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ABSTRACT

This document contains abstracts or manuscripts of 29 presentations examining the problem of how to cope with inflation and how best to deal with resource shortages, both of which might become even more acute in the future. Conference speakers viewed the problem from various perspectives, among them (1) consumer characteristics, attitudes, and needs, (2) status of consumer action and education programs, (3) career opportunities in consumer affairs, and (4) impact of specific resource shortages, such as food and electricity. Several speeches taking a mathematical approach covered topics such as "Levels of Family Financial Management Functioning--A Multivariate Analysis," and "A Framework for Analyzing the Effects of Interest Rates on Purchases of Consumer Variables." (AV)

PROCEEDINGS

of the

21st Annual Conference

American Council on Consumer Interests

theme: Consumers in an Era of Shortages and Inflation

April 2-5, 1975

Kansas City, Missouri

American Council on Consumer Interests
238 Stanley Hall
University of Missouri
Columbia, Missouri 65201

AMERICAN COUNCIL ON CONSUMER INTERESTS

21st Annual Conference

April 2-5, 1975

Kansas City, Missouri

THE PROCEEDINGS

Convention Theme:

Consumers in an Era of Shortages and Inflation

PROGRAM

AMERICAN COUNCIL ON CONSUMER INTERESTS
21st Annual Conference
April 2-5, 1975
Kansas City, Missouri
Convention Theme:
Consumers in an Era of Shortages and Inflation

Wednesday, April 2, 1975

evening

Concurrent Workshops
"Career Opportunities and Job Hunting in Consumer Affairs"
A Panel of Experts presented by the ACCI Career Opportunities Committee, Dr. John Burton, Manchester (Conn.) Community College, Chairman.

Research Forum -- An Open Exchange of Ideas, Hypotheses, Questions, and Problems, Moderator: Dr. Joseph Uhl, Purdue University, Editor, The Journal of Consumer Affairs.

Thursday, April 3, 1975

morning

Opening Session
Presiding: Ms. Marjorie Merchant, Professor, Cooperative Extension Service, University of Massachusetts, Vice President, ACCI
Welcome: Hon. Charles Wheeler, M.D., J.D., Mayor of Kansas City, Missouri
Welcome: Dr. E. Thomas Garman, Associate Professor, Dept. of Business Education, Northern Illinois University, President, ACCI
Welcome: Ms. Nancy Flood, Area Family Economics Specialist, University of Missouri-Extension, ACCI Local Arrangements Chairman.

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Speaker: "Hedonism, Asceticism, and the American Dream"
Dr. Harold F. Breimyer, Professor, Dept. of Agricultural Economics, University of Missouri-Columbia
Presiding: Ms. Nancy Chandler, Family Economics Specialist, Cooperative Extension Service, University of Georgia
Speaker: "Can Millions of Americans Change Their Life Styles? What Policymakers Should Consider About Social Structure"
Dr. Marcus Felson, Assistant Professor, Dept. of Sociology, University of Illinois, Urbana-Champaign

afternoon

Luncheon
Presiding: Ms. Faith Prior, Extension Specialist/Assistant Professor, Home Economics, University of Vermont.
Speaker: Louis Engman, Chairman, Federal Trade Commission.
Announcement of ACCI Research Award Winners
Presiding: Dr. Bob Herrmann, Professor, School of Family Resources and Consumer Sciences, University of Wisconsin, Research Awards Committee
Speakers: ACCI Research Award Recipients

Concurrent Sessions
Workshop on Consumer Education Resource Materials
Presiding: Dr. Herbert M. Jelley, Professor of Business Education Oklahoma State University
Speaker: Dr. Stewart Lee, Chairman, Dept. of Economics and Business Administration, Geneva College, Beaver Falls, Pennsylvania, Editor, ACCI Newsletter

Contributed Papers
Presiding: Ms. Virginia Langrehr, Research Assistant, Dept. of Home Management -- Family Economics, Purdue University
Speaker: "Career Opportunities for Consumer Affairs Professionals" Dr. John R. Burton, Associate Professor of Business, Manchester Community College, Manchester, Connecticut
Speaker: "Factors Which Relate to Non-Group Life Insurance Holdings of Families: A Pilot Study" Dr. Loren V. Geistfeld, Assistant Professor, Dept. of Home Management -- Family Economics Purdue University
Speaker: "A Framework for Analyzing the Effect of Interest Rates on Purchases of Consumer Durables" Dr. Sherman Hanna, Assistant Professor, Dept. of Family and Child Development, Auburn University

Friday, April 4, 1975

morning

Concurrent Sessions
Contributed Papers: Consumer Shopping Behavior
Presiding: Dr. J. Barry Mason, Professor of Marketing, The University of Alabama

Speaker: "Lifestyle and Psychographic Analysis of Catalog Shoppers"
Ms. Christie Paksoy, Instructor, Area of Behavioral Studies, The University of Alabama
Speaker: "Intra-Mall Shopping Behavior"
Anne Sweaney, Doctoral Candidate, The University of Alabama

Contributed Papers
Presiding: Ms. Carole Makela, Head, Dept. of Consumer Sciences and Housing, Colorado State University
Speaker: "The Ecological Product Buying Motive -- A Challenge for Consumer Education" Dr. Roy A. Herberger, Jr., Associate Dean, School of Business Administration, University of Southern California
Speaker: "Assessment of Consumer Research for a Valuation of a Quality-of-Life Policy" Dr. Simone Clemhout, Associate Professor, Dept. of Consumer Economics and Public Policy, Cornell University
Presiding: Dr. Richard L. D. Morse, Professor, Dept. of Family Economics, Kansas State University
Speaker: "Inflation and Recession Double Trouble for the American Consumer" Dr. Sheldon W. Stahl, Senior Economist and Vice President, Federal Reserve Bank of Kansas City
Speaker: "The Federal Reserve and the Consumer" Mr. Frederick Solomon, Assistant to the Board and Director, Office of Savers and Consumer Affairs, Federal Reserve Board, Washington, D.C.

afternoon

Luncheon
Presiding: Dr. Thomas M. Brooks, Professor, Dept. of Family Economics and Management, Southern Illinois University
Speaker: "Transportation Policies -- New Strengths for the Existing Structure: Benjamin O. Davis, Jr., Assistant Secretary of Transportation, Environment, Safety and Consumer Affairs
Presiding: Dr. Sylvia Lane, Professor, Dept. of Agricultural Economics, University of California, Davis
Speaker: "Food and Fibers (With and Without Synthetics From Petroleum" Mr. Bill C. Price, Staff Director, Chemical Group, Phillips Petroleum Company, Bartlesville, Oklahoma
Speaker: "The Energy Crisis" Mr. Robert K. Zimmerman, Chairman of the Board and President, Kansas City Power and Light
Speaker: "The Consumer Movement in the Energy Crisis" Dr. Lee Richardson, Professor, Dept. of Marketing, Louisiana State University
ACCI Business Meeting

evening

ACCI Banquet
Toastmaster: Dr. E. Thomas Garman, President, ACCI
Colston E. Warne Lecture -- "The Consumer's Real Need"
Sidney Margolius, Author and Syndicated Columnist

Saturday, April 5, 1975

morning

Consumer Action Programs
Moderator: Mr. Keith D. Smith, Executive Producer, WOSU Radio Ombudsman Service, Columbus, Ohio
Panelist: Mr. Lance W. Burr, Assistant Attorney General, Chief, Consumer Protection, Topeka, Kansas
Panelist: Mr. Roger D. Colton, Iowa State University ISPIRG Chairperson
Panelist: Ms. Barbara J. McCandless, Assistant to the Secretary, Dept. of Commerce and Consumer Affairs, Pierre, South Dakota
Panelist: Ms. Cathy Butts, Consumer Relations Board, Kansas State University, Manhattan, Kansas
Panelist: Ms. Kathleen Browne Ittig, Consumer Affairs Clearing House of Western New York, Buffalo, N.Y.
Panelist: Ms. Paula Heichel, Neighborhood Legal Service Program, Washington, D.C.
Panelist: Dr. Ruth D. Harris, Division of Vocational-Technical Education, Virginia Polytechnic Institute and State University
Panelist: Mr. Frederick E. Waddell, American Association of Retired Persons

Presiding: Dr. Robert O. Hermann, Professor of Agricultural Economics, Pennsylvania State University
Contributed Papers
Speaker: "Dissatisfied Consumers: Who Gets Upset and What Do They Do About It?" Dr. Rex H. Warland, Associate Professor of Rural Sociology, The Pennsylvania State University
Speaker: "New Directions for Consumer Action to Combat the Price Spiral" Dr. Glen Beeson, Director, Center for Economic Education, Duquesne University

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Editor of the Journal of Consumer Affairs
Joseph Uhl, Purdue University, Lafayette, Indiana
Editor of ACCI Newsletter
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Editor of Consumer Education Forum
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Jim Evans, Johnson County Community College, Overland Park, Kansas
Career Opportunities
John R. Burton, Manchester Community College, Manchester, Connecticut

INTRODUCTIONS

From the President

Welcome to the annual conference of the American Council on Consumer Interests. Today we celebrate the twenty-first birthday of this organization. Clearly, ACCI has become of age. With this conference ACCI marks continued leadership in the consumer movement. The Board of Directors and the Program Chairperson welcome you to what we hope to be an excellent conference.

-- Tom Garman
Northern Illinois University

From the Program Chairperson

Planning for the Twenty-First Annual Conference was based on the most pressing problems consumers face today, namely how to cope with inflation and how to best deal with shortages of resources both of which might become even more acute in the future. Hopefully, the conference was a fruitful one for all who attended.

It is not possible to recognize everybody who assisted in making the program possible. However, the special help given by Jean Bowers, Robert Herrmann, Lee Richardson and Joe Uhl must be acknowledged.

-- Helen Goetz
University of Alabama

From the Editor

"Consumers in an Era of Shortages and Inflation" was an excellent program as evidence by the record attendance. The Proceedings also sets records this year for early publication and length. Conference proceedings are prepared for participants and others interested in the issues. They will provide the basis for further thought and discussion for the many who participated and also help extend the ideas to others who did not participate. The Proceedings have grown from 89 pages in 1972 to 221 pages this year. This extensive coverage of the theme should be a valuable resource as much of the timely information is not readily available from other sources and not assembled into one source.

It is a pleasure to be able to complete The Proceedings during the summer so they will be available for use during the coming academic year. Thanks to all the speakers for their help in facilitating publication, especially those who provided copies of their papers early. Although each year we have decreased the time between conference and publication, this is by far our best record. This should make The Proceedings even more useful, considering the timeliness of the theme.

Conference papers to be printed in the Journal of Consumer Affairs are limited to abstracts in The Proceedings to avoid duplication. This means papers submitted for possible publication in the Journal of Consumer Affairs must be reviewed. This can be a lengthy process, but a prompt review this year helped make our earlier publication possible.

-- Karen Hull
Iowa State University

CONTENTS

CONTENTS (continued)

HEDONISM, ASCETICISM, AND THE AMERICAN DREAM

Harold F. Breimyer
Perry Foundation Professor
Agricultural Economics
University of Missouri - Columbia

New concern with shortages and inflation opens up old questions of beliefs and values. Have self-centered values such as hedonism and its counterpart asceticism risen to ascendancy? And do they enter into the consumerism movement? The uptrend in productivity on which material values were based will not continue. Adjustments in personal beliefs and values and social and economic institutions will prove difficult.

"The country no longer trusts the genuine moralists. . . and no longer trusts its own instincts. While we weren't looking, Middle America traded its Puritanism for consumerism. . . ."

-- Peter Schrag

"The period of rapid population and industrial growth. . . during the last few centuries. . . is . . . one of the most abnormal phases of human history."

-- M. King Hubbert

Without overdramatizing it can be said that at this point in the national life of the United States some ageless questions are being re-asked. Among them, in an era of unprecedented concern with shortages and inflation, is the value system we profess. It is usually posed as a choice between material and spiritual values. More poetic language is hedonism versus asceticism.

Hedonism and asceticism are self-centered. To shower oneself with physical pleasures, or consciously to reject them, is the behavior of the introvert. The fact that the ganglia of the nervous system end with the dermis has helped accord a credibility to self-centeredness that is not warranted. To be sure, a starving man fights for food and a drowning one for air. But under more usual circumstances the human being displays multiple needs and many are social, other-directed. In fact, it may be that hedonism or its counterpart, asceticism, arises primarily as a defensive reaction to social inadequacy or disappointment.

For explorations of this kind an always-promising source is the writings of the late John Brewster. Brewster sets forth as one of the truly basic attributes of the human being his "striving for significance." Wrote Brewster, /1, p. 9/

> Men the world over strive for an ever finer image of themselves in the eyes of others, whether actual or ideal. But what is the nature of this good which energizes men and nations?
>
> It is the most spiritual of all treasures. You can get no photograph of it, neither can you weigh it, nor store it in barns or vaults; it has no abode in earth or stone -- yet we seek it above all else, both individually and collectively. And no evil is so terrifying as the anxiety over being so devoid of meritorious qualities as to be undeserving of favorable valuation by anyone, including oneself.

