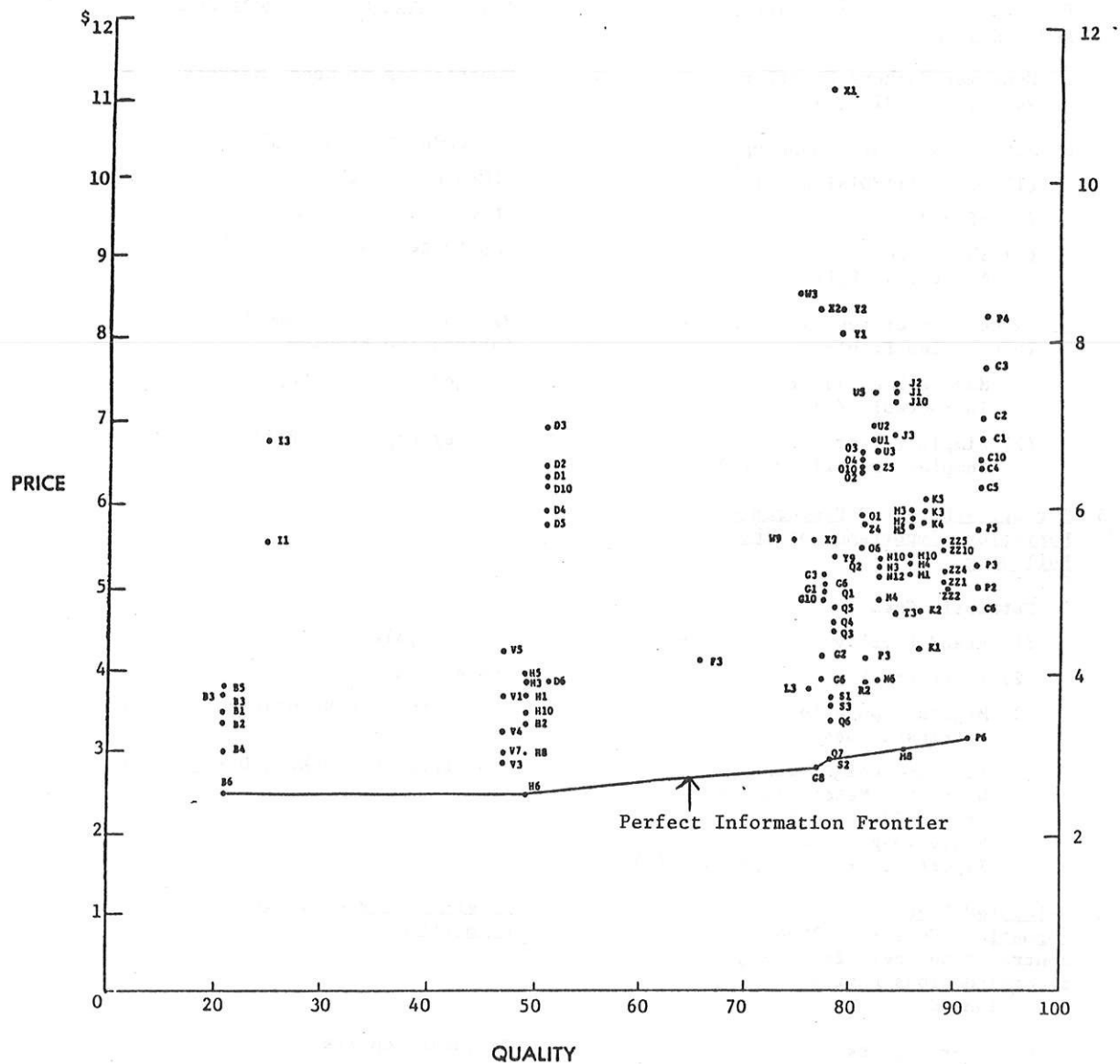
3. <u>Accumulated Knowledge of Consumer Markets and Purchase Process</u>		<u>Applied to Product Under Search</u>	
a. Understanding of Concepts	-	Understanding of Concepts	-
b. Understanding of How Consumer Markets Work	-	Understanding of Market	-
c. Knows Where/How to Find Consumer Information	-	Know Where/How to Find Consumer Information	-
4. <u>Beliefs About Consumer Markets and Shopping</u>		<u>Applied to Product Under Search</u>	
a. Consumer Markets Function Well (+), Badly (-)	+	Functioning of Cons. Markets	+
b. Attitudes Toward Shopping:	-	Attitudes Towards Shopping:	-
(1) Likes (+)/Dislikes (-)	-	Likes/Dislikes	-
(2) "Pays"	-	"Pays"	-
(3) Should Search: A Lot (+), Little (-)	-	Should Search	-
c. Perception of Consumer's Information Problem:	-	Perception of Consumer's Information Problem	-
(1) Manageable (+) or Intractable (-)	-	Manageable/Intractable	-
(2) Simple (-) or Complex or Baffling (+)	+	Simple/Complex or Baffling	+
5. <u>Surrogate-Directed Preference Formation--Importance of the Following:</u>			
Extrinsic Cues:			
(1) Brand Loyalty	+	Brand Loyalty	+
(2) Store Loyalty	+	Store Loyalty	+
(3) Mfg.'s Reputation	+	Manufacturer's Reputation	+
Intrinsic Cues:			
(4) Package Design, Size, Warranty, Materials Used, Style, Odor, Design, Store Image, etc. Important (+), Unimportant (-)	+	Importance of Package Design, etc.	+
6. <u>Delegated Preference Formation--Consumers "Sub-contract" Choices, following recommendations/paying attention to:</u>		<u>Other-Based Preference Formation</u>	
a. Consumer Reports	-	Consumer Reports	-
b. Group Norms, e. g., Reference Groups, Opinion Leadership, etc.	+	Group Norms	+
c. Imitating Role Models	+	Imitating Role Models	+
d. Friends, Acquaintances	+	Friends, Acquaintances	+
e. "Expert Consumers"	?	"Expert Consumers"	?
f. Salespersons	+	Salespersons	+

# Chart 1

## The Market For Condoms in Ithaca, N.Y.

by

Chris Conlon and C. Scott Hyde



Quality represents Conlon's and Hyde's quantification and supplementation of tests reported in Consumer Reports, September, 1979.

Capital letters denote varieties of condoms, e.g., Sheik Elite, while numbers denote retailers. The Perfect Information Frontier is the set of points for which a given quality may be purchased at the lowest possible price.

CONSUMER REACTIONS TOWARD ARBITRATION OF  
DISPUTES OVER AUTOMOBILES

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In this paper, data from a survey of consumers who have been through an arbitration hearing are invoked to probe the reaction of consumers to arbitration as a mean of dispute resolution. The reaction is lukewarm. Some ramifications of the actual decision handed down by the arbitrators are drawn, which imply that arbitration is unlikely to receive strong endorsement from consumers who have experienced it. Overall, the conclusion is reached that arbitration may still have a role as a last resort to the courts where lemon laws do not apply.

