

Consumer Research and Education Needs

Consumer research and education needs fall into three major categories: 1) consumer education and decision-making; 2) consumer protection; and 3) marketplace behavior. This paper focuses on research questions and trends that cut across many issues and which could, therefore, be explored broadly or narrowly.

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Consumer Education

Consumer Education is often considered an alternative to enforcement or regulation, although it should work in tandem with these efforts. It is also tied directly to many regulatory activities regarding mandatory consumer disclosures. However, the most effective consumer education methods are not often identified, particularly methods that may be effective with older consumers or low income consumers. Very little evaluation is done to determine what, if anything, consumers have gleaned from an educational pamphlet or video. It is often only learned if such education makes a determined impact on consumer behavior -- as it did with smoking cessation.

The vast majority of consumers have trouble with complex consumer choices. One problem is the complexity of goods and services in the marketplace. However, another is the nature of consumer information currently provided in the marketplace. Consumer information is generally poor... hard to read, provided at the wrong time, too complicated or not compelling enough.

An important research priority is to evaluate how consumers make their purchase decisions, what are the most effective consumer education methods and what new methods should be explored. The information super-highway brings with it enormous opportunity for education, but also many cautions. We cannot, as we become enamored of the new possibilities available to us with technology, leave behind those consumers who probably need good information the most -- lower income consumers, and those who have low literacy levels.

Consumer Protection

The second broad area is consumer protection. Consumer groups have traditionally urged regulation of

business as the main means of consumer protection. Such regulation has often been successful, such as FDA's regulations to insure safe and effective drugs or NHTSA's regulations to insure safe cars.

However, current popular opinion - and certainly one that business has ascribed to for a long time - indicates that business may be overregulated. Beginning in the mid-70's and through the Reagan/Bush years, many consumer protections were lost to deregulation. Many more are at risk now. Consumer groups have responded in kind - with education programs and have advocated for disclosure so that purchasers would have at least adequate information on which to make a decision.

Unfortunately, in many businesses, disclosure and education are not adequate substitutes for explicit protection. Sometimes, public health or safety may be at risk -- and in other cases, necessary information is simply "unknowable" -- such as whether a life insurance company will be solvent 25 years from now. The issues may be too complicated for many consumers, the information may be presented in a manner difficult to understand (e.g., prospectuses for mutual funds) or an informed decision may require too much investigation (such as visiting a large number of nursing homes or figuring out which long distance calling plan fits your needs).

These problems suggest that current methods of consumer protection need to be evaluated and that other methods of protection should be explored. Alternatives to more regulation are needed. This is not to advocate for getting rid of regulations we currently have and need, but to say that we should always be exploring the most effective way to solve the problem. Public-private partnerships may be one possibility; simplifying and standardizing information may be another.

The research questions then are: how effective are traditional methods of consumer protection such as consumer disclosure statements compared to other

methods of consumer protection? What other approaches should be explored? What is an appropriate mix of government and private regulation, such as certification? What are the implications of alternative methods?

Several related questions deal with the regulatory system itself. How can the current public role in the regulatory system be improved to benefit consumers? Is an often invisible public comment period enough? What is the effectiveness of boards and commissions, and particularly the effectiveness of public members?

A specific area of exploration that I think would be extremely beneficial would be a cross-industry review. This would explore methods that work in one industry and determine how to apply them to other industries. For example, can the experience with developing appropriate food labels that provide consumers pertinent information give us guidance on how to label financial information?

Another area of exploration would be self-regulation. What have experiences with self-regulation taught us? (i.e., with attorneys, higher education or continuing care retirement communities.) Do these alternative methods to government regulation work as or more effectively? In which industries might it be feasible to pursue this?

And, as we increasingly face situations in which we must make hard choices from a policy perspective -- as we are with the balanced budget amendment debate -- our consumer protection choices will become more difficult. For example, what are consumers willing to sacrifice for environmental purposes? What are the needs of low-income consumers that must be balanced with the costs of pursuing environmental ends?

Marketplace Conditions

The final area in which there are research and education needs is marketplace conditions. It is not a secret that existing competitive markets combined with government regulation have not always worked to ensure a successful marketplace for consumers. Examples of recent failures include large ones, such as the savings and loan crisis, and smaller ones such as deceptive marketing of living trusts. An understanding of how such failures arise could help policy makers avoid their recurrence.

Research could analyze economic and social factors strongly associated with or appearing in tandem with market failure. It could further explore what can be done to forecast or avoid such failures.

Included in the research on a scam or marketplace problem might be questions such as, how a fraudulent enterprise is initiated and implemented?; why the regulatory system did not forestall

the problem?; what kind of targeting of victims was apparent, if any?; what kind of technology -- such as computerized mailing lists -- facilitated the failure?; who were the major players?; and what do these failures have in common?

An example of a research project fitting this objective might be bank sales of uninsured products, or pace-makers that were defective and yet implanted in consumers.

This agenda is extremely pertinent today. Today we are questioning regulation and possibly rolling back consumer protections of many years. We are facing the closure of many local consumer protection offices, which have provided an important consumer education function. And, we are seeing marketplace failures and dramatic changes (i.e., in our pension system, the role of unions and the banking industry). This agenda will be influenced by changes in the economy, marketplace structure, regulatory actions that may come sooner rather than later, and the philosophies of opinion leaders. Yet, answering some of these questions in the near term may better prepare us to meet the needs of consumers in the long term.

Endnote

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