To gain significance a person must meet one or more of the tests that society establishes. These are the set of beliefs, in Brewster's language, that define merit. Brewster's handling of this subject may be worth brief recounting. It begins with a sense of destiny, itself an interesting bit of psychology. To believe that the Power of the Universe is on our side and will lead us aright is a mighty force in human motivation. Brewster capped his argument by citing the cases of Eichman and Hitler, who to their last breaths affirmed that they did right and history would judge them favorably. /1, p. 9/

Brewster posed his merit-defining beliefs in terms of the American Dream. He also assumed a one-century continuity in our belief system. "Twentieth century heritage of nineteenth century belief systems and values," was his caption. /1, p. 14/ We could wonder whether he overestimated length of tenure by a fourth.

Brewster's summary language reads, "In the belief systems of the 19th century America, the brightest star was a magnificent sense of destiny, commonly called the American Dream." /1, p. 14/ To this there were three "undergirding belief systems. . . the democratic ethic, the work ethic, and the enterprise ethic." /1, p. 15/ Brewster's discourse on the democratic ethic has become a classic and is worth repeating: /1, p. 16/

> This system centers in two beliefs, (a) all men are of equal dignity and worth, and (b) none, however wise or good, is good or wise enough to have arbitrary power over any other. These belief demands include a guide to freely

determined collective behavior. This guide is the conviction that Nature and Nature's God invests each man with an equal right or power to be a participant in deciding on what rules all must observe for the sake of their mutual well-being. . . .

For the work ethic the "key component is the conviction that striving for excellence in all employments is the proper way of earning one's own highest respect and also the respect and esteem of others." /1, p. 19/. The enterprise belief system embraced both an exaltation of capital accumulation and a rejection of governmental limits to the "entrepreneurial freedom of proprietors to run their businesses as they choose." /1, p. 27/

Such is Brewster's interpretation of the beliefs and values by which Americans have measured their own and others' performance. It is notable that they are of a different fabric than those "isms" of conscious self-indulgence or self-denial, hedonism and asceticism. It surely has been a part of the American Dream to make it possible for men to avoid the privations that throughout history have ground most of humanity into soul-shrinking poverty. But this is a far cry from glorifying material self-gratification or its rejection. The distinction is crucial.

The 1975 Scene

More practiced observers may assess how much we still adhere to the 19th century beliefs Brewster described. There is no dearth of pundits. Literary magazines are packed with characterizations of the contemporary ethos. Few pattern after Brewster.

The opening quotation from Peter Schrag paraphrases a prevailing theme. It uses terminology relevant for this conference, for Schrag puts it that we have swapped Puritanism for consumerism.

To what extent does consumerism reflect self-centeredness in human behavior? Probably considerably. To switch idioms, is the consumerism movement of our day oriented principally to privately consumed goods or to social goods? It does not seem to have given first attention to schools or public health. Even its environmental concerns have a self-interest taint.

For all its nebulousness and irrespective of whether its motives are generous or its actions useful, in large measure consumerism appears to serve a hedonistic society. If this be true, Schrag is justified in calling consumerism a replacement for Puritanism.

And if this be true, it is proper to re-ask the ageless questions. Do we build a strong nation on material indulgence? What gods do we worship?

Nevertheless, it is time to climb the solid if slippery rock of economics. Even though there be philosophical or even religious precepts upon which to choose non-material values, economic forces will act to bring the issue into focus faster than any religious or philosophical teachers can do.

In a sententious word, many scholars now warn that the age of affluence is past, for ourselves and for the Western world. The logic of the case is capsuled in the opening quotation from Hubbert. The last several centuries have been a truly exceptional period in the world's history. Geographical and technological explorations combined to generate a physical productivity of incredible scale. We have occupied all the land and destroyed some. We have opened up the most available mines and have emptied many. We have pumped a few U.S. oil fields dry. Although Middle Eastern countries still have scarcely-tapped pools they have learned the economics of oligopoly.

And even though material affluence need not convert mankind to philosophies of self-indulgence, when worldly goods are plentiful the conversion comes easier. Furthermore, if the American Dream does not materialize, those philosophies beckon temptingly.

Three summary points follow.

First, not even the most alarmist economists foresee sudden privation. Our nation remains resource-wealthy by any standards extant prior to, let us say, World War II. These are not doomsday forebodings.

Second, the pitfall lies in the difficulty in reversing a course -- a course in both personal philosophy and economic policy. It lies in changing our individual thought patterns and value systems and the accompanying social and economic institutions. As one author expressed it, we now face a "revolution of declining expectations."

The third and final point relates to the nature of our economy. Our whole economic system was conceived in terms of expansion and growth. Economists say that economics is the science of scarcity. The assertion is not literally incorrect but is highly misleading. Our economic system, and social system, too, is set up to deal with scarcity not by apportioning it with some equity but by relieving it. This dedication and this confidence also are a part of the American Dream. If Brewster addressed it more by implication than directly, another distinguished memorial to the goals of our nation was forthright. In the statement, <u>Goals for Americans</u>, drafted by an Eisenhower commission, economic growth was named as a basic goal, as was technological change. Goals for living conditions, health, and welfare were expressed in terms emphasizing physical facilities and services. /2/.

In our national history we have striven for expanding physical productivity by applying ever more ingenious technology to develop resources and convert them to physical goods. That we exploited depletable resources at accelerating pace is well known. What is under-appreciated is that during this phase in our national life the resources themselves were almost costless. The only charge paid by consumers was the cost of extraction. We even went farther, by subsidizing some of that cost. Threats of monopoly pricing of resources were almost disregarded, for how can such a price be attached when new land or new mineral depositis await the explorer or developer? And if some cabal sought to create artificial scarcity, in 1890 we passed a law saying that would be illegal.

To repeat for emphasis, our economy, like our personal philosophies, came into being during an era, if not of realized abundance then of pervasive confidence that abundance would be achieved. In that setting of actual or promised plenty we recited the words of the American Dream. In that setting the Dream could materialize more readily, for personal aspiration and individual freedom are accommodated more easily when there is relative material abundance and especially when it is shared in something close to egalitarian ratio. But in a paradoxical contradiction, in that setting it is also tempting to drift into renunciation, turning to self-centered material values.

That era of actual or imminent abundance is ended. We may try desperately to restore the previous tempo of growth, in one last orgy of depriving our descendants of precious depletable resources. But even that will not succeed fully. We have got to make a transition. Because we will not be resource-poor the problem is not of early privation. The problem is of reconverting our personal values. The problem is also of readjusting our social and economic institutions.

If depletable resources were once almost a free good they are not so now but capable of taking on monopoly value of anti-social proportion. And if it was not too hard to share the opportunities of an expanding economy with some equity, it will prove much more difficult to bear the limitations of a less thriving economic system with acceptable fairness and equity for all our citizens. Donald Michael says we should think in terms of "shared deprivation." He observes that disasters normally produce generosity and helpfulness and sharing, but then warns, "If we don't share this transition. . . there will be bitterness, theft, greed and possessiveness." /3/.

The beliefs and values upon which individual man strives for significance. The American Dream. Perhaps the 19th century American Dream was not entirely generous, and perhaps it does not fit the final quarter of the 20th. But we have not found an acceptable replacement. Not hedonism nor its polar opposite of asceticism, neither Puritanism nor consumerism, is that replacement. The 21st century will be upon us soon, but we have not begun to reformulate the beliefs and values to bequeath to it. It is time we did so.

SELECTED REFERENCES

/1/ Brewster, John M., A Philosopher Among Economists, J. Patrick Madden and David E. Brewster, eds., J. T. Murphy Co., Philadelphia, 1970.

/2/ Goals for Americans, Report of the President's Commission on National Goals, Prentice-Hall, 1960.

/3/ Looney, Douglas S., "The Age of Scarcity," The National Observer, Nov. 3, 1973.

ABSTRACT

CAN MILLIONS OF AMERICANS CHANGE THEIR LIFE STYLES?

Marcus Felson
Assistant Professor
Department of Sociology
Program in Applied Social Statistics
University of Illinois at Urbana-Champaign

Summary of Speech

Millions of Americans change their life styles somewhat every year, and most Americans change their life styles dramatically over the course of their lives. Therefore it is by no means unfeasible or unusual to expect further changes in the future in response to economic and social pressures. Still open to question is (1) whether life styles which minimize environmental pollution and energy consumption can be adopted with minimal political upheaval and interference with everyday life, and (2) how quickly this can be done.

Life styles cannot change too quickly or easily for several reasons: (1) the average family finds itself locked into basic obligations -- to get to work, to maintain a house of a certain size in a certain location with only so much insulation; (2) so much capital is already invested in inefficient systems -- you cannot throw away your furnace and get a new one, insulate your house, cut down on your window space, and buy a more efficient and smaller car all at once -- nor can the whole society dispense with billions of dollars of capital already invested in a suburban life style, built around the automobile; (3) consumers have trouble planning for "the long run."

What can be done by policy makers? Trying to turn the clock back will not work -- you cannot pretend that our cities are dense as Manhattan 50 years ago and that rapid transit will take over the job which cars now perform. Nor can you pretend that the government of the United States has the power to order the people to alter their life styles. Even where it does have the power, judgment is often lacking. On the other hand, you cannot assume that the market alone will achieve quick, politically desirable results, however effective it is in the long run. The dilemma is that political power works fast but poorly while the market works well but slowly.

Any successful energy program depends on certain principles: (1) public trust is essential -- this means trust in honesty of one's leadership (which prevented Nixon from succeeding with an energy policy) and faith in their brains (which has so far kept President Ford from winning a consensus for his energy policy); (2) heavy investments in expensive new rapid transit and other obsolete systems must be avoided -- current public facilities must be used efficiently rather than discarded; (3) keep in mind the fact that consumers are locked into their current consumption patterns in the short run -- energy taxes turn out to be punitive in the short run, however good they are in the long run; (4) rewards work better than punishment, especially when the recipient can vote you out of office; (5) the environmentalist-business conflict must be avoided -- conflict politics of this sort cannot solve these problems and will probably tie Washington into knots for another several years, with the environmentalists ultimately losing the battle and the country losing the war.

Proposals

My main proposal is an old medicine in larger dosage. I favor substantial tax credits or reductions or even subsidies for capital investment in insulation, more efficient home air conditioners and heaters, and small cars. The entire tax cut should be put into such a policy. The greatest incentives should be put into small capital investments which have major significance in modifying an existing system, e.g. purchasing an electric pilot light for a gas furnace. The emphasis should be on some immediate rebate or price reduction rather than making people wait until income tax time.

The emphasis on small cars is deliberate. Detroit is coming to favor them (they have no choice). Small cars pollute less even without adding anti-smog devices, and they reduce energy consumption at the same time. Thus, a small car tax benefit of some sort would have something in it for almost all parties in the current national controversies. I would add to this tax benefits yearly for operation of small cars.

The same principle of encouraging new capital investment in existing technology would apply to mass transit, too. There the emphasis should be on buses rather than any sort of trains or subways, since buses use streets already there and are made for low-density American cities of the 1970's. Also, buses are not as likely to generate the pork-barrel politics and delays involved with building subways.

REMARKS BEFORE THE

AMERICAN COUNCIL ON CONSUMER INTERESTS

Louis Engman
Chairman
Federal Trade Commission

I'm always happy to have the opportunity to talk to people such as you who are active in consumer groups and concerned with consumer interests, because I feel that we have a lot in common. In fact, I think that I spend just about every day, and have spent just about every day of the past two years, taking care of a friend of yours. I suspect that some of you may have been unaware of my good works in this area; if so, you certainly haven't been alone, because as long as your friend, that friend of ours, is around, as long as he is alright, there really isn't too much cause to notice him. It's when he's not alright that you start to notice him and when it's come to the point that he's gone that you realize what a friend he really was. The friend that I'm talking about is called "competition."

You know, we Americans, I think, have some very strange habits of speech, particularly public speech, that if someone makes a wise observation, we tend to adopt, not only the thought, but the actual words in which he frames that thought. Then these words become repeated and repeated and repeated until somehow they become fused together into some kind of symbol. That symbol then becomes part of the linguistic currency and is passed from lip to lip like a chalice from which many drink but into which few ever bother to look.

How many words or phrases can you think of, which summon immediate, reflexive, normative judgments in your mind? I can think of dozens. We load our political vocabulary with such heavy, connotative burdens that the words themselves surrender their meaning. The words become little more than normative signals which bypass the mind and appeal directly to our reflexes. And that's really not a very novel observation, because we have a term which describes the phenomenon -- the term, "knee-jerk."

When I was a kid, one word almost universally treated in this fashion was the word "communism." At 12 years old I had very little idea of what communism really was. But I regarded it the same way I regarded polio.