As Adams (1983) remarked, important questions remain unanswered regarding consumer reaction toward arbitration as a means of dispute resolution. Recent years have seen substantial development of arbitration programs, nowhere more than in the automobile industry, where most new products are potentially covered by one or another industry-sponsored arbitration board or panel (Lovell 1982). The automobile industry is currently at something of a crossroads where dispute resolution is concerned, with lemon laws and industry-sponsored programs vying for pole position. Clearly, it is important that some of the unanswered questions be answered.

In previous work, the present author has used data from a survey of consumers who have been through a consumer arbitration hearing about their automobile, to elicit comments on whether arbitration has lived up to the expectations of its advocates, and on whether arbitration enhances consumer loyalty (Widdows 1987, 1988). The object of this paper is to paraphrase Adams' question and ask of the same data set: what is the reaction of consumers who have been through an automobile arbitration hearing to consumer arbitration as a means of dispute resolution? The answer to the question is at least of interest in assessing consumer arbitration as it operates today.

The data set which will be addressed for an answer to the question posed above constitutes the returns to a survey of consumers who had been through either of two major national automobile arbitration programs. For the survey, 1400 questionnaires were mailed to consumers in the Spring of 1985. 712 completed responses were received, which comprise the sample for this study.

The survey, which was validated by researchers in conjunction with the sellers concerned, consisted of four fields of questions covering

different aspects of the arbitration process. The socio-demographic characteristics of respondents have been described fully elsewhere (Widdows 1987): comparisons of the characteristics of respondents with a control group of consumers who had recently bought the same make of automobiles but had not gone to arbitration showed the arbitration group to be similar in age, education and income profiles, but slightly over representative of males and married people. It should be mentioned that the two arbitration programs involved industry-sponsored panel hearings. Sponsors have requested that their identities not be disclosed.

In the survey, the question of consumers' satisfaction with the arbitration hearing was probed in two ways. First, two evaluatory questions were asked, which were intended to test consumers' post facto response to arbitration. Second, some direct questions were asked about specific aspects of the arbitration procedure. These will be discussed in turn.

CONSUMERS' EVALUATION OF ARBITRATION

Consumers' evaluation of the arbitration process was assessed by asking two questions: first, whether, based on their experiences with arbitration, consumers would use arbitration again if they had problems with an automobile they owned; and second, whether they would recommend arbitration to other consumers. Answers to the two questions were similar, as Table 1 shows.<sup>2</sup>

Table 1. Consumer Response to Arbitration Hearings

Question	Yes	No	N/A
Would you use arbitration again?	348 (48.9%)	288 (40.8%)	76
Would you recommend arbitration to others?	347 (48.7%)	295 (41.4%)	70

From Table 1, it appears that positive attitudes to arbitration among people who have been through a hearing outweigh negative responses. Nevertheless, only half of the consumers surveyed made a positive response. Before concluding that consumers were generally unfavorable to arbitration, however, it is worth pointing out that the consumers concerned had

<sup>2</sup>The 49 % favorable response to arbitration is a little lower than the 51% to 74% positive range which Adams found among people who had not actually been through a hearing.

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had their decision handed down before they evaluated arbitration. It is likely that the decision itself may have affected their response. It therefore becomes important to control for the decision. This was carried out through a one-way anova of the decision and consumer evaluation of arbitration.

The influence of the decision was assessed by juxtaposing answers to two questions on the survey. The first asked what decision the consumers wanted from the hearing, while the second asked what decision they had received from the hearing. Juxtaposition of the answers yielded the five-way classification of decisions shown in Table 2.

Table 2. Influence of the Arbitration Decision of Whether or not consumers Would Recommend Arbitration to Others

Decision	Would recommend	Would Not recommend	Total
Got what I wanted	87 (94.6)*	5 (5.4)	92 (100.0)
Compromise	91 (64.5)	50 (35.5)	141 (100.0)
Seller's offer	25 (42.4)	34 (57.6)	59 (100.0)
Nothing	103 (37.2)	174 (62.8)	277 (100.0)
Other	15 (60.0)	10 (40.0)	25 (100.0)

Chi-square = 102.4; p = .00

\*Figures in parentheses represent the percentage of people who received the decision who would, or would not, recommend arbitration.

The influence of the arbitration decision on evaluation of arbitration is shown clearly in Table 2. As the decision became more unfavorable to consumers, the proportion of consumers who would recommend arbitration to others diminished, and the proportion who would not recommend arbitration to others rose.<sup>3</sup> The relationship is significant at the one percent level on a Chi-square test. At the extremes, 95 percent of consumers who received the decision they wanted from the arbitrators would recommend arbitration, compared to only 37 percent of those who got nothing from the arbitrators. The changeover from the majority recommending arbitration to the majority not recommending arbitration came between receiving a compromise offer from the arbitrators, and having the decision go the sellers' way.

#### CONSUMER RESPONSE TO SPECIFIC ASPECTS OF THE ARBITRATION PROCEDURE

As well as asking for a general evaluation of arbitration, the survey contained questions relating to certain aspects of the arbitration procedure. The list of aspects was by no means

<sup>3</sup>Because results for whether or not consumers would use arbitration again were similar to those shown in Table 2, they are not presented here.

exhaustive, but covered a variety of different facets of the arbitration procedure. Consumers were asked to assess each aspect on a one to five Likert-type scale, with a numeric value of 1 indicating highest satisfaction, 3 neutral and 5 the highest level of dissatisfaction. Mean scores for the sample and the absolute numbers in the highest dissatisfaction category are contained in Table 3.

Table 3. Satisfaction Ratings of Key Features of the Arbitration Mechanism by Consumers

	Mean	Number very satisfied	Number very dissatisfied
Information received prior to hearing	3.19	109	187
Time taken from application to hearing	3.63	47	262
Personal contact with persons administrating	3.94	41	375
The arbitration itself	4.01	43	396
Make-up of arbitration panel	3.68	26	265
Announcement of panel's decision	4.04	54	419
Explanation of panel's decision	4.09	47	430
Other personal contact after the decision	3.83	30	320

Mean scores in Table 3 indicate that in general, respondents were dissatisfied with all of the aspects of the arbitration process which were identified. Mean scores were lowest (satisfaction highest) on the priors of the process, namely information dissemination, and the time taken from application for the hearing to the hearing itself. Mean scores were highest (satisfaction lowest) on aspects related to the handing down of the decision. Panel make-up was about medium in relative mean score and relatively low in terms of the numbers of people rating it very dissatisfactory. This aspect had by far the largest number of people in the neutral category (49 percent): for whatever reason, it was evidently not an item of prime concern to these consumers.<sup>4</sup>

#### DISCUSSION

The response of this sample of consumers who have been through an arbitration hearing over problems with an automobile, is about fifty percent in favor of arbitration as a means of dispute resolution. As would be expected, the consumers' verdict on arbitration was influenced by the decision the consumer received from the hearing. This does not mean, however, that

<sup>4</sup>An open-ended "other aspects" yielded little additional information, except a general impression among some consumers that the whole procedure was "stacked against them" (33 mentions).

consumers were only favorably disposed when they got all they wanted out of the hearing. Table 2 above shows that as long as the decision went some way toward recognizing the consumers' claim, a majority of consumers concerned reacted favorable to arbitration.

The intimate relationship between the decision and consumer assessment of arbitration implies, among other things, that the consumers' attitude to arbitration over the long period will be 60-40. When one bears in mind the oft-quoted phenomenon that consumers who are dissatisfied are more vocal than those who are satisfied, on the above evidence, consumer arbitration is therefore unlikely to receive a resounding endorsement from automobile consumers - the consumers who have most contact with this dispute resolution procedure.

What, then, of arbitration over an automobile dispute? Putting the findings above together with previous findings from the same data set, and with the caveat that the data set is specific to two actual programs, the following conclusions emerge. Overall, arbitration does what its advocates required of it, in that it dispenses its particular form of justice quickly, cheaply and in an informal manner. It enhances consumer loyalty to a measurable, but minor degree, depending on the speed of the process and the outcome of the hearing. Finally, as shown here, it receives endorsement from a little less than half of the consumers who invoke it, again, depending on the outcome of the decision. On the basis of these findings, it could be argued that it still has a part to play as a last resort alternative to the courts where lemon laws do not apply. It would be difficult to argue for any stronger role than this, however.

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PROTECTING CONSUMERS WITH PREPURCHASE INFORMATION:  
FOUR ECONOMIC IDEOLOGICAL VIEWS

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The paper describes four economic ideological positions (free market, liberal, institutionalist, and radical reformist) and relates those "world views" to their respective positions on the use of prepurchase information to protect consumers from economic and physical harm. The analysis supports Herrmann's 1977 assertion that sources of conflict over protecting consumers can be better understood by relating them to economic ideology.

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Over ten years ago, Robert Herrmann (1977) suggested that relating economic ideology to consumer protection is an excellent way to teach students about the sources of conflicting views about how best to protect consumers. In spite of the time lapse since that recommendation was made, the advice remains appropriate, especially at a time when disagreements over how best to manage the economy have become central to political elections.

This paper represents an effort to relate four economic ideological positions (free market, liberal, institutionalist, and radical reformist) to the most popular and prevalent consumer protection strategy--prepurchase information. The goal of the paper is to demonstrate the connections between various groups' belief systems about the structure and operation of the economy on the one hand, and their positions and preferred policies regarding one consumer protection method. Prepurchase information was chosen because it appears to be particularly dear to ACCI members, a point that will be considered later.

The historical policy toward commercial transactions based on common law was one of caveat emptor, or "let the buyer beware." Thus, prepurchase information was the most fundamental weapon consumers had for guarding themselves against fraud, deception, and bodily harm. The history of the consumer movement indicates that periods of activism often have centered on demands for more and better information as well as education to help consumers use such information.

Today, prepurchase information continues to be considered an inalienable right and the best means for obtaining maximum personal satisfaction and consumer protection. But, it is readily observable that real differences of opinion emerge once questions begin to be considered about acceptable quantity and quality of information, its sources and intent, and its accessibility and usability. These differences can be understood within the context of economic ideological positions.

There are four distinct economic ideological positions which will be described here: the neoclassical or free market, liberal, institutionalist, and radical positions. Each position or belief system should be considered as what sociologist Max Weber referred to as an Ideal Type. That is, each ideology is distinct and lies somewhere along a continuum, where moving in either direction away from a position, represents advocating more or less of something as compared with the referent position. The continuum does exist but Ideal Types rarely are found in the real world: instead they represent useful descriptions of all the pure positions that are possible.

If we laid out that continuum--the entire range of positions extending from fully embracing a market system to its total rejection--in graphic form, it would be represented by a horizontal line with the neoclassical ideology located on the far right because it favors market mechanisms for fulfilling social and individual needs. Because proponents of the radical reformist position believe the market system is inherently flawed and should be replaced by a more equitable mechanism, this ideology would lie on the far left of the continuum line. The other two, which have criticisms of and proposals to improve the outcomes of the market system through intervention, would lie in between.

#### INFORMATION AND FREE MARKET ECONOMICS

The free market model takes an enormously complex system of exchanges and simplifies our comprehension through Adam Smith's concept of the "invisible hand." That "hand" makes it all work because of the interactive effects of individual self-interest. Each person chooses optimal ways to earn a money income given his/her assets and constraints. The options available and the amount of income earnable from them are limited by whether and how much businesses are willing to pay. That willingness on the part of businesses is, in turn, affected by what consumers buy and at what price.

Thus, according to the free market model, the aggregated choices of all consumers are what drive the market. That is, consumers get what they want at prices they are willing to pay because they cast targeted dollar votes. Such a system is reputed not only to produce and offer what we consumers want but does so in the most cost-effective fashion. If those votes were not informed, the model (as an ideal process and outcome) would be weakened greatly. Thus, free market economics considers consumer information essential. This view is epitomized in a quote from a Better Business Bureau publication:

To get the best value for your money and to insure your satisfaction as a consumer--you must

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make informed decisions. Smart shoppers always take the time to carefully choose not only the product or service, but the merchant as well.

Although the vast majority of transactions in our marketplace are entirely satisfactory--unfortunately for all of us, there are some unscrupulous businesses that prey on unwary consumers. These merchants depend on consumers who are gullible and uninformed, and who can't or won't take the time to check out an unknown company or its offer. (Better Business Bureau, 1985: p 1).

Implicit in this view is a reliance on individuals to protect themselves from "unscrupulous" sellers. After all, this is what it means to let the market mechanism work in an unfettered manner: if self-interest isn't strong enough, some buyers (or sellers) are likely to be outfoxed, a necessary price we pay for a free market.

But free market advocates consider such outcomes to be acceptable to those who come out on the bottom of marketplace sparring because they contend that "any decision the customer makes to serve his own perceived self-interest is rational." (Aaker & Day, 1982: p 15) Perhaps this can be clarified by examining the "human capital" approach to explaining consumers' economic behavior. When an apparently profitable or advantageous opportunity is not exploited, human capital theory does not label the behavior as irrational. Instead, it is assumed that there are monetary or psychic costs of taking advantage of the opportunities which eliminate or reduce their profitability or advantage.

If we apply this concept to understanding why some consumers seek and use very little prepurchase information, we would assume that the costs of doing so outweigh the benefits as perceived by those consumers. Perhaps some are willing to take the risk of making uninformed purchases because getting and processing information is too difficult or complicated for them. Others, who are extremely busy and have high incomes, may consider the cost of extensive research and comparison too high when compared with the value of their time that can be used in more profitable ways. (Becker, 1976)

Thus, the free market or neoclassical view holds that consumers only will seek and process as much information as they desire or are able to handle, the results of which are satisfactory to consumers, to sellers, and by extension, to the outcomes of the market mechanism. Furthermore, this perspective claims that "good" consumers are well rewarded as are the sellers chosen by knowledgeable buyers.

Even though their model of consumer sovereignty works best when consumers have "perfect information," neoclassical economists admit that it is an unattainable ideal. Free market advocates are less concerned with imperfect information than with government intervention. They obviously are irritated by it, claiming that mandating informa-

tion disclosure raises prices for all consumers, whether they use it or not.