It was evil. It was green, it was slimy, and unless I hated it adequately, it would come slithering under my door at night and turn my mind into jelly. Now communism as I thought of it back then was not a word which described a concept, it was a negative value symbol eliciting a reaction which was totally unanalytic. I mention this today only because at the same time we allowed, and we allow today, other words to acquire the same kind of characteristics -- among them the phrase, "free-enterprise" and the word "competition," because, of course, free enterprise and competition were good. Freeenterprise and competition made you wholesome, they made you free, they made you rich, they gave you strong teeth, curly hair, and even funny papers on Sunday morning. But in the rote repetition of their virtues, I think that we lost sight of why free enterprise, why competition did all of these things, and to some extent, in the process, we lost sight even of what they were. While we knee-jerked in unison over the bounteous products of our free markets, we were permitting those markets to be encumbered by all sorts of things. We were blinded by our own rhetoric to the fact that what we were saying and what we were doing were inconsistent; blinded to the fact that in the final analysis, the free market is our best guarantee against rising prices.

It shouldn't really have to take an event on the scale of the oil embargo by an international cartel to call people's attention to the fact that it is only through vigorous competition that the consumer is assured of getting goods and services as the lowest economically possible price. It shouldn't take a stifled, nationalized industry to demonstrate just how much innovation and how much technological advance is dependent on competition. We shouldn't have to witness government misallocation of resources in order to know that it is only through competition that we can be sure that the scarcest resources of our society are being allocated in accord with society's values as reflected in our willingness to spend our money.

Now these are the wonders that competition accomplishes through the simple, but cunning, device of denying rewards to him who provides the consumer with relatively little satisfaction. And out there in the business world that power to withhold reward is powerful medicine. But it is medicine which those who do battle on the field of business are disinclined to take when it can be avoided. Some of those people are very resourceful at avoiding it. There are, I can assure you, very few methods of reducing the rigors of competition which some American businessman has not discovered and tried, and some other businessman not rediscovered and retried.

Some sixty years ago the Congress decided that the businessman's love of free enterprise, but hatred of competition, were both sufficiently ingrained in human nature to warrant institutional accomodations, and so the Congress established the Federal Trade Commission, and among other things, charged the Commission with a warning to be vigilant in the guarding of market freedom. In so doing, the Congress reaffirmed the view embodied some twenty-five years before in the Sherman Act, which was that if there were less freedom, there would be less enterprise, and if there were less enterprise, we would, all of us, be worse off.

Now the weapons which the FTC was armed with were the anti-trust statutes and the power to move against unfair and deceptive practices in the market place. And though the Commission was given somewhat more than a whistle, it's role, in a very meaningful sense, was analogous to that of a referee. Now today we still, I believe, have the need for continued vigorous, anti-trust enforcement, perhaps more than ever before and for all the other sorts of market surveillance. But today we also have another need. Because today we have another threat to competition over and above the threat to competition which derives from private collusive arrangements or price-fixing arrangements or what have you, and that is a threat which in all too many instances is already a reality. That threat is the threat of unreasonable governmental regulation. One really doesn't have to look very hard for examples.

Our government, in its zeal to control the nation's transportation system, has laid down a roadbed of regulation which our common carriers have ridden to the brink of bankruptcy and in some cases beyond. And what do we, the public, have to show for it? What we have are the fossilizing bones of a dozen or so rail passenger services, what we have is airline industry which is almost totally dependent on the federal government to protect it from would-be competitors willing to lay on service at substantially less than the prevalent price. In fact, I think that because of the so-called regulatory protections which have been lavished on it over the years, our airline industry has become like a "knight-in-armor" who is so safe that he cannot walk and has to be hoisted onto his horse with a crane. The unfortunate part about it is that the public, meanwhile, is expected, not only to pay to keep that armor shiny, but to pay for the operation of the crane as well. And furthermore, at least until very recently, there has been no such thing as price competition in the interstate airline industry. The only choice which we were given if we were going to fly someplace was whether we would prefer to fly Trixie, Cheryl, or more recently now, Bruce.

Then we have the Pentagon -- the government's biggest spender -- paying a buck-and-a-half for a screwdriver that it could actually be buying for a buck, and why? Because there's a government regulation which says it's against the national interest to buy military materiel abroad. And, in fact, the Federal Government is not the only offender.

We have state regulation which permits the California Milk Producer's Association to dump 420,000 gallons of fresh skim milk into Los Angeles Harbor. Why? Because that association didn't like what that milk might do to prices if it were dumped on the market instead. And we have professional associations hiding their greed behind a facade of state supervision, as in the case of the Arlington County, Virginia, medical society, which recently opposed measures to publish doctor's fees, and in an incredibly candid statement, as its president explained, "If we did that, why, then we would have people shopping around for the lowest price."

In short, what I'm saying to you this noon is that for a nation that is troubled with great economic problems as we are, we have some mighty strange governmental policies aggravating an already difficult situation. Why? Why do we have to raise airline fares when we have planes flying around half empty? Why do I have to pay five times as much for the same drug as my neighbor, just because we happen to walk into different drugstores? Why should it be cheaper to fly from Washington to Richmond, Virginia, and then back to Washington and then to Denver than to fly straight from Washington to Denver? Why must we send empty trucks scurrying around the country when there is freight waiting to be delivered and we are told we must save all of the gasoline we can? Why does that government of ours pay a buck-and-a-half for the screwdriver it could buy for a dollar? Why do we let some manufacturers fix prices on retail sales despite our anti-trust laws?

Now you don't have to go very far before you can find someone who will give you an answer to all of those questions. But when they do, let me suggest two more questions which you should put to them. First of all, is it worth it? And the second question is, whose right is it to decide whether it's worth it? My own view is that it is rarely worth it; that in most cases, the cost of the kinds of regulations which create the anomalies I've just mentioned are greater than the benefits; and that, in any event, it is high time we made the costs and the benefits known to the consuming public so that the consuming public can decide for itself.

In too many instances governmental regulation is no less competitive than private collusion, nor are its consequences distinguished from the consequences of private collusion and price-fixing. Now it may be, as some would argue, that in some of these areas the government was originally called in to correct a legitimate economic ailment. I frankly don't know that I necessarily buy that, but even if it is true, the government has turned out, in these instances, to be the doctor who came to dinner and who stayed, and is in the process of eating us out of house and home. It is too bad that it has taken double digit inflation to remind us of that fact because I would've hoped that it should have been clear all along. But these regulatory policies to which I've referred, though costly and irrational, will not easily be dismantled, because there are powerful interests -- both private and public -- which will fight for their retention. As the economic issues become mixed up with the politics of our legislative process, as they inevitably do, the few who have a lot to lose will speak more loudly than the many who have a little to gain. And moreover, even if the political obstacles can be overcome, changes in regulatory policies will not bring lasting benefits to the public unless we develop a clear understanding of the economic and social factors which brought about this excessive regulation in the first place; because if we do not, those factors will either persist or recur and our economy in due time will fall prey to regulatory recidivism. So very briefly, let me ask, what are the origins of some of the regulations? There are all kinds of reasons given.

It is argued that some were enacted to protect infant industries, some to protect consumers, some for national security purposes, others as straightforward concessions to raw, brute political power. We have regulations to protect, regulations to promote, regulations to price, regulations to prohibit. We have federal regulations, state regulations, local regulations, and regulations enforced by professional associations with the consent of the government. I suggest that while our regulations have many fathers, they all have the same mother, and that is the belief that somehow government can do it better. But experience has shown us that this was an inaccurate belief, an inaccurate perception, that it was a perception that, I suggest to you, sold and sells the market place short.

But the fact of the matter is that if we are going to be able to persuade the public to put more faith in the market place, to in effect permit meaningful competition, whether it be in our airline industry or wherever else, we must make certain that that market place is, in fact, operating, and operating well. In other words, if I may turn a full circle, we will not be able to rid ourselves permanently of the burdens of regulation unless we have more vigorous anti-trust enforcement in the future. Because it simply makes no sense to talk about de-regulation without, at the same time, talking about anti-trust. It will do no good to clear the decks of government obstacles to private competition unless we also insure that government sponsored cartels and price-fixing will not be replaced by private monopoly and private exploitation. And that, in a nutshell, is the role of anti-trust enforcement. In a sense, I look upon it as preventive maintenance for a free economy.

Regulation and anti-trust enforcement are alternate responses to breakdowns in the free market. The difference is that the latter, anti-trust enforcement, I think provides a cure, while the former only re-distributes and compounds the cost. And that is also why I say that it will do little good to deregulate unless we take fully into account not only the economic but the social origins of that regulation. If we restore competition, but fail to convince the public of that fact, we only pave the way to another round of regulation at a later date.

Today, in April of 1975, we in the United States are moving through a period of economic hard times. In the past, similar circumstances have led to increases in the government's involvement with the economy, to greater kinds of regulations of the kinds that I've just mentioned. Now, through all of this, the intent may have been compassionate, but too often, the results have been cruel. As long as that economy of ours surged ahead like a luxury liner, as long as that pie kept getting bigger and bigger, the inequities and the diseconomies of our actions were matched by a steady rise in our standard of living. But today that luxury liner of ours is dead in the water, at least for the time being, and that pie isn't getting any bigger anymore. While I don't really believe that the liner is in any danger of sinking, I suggest to you that it is time that we look to the logic of the lifeboat lawyer; because we are overloaded, and something has to be jetisoned. I think that consumers all across this country of ours would do well if we could throw over-board one of our heaviest burdens and that is the burden of self-imposed inefficiency, the burden of excessive governmental regulation.

Thank you very much.

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ABSTRACT

ATTITUDES OF BUSINESSMEN, CONSUMERS, AND CONSUMERISTS

TOWARD CONSUMERISM

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Despite the apparent concern about consumerism issues by various consumer groups, it appears that much of this concern has been based on speculation and casual obervations. There is a paucity of empirical research regarding attitudes toward consumerism. This study is the first to assess the attitudes of business people, consumers, and consumerists toward several important consumerism issues.

Conclusions and Implications

A major conclusion drawn from this study is that the attitudes of businessmen, consumers, and consumerists appear to be distinctly different from each other in all the subareas of consumerism with the possible exception of the environment. Pro-business and pro-consumer spokesmen often are in an endless debate with each other that each group best represents the consumer. It is apparent from this study that neither business people nor consumerists closely represent the views of consumers toward consumerism issues. However, in three of the five subareas of consumerism -- product information, advertising, and the environment -- consumer attitudes were considerably closer to the attitudes of consumerists than to those of businessmen. On the other hand, consumers do not share the views of consumerists regarding government-imposed safety standards, the difficulty of obtaining product information, government regulation of businesss, and the amount of water pollution caused by business.

This results have important policy implications for consumer groups, politicians and business people. Consumer groups should try harder to elicit and then represent the views of consumers. Broad based studies are needed so that consumer groups can more accurately reflect the views of consumers. Since consumers do not support government regulation as strongly as consumerism literature purports, stronger more effective self-regulation by industry may be a way to reduce consumer complaints and avoid further government controls. However, consumers do want more meaningful product information at point of purchase. Another conclusion is that corrective advertising is supported as a means of reducing inaccurate advertising. Consumers view product safety as less of a problem than consumerists which may suggest the consumer groups minimize efforts on it and concentrate on areas of greater concern. Since consumers and consumerists have fairly similar views about the environment, this might be the basis for increased consumer support of consumer groups leading to greater impact.

-- abstracted by Karen Hull

LEVELS OF FAMILY FINANCIAL MANAGEMENT FUNCTIONING

A MULTIVARIATE ANALYSIS

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A major concern in the field of family economics is the ability of families to successfully manage their finances. Financial outcomes are consequent of certain specific behaviors of families relating to a complex of interdependent variables which are basic to financial management. Intuitively, and from the body of the literature, these variables identify themselves as the debt ration, the length of debt, the liquid asset holdings and insurance coverage of families.

These variables are frequently discussed in the literature as being unidimensional aspects of financial management, bearing no relationship to and having no dependance on any of the other variables. Frequently, the consideration of each variable leads the reader to conclude that it is the sole cause of a certain financial outcome. In short, the literature generally attributes certain relative values of each variable to success or dysfunction in financial management without considering the effect of each variable upon the others or the effect of the interrelationships of variables upon the consequent financial outcome.

This study attempts to interpret family financial management from a multi-dimensional viewpoint. It recognizes that behavior of a family in relation to one variable cannot be considered an adequate explanation or cause of the observed financial outcome. Rather, all variables react together and, therefore, the combination of variables resulting from a family's financial behavior should be examined in order to explain the financial outcome.

Three levels of family financial management functioning have been developed in this study to represent the outcomes of different combinations of the variables, debt ratio, length of debt, liquid asset and insurance coverage. This study explores the idea of identifying the combinations of variables and the values of the variables which can be associated with each level of functioning.

Different behaviors of families produce different combinations of variables, which, in turn, means that the families are operating at certain levels of financial management functioning. By identifying the combinations of variables which are associated with each level of functioning, it is possible, by having relevant knowledge of a family's financial characteristics, to predict the level of functioning at which it is operating and hence, to determine whether corrective action and guidance is advised, and, if necesary, what that action might be.

At the same time, the financial behavior of families is not constant. Decisions are frequently being made which may influence their level of functioning. By understanding the components of each level, it is also possible to predict or anticipate the effect of a behavior resulting from a major financial decision. The effect of such behavior may be to raise or lower a family's level of functioning or to leave the level unchanged.

DEFINITION OF VARIABLES

Level of Family Financial Management Functioning

As level of family financial management functioning is a concept developed in this study, there is a need to define the behavior of families operating at each level -- high, intermediate, and low.

(a) A high level of family financial management functioning corresponds to the first debt repayment behavior described in the financial behavior checklist. (The financial behavior checklist is described in the section: Description of Instruments.) This is the behavior where families pay all their bills when they are due and they always have enough money to do this.

(b) An intermediate level of family financial management functioning corresponds to the second and third debt repayment behaviors described in the financial behavior checklist. The second behavior is where families pay all their bills when they are due but in order to do this they have to "tighten their belts." (This means they eliminate unnecessary or extra items, such as extra food or clothing in order to have the bills taken care of that month.)

The third behavior is where families usually pay all their bills when they are due. Sometimes, in order not to cut their budget, they have to let one or two bills go to the following month. (This means they have to leave one or two bills unpaid so that their level of living is not lowered.)

(c) A low level of family financial management functioning corresponds to the fourth and fifth debt repayment behaviors described in the financial behavior checklist. The fourth behavior is where families usually pay their bills when they are due. Sometimes they cannot meet one or two bills even after "tightening their belts." They usually let one or two bills go to the following month.

The fifth behavior is where families have "tightened their belts" as far as possible. They cannot meet all their bills when they are due. They always have bills to pay from previous months.

Following the conceptualization of the level of family financial management functioning as the dependent variable, the financial behavior checklist was constructed to measure this variable.

Families classified themselves into high, intermediate, or low levels of family financial management functioning. They were asked to check one of five categories on the financial behavior checklist which best described their debt repayment behavior. For the analysis of data the five debt repayment behaviors were collapsed into three levels of family financial management functioning.

Behaviors 1, 2 and 3, and 5 and 5 corresponded to high, intermediate, and low levels of family financial management functioning, respectively.

Length of Debt

The length of debt was the number of months from the incurring of current debts to the time of the interview, weighted by the monthly payment on those debts. This past aspect was considered appropriate since a family's present level of financial functioning was, in part, a result of past managerial behavior.

Liquid Asset Holdings

Liquid assets were defined as balances in checking accounts, savings accounts at banks, savings and loan associations, or credit unions, certifications of deposit, U.S. savings bonds, and other corporate or government bonds or securities or stock. Only liquid assets were included as such assets could be immediately converted into cash in a financial emergency.

The sum of liquid assets as defined was the data used in the analysis.

Insurance Coverage

The holding of insurance was considered important in maintaining a high level of financial management functioning since the cost of unexpected expenses could then be spread over many years rather than necessitating large monetary expenditures at any one point in time.

Insurance coverage included five areas of risk, the nature of these being that they could not be anticipated by families and also that losses, if incurred, were generally great and could severely disrupt a family's financial management functioning. For the purposes of this study it was simply ascertained whether or not families carried each type of insurance.

The five areas included:

(a) automobile insurance
(b) homeowners or tenants insurance,
(c) medical insurance
(d) disability income insurance
(e) life insurance

Debt Ratio

Debt ratio was defined as the percentage of monthly after-tax income which was allocated to debt repayment, excluding mortgage debt.

DESCRIPTION OF INSTRUMENTS

Financial Behavior Checklist

The financial behavior checklist was developed for use in this study, in conjunction with another study, to obtain information relating to the level of family financial management functioning, the dependent variable. The checklist represented the verbalization of families debt repayment behavior -- different methods of handling debt repayment corresponding to the behavior outcomes of different levels of family financial management functioning. The checklist described five debt repayment behaviors. This included all possible behaviors and therefore corresponded to levels of family financial management functioning ranging over the entire continuum. (See Appendix A)

The Questionnaire

The questionnaire was designed to collect data on families' liquid assets, on their insurance coverage, on their debt repayments and the length of time they had been paying on existing debts and, finally, on their income. The information was used to determine the independent variables.

HYPOTHESIS AND SURVEY PROCEDURES

It was hypothesized that the level of family financial management functioning was a function of the debt ratio, the length of debt, and the liquid asset holdings and insurance coverage of families.

Information on all variables was obtained by personal interview and questionnaire. A random sample of 250 names was drawn from a total of 1397 employees of an industrial company in Lancaster, Pennsylvania. However, complete and usable data was collected from only 98 families. The decision to use the employment list of an industrial company as the population resulted in a final sample of families having characteristics of education, occupation, and income which appeared common to many U.S. families. Wages comprised the primary income source and families at all stages of the life cycle, except retirement, were included.

Fourteen female interviewers, trained over a two month period, asked respondents to identify their own financial behavior as described on the financial behavior checklist and also to give verbal answers to the questionnaire. Forty-seven families classified themselves into a high level of functioning, 27 into an intermediate level, and 24 into a low level.

ANALYSIS AND FINDINGS

A discriminant analysis technique was used to test the hypothesis that there was a relationship between the level of family financial management functioning and the independent variables. Since this relationship did exist, discriminant analysis could be used in this study for two purposes:

(a) to predict to which level of functioning a family would belong on the basis of its debt ratio, its length of debt and its liquid asset and insurance holdings, and

(b) to find the variable or variables which were most important in classifying families into particular levels of functioning.

Classification Matrix

The first output of this analysis was the classification matrix. This gives the number of correct and incorrect classifications of families into levels of functioning on the basis of the families' debt ratio, length of debt, liquid asset holdings, and insurance coverage -- the greater the percentage of correct classifications, the more distinct are the levels.

Table 1 gives the normalized classification matrix for this study showing the correct and incorrect classifications. Figures along the principal diagonal represent correct classifications while figures off this diagonal represent incorrect classifications. Total correct classifications of families into their correct level of functioning number 62 or 63 percent.

Table 1 shows that for a high level of functioning, the probability of correct classification was .72. In other words, the model could discriminate between families at different levels of functioning so that families operating at a high level had a probability of .72 of being classified as operating at that level. Similarly, families operating at a low level of functioning had a probability of .71 of being classified into that level. The intermediate level of functioning appeared to be less clearly defined as the probability for correct classification into that level was much lower at .41. This means that only 41 percent of families operating at an intermediate level of functioning would be classified into that level and 59 percent would be incorrectly classified into a high or a low level of functioning. The probability for correct classification of families into a high or a low level was therefore much greater than into an intermediate level. The table shows that families at an intermediate level had a closer association with families at a high level than with those at a low level of functioning. This suggests that the financial characteristics of families operating at an intermediate level of functioning tend to be more similar to those of families operating at a high level than those operating at a low level.

TABLE 1

Normalized Classification Matrix for Four Variables and Three Levels of Functioning

Actual Level of Functioning	Predicted Level of Functioning: High	Intermediate	Low	Total
High	.72	.15	.13	1.00
Intermediate	.37	.41	.22	1.00
Low	.08	.21	.71	1.00

Total correct classifications = 62

Percent correct classifications = 63%

A χ^2 test, in connection with the contingency table prepared from the classification matrix, indicated that the discriminant functions, determined on the basis of families' debt ratio, length of debt, and liquid asset and insurance holdings, classified a greater number of families into their correct level of functioning than could have been correctly classified by chance.

Discriminant Coefficients

Table 2 presents a most useful output of the analysis, the table of discriminant coefficients. The value of each coefficient represents the effect of the variable in classifying families into each level of functioning.

Certain family financial characteristics can be observed by looking at the extreme values of the discriminant coefficients for each variable. A variable contributes most to the probability of classification into that level of functioning for which it is most positive. Conversely, a negative coefficient indicates the extent to which a variable is not likely to be associated with a particular level of functioning. In Table 2, there are no negative coefficients which indicates that no level is negatively associated with any variable. Association between all levels of functioning and all variables is positive but differs in strength. Variables whose coefficients are near zero for any level do not much affect the probability of classification for that level.

An analysis of the discriminant coefficients in Table 2 produced the following profiles of families at each level of functioning.

High level of functioning. Families with the broadest insurance coverage have the greatest probability of being classified into a high level of functioning. Length of debt ranks second in importance in assigning families to a high level; However, this variable contributes much more to classifying families into a low level than into a high level. Liquid asset holdings contribute more to classification into a high level than into any other level. Families with the lowest debt ration are more likely to be classified into a high level of functioning.

TABLE 2

Multiple Discriminant Coefficients for 3 Levels of Functioning and 4 Variables

Variables	Discriminant Functions		
	High	Intermediate	Low
1. Liquid Assets	0.4664	0.2332	0.3625
2. Insurance	2.6512	2.1980	1.0554
3. Debt Ratio	0.3188	0.7533	1.3274
4. Length of Debt	0.5214	0.3163	1.0278

Intermediate level of functioning. One could expect that extreme values of the discriminant coefficients were not found at this level. This is true for two variables, insurance and debt ratio. However, for the other two variables, liquid assets and length of debt, the coefficients for an intermediate level were slightly lower than the coefficients of the next lowest level.

Possession of insurance contributes most to the probability of classification into this level. Of lesser importance is the debt ratio position. Length of debt tends to be shortest for these families and their liquid asset discriminant coefficient represents only a weak classifying variable.

Low level of functioning. The larger the debt ratio and the longer the length of debt the greater the probability of families being classified into a low level of functioning. Families with the lowest insurance coverage are also likely to be classified into this level. Liquid asset holdings are less important than any other variable in assigning families into a low level of functioning.

The following points briefly summarize the above.

1. Insurance is most positively related to a high level of functioning and has the weakest relationship with a low level of functioning.
2. Liquid assets are most positively related to a high level and have the weakest relationship with an intermediate level.
3. Possession of insurance has a greater effect on the probability of classification into a high level than have liquid assets.
4. Debt ratio is most positively related to a low level of functioning and has the weakest relationship with a high level.
5. Length of debt is most positively related to a low level and has the weakest relationship with an intermediate level.
6. The effect of variables on the probability of classification into an intermediate level of functioning is generally intermediate of the effect on a high and a low level.

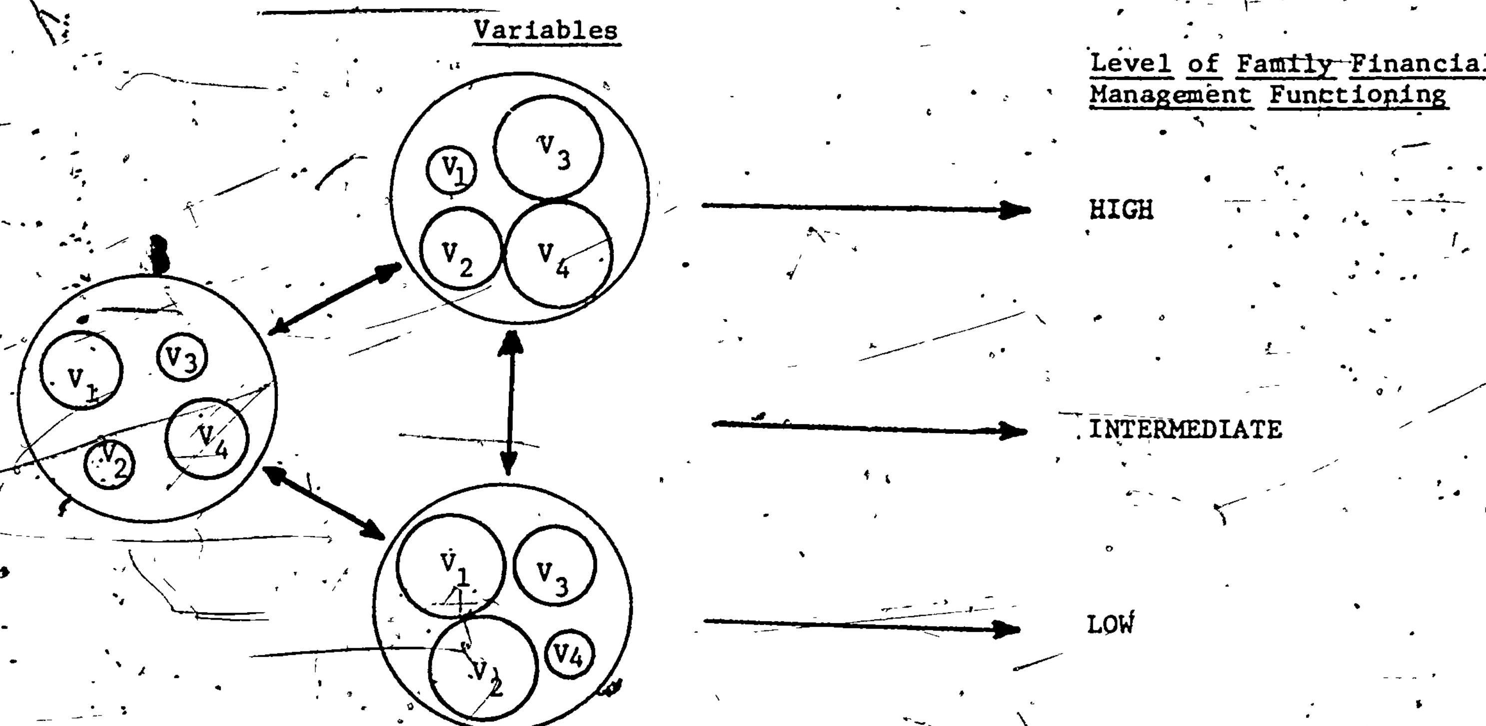
Table 2 presents the value of the coefficients for insurance as being very high relative to the values for the other variables. This is particularly the case for liquid assets whose coefficient values go down in the same direction from a high level to a low level as do those for insurance.