Lest you get the impression that free marketers possess the attitude "Let the public be damned," it should be pointed out that they believe not only that we all suffer from the "hidden taxes" represented by additional costs of mandatory information, but also that gullible uninformed consumers are protected by the workings of the market for information. One source writes that

Research suggests that even a significant minority of informed buyers who gather and use information in their personal purchase decisions can encourage price competition, promote quality, and reduce the likelihood of monopoly power. (Price, Feick & Higie, 1987; p 328)

The actions of this minority benefit others in that manufacturers and service providers may offer better quality goods and services in response to their demands and complaints. Nevertheless, this neoclassical influenced perspective still places considerable burden on individual consumers and leaves a great deal to chance--too much so for liberal economists.

#### LIBERAL ECONOMICS

Generally, liberals admire the notions of a market mechanism and the freedom or liberty it permits, but are uncomfortable with the inequities in the amount of real freedom individuals (and small businesses) have and in the distribution of the rewards and costs derived from unregulated self-interest. Thus, liberal economics advocates would intervene in the market mechanism in order to distribute income and wealth fairly, protect the weak, and make sure everyone's needs are adequately served in the marketplace.

Stances taken on information by liberal economics proponents range from being very close to free market advocates, calling for business to bear more responsibility by voluntarily providing better information, all the way to calling for government funded comparative consumer information without any commercial influence. The difference between the free market perspective and the so-called liberal call for voluntary cooperation by business is that liberal economists are more concerned with fairness of outcomes and imperfections in the marketplace. Yet they also are interested in efficiency, so they generally prefer cooperation to coercion if it results in an acceptable compromise. This view is expressed by Thorelli:

The number of transactions between sellers and individual consumers in the affluent democracies of the world may well exceed one billion per day. It appears that in a clear majority of these transactions consumers are at least fairly well satisfied. To say that the open market system is a failure seems to us grossly unfair. Yet we are singling out business, among all consumer-policy-making groups, for separate discussion here as there is so much more that it can do that is yet undone, or done



to much less than perfection. Much of this can be accomplished by voluntary action. (Thorelli in Aaker & Day, 1982: p 121)

The goal of Thorelli, his colleagues, and others of a similar point of view is to push business to emphasize objective consumer information over subjective persuasion. To free market economists, any and all messages concerning a good or service are consumer information: each individual is expected to judge the quality and credibility of all such messages, without any paternalistic screening. Freedom in the marketplace includes freedom of information flow.

On the other hand, liberal economists could be expected to limit the kinds of messages they consider to be real consumer information. Liberal economics seeks a balance between business well-being and consumer well-being and has faith in the improvability of the information market. But even those proponents of the liberal perspective who are more critical of business sources of information and work for mandatory disclosure in some cases, believe their proposed intervention will benefit reputable businesses by preventing underhanded selling practices. They too seek the improvement of market outcomes by protecting consumers and honest businesspersons.

Judging by the contents and intent of articles published since 1970, this latter view is the predominant one espoused in The Journal of Consumer Affairs. The table below shows the number and percentages of articles published on each of the topics considered relevant to consumer protection. The data are divided into two periods to detect any changes in interest and emphasis: the 1970s were a period of intense activism and developments on behalf of consumers, while the 1980s have been associated with more probusiness attitudes and deregulating the marketplace.

1987) demonstrates an even greater preference for information as a consumer protection strategy. The proportion of articles on information was 38.9% which was more than three times as prevalent as any other topic category (redress & litigation accounted for 11%). A review of those articles found that the common goal or concern is with consumers making "good" or the "best" decisions in the marketplace. There are three subcategories of questions addressed regarding consumer decisions: (1) How "good decisions" are defined? (2) What keeps consumers from making the "best" decisions? and, (3) What should be done to improve consumer decisions?

#### What Are "Good" Consumer Decisions?

The goal for liberal proponents of a market system is for consumers to search for and use information in order to maximize satisfaction and utility. However, liberal economics recognizes individual differences in what constitutes satisfaction. Presumably these variations in consumers' personalities should be expected to result in different choices, each yielding satisfaction. However, there generally is some agreement that better informed decisions made on more rational terms would produce outcomes with greater utility than most consumers receive. Furthermore, liberals reason, if only they knew about and experienced those more beneficial options, consumers probably would be more satisfied too.

Consider for example, an article reporting on a laboratory study in which the authors tested whether varying the amount and type of information and "consumer sophistication" enhanced "efficient" decision-making. "A consumer making efficient choices can be identified as one who is able to differentiate levels of quality based on available information such that they agree with the objective assessment of quality." (Sproule,

TABLE 1. Consumer Protection-Related Articles Published in The Journal of Consumer Affairs, 1970-1987

Topic	1970-1980		1981-1987	
	#	%	#	%
Information & Advertising	43	32.6	35	38.9
Education	20	14.5	9	10.0
Standards	10	7.2	9	10.0
Redress & Litigation	13	9.4	10	11.0
Antitrust & Regulation	19	13.8	8	8.9
Vulnerable Consumers	20	14.5	4	4.4
Environmental Issues	3	2.2	9	10.0
Consumer Empowerment	10	7.2	6	6.7
Total	138	101.4*	90	99.9*

\* Percentage totals uneven due to rounding.

For our purposes here, the most telling figures are the far greater number of articles dealing with consumer information. During the decade between 1970 and 1980, the proportion of articles on information (32.6%) was more than double the proportion for any other topic (education and vulnerable groups accounted for 14.5% each).

In keeping with the shift in the political-economic environment, the later period (1981 to

Geistfeld & Badenhop, 1978; p 91)

For purposes of testing their hypothesis, the authors measured consumers' efficiency by comparing decisional outcomes with the ideal of Consumer Reports recommendations. But in reality, this would be a valid measurement only where a consumer derived equally high utility from durability, functionality, serviceability, and safety as assumed by the testing organization.

Some persons may bristle at the idea of an expert telling them what they ought to buy. Nevertheless, it is not difficult to make the case that the need for expert advice may well be greater in the case of very complicated goods (such as automobiles and computers) and abstract services (such as insurance and investments).

#### Barriers to "Good" Decisions

There is considerable attention focused on this question since liberal economics seeks to discover flaws in the market system in order to fix them. Often the flaw occurs because those who reasonably should be expected to provide good information do not. This happens primarily in situations where the search qualities (i.e., characteristics evident prior to a purchase) are limited. For example, in a study on the adequacy of casualty and liability insurance, Eldred (1980) suggested that insurance agents should have done a better job of informing their clients due to the nature of the "product." When that happened, consumers made better insurance decisions.

Free market advocates who desire a free flow of information often claim that consumers will correct past mistakes so there is no need to police the style and content of commercial information. But such a position does not account for credence goods, those with characteristics that are worthwhile but which cannot be judged in normal use.

For example, a Federal Trade Commission staff report (1979) suggests that there are goods and services such as over-the-counter drugs which consumers believe are good for their purposes, but they aren't at all, as with a placebo effect or when symptoms would have cleared up on their own. Such situations obviously interfere with making "good" or "best" decisions.