However, it seems likely that insurance may be reflecting an underlying, unspecified characteristic of families as well as their possession of insurance types. Families who have maximum financial protection may be those whose economic behavior is strongly geared towards security. Insurance may be reflecting some of the social and economic characteristics of families that are commonly looked at by lenders such as age, sex, marital stagus, income, length of time on the job, owning versus renting, amount of existing debt and past payment habits. These quantitative factors are proxies for personal (internally oriented) factors such as ability to pay, willingness to pay, ability to manage a debt and ability to resist the temptation of overborrowing.

Insurance may also be a proxy for the same internally oriented factors resulting in the higher values for the discriminant coefficients.

Figure 1 is a diagrammatic presentation of the concept of family financial management behavior from a multi-dimensional viewpoint. It incorpoarates the financial characteristics of families at each level of functioning based on the interpretation of the discriminant coefficients. Figure 1 shows different combinations of the four variables as they react together to produce the three levels of financial management functioning. It also shows that the interrelationship among the variables is

Figure 1. Interrelationship of Variables with Level of Family Financial Management Functioning



Variables

V_1 Debt Ratio

V_2 Length of Debt

V_3 Liquid Asset Holdings

V_4 Insurance Coverage

The size of the circles represents the Importance of Variables in Classifying Families Into Levels of Functioning not constant. The values of the variables may change resulting in the formation of a new combination which can then be associated with a different level of functioning.

The Means

The discriminant coefficients are more sensitive measures for determining the financial characteristics of families at each level of functioning than is a table of the means. However, it is interesting to analyze the means of the four variables for families operating at each level of functioning. The means are presented in Table 3.

The mean values for liquid assets and insurance are greatest for families operating at a high level of functioning and lowest for families operating at a low level. At a high level the mean asset holdings of families was $3635.5 whereas the mean asset holdings at a low level was only $366.2. The mean values for insurance indicates that, on the average, families at a high level possessed 3.5 types of insurance, families at an intermediate level possessed 2.9 types and at a low level families possessed only 1.8 insurance types. These findings suggest that families operating at a high level of functioning tend to be in a more financially secure position than those at a low level. The families at a high level of functioning would be better able to withstand unexpected financial adversity whereas families at a low level of functioning are particularly vulnerable in situations where unexpected expenses arise.

TABLE 3

Mean Scores for 4 Variables and 3 Levels of Functioning

No. in Level Variable	High 47	Intermediate 27	Low 24	Total 98
Liquid assets	3635.531	1797.036	366.250	
Insurance	3.531	2.962	1.875	
Debt ratio	8.108	11.720	18.147	
Length of debt	12.943	12.068	21.953	

The mean values for debt ratio and length of debt are lowest for families operating at a high level of functioning and highest for families at a low level of functioning. At a high level the mean percentage of take-home pay allocated to debt repayment was only 8.1 percent. For families at an intermediate level this mean value was a little higher at 11.7 percent. However, the mean debt ratio increased considerably to 18.1 percent for families operating at a low level of functioning.

For families at high and intermediate levels the mean period of time over which debts had been incurred was 12.9 months and 12 months, respectively. But families at a low level of functioning had incurred debts, on the average, over 21.9 months. Thus families at a high level could be expected to allocate a relatively small amount of their income to debt repayment, the debts extending over a relatively short period of time. On the other hand, families at a low level could be expected to allocate a relatively large proportion of their income to debt repayment which extended over a much greater period of time. This indicates that, in a situation of financial stress, families at a high level would be better able to redirect current income to help alleviate the problem. However, families at a low level, having reduced their flexibility in regard to current income because of the extent and the length of their indebtedness, would be unable to halt the deterioration of their financial position. Also, since the liquid asset holdings and insurance coverage of these families was low, they generally did not have emergency funds and insurance protection as a "cushion of financial relief" which was a characteristic for families at a high level.

CONCLUSION AND IMPLICATIONS

Conclusions

The overall results appear to include some unexpected findings. From the interpretation of the discriminant coefficients it seems that all variables were able to discriminate between families which were at different levels of family financial management functioning. The bulk of family financial management literature indicated that the debt ratio was by far the most important variable to look at when evaluating a family's financial management techniques. The literature generally placed lesser importance on liquid asset holdings and insurance coverage and the variable, length of debt, was rarely mentioned.

However, the results indicate that, although the coefficients for an intermediate level of functioning occupied the lowest position for two variables rather than the intermediate position, all variables did distinguish well between a high level of functioning and a low level of functioning.

The financial behavior checklist, developed in this study to measure level of family financial management functioning, has proved to be a valuable tool. Intuitively, and from the body of the literature, certain variables have come to be associated with success and dysfunction in financial management. Families were classified into different levels of functioning substantiating the direction of the literature. As the checklist proved an adequate measure of these levels it was further validated as an instrument to measure level of family financial management functioning.

Implications

This study concludes that the level of family financial management functioning is related to debt ratio, length of debt, liquid asset holdings and insurance coverage. Much financial management advice literature has been written based on observation without controls. This study has shown empirical evidence that advice of money management experts could legitimately consider more multi-dimensional aspects of family financial well-being.

Since overall financial characteristics of families in each of the three levels of functioning is known, this permits remedial action to be undertaken in order to raise (or lower) a family's level of functioning. For example, a family in an intermediate level, which has adequate insurance coverage but a low amount of liquid assets and a high debt ratio, could move into a high level of restricting additional debt commitments and adding to its savings account the money released from debt repayment.

The practical value of this study may be of primary importance to individual families who wish to have some control over the various aspects of their financial behavior. Understanding the financial characteristics of a high level of functioning, individual families may wish to assimilate into their own behavior the combination of variables which produced a high level of financial functioning. This study presents the opportunity for evaluative consideration of a family's finances, for the correct remedial action to be taken by a family which wishes to raise its level of functioning, and for a family to plan important financial behavior in the light of its future level of functioning.

Family financial counselors and educators may also benefit by having greater insight into the multi-dimensional aspects of financial management. Family financial counselors, as they advise clients on the maintenance of a high level of functioning or diagnose the financial problems of families at a low level of functioning, may be better able to advise the allocation of money between credit payments, assets and insurance, and other expenditures in order to minimize the possibility of future financial disaster. Educators may wish to explain and emphasize to their students the interrelationship between the variables researched in this study and their impact on overall financial outcome.

SUMMARY

The variables, debt ratio, length of debt, liquid asset holdings and insurance coverage are identified as being components of family financial management functioning. This study interprets family financial management from a multi-dimensional viewpoint. It recognizes that these variables react together and, therefore, the combination of variables resulting from a family's financial behavior should be examined in order to adequately explain the financial outcome. Three levels of family financial management functioning have been developed to represent the outcomes of different combinations of the variables.

Discriminant analysis was used to tast the hypothesis that there was a relationship between the level of family financial management functioning and the debt ratio, the length of debt, the liquid asset holdings and the insurance coverage of families.

The table of discriminant coefficients was among the output presented. Each discriminant coefficient represented the effect of each variable in classifying families into each level of functioning. An interpretation of the coefficients indicated that the financial characteristics of families at each level of functioning were the following:

a) high level of functioning	-	broad insurance coverage
	-	high liquid assets
	-	low debt ratio
	-	moderate length of debt
b) Intermediate level of functioning	-	moderate insurance coverage
	-	moderate debt ratio
	-	low liquid assets
	-	short length of debt
c) low level of functioning	-	high debt ratio
	-	long length of debt
	-	narrow insurance coverage
	-	moderate liquid assets

Knowledge of the financial characteristics of families in each of the three levels of functioning permits remedial action to be taken in order to raise (or lower) a family's level of financial management functioning. This may be useful to both individual families, family financial counselors and educators in their planning decisions and as a diagnostic tool and as a teaching aid.

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Appendix A

Financial Behavior Checklist

CHECK THE SITUATION WHICH BEST DESCRIBES THE WAY YOUR FAMILY HANDLES ITS DEBT REPAYMENT????

____1. We pay <u>all</u> our bills when they are due and we always seem to have enough money to do this.

____2. We pay <u>all</u> our bills when they are due <u>but</u> in order to do this we have to "tighten our belts." (This means we eliminate unnecessary or extra items - like extra food or clothes - in order to get the bills taken care of that month.)

____3. We <u>usually</u> pay all our bills when they are due. <u>Sometimes</u>, in order not to cut our budget, we have to let one or two bills go to the following month.

____4. We <u>usually</u> pay all our bills when they are due. <u>Sometimes</u> we cannot meet one or two bills, even after "tightening our belts." We usually let one or two bills go to the following month.

____5. We <u>have</u> "tightened our belts" as far as possible. We cannot meet all of our bills when they are due. We <u>always</u> have bills to pay from previous months.

RESOURCE MATERIALS FOR CONSUMER EDUCATION

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Introduction and Outlines of Workshop

How does one evaluate consumer education resource materials?

The basic problem in a primitive or bare subsistence level economy has been the procurement of adequate food, clothing and shelter for mere survival. Thus, the energies of men have had to be directed toward that goal. Today in western civilization, and in more and more other areas of the world more and more persons are not only able to secure the basic food, clothing and shelter, but have been able to develop a surplus of funds which may be spent in one of many different ways as the individuals so desire. Additional funds for discretionary spending are now available to many people, but at the same time the proliferation and availability to vast scores of new products and services have almost overwhelmed the consumer both as to what to spend his money on, and how to decide what is the best buy among similar products or services that will meet his particular needs. Thus has developed the necessity for good, reliable sources of consumer information to guide the consumer through the labyrinth of the market place.

The basic problem confronting the consumer educator in choosing sources of consumer information is the same problem which confronts the consumer when he enters the market place -- this is how to evaluate all that is available. The success or failure in the use of source materials will be dependent upon the degree of success in the evaluation of such material.

In evaluating materials the consumer educator has a limited number of choices. He can merely accept as reliable whatever consumer materials he becomes aware of; or he can reject all such materials as the prejudiced opions of vested interests. The consumer educator who accepts either of these two alternatives will fail in his decision-making process in the market place.

The acceptance of the sources of consumer information should be based not only upon an intelligent, cautious, and skeptical evaluation of the material, but it should also be based upon as much information as one can find concerning both the writer and the organizations which are distributing such consumer information. We cannot be all-knowing in all areas, so we have to accept the judgment of other persons and other organizations many times.

I and the members of my family switched brands of toothpaste a few years ago when the American Dental Association's Council on Dental Therapeutics issued a statement recognizing Crest Toothpaste to be an effective anticaries dentifrice. I am in no position to evaluate the effectiveness of dentrifrices, so I must follow a hit-or-miss policy, or have enough confidence in both my dentist and the American Dental Association to accept their judgment. This is the type of decision-making process we must all follow, if we are to have a degree of success in the market place.

I have been quite satisfied when I have written to a producer for specific information and prices for a product which I am interested in purchasing. When I was shopping for an automobile I wrote to the manufacturers for price and product information and was inundated with both useful specific price and specifications information, as well as advertising brochures. Again I would suggest that these materials of the producer by used with selectivity.

Consumer information is made available by government, business, and by private, non-business sources. The materials are available for the persons interested enough to seek them out and make use of them, but the availability of them means little if the consumer does not avail himself of these materials. If he does make use of them, it is essential that proper evaluative procedures are used.

Having available many sources of consumer information is vital to intelligent consumption, but the ability to analyze these materials critically is the basic prerequisite to their proper use.

Outline

1. An evaluation of audio-visual list, book list and periodical list.
2. An exhibit and discussion of examples of deceptive packaging.
3. A showing of a selected group of audio-visuals taken from the following:

BE A BETTER SHOPPER - 100 slides, color, about 90 minutes, 1967, price of $20 includes slides, Leader's Guide, $1.50, which includes all pictures and script, a set of Better Shopper Record Sheets, a Cost-Weight Table, and a "Be a Better Shopper" Bulletin. (Note: Also available in eight 27 min., video tapes and 16 mm. films). Cornell University, Mailing Room, Building 7, Research Park, Ithaca, New York, 14850.

THE EXPLOITED GENERATION - Filmstrip, color, 1969, with cassette or 12" record, 28½ min., $35.00. Guidance Associates, Harcourt, Brace, & World, Pleasantville, N.Y. 10570.

THE OWL WHO GAVE A HOOT - Consumer fraud, 15 min., color cartoon, 1967, free loan. Produced for Office of Economic Opportunity. May be purchased for $40.52 including reel, can, and case from Consolidated Film Industries, 959 Seward St., Hollywood, Cal. 90038.

THE MONEY TREE - 20 min., color, movie, 1971, $260.00, rental $20 for 3 days. Aims Instructional Media Services, Inc., P.O. Box 1010, Hollywood, CA 90028.

TRUTH IN LENDING: INFORMATION FOR CONSUMERS - 14 min., filmstrip, 93 frames, 33-1/3 rpm 12 inch record, color, 1970, free loan, $10 purchase. Federal Reserve Banks and Federal Reserve Branch Banks.

AUTOMOBILE INSURANCE - filmstrip, 57 frames, 33-1/3 rpm record, 13 min., color, 1971, $5.00 to educators. Director of Educational Relations, Insurance Information Institute, 110 William St., New York, N.Y. 10038.

INSURANCE FOR THE HOME - filmstrip, 60 frames, 33'1/3 rpm record, 11½ minutes, color, 1972, $5.00. Director of Educational Relations, Insurance Information Institute, 110 William St., New York, N.Y. 10038.

CONSUMER SENSE - a ten-cassette series, 18-22 min. each, 1972, set of ten $85.00 includes 30 student workbooks and teacher's guide with student response sheets. Coronet Instructional Films, 65 E. South Water St., Chicago, IL 60601.

4. Closing with a discussion of what is felt by the speaker to be the most important aspect of consumer education and that is an understanding of what is meant by and the implications of "patterns of consumer behavior," as illustrated in the following illustrations:

ARE THE WOMEN GUILTY?

The late Mrs. Walter Ferguson wrote in the New York WORLD TELEGRAM: "We hear that scientists are working to see if they can find out what is killing off so many men in the prime of life. That's a real easy one. It's the women.

We aren't doing it on purpose, of course. We love having mink coats, two air-conditioned cars, large houses with lovely gardens, stylish clothes and all the latest gadgets in the kitchen. It's killing the men to supply them. The pressure of getting 'things' for their women and gratifying their own material wants puts them in a rat race.

Looked at another way, it seems that men commit deliberate suicide as surely as if they put a gun to their heads. They have geared our economy to the wants of the American public which must be constantly increased.

The person who is satisfied with what he has is now regarded as a menace to industrial progress and the next thing to a moron. I doubt that the findings of scientists will help much in this tragic dilemma. At least, until the wives in this country decide they'd rather keep Papa than keep up with the Joneses."

I would like to close with this ode of George Santayana for your consideration. (Ode ii, 1923)

My heart rebels against my generation,
That talks of freedom and is slave to riches
And, toiling 'neath each day's ignoble burden,
    Boasts of the morrow.
No space for noonday rest or midnight watches,
No purest joy of breathing under heaven!
Wretched themselves, they heap, to make them happy,
    Many possessions.

CAREER OPPORTUNITIES AND

JOB HUNTING IN CONSUMER AFFAIRS

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Prior to 1960, careers in the consumer field were all but non-existent. However, consumer agencies began appearing in government by the early sixties. Studies by The Conference Board[1] revealed that by the late sixties and early seventies consumer affairs functions were emerging high on the organization charts of a number of large companies whose products or services were being sold to individual consumers. Because the career field of Consumer Affairs Professionals (CAPs) is a relatively new one, little is known about it.

Little research has been conducted about CAPs. The Conference Board[2] made one study of 149 consumer affairs departments in 1973; and in 1974, a study of consumer affairs directors in over 150 firms in the fields of manufacturing, retailing and service was made. Other studies are now underway concerning consumer affairs directors and departments in business. None of these studies in the business area concern CAPs of lower rank than director and none are concerned with the large number of CAOs in government employment.

This study attempted to fill the void in knowledge about CAPs, and in doing so, to present information that can be used in preparing CAPs for work in business and in government.

Statement of the Problem

The purpose of this study was to determine the functions of consumer affairs professionals in business and in government and to specify the education and the experience required to carry out these functions. It was designed to provide information to serve as the basis for answering the following questions:

1. Approximately how many CAPs are employed in government consumer agencies and in selected larger businesses?

2. What are the functions of consumer affairs professionals? Do these functions differ significantly between business and government?

3. What are the minimum experience requirements for a career as a consumer affairs professional?

4. What level of degree and in what field of degree are preferred for consumer affairs professionals?

5. Do consumer affairs professionals in business come from within or outside the firm?

6. What compensation may a consumer affairs professional expect to receive?

7. What special competencies, if any, are required of consumer affairs professionals?

8. What is the future employment need for consumer affairs professionals in business and in government?

Need and Importance of the Study

Since the career of CAPs is a relatively new one, information is needed concerning the preparation for this field, the functions performed on the job, and future career opportunities. This information could then be used by educational institutions to develop programs for persons preparing to become CAPs. Also helpful would be knowledge of any special competencies needed to be successful as a CAP.

Individuals contemplating careers as CAPs also need information about the number, type, and location of job opportunities available, the experience and educational background required, the expected pay range, and the various functions of a CAP.

Government agencies and businesses, with the knowledge of what other agencies and businesses are requiring of CAPs, can then better organize and staff consumer agencies in government or consumer affairs departments in business.

CAPs need as much information as possible concerning their profession and the people who practice it in order to enhance the profession's identity and also to advance the profession.

Procedures

Mailed questionnaires were used to gather data for this study. Separate questionnaires were developed for government consumer agencies and for consumer affairs departments in business. Both questionnaires were designed to elicit information to answer the questions listed in the purpose of the study. The business and government questionnaires were designed to be essentially similar to each other, in order to facilitate comparisions between the CAPs in business and the CAPs in government.

The government questionnaires were sent to the heads of the 312 consumer agencies (branch offices excepted) listed in the 1974 edition of the Directory, State, County and City Government Consumer Offices published by the Office of Consumer Affairs, Department of Health, Education, and Welfare. This list was supplemented by a list of federal consumer agencies supplied by the Office of Consumer Affairs. The U.S. Postal Service, although only a quasi-governmental agency, was included in the government section of this report.

The business questionnaires were sent to 1,455 businesses. This list of businesses was obtained from the following sources:

- FORTUNE Magazine index of the 500 largest industrials
- FORTUNE Magazine index of the second 500 largest industrials
- FORTUNE Magazine index of the "Fifty Largest" lists (this list includes the 50 largest firms in each of the following six categories: commercial banking companies, life insurance companies, diversified financial institutions, retailing companies, transportation companies, and utilities).
- Society of Consumer Affairs Professionals membership list. 155 persons who were in the scope of the study yet were not associated with firms listed in the FORTUNE indexes were contacted. Only one SOCAP member per firm was included.

Approximately one-half of the government agencies responded to the survey. Slightly more than one-fourth of the businesses contacted responded to the questionnaire. Approximately one-half of those responding reported having consumer affairs departments and/or consumer affairs professionals. The SOCAP sample had the highest response percentage -- by definition, SOCAP members in business are involved in consumer affairs.

The majority of firms listed in the FORTUNE indexes do not by nature, come into direct contact with the consumer and therefore have no perceived need for a consumer affairs department and/or CAPs. Many of the firms do not make consumer goods or perform services for consumers; many are holding companies and only their subsidiaries have contact with the consumer.

Additional Information

Many businesses, in responding to the questionnaire, supplemented their response with extensive comments concerning the role of consumer affairs professionals in business. Excerpts of two of these letters are reproduced here because this researcher believes that they reflect the tone of what many of the business respondents considered the role of a consumer affairs professional to be. The first letter is from one of the nation's largest retailers:

> I doubt there is any single executive in. . . who would feel qualified to respond on behalf of our more than 450,000 employees -- all of whom consider themselves "Consumer Affairs Professionals" in the context of your definition. Certainly at least 20,000 executives qualify. . . Because our business is totally consumer-oriented we do not have a Consumer Affairs Dept. per se.

The second letter is from an industrial firm listed in the second largest 500 industrials:

> . . . However, you have given me the opportunity to suggest that the U.S. Office of Consumer Affairs is totally missing an existing resource that could never be duplicated by government, and that is the marketing function performed by most companies by experienced people whose job it is to see that products made and sold do indeed respond "to the needs and grievances of the consumer during the design, promotion, sales, and service of the product." When they succeed, the company is successful. It's obvious that to survive for long in a free enterprise system, i.e., under competition, these needs must be satisfied more often than not. And while marketing people are not omnipotent, they do have the advantage of knowing the manufacturing process, the engineering problems, the distribution systems, the market, their respective positions in that market, and something about what's going to happen down the road as a result of outside economic factors, governmental action, customer demand, technological advances, new materials, private research, industry standards, ad infinitum. Every person in every marketing staff of every company in the world is either a consumer affairs professional or is on his way to being one. This is the very essence of his job. How else do we educate or develop such expertise in the elements I've mentioned about except through practical exposure and experience? You probably start, I believe, with business school graduates and guide them into the marketing function. It's all there now. If the government wishes to superimpose this kind of knowledge over the existing structure, it might start by hiring retired marketing people.

Government Consumer Agencies

One hundred and forty-two agencies on the municipal, county, state, and federal level were included in this study. This represented about fifty percent of the agencies contacted. The number of conumer agencies at the state level was greater than at any other government level. The federal level had the lowest number of agencies, but the federal agencies had by far the greatest percentage of response to the questionnaire.

Most government agencies employ ten or less CAPs; however, a relatively large number of state consumer agencies employ between eleven and twenty-five CAPs. Generally, government consumer agencies expect to increase the number of CAPs employed, presently over one thousand, by about fifty percent by 1977.

Usually, CAPs in government are employed to perform various combinations of some or all of the five functions designated for CAPs. The most mentioned single function, especially in county and state consumer offices, was handling and resolving consumer complaints. The consumer education function was often mentioned by state agencies. Federal, county, and municipal agencies, on the other hand, often cited the function of internal consumer ombudsman and consultant on consumer matters within and between agencies.

Most government consumer agencies prefer to have CAPs with some experience in the consumer field, with the exception of some state agencies, where there are generally no experience requirements.

The great majority of agencies require at least a bachelor's degree for job entrance. When a preferred academic major was expressed, it was usually business, however, most agencies expressed no preference. State agencies in particular, often mentioned a degree in law.

Generally county consumer egencies prefer to recruit their CAPs from within the agency, whereas at the state and municipal levels there is usually no preference as to the source of CAPs. The federal consumer agencies generally prefer their CAPs from outside the agency.

Federal CAPs are paid the highest with the $15,000 - $25,000 annual pay range most mentioned. Municipal agencies offer the least, a yearly salary of $7,000 - $10,000 was most mentioned. Falling in the middle range of $10,000 - $15,000 a year are the county and state agencies.

Government consumer agencies stressed special competency in communications as being necessary to perform the CAP functions. Technical, legal, and investigative competencies were also often cited.

In reference to future opportunities for CAPs, an increase was expected by most agencies expressing their opinion.

Business Consumer Affairs Departments

One hundred and eighty-four business consumer affairs departments were included in this study, representing thirteen percent of those contacted. These businesses were grouped into eight classifications according to the product or service rendered. Non-durable goods manufacturers represented the largest classification, with fifty-five firms. Durable goods manufacturers were the next largest. Other than the miscellaneous classification, trade associations, with seven firms, had the smallest representation, with financial institutions, retailing, transportation, and utilities ranging from fourteen to twenty-five firms being represented.

Fifteen percent of the businesses contacted reported having no consumer affairs personnel employed. Of the 4162 CAPs reported to be employed by the one hundred and eighty-four firms, the durable goods manufacturers and utilities together employed 90 percent of the CAPs involved in the study, the remaining ten percent were distributed among the other six classifications. Business expects to increase the number of CAPs employed by about ten percent by 1977; durable goods manufacturers expect the greatest increase in numbers and trade associations the greatest percentage increase. Other than the miscellaneous classification, utilities expected the smallest percentage increase.

The functions performed by most CAPs in business is a combination of all or of various combinations of the five functions ascribed to CAPs in this study. A significant number of CAPs in the utility field perform the functions of handling and resolving complaints and inquiries. The education function is important for CAPs in the non-durable goods, retailing, and utilities fields; a very small percentage of CAPs in durable goods firms perform the education function.

Although many firms desire CAPs to have some consumer experience before being hired, more require experience in other areas. Several firms, especially the non-durables, desire experience in business, marketing, or public relations.

In every classification, a bachelor's degree was most mentioned as the minimum requirement for a position as a CAP. Master's and doctor's degrees were also mentioned to a lesser extent; and several firms have no degree requirements whatsoever.

The academic major cited most was business. Many firms said they had no preference as to academic major. Law and home economics degrees received several mentions. Home economics was often preferred in non-durables, retailers, and utilities. Most businesses prefer to recruit their CAPs from within the business organization; retailers, though, take their CAPs from outside the firm. Some had no preference as to the source of their CAPs.

Very few firms reported paying CAPs less than $7,000 a year. The most cited annual salaries were the $7,000 - $10,000, $10,000 - $15,000 and $15,000 - $25,000 ranges. Several firms pay in excess of the $25,000 annual pay, such as many durable goods firms and a significant number of airlines.

The special competencies that firms desire most of their CAPs are in communications. Other firms also stated that they would like CAPs to have technical, human relations, marketing, and home economics competencies.

Eight comments from business indicated that there was an optomistic outlook for future employment of CAPs. Other comments from several firms indicated that the consumer affair functions were better carried on by executives and/or marketing, sales, and public relations personnel.

Conclusions

The "Statement of the Problems" section of this study stated that this research was designed to answer eight questions. On the basis of the findings of this study, the following conclusions are drawn:

1. Approximately one thousand consumer affairs professionals are employed by the one hundred and forty-two government agencies responding, which represents about fifty percent of the agencies listed by Office of Consumer Affairs directories.