Liberal economics proponents find another barrier to good decisions in cases where information is mandated, yet consumers still don't consult it or don't use it properly for their purchase decisions. Frustration seems to motivate research which attempts to understand why consumers don't use information such as nutrition labels. One study found that nonusers either felt they knew enough about choosing nutritious food, they didn't have time to read the labels in the store, or nutrition was not an important criterion for choice. (Klopp & MacDonald, 1981)

Somewhat less ambivalence is expressed toward consumers by scholars who attempt to understand the way people really make decisions rather than the ideal way. One such attempt can be found in a study by Feick, Herrmann, and Warland (1986). They criticize most research on nutrition information use as having equated information search with prepurchase label reading. Label information, they claim, tends to better help in the choice of specific brands than to select an overall nutritious diet.

Food, in particular, is purchased several times a month, and extant knowledge is constantly updated. It should not be surprising

that food shoppers do not read labels when confronted with the same alternative they have seen week after week. The accumulation of knowledge over time from a myriad of information sources, including experience, may render redundant the information that could be obtained from prepurchase search. (Feick, Herrmann & Warland, 1986; p 175).

Similarly, Sproles (1983) claims that those who berate consumers for less than ideal decision-making need to be reminded that shopping and searching for information is not real exciting, nor is it easy to estimate the payoff or utility of the available alternatives. "In short, perfect knowledge as the precursor of accurate decision-making is a fragile ideal." (Sproles, 1983; p 425) Instead, he argues that the more likely goal and related behavior is "satisficing," where consumers seek options that are good enough rather than "the best."

#### What Should Be Done?

Feick, et al., cited above, recommend that policymakers should focus on reducing the acquisition costs of various sources of nutrition information and on increasing the perceived benefits of searching for such information. (Feick, Herrmann & Warland, 1986) This could be done with accessible product comparisons, preferably based on objective product test results, and uncluttered by puffery.

But more information is not necessarily better for consumer welfare. "Information overload" is a frequent cause for concern in the literature's discussion of what should be done to improve consumers' decisions. To counteract the paralysis that may result from information overload, two suggestions are that government should intervene to standardize and simplify information formats and to prevent misleading information from being disseminated. Another type of recommendation is to set standards for certain products in order to eliminate the need for consumers to judge their safety or efficacy based on prepurchase information alone.

Finally, there is a heavy reliance on education by liberal economics proponents in their attempts at improving consumer decision-making. The reason is that this perspective places special emphasis on the potential improvements and personal freedoms promised by more and better education.

#### INSTITUTIONALIST VIEWS ABOUT INFORMATION

Attaching considerable importance to institutionalized power differences and to imperfect competition, the institutionalist economists are skeptical about the validity of the traditional market model. Thus, whether the goal is efficiency, equity, or stability, institutionalists argue that policies based on that presumed system will not work effectively since the model does not reflect reality.

Although the institutionalists have not yet agreed upon a body of theories that can be described here, they have agreed that economics is constantly changing or evolving. For professionals who embrace this idea, there would appear to be a particularly significant operating premise where policy proposals are concerned. A consumer protection policy that works now probably would not continue being effective due to the changes brought about either by that policy or other factors.

With regard to the topic of consumer information as inputs to "good" decisions, institutionalists voice three major criticisms: (1) the supposed private and social well-being arising from self-interest; (2) the inordinate power of persuasion held by sellers; and, (3) the inherent tendency for business interests to conceal certain types of vital information from consumers.

#### Questioning the Well-Being Outcome

In articles about consumer decisions leading to maximum (or even adequate) utility and satisfaction, neoclassical and liberal economics writers seldom question the necessity for consuming the goods in question. Institutionalists tend to be more judgmental about the value of goods and services offered and purchased in our market system. Galbraith writes:

. . . economic theory has managed to transfer the sense of urgency in meeting consumer need that once was felt in a world where more production meant more food for the hungry, more clothing for the cold, and more houses for the homeless to a world where increased output satisfies the craving for more elegant automobiles, more exotic food, more erotic clothing, more elaborate entertainment--indeed for the entire modern range of sensuous, edifying, and lethal desires.

Although the economic theory which defends these desires and hence the production that supplies them has an impeccable (and to an astonishing degree even unchallenged) position in the conventional wisdom, it is illogical and meretricious and in degree, even dangerous. (Galbraith, 1958; pp 114-15)

Galbraith's main concern in the passage above is with the misallocation of wealth to frivolous and "dangerous" desires (i.e., conspicuous consumption) and the resulting inequitable distribution of well-being in society. Thus, relying on a system that appeals to selfishness in order to enrich those who produce and sell such commodities, can be expected to have few social benefits since private benefits are the supreme goal.

Americans often are hostile when anyone questions their right to choose freely. But to institutionalists, the issue here really is whether or not conspicuous consumption is harmless and thus, such criticisms can be ignored. Conspicuous consumption can be seen as a lifelong spiral process that never comes to a satisfactory or peaceful resolution.

#### Persuasion Rather than Information

The fact that some institutionalists are critical of the kinds of goods and services we consume is central to their stance on information as a means of protecting consumers. While Thorstein Veblen provided a possible explanation as to why consumers get caught up in the endless process of "keeping up with the Joneses," contemporary institutionalists have tried to point out the benefits to business, and thus, its role in encouraging such a process.

Galbraith argues that emulation is only one source of desire for new and more things. The other is advertising. (Galbraith, 1958) After all, if some consumers were not particularly susceptible to the need to emulate their social "betters," businesses would find their sales somewhat limited. In such cases businesses try to accelerate sales by persuading consumers to replace before old goods wear out and to add new products whether they are needed or not.

By now it should be clear what the connection is between criticizing the goods and services consumed and consumer information. According to institutionalists, business organizations are inclined to allocate resources to ensure that consumers "cooperate" in their massive planning to reach company goals. In a market system, that "insurance" comes in the form of persuasive information.

Whether or not you agree with this conclusion and the ill effects resulting, it is difficult to refute the view that businesses enjoy an imbalance of power with regard to money, expertise, and control over information. One estimate claims that independent sources of consumer information are outspent by a ratio of 5000 to 1 when compared with producer-controlled information sources! (Maynes & Assum, 1982; p 65)

The importance of businesses' motives, strategies, and control over consumer information is clear to the institutionalist: although consumer information provided by commercial sources may aid consumers in choosing among market options, in no way will it help consumers to decide that they don't need any of the options. Nor will it provide fair estimates of the social and private costs associated with wholesale adoption of consumer products of dubious value.

#### The Tendency to Conceal

Institutionalists argue that concealed information is endemic to a market with limited competition in which contemporary corporations operate. If manufacturers and sellers have the tendency and power to overemphasize the positive qualities of products in their consumer "information," it is reasonable to expect them to ignore and/or conceal negative qualities.

Because attempts to eliminate negative qualities (e.g., poor durability, safety hazards, and environmental pollution) are costly, manufacturers

should be expected to make them only when they see a payoff or they are forced to do so. Kerton and Bodell (1987) explain:

The general proposition involved here is that, if economic enterprises are not to be run as social services but as profit maximizing firms, then in certain predictable economic circumstances, resources will be devoted to concealing unfavourable information. (Kerton & Bodell, 1987; p 89)

The underlying premise of their assertion is institutionalist in that Kerton and Bodell believe that various "actors" in the economic system are institutions. And as institutions, those actors or participants can be expected to "behave" in predictable ways, given their goals and operating environment. For example, concealment of information should be expected where competition is limited, where the goods have significant experience and/or credence qualities or are particularly complicated, and where repeat sales are not anticipated.

What constructive suggestions do institutionalists make for improvement? Ralph Nader has proposed a number of policies that are very much in keeping with the institutionalist critique of consumer information. One is to have the government either subsidize or provide independent sources of consumer information, to be dispensed at places of purchase through computer vending machines. He also suggests that professional and technical societies could do considerably more to protect the public from technical and professional victimization. Finally, Nader and other institutionalists argue that consumer and worker members on policy-making boards would better voice and serve the needs of the weaker groups they represent. (Nader in Aaker & Day, 1982)

As the reader might imagine, virtually all free market and many liberal economics advocates would consider these recommendations and the criticism that led to them to be extreme and unnecessary. Radical reformists, on the other hand, believe the institutionalists are looking in the wrong places for explanations of market flaws and social decay.

#### RADICAL REFORMISTS' POSITION ON CONSUMER INFORMATION

Radical reformist economists believe the market system to be fundamentally flawed because it provides only those income producing and consuming alternatives that sustain capitalist interests. That is how they would explain the recent trend of converting older rental apartments in urban areas to condominiums. There is a tremendous need and demand for moderate- and low-income housing, yet overcrowding and homelessness have resulted from inadequate rental housing stocks. Meanwhile, the higher income consumers who buy the converted condominiums and the former landlords who sell them exemplify how self-interest is only possible for an elite few. Radicals envision an economy

where the "invisible hand" (which many do not believe is invisible at all due to the planning and power of the huge corporations) will be replaced by the "visible hand" of decentralized planning and directing by the people ultimately affected on behalf of the public interest.

In order to understand their views on consumer information, this section will focus on two questions that radical reformists believe are left unanswered by the positions discussed above. First, they ask why is it that consumers are subject to the persuasion and/or manipulation of commercial messages? The second question asks why businesses are motivated to influence consumer decisions through persuasion and concealment?

#### Are Consumers Manipulated?

Radicals agree with Galbraith that the economically powerful have far more political power than justified by their numbers in a "democratic" situation. However, they do not agree with his explanation (or solutions) as to why the social system develops counter to reasonable levels of welfare. According to Gintis, "Producer sovereignty" theory is:

. . . reformist in nature: the sovereignty of the masses can presumably be restored without threat to the basic political and economic institutions of capitalist society and neoclassical theory. Psychic manipulation must be prohibited, the independent power of technostuctures must be attenuated through state intervention, and citizens must reassert their sovereignty over public goods decisions. (Gintis, 1972; p 270)

Radicals believe such a position to be misguided because it deals with the symptoms rather than the cause. Simply adding citizen, worker, and consumer representatives to significant policy-making bodies would change very little because it leaves untouched fundamental economic structures and goals. As a consequence, we eventually should expect those representatives of disenfranchised groups to vote in manners similar to the ruling elite and for consumers to continue behaving as before.

This is so, according to the radical reformists, for two reasons: (1) our choice-sets of feasible work, technology, and public policy options do not extend to all possible alternatives since choices must be compatible with maintaining capitalist social relations; and, (2) consumers' behavior is a rational reaction to the opportunity set open to them. There is no need to explain the latter by consumer manipulation theory.

In radical theory, consumer preferences are generated via everyday experiences of individuals in social activity. "People emphasize consumption in capitalist society because it's the best thing going, and it is the area over which they have the greatest degree of control." (Gintis, 1972; p 274) Furthermore, people naturally develop abilities to derive welfare from the opportunity sets

they've come in contact with and are familiar to them. Gintis writes:

Thus we must ask the Galbraithian why individuals are susceptible to advertising at all, if not because its ministrations correspond to truths we see around us in our more mundane experiences. (Gintis, 1972; p 275)

In other words, radicals don't "blame the victims" as do institutionalists and some liberals. The issue, then, is not whether the social order molds people's values and preferences, but rather, what kind of social order does the molding and what types of values and preferences that system instills in people. Worker-consumers work, eat, dress, and recreate in ways that we do because we "must" and because even though we may have complaints about specific discontents, the economic system and its products seem to us to be working.

#### Are Businesses Manipulated?

The other question--and equally important--is the issue of why businesses should work so hard at influencing consumer choices. Ostensibly, if businesspersons really believe in the market mechanism, they should be content to let their superior goods and services sell themselves since consumers are considered to be sovereigns and self-interested.

According to radicals, capitalist firms can never be content to operate in a "business as usual" fashion but instead, constantly are compelled to grow. They posit that much the same dilemma exists for corporations as that described for individuals by Veblen: there is perpetual pressure to accumulate property and wealth in an attempt to gain prestige and power in the marketplace. A good part of that power is deemed necessary to minimize the pressures of competition. Yet, because other firms seek the same things, the pressure and nervousness it brings never stop except for brief periods of respite. (Heilbroner, 1979)

The consequence of that nervousness is that there are consumer needs that go unmet by the marketplace (such as day care services and low-cost housing) and there are others that are served excessively. These latter kinds of needs are associated with activities which, if offered for sale, have pleasure-value and use-value added to them, rendering them attractive to consumers. Attractiveness and affordability make such goods and services prime candidates for capitalist expansion because they will be profitable.

Much of what is called "growth" in capitalist societies consists in this commodification of life, rather than in the augmentation of unchanged, or even improved, outputs. The continuous emphasis on "time-saving" inventions or the unrelenting efforts of business to induce individuals to adopt new life styles are instances of this commodifying aspect of the self-expanding property of capital. (Heilbroner, 1985; p 60)

A question that arises is what harm is there in saving us time and effort in daily work and in offering new life styles? First of all, the commodification process is such that the shapes of our lives are set and influenced by capitalist business interests rather than by our own values and goals. Perhaps more importantly, life satisfaction is impossible in a society where what one possesses (or produces) is never enough. The pressure for businesses to develop and promote and for consumers to acquire new and more commodities is relentless and debilitating. It also is expensive.

In short, to the radical, ranting and raving about advertising and other persuasive marketing techniques is pointless without attacking the very goals and rules of the market system. Until individuals truly are sovereign as citizens, workers, and consumers, the quantity and quality of consumer information is a moot point.

#### SUMMARY

In this paper, we have examined the views of four economic ideologies on the role played by and the value of prepurchase information in protecting consumers from economic and physical harm. As we have seen, faith in the protective powers of information varies considerably with the economic ideological view held. This analysis provides strong support for Herrmann's assertion that sources of conflict over protecting consumers can be better understood by relating them to economic ideology. The introduction of this typology in a senior level consumer protection class was highly successful in assisting students to identify their own ideological positions as well as those of authors they read and politicians they heard.