Approximately 4100 consumer affairs professionals are employed by one hundred and eighty-four businesses representing about thirteen percent of the 1455 businesses contacted. This sample included mainly the largest businesses in the United States. Care must be taken in viewing this large number of CAPs, for some firms used quite a loose interpretation of the definition of a CAP.

2. Although the functions of consumer affairs professionals were divided into five separate categories, most CAPs in business and government performed a combination of all or some of these functions. The most mentioned combination was that of handling and resolving complaints and handling and processing inquiries. Detailed comparisions between the functions of CAPs in government and in business was difficult because of different consumer activities performed, but generally the functions did not vary extensively between the groups.

3. minimum experience requirements for consumer affairs professionals varied little between government and business. It should be noted, however, that when "other experience" was indicated, business often wanted CAPs with experience in business, marketing, and marketing-related areas.

4. A bachelor's degree was overwhelmingly mentioned as the minimum degree requirement for consumer affairs professionals in business and government. Also, many consumer affairs offices in both groups had no degree requirements for employment in the consumer field. Both groups often cited business when an academic major was mentioned. Law degrees were relatively more important to government agencies than business, and home economics majors were desired more by business than government. Degrees in education were mentioned about equally by the two groups.

5. Considerable difference existed between business and government as to the source for recruiting CAPs. Business was much more interested in recruiting their CAPs from within their own business organization whereas government often would go outside the agency to employ CAPs.

6. Although the pay ranges varied greatly within the business group and within the government group, business generally paid more than government for the services of CAPs.

7. Both government and business consumer affairs offices emphasized the necessity of communications and technical competencies for CAPs in performing their functions. Although not as important, legal competency was also mentioned by some business and government organizations.

8. The government sector expects a much greater increase in the number of CAPs by 1977 than does the business sector. Many business offices employed only one or two CAPs, with a few employing over 100, whereas the government offices frequently had five or more employees but few with over 25 CAPs.

Recommendations

Recommendations are divided into three sections in response to the need for the study. The first section concerns itself with recommendations for curriculum development, and is aimed at educational institutions who have or desire to have curriculums for the preparation of CAPs. The second section contains recommendations for individuals who plan careers as CAPs -- what to expect and where the job opportunities exist. Recommendations are made in the third section pertaining to the need for further research.

Curriculum Development

Most firms require at most a bachelor's degree for CAPs, and when a major is preferred, it is usually in business; very few firms require advanced degrees and/or a degree in consumer affairs or in a related area. This could be due either to the fact that there is actually no need for advanced degrees and a consumer major, or that business and government are not aware of the existence of such programs. If the latter is true, it is recommended that business and government consumer offices be made more aware of the fact that colleges are educating persons in the consumer field.

If advanced degrees should indeed not be necessary for CAPs, educational institutions should concentrate on undergraduate programs for consumer affairs professionals. The emphasis should lie in the business subjects, especially in marketing and related fields and with some law. Home economics may be important for some consumer offices. All programs for CAPs should also stress competency in communications, both written and oral. Because a significant number of consumer affairs offices desire some previous consumer experience, it is also recommended that CAP programs include field experience in a consumer affairs office.

A program to prepare consumer affairs professionals on any degree level should be an interdisciplinary program. Although the findings of this study indicate the personnel that government and business want to solve the problems of the consumer should have a business background, they also considered educational input from other areas, such as social science, technical, law, and home economics as important.

Career Planning

According to the findings of this study, individuals who wish to enter into careers as consumer affairs professionals should be majors in business or possibly for a government job, in law, and need only a bachelor's degree. Potential CAPs should emphasize communications in their background. Because of the desire by business and government for some prior consumer experience, they should try to get some field work in their educational program or through paid or volunteer consumer activities. Business consumer offices often prefer someone with technical knowledge of the product or business, therefore, it may be desirable for a CAP to major in his technical field of interest as well as taking consumer courses.

If monetary considerations are important, a future CAP should consider business over government, and within business, he should consider airlines first. Because government plans more expansion in the consumer field than business and businesses more often hire from within their organization, CAPs may find more consumer career opportunities in government than in business.

Appendix

Job Functions of Consumer Affairs Professionals in Business and Government

Given below are the job functions of consumer affairs professionals listed in the questionnaires that were sent to government consumer agencies and in questionnaires that were sent to business consumer affairs departments.

Job functions of consumer affairs professionals in government and business:

1. Handling, resolving, and analyzing consumer complaints.
2. Handling and processing consumer inquiries other than complaints.
3. Developing consumer education programs and disseminating consumer information.

Job functions of consumer affairs professionals in government (in addition to those listed for government and business, above):

1. Internal consumer "ombudsman" and consultant on consumer matters within and between agencies.
2. Providing liason with consumer groups and/or industry.

Job functions of consumer affairs professionals in business (in addition to those listed for government and business, above):

1. Providing liason with consumer groups and government agencies.
2. Internal consumer "ombudsman" and consultant on consumer matters within the firm.

Footnotes

1. The Conference Board, The Consumers Affairs Department: Organization and Functions (New York: The Conference Board, 1973) p. i.

2. Ibid..

FACTORS WHICH RELATE TO NON-GROUP LIFE INSURANCE HOLDINGS OF FAMILIES:

A PILOT STUDY

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The family's need for life insurance has been well documented in the literature, but analyses of the factors which affect family purchases of life insurance have not been as well analyzed. This is an attempt to redress this deficiency.

Among the factors which affect a family's demand for individually purchased life insurance, one would expect price (net premium), holdings of financial securities, income, group life insurance holdings, and the perceived need for various after death financial resources to be among the most important. The effect of these factors on individually purchased life insurance was tested using data obtained from a class project at the University of Minnesota. The sample characteristics are not representative of the United States as a whole, but the effects of the differences are not clear.

What is the effect of these variables on individually purchased life insurance holdings, and what are the implications of this for the consumer? The own price elasticity of demand for individually purchased life insurance is quite inelastic, but the key factor is the negative sign of this relationship. This implies that as the net premium of individually purchased life insurance increases, the amount of life insurance purchased decreases. This results in a situation in which more expensive forms of individually purchased life insurance will be associated with smaller holdings of the same.

The income elasticity of demand is 0.49 which is quite low. This indicates that life insurance is high in many families' purchase priorities, and that young families will tend to have relatively more life insurance than one would expect given their lower income levels.

The effect of securities on individually purchased life insurance is positive which is somewhat surprising at first blush. However, when considering that many families may view securities and life insurance, <u>both</u>, as financial assets, it is not surprising. But a factor of which one must be aware is that the financial asset aspect of life insurance could force families to overlook the insurance aspect. When combining this with the negative price effect, one would expect many families to be underinsured.

The relationship between group life insurance and individually purchased life insurance is negative as expected with the substitution elasticity being negative and small, -0.09. This tells one that group life insurance is not a very good substitute for individually purchased life insurance and one cannot count on one to make up deficiencies in the other.

More imminent perceived needs for after death financial resources have a positive impact on the amount of individually purchased life insurance. That is, if the major breadwinner of a family were to die today, the need for close-to-death, death contingent financial resources, would tend to increase individually purchased life insurance holdings more than the more distant needs.

What has been found is that families are sensitive to the net premium for individually purchased life insurance; many families view individually purchased life insurance as a financial asset and not as a death contingent substitute for financial assets; group life insurance cannot be counted upon to serve as a substitute for individually purchased life insurance; and the perceived need for after death financial resources for the period immediately following the major breadwinner's death has the greatest impact on individually purchased life insurance holdings.

A FRAMEWORK FOR ANALYZING THE EFFECTS OF INTEREST RATES ON PURCHASES OF CONSUMER DURABLES

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The purpose of this paper is to explore a specific framework for analyzing optimal consumer choices of durable goods in the face of alternate interest rates. This framework has three related uses:

1) Advice to consumers - assuming some consumers do not make optimal choices, this framework can help reveal what advice should be given to such consumers about purchases of durables, given particular preferences and resources;

2) Empirical study of consumer behavior - assuming consumers do make optimal choices, this framework can help show what their choices reveal about their preferences; and

3) Public policy analysis - assuming consumers do make optimal choices, this framework can help show what optimal government policies would be for specific goals such as energy conservation, improvement of the environment, and reductions of poverty.

In principle a consumer's decision to purchase a particular durable good is simply a capital budgeting decision. The consumer can evaluate the costs and benefits of the item for each period in its expected lifetime. It is helpful to consider the valuation of simple financial assets in order to better understand the value which an individual consumer might place on a durable good. For convenience, a number of factors which might have an influence on decisions will be ignored at first.

The basic principles of the valuation of simple financial assets can be illustrated by considering the following question. How much should one pay today for the right to receive \$100 one year from now? Most people would pay less than \$100 - they discount future benefits because of uncertainty, impatience, and the value of alternate uses of their money. One way to compute the present value of a future benefit is to compute how much one would have to put into an alternate investment such as a savings account in order to end up with an equivalent amount of money. How much would one have to put into a savings account today in order to have \$100 at the end of one year? For a savings account paying 6% interest compounded annually, the formula

$$F = P\,(1 + r)^n ,$$

can be used, where F equals the amount after n time periods, r equals the rate of interest per time period, and P equals the present value, or initial amount invested. With rearrangement, the formula for present value is derived:

$$P = \frac{F}{(1 + r)^n}$$

In the example just described, F equals \$100, r equals .06 per year, and n equals one year, so

$$P = \frac{\$100}{1.06} = \$94.34$$

What would be the value today of receiving \$100 at the end of two years? Substituting in the present value formula,

$$P = \frac{\$100}{(1.06)^2} = \frac{\$100}{1.1236} = \$89$$

It is convenient to use a present value table instead of going through the calculation. (Use of present value tables becomes especially useful when many time periods are involved.) Using a standard table for the present value of one dollar received n time periods from now, it can be found that the discount factor for two years at 6% interest is .89, so that the present value of \$100 to be received two years from now would be \$89.[1] The use of the present value method makes clear the importance of timing in evaluating future benefits from investments - the longer one has to wait for any benefit, the lower will be its present value.

How much should one pay for the right to receive \$100 at the end of each year for the next 10 years? One way to compute the price one should pay is to compute the present value of the benefits for each of the 10 years and then add each of the present values to obtain the present value of the stream of benefits. Thus, the present value of \$100 per year for 10 years at 6 percent interest is:

$$P = \sum_{t=1}^{n} \frac{F_t}{(1 + r)^t} = \frac{100}{1.06} + \frac{100}{(1.06)^2} + \ldots + \frac{100}{(1.06)^{10}} = \$736$$

One can use a table for the present value of an annuity (a constant payment per year for a certain number of years) to obtain the present value of $736 at 6% interest.[2] What would be the present value of $100 per year for 10 years at a zero interest rate? It would simply be the sum of each of the future payments, $1,000. The higher the interest rate, the lower will be the present value of the future payments.

For computing the present value of a stream of aftertax or non-taxable income, the appropriate discount rate to use may be the effective aftertax inerest rate of alternate investments. For instance, for a person in a 25% marginal income tax bracket, the effective aftertax interest rate of an 8% investment is 6%. (Effective aftertax interest rate equals actual rate times (1 - marginal tax rate), so .06 equals .08 times .75.) What if a person is considering borrowing money in order to buy an asset? Then the appropriate discount rate may be the effective aftertax interest rate of the loan. If a person in a 25% marginal tax bracket borrows money at 12% interest, the effective aftertax interest rate, if the person itemizes on his tax return, is 9%. Table 1 shows the effective aftertax interest rates for tax rates of 22%, 32%, and 50%, and for actual interest rates of 8% and 12%. One important inference one can draw from this table is that the present value of any particular flow of future benefits will tend to be higher for persons in high tax brackets than for persons in low tax brackets.

Table 1

Aftertax Effective Interest Rates

Marginal Tax Rates	Actual Interest Rates: 8%	Actual Interest Rates: 12%
.22 (Taxable income, $8,000-$12,000)	6.24%	9.36%
.32 (Taxable income, $20,000-$24,000)	5.44%	8.16%
.50 (Taxable income, $44,000-$52,000)	4.00%	6.00%

(Based on 1973 Federal Income Tax rates for married couples filing joint returns.)

A simple application of the principles discussed can be shown by a consumer's purchase of air conditioner. Assume a consumer has a choice of two air conditioners which are identical in every respect except initial purchase price and efficiency of operation. Table 2 shows an example where, with electricity costing five cents per kilo-watt hour, the difference in electricity costs between an inefficient air conditioner and an efficient air conditioner would be $17 per year. If it is assumed that either air conditioner will operate without repairs for 10 years, how much of a premium should a consumer be willing to pay for the more efficient air conditioner? (In subsequent discussion, it is assumed that a consumer considers only his private costs and benefits, ignoring social costs and benefits.) If a consumer values future benefits as highly as present benefits, the present value of the future savings will be the sum of the annual savings, $170.