Specifically, the implicit as well as explicit goals of past and present information policies and programs become clearer when viewed through this new "lens". Furthermore, actors' motivations for advocating certain policies over others can be related to their ideological positions. Thus, I would argue that knowledge of these differences can render consumer advocates' future attempts at policy formulation and lobbying far more effective. The logic for this conclusion can be found in marketing wisdom: in order to "sell" something, the marketer must know what the potential "buyer" wants and/or wants to hear.

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A CONSUMERIST MOVEMENT IN ACTION: THE GAY AIDS MOVEMENT,  
HEALTH CARE CONSUMPTION, AND MEDICAL SCIENCE POLICY

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The Gay AIDS Movement has emerged in response to the AIDS epidemic and challenged the medical establishment in this country. This paper places their consumerist movement in perspective and documents their actions, unprecedented in medical and health care history. It is argued that their impact will be felt far beyond AIDS and their own problems in reverberations throughout the whole health care system.

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Increasingly, the consumer has been viewed as an active participant in the health care process, ever since Reeder (1972) first spoke of the "health care consumer." A number of movements have accentuated this consumer participation including the Wellness Movement (Bloch 1984), the Self-Care Movement (Ferguson 1980), the Holistic/Preventive (Alternative) Movement (Medical World News 1983; Goldstein et al. 1987), the Consumer Movement (Gordon 1980; Wolfe, Coley, and the Health Services Research Group 1981), the Environmental Movement (Epstein 1979), the Women's Movement (Ferguson 1980) and the Sixties' Movement (Ferguson 1980). Most recently, the Gay Movement has carried consumer influence on the health care process and public policy to a new level in its battles with AIDS, and the Food and Drug Administration (FDA). This paper documents and examines this process through the following steps: (1) discussing the nature and influence of health care social trends and scientific norms in general, (2) exploring the Gay AIDS Movement and showing how it is having a dramatic involvement on medical science policy making, and (3) discussing the health care consumption and health care policy implications.

#### HEALTH CARE SOCIAL TRENDS AND SCIENTIFIC NORMS

In general in health care, there has been a change in the conventional wisdom regarding health. It is one of increased consumer involvement and also increased emphasis on prevention as opposed to cure (Gould 1988). As more and more people are seeking to optimize health, health promotion, on the part of the health community has been found to be a successful strategic tool (Barrett-O'Connor 1987). At the same time, when people do get sick, they are more willing to search for various alternatives and to attempt to be "scientific" about their health, especially educated individuals (Gould 1988). For example, Gould reported that nearly 30% of the adult respondents in his health consumer study either agreed or strongly agreed

with the self-descriptive statement, "I keep up with the latest scientific health information." In addition, over 46% agreed with the statement that, "I know enough to challenge my doctor once in a while." These results indicate that many consumers are actively involved in the health care consumption process rather than merely being passive recipients of therapy. Perhaps, most germane to this paper, Gould found that nearly 50% (49.3%) of the sample agreed with the statement, "If I had cancer I would seek out any cure even if it were banned by the Federal Food and Drug Administration." This indicates that actual consumer demand, while hard to validate or establish in such a hypothetical question, nonetheless has the potential to go beyond established medical practice, as we shall see has happened in the Gay community.

In looking at the supply side of the equation, consumers also encounter a bewildering array of medical choices which boil down to two major types, according to Aakster (1986). He noted that these types of medicine are: (1) official medicine (also referred to as conventional, mainstream, orthodox, or traditional medicine) and (2) alternative medicine (also referred to as holistic, preventive, unorthodox, unconventional or countercultural medicine). The medical practitioners in these two systems clash with each other as competing paradigms (Kuhn 1970) and attempt to control the practice of medicine. In this regard, major medical institutions, such as the American Medical Association, National Institutes of Health, FDA, medical school and pharmaceutical industry, among others, may be said to constitute the medical establishment, which engages in social and cultural control of medicine and which determines what is and is not accepted practice. They set the agenda for research and serve as the cultural production agents and gatekeepers (Solomon 1988) for new ideas in the scientific mainstream.

Alternative medical practitioners often find themselves in no man's land when it comes to practicing any of the many alternative forms of medicine they may engage in - from homeopathy to diet therapy to experimental but unapproved drug therapies. They are engaging in what might be viewed as "deviant" behavior standing apart from accepted practice. In some cases, they may have their competence challenged and their licenses revoked and may have to struggle for their rights. For example, chiropractors recently won an antitrust case against the American Medical Association in which restraint of trade on the part of the AMA was alleged (Wall Street Journal 1987). Alternative physicians themselves have many problems but often begin their alternative practice by somehow finding dissatisfaction with their orthodox practice in terms of treatment effectiveness. Some

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physicians use various forms of alternative medicine along with mainstream medicine and not all physicians even in the mainstream agree on what is accepted or proper scientific procedure (Taylor and Kelner 1987). In fact, many physicians who use experimental drugs for their AIDS patients are this type of physician, who uses both accepted and unaccepted therapies. For example, I have heard repeatedly how physicians used one drug, pentamidine, for their AIDS patients even though it lacked formal FDA approval (it was subsequently approved, according to Altman (1988). It seemed to have gained almost universal, informal approval among most physicians, both mainstream and alternative, prior to its approval.

#### THE GAY AIDS MOVEMENT

The main thesis of this paper is that the Gay AIDS movement has moved the notion of health consumption to a new level of involvement greater than other consumers because of the dramatic intensity of the disease they face, and also because of their past experience as a political movement. We argue here that Gays are a fairly educated group who possess a distinct group identity which has been seen by American society to represent a deviant lifestyle. All these factors have served as the basis for a coherent, cohesive group response unlike any that I have witnessed or studied in American medical experience. They have been engaged in a long public outcry which has moved government policy (Chase 1986; Greenberg 1987). In this regard, I have looked at alternative health care practices for a long time in such areas as cancer, heart disease, arthritis, and prevention, but never has a movement so dramatically challenged the medical and scientific establishment over "accepted" medical practice as have the Gays. Their movement has resulted in political involvement and passive resistance demonstrations against the FDA. By contrast, individuals with other diseases may seek alternative cancer cures, etc., but they do not then generally form a movement to change government policy. They are too isolated in both their experience and lifestyle to form an active movement. On the other hand, the Gay Movement spawned the Gay AIDS Movement.

Why has this movement arisen? There are a number of reasons. First, there has long been an underground in medical drugs and cure where the patient for chronic diseases can find cures - both within the U. S. and abroad. The underground exists because many people come to believe that alternative cures can be viable and also because some if not all desperate patients will try just about anything. Many alternative therapies are reputed to be effective, mostly through "anecdotal evidence," but are not sanctioned by the medical establishment because they have not been "proven." Critics of the medical establishment point out that they have not been proven because of bias on the part of researchers toward specific therapies. Some therapies are said to be favored because of monetary interests on the part of drug companies and government grant programs and others are rejected out of hand, such as drugs or therapies which can no longer be patented (Hansen and Launso 1987).

Gays with AIDS entered the picture and discovered that a number of alternative therapies were being developed both home and abroad. For example, I have extensively interviewed one physician with a totally different AIDS therapy and theory (a controversial and unapproved approach, discussed in Justice 1988 and Leishman 1988), as well as some of his patients. I also examined the medical records. The indications are that the patients are doing dramatically well, after having been extremely ill and disabled for long periods. The patients report being able to resume relatively full lives including working and enjoying life. They generally had to go out of their way to find out about this physician through extensive search. They did so because their mainstream treatments, including AZT, the only FDA approved treatment for AIDS, were ineffectual. Each patient also said that he was not ready to die and that he credited his being alive to this particular, alternative physician. Yet, according to him, no one from the government or medical establishment has investigated his work or looked into testing his therapy. Nonetheless, a prominent Gay newspaper named this physician, its "Man of the Year" and honored his courage (Ortleb 1988).

At the same time, a number of Gay AIDS support groups, often including allied physicians, and newsletters have arisen which survey the current AIDS drugs in development across the world and report these to all their members or subscribers. They are often ahead of their doctors and believe they are way ahead of the FDA which has become the target of their frustrations. As Gays "shop" for new experimental treatments, they have often found their way blocked by FDA policy which to them seems more interested in protecting them from themselves than in dealing with their AIDS. This perception, combined with a breakdown in the testing of drugs by the FDA due to a lack of capacity (Booth 1988; Smith and Long 1988), has resulted in the Gay demonstrations and demands for action.

Gays have been somewhat successful in their actions against the FDA. They in fact have been allowed to use unapproved experimental drugs on a de facto basis as the FDA pretends not to notice what they are doing. Physicians, themselves, are more often recommending experimental treatments than has been the case in the past (Neumann 1987). Thus, the "underground" in experimental drugs has achieved a certain level of tacit acceptance, if not approval. But nonetheless, this is not enough for Gays. For example, until recently one drug which is reputed to help AIDS patients, dextran sulfate, was available to AIDS patients if they went to Japan and purchased it (Boffey 1988). This is not considered an appropriate solution for an individual who needs a steady supply over time. The Gay AIDS Movement lobbied for the right to acquire this drug through the much cheaper and more convenient medium of the mail. They won this right although remaining skeptical about how the FDA will administer this ruling in practice, according to Boffey. But, Gays and their supporters have still more demands. One publicly known AIDS advocate, Mathilde Krim, has called for a change in the testing standards should be more flexible for new AIDS therapies (Economist 1987a). California has gone so far as to set up



its own approval procedures independent of the FDA and in response to Gay demand (Economist 1987b).

What do Gays specifically want? To find out I went through the Gay research and literature in this area as they themselves have reported it. This literature included the Community Research Initiative of the People With AIDS Coalition, the New York State AIDS Treatment Evaluation Progress Report of the AIDS Coalition to Unleash Power (ACTUP), Proposal to Establish AIDS Treatment Registry also from ACTUP, and a newsletter, AIDS Treatment News from San Francisco among others. In these reports and newsletters, the Gay community has exhibited quite a bit of research and knowledge concerning experimental drugs, the stage and results of the testing protocols of these drugs, and their own surveys regarding safety and efficacy of drug therapy results. They also carefully monitor publications of the pharmaceutical industry and the government. For example, one listing of AIDS products in development put out by the Pharmaceutical Manufacturers Association in 1987 and provided to me by Gay sources, contained 71 entries for experimental drugs, diagnostic products, and vaccines along with information about their research status. The Gay community's studies and reports are detailed and inclusive of as many sources as possible. They also seriously question the ethics and structure of the present AIDS establishment, including the government and pharmaceutical companies. As the AIDS Treatment News (1987, p. 5) concluded:

"Effective patient advocacy could force ethicists and other professionals to re-examine the whole issue of medical decisions which are not in the interest of the patient, but instead serve the purposes of drug companies or other organized professionals. . . such as withholding access to unapproved treatments in order to force patients into clinical trials, or requiring those in trials to give up all other treatments. . ."

In response to what they have found and uncovered in their research, the Gay community has made a number of proposals in its literature, as well as in public forums, for action and changes in government procedures. The proposals include among many: elimination of placebo groups in testing already ill patients, community participation in testing, more equitable distribution and inclusion of patients in trials since many non-Gay groups have been relatively ignored (an altruistic impulse perhaps), speedup of testing which is seen as very slow as compared to other countries, and testing of more drugs which are already on the underground market but which have not been evaluated by the FDA. The Gay community and their supporters offer alternative proposed mechanisms for these demands which are carefully documented and which carefully trace developments in both the mainstream and alternative-experimental research domains. They also suggest that the medical community, itself, is not able to assimilate all the new information which is becoming available about new drugs and so they are taking on the role themselves. Examination of all the Gay AIDS Movement reports which are extensive, intelligent and scientific, yet humanistic, in intention and tone,

leads me to conclude in support of previous statements above, that the level of Gay consumer involvement and action in this disease is unprecedented in the annals of modern medical history. The demands of both the Gay community and the disease itself, as a pressing, overwhelming epidemic, may transform and force changes in medical science's conventional wisdom and procedures. For example, with respect to setting up its own trials in the face of frustration with current procedures and policies, one group has clearly stated its purpose and intent (People With AIDS Coalition 1988, p. 2):

". . . while the number of people with AIDS or who are at risk for the disease is large, the number who are receiving treatments are small . . . the People With AIDS Coalition (PWAC) proposes to sponsor well-designed, meaningful clinical trials of promising AIDS/ARC treatments in a community setting conducted by qualified physicians in cooperation with informed volunteer subjects . . ."

#### HEALTH CARE CONSUMPTION AND POLICY IMPLICATIONS

The implications of the Gay AIDS Movement go far beyond its own confines. For example, as Boffey (1988) points out, allowing Dextran sulfate to be mailed to Gays means that cancer patients can also receive experimental drugs through the mail from abroad. The Gay challenge to the FDA has thus opened opportunities for other types of patients, as well. There are also others at work to push experimental drugs and therapies. For instance, Dr. Robert Oldham, a respected, former National Cancer Institute researcher, has started Biotherapeutics, Inc. to offer experimental cancer treatments (Henig 1986). As another example, many balding men came to demand Minoxidil before it was approved in order to regrow their hair (American Druggist 1987). Even the FDA, itself, has somewhat liberalized its policies toward investigational drugs (Merz 1988; Young et al. 1988). Nonetheless, the most intense and organized push for the use of experimental therapies is from the Gay community. Consumers and sympathetic physicians are not willing to sit still and wait for the slow processes of bureaucracy to move.

This paper has presented some controversial viewpoints and many will disagree with some of the conclusions which follow. It is hoped, however, that this discussion will prompt some thinking and insight about a major consumer problem and a remarkable consumer response. In the broad sweep of things, we see an increasingly educated populace demanding a say in the affairs of their environment and the science which determines many aspects of their lives. Government agencies, such as FDA, have found their integrity and credibility questioned. In order to deal with these problems, policy makers need to open up the process of scientific inquiry to public discussion and debate. They also need to balance the concerns of maintaining a science of integrity as they see it with one of integrity and validity as others see it. Certainly, all responsible people want to avoid problems of quackery and ineffective drugs. The FDA is always quick to point out that there are