This result is shown in the first line of Table 2, the present value of $17 per year for ten years at a zero discount rate. A zero discount rate may be appropriate for few persons, but low discount rates may apply for persons in high tax brackets. For a person in a 50% tax bracket with the opportunity to invest at an 8% rate of return, the appropriate discount rate is 4%, so that the present value of the savings from buying the more efficient air conditioner is $138. But for a person with a 6% rate, the present value of the savings will only be $125. What about the low income person who must borrow at 12% interest, and who does not itemize deductions on his income tax return? Such a person will have a present value for the savings of only $96. A person with a discount rate of 18% would value the savings in electricity costs at only $76, and a person with a discount rate of 36% would value the savings at $45.

Table 2

Present Value of Savings in Cost of Electricity for an Efficient Air Conditioner Compared to an Inefficient Air Conditioner.

Interest Rate	Present Value of $17 per Year for 10 Years
0%	$170
4%	$138
6%	$125
12%	$ 96
18%	$ 76
36%	$ 45

(Based on approximate costs of operation at five cents per kilowatt hour of two approximately comparable room air conditioners, operating for 10 hours per day six months per year.[3])

Since the average retail price difference between the two models was about $36, it would be rational for almost any consumer to pay the higher price for the more efficient air conditioner. But what about further technological improvements to save electricity? What if General Electric developed an air conditioner which could save $10 per year on electric bills compared to the most efficient air conditioner at present, but which would sell for $80 more? Which consumers would be willing to purchase such an air conditioner? The present value of $10 per year for 10 years is greater than $80 only for discount rates less than 5%. Therefore, only those consumers who could obtain money at an aftertax interest rate of about 4% would be willing to pay for the more expensive but more efficient air conditioner.

What would be the effects of a government requirement of higher energy efficiency for appliances and automobiles? If the higher efficiency were to be obtained by increasing the cost of production, then under the present tax system and patterns of credit availability, upper income consumers would benefit more than lower income consumers. What would be the effects of government requirements for greater durability - for longer lasting appliances, cars, and housing? In this situation, too, higher income consumers would tend to benefit more than low income consumers. For instance, what if the alternatives consist of one appliance which will last 5 years, and another appliance which will last for 10 years? If the net benefits per year have a value of $100 for either appliance, how much of a premium should a consumer be willing to pay for the longer lasting appliance? The price premium should depend upon the discount rate of the individual consumer. As Table 3 shows, a consumer with a discount rate of 6% rationally should be willing to pay a premium of $315 for the purchase of the more durable appliance, while a consumer with a discount rate of 18% should be willing to pay premium of only $136 for the longer lasting appliance.

Table 3

The present Value of Appliances Providing Benefits of $100 per year, for Lifetimes of 5 Years and 10 Years, at 6% and 18%

	Discount Rate	
Lifetime of Appliance	6%	18%
10 years	$736	$449
5 years	$421	$313
Difference (Price Premium)	$315	$136

The above analysis is also helpful in explaining the actual behavior of consumers. If some low income consumers apparently buy appliances, cars, clothing, and mobile homes which do not last as long as corresponding products bought by high income consumers, they may still be making rational choices under existing conditions. Low income consumers generally face higher interest rates than do high income consumers, and they do not have the advantage of deducting interest paid from their taxable income, so it may be perfectly rational for them to choose items with shorter lives but lower initial prices.

The preceding analysis leaves out many factors important for choices in the real world. One factor which has been important for purchases of durable goods in recent years has been general inflation and related rapid increases in the prices of specific durable goods. How can the expected price changes for a durable good be incorporated into the present value analysis described above? Usually, market interest rates will tend to adjust for expected inflation rate - all other things being equal, the higher the expected rate of inflation, the higher will be the market interest rate. If a consumer uses his current after-tax interest rate as a discount rate in calculating present value, the benefits and costs for a time period should be measured in terms of expected prices in that time period.

How should a consumer take expected price changes into account in determining the present value of a durable good such as a house? Assume a consumer is planning to buy a house which has a rental value of $1,000 per year. For simplicity, assume this house will last for 30 years in perfect condition, then turn to dust when it falls into the San Andreas Fault. What is the present value of the house to a consumer with a discount rate of 6%? Using the formula for the present value of a stream of payments,

$$P = \frac{\$1,000}{1.06} + \frac{\$1,000}{(1.06)^2} + \cdots + \frac{\$1,000}{(1.06)^{30}}$$

Using a table for the present value of an annuity, one can find that the present value equals $13,765. In other words, the consumer should not pay more than $13,765 for the house. But what if the consumer expects the rent on comparable houses to increase 5% each year for the next 30 years? Then the present value of the house obviously must be greater. Now,

$$P = \frac{\$1,000\ (1.05)}{1.06} + \frac{\$1,000\ (1.05)^2}{(1.06)^2} + \cdots + \frac{\$1,000\ (1.05)^{30}}{(1.06)^{30}}$$

which equals approximately,

$$P = \frac{\$1,000}{1.01} + \frac{\$1,000}{(1.01)^2} + \cdots + \frac{\$1,000}{(1.01)^{30}}$$

From a table for the present value of an annuity, it can be found that the present value for an annuity of $1,000 per year for 30 years discounted at 1% interest is $25,808, which is almost twice as much as the present value with no price (rental value) increase expected. The consumer should be willing to pay $25,808 for the house. The reasons for the attractiveness of real estate as an investment should be clear. In addition to providing valuable tax advantages for middle and upper income investors, it provides an excellent hedge against inflation. The higher the expected rate of price increase (or equivalent rent increase), the higher will be the present value of the investment at any particular discount rate. (However, the market price may be higher than the present value to a particular investor.)

It is instructive to examine the rate of price increases for some other consumer durable goods during a recent period. As Table 4 shows, the rate of the price increases for various durable goods between January, 1974 and January, 1975 were very high, with almost all rates higher than the rate of increase in the overall Consumer Price Index. Durable goods were among the few investments available to the ordinary investor which more than kept pace with increases in the cost of living during this period. Apparently, some extra buying as a hedge against inflation did take place during this period, especially with automobiles.[4] In fact, there were three good reasons for consumers to sell their old cars and buy new ones: expectations of price increases in new cars, expectations of even more rapid increases in the cost of auto repairs and maintenance which would make old cars relatively more expensive to operate than new cars, and increases in gasoline prices which provided an incentive to buy cars with better gas mileage. Similar factors were present for some other consumer durable goods. But there was a severe loss of purchasing power with the combination of high inflation and recession, with the Consumer Price Index increasing 11.7% while the spendable earnings of the average nonagricultural worker with three dependents increasing only about 6%.[5]

Table 4

Price Changes of Selected Consumer Items,
January, 1974 to January, 1975

Item	Change in the Bureau of Labor Statistic Price Index
Consumer Price Index (Overall)	11.7%
All Durables	13.0%
Household Furnishings	15.0%
Automatic Washing Machines	14.2%
Refrigerator-Freezers	15.4%
Electric Clothes Dryers	15.1%
New Automobiles	12.7%
Used Automobiles	9.3%
Auto Repairs and Maintenance	15.5%
Gasoline	14.3%

(Source: Monthly Labor Review, March, 1975, Table 23, Consumer Price Index - U.S. Average, pp. 105-110)

The preceding type of present value analysis can be quite useful, but it has one serious theoretical limitation - it must be assumed that the current satisfaction received from an amount of money payment or real consumption in any time period is the same for all individuals and is independent of the particular time period and of other circumstances. One can obtain some interesting theoretical results with less restrictive assumptions by using the present value of utility received in each time period rather than the present value of the monetary value of benefits in each time period. With this method, one can calculate the present value of current utility in each period derived from a durable good as:

$$P = U_1 d_1 + U_2 d_2 + \ldots + U_n d_n,$$

where U_t equals the utility derived in each time period t, and d_t equals the discount factor appropriate for time period t. If a consumer discounts future time periods at a constant rate per time period, say r, the above formulation becomes,

$$P = \frac{U_1}{(1 = r)} + \frac{U_2}{(1 = r)^2} + \ldots + \frac{U_n}{(1 + r)^n}$$

For a complete analysis of optimal consumer choice over time, one would derive demand functions from the maximization of multiperiod utility function subject to a lifetime budget constraint.[6] However, for simplicity, the concept of the present value of the net utility derived from a product in each time period during its lifetime will be used.

If two related plausible assumptions are used - risk avoidance and declining marginal utility of wealth - some results relevant to consumer purchases of durables can be derived. First, if consumers are risk avoiders, then the greater the uncertainty about future benefits, the lower will be the expected utility of the benefits to the consumer. In financial analysis a risk adjustment factor is often included in the discount factor used in computing the value of the investment. If two investments are being considered, each with an expected average return of $1,000 per year, but the return of one investment is expected with certainty to be exactly $1,000 per year, and the return on the other investment has a 50% chance of being $1,500 per year and a 50% chance of being $500 per year, a risk avoiding investor would prefer the certain return to the chance of making perhaps more and perhaps less than $1,000 per year. A risk avoiding investor might use a 6% discount rate for the safe investment and a 9% discount rate for the risky investment.[7]

A similar consideration would apply for a consumer considering investing in risky durable goods. Why might durable goods be risky? They might be risky because they fall apart sooner than expected, because they require higher than expected repair expenses, or because the consumer's needs might change in the future. Since a consumer cannot be sure about these events, he may discount expected benefits from a durable good at a higher rate than he would for a safe investment such as a savings account. If economic and political conditions become very unstable, a consumer's perception of risks may cause him to discount benefits from all investments at a high rate, leading him to spend more for immediate consumption.

If a consumer has declining marginal utility for wealth,[8] then the lower present wealth is relative to expected future wealth, the higher will be the consumer's discount rate. This provides another economic rationale for the alleged present-orientation of low income consumers, as the higher the discount rate, the lower will be the investment for the future. Even if low income consumers have preferences identical to those of high income consumers, their behavior may appear to be more present-oriented because they face higher interest rates and because their present wealth is low relative to future expected wealth.

What implications does this present value analysis hold for public policy? For energy policy, this type of present value analysis should be considered in deciding upon specific ways to encourage energy conservation. One way to achieve energy conservation is to raise energy prices, which will presumably induce some consumers to cut back on their use of energy. One of the most important ways to reduce energy consumption is to make some investment to achieve more efficient usage. But, as shown before, there are good reasons why low income consumers have less incentive (and less ability) to invest now for future benefits. If public policy on energy is to be equitable as well as efficient, perhaps programs should be designed to help low income consumers to invest in energy conservation. Another related public policy issue is the use of monetary policy to fight inflation. During periods of increasing inflation, a common monetary policy to fight inflation is to decrease the rate of increase in the money supply, which in turn will tend to increase interest rates for borrowers and investors. All other things being equal, high interest rates will tend to inhibit investment in energy saving methods such as insulation and more efficient appliances. In order to encourage investment in energy saving devices during periods of tight money, special tax credit, allocation, or direct loan programs may be appropriate to prevent anti-inflation policies from working against energy conservation goals.

The above policy recommendations are based on somewhat impressionistic analyses. Obviously, further research is needed in this area. Research needs include surveys on time preferences of different classes of consumers and of actual interest rates faced by different groups of consumers and corresponding investment patterns in financial assets and durable goods.

Footnotes

1. For a basic introduction to the use of present value techniques, see Glen A. Mumey, Personal Economic Planning, New York: Holt, Rinehart and Winston, 1972, pp. 45-51.

2. See ibid., p. 50.

3. Based on data in the article, "Air Conditioners," Consumer Reports July, 1973.

4. Business Week, "The Auto Slump Spreads," December 14, 1974, pp. 58-64.

5. Monthly Labor Review, March, 1975, Table 20, "Gross and Spendable Weekly Earnings," pp. 102

6. James Henderson and Richard Quandt, Microeconomic Theory, New York: McGraw-Hill, 1971 (2nd edition), chapter 8.

7. In general, the investor's utility function would include both expected return and measures of expected risk. One applied method for taking risk into account is mean-variance analysis, where it is assumed that the investor's utility is a function only of the mean and variance of the expected return. See H.A. John Green, Consumer Theory, Baltimore, Penguin Books, 1971, pp. 256-246.

8. ~~See~~ Alfred Marshall, Principles of Economics, New York: MacMillan Press, 1972, pp. 80-81. (Based on Eighth Edition, published in 1920.)

LIFESTYLE AND PSYCHOGRAPHIC ANALYSIS OF CATALOG SHOPPERS

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Consumers in the 1970's have an overwhelming selection among business establishments when shopping for general merchandise. In 1972, there were over 70,140 general merchandise stores, 5,792 department stores, and 21,046 variety stores in the United States. Combined there are over 1.7 million retail establishments in the United States doing more than $448 billion in business annually (15). Furthermore, consumers in the 1970's can purchace a wide variety of items including such classifications of merchandise as clothing, gifts, home furnishings, and large appliances without even leaving home. In fact, consumers in 1972 purchased almost $4 billion worth of goods and services from one or more of the 2,833 mail order houses in the United States (5).

The mail order catalog business is growing rapidly, and more expensive items are replacing the less expensive product offerings of the past (7). The United States Census of Business in 1972 reported a 16.1 percent increase in mail order sales during 1971 (14). A study of Tucson mail order buyers found that families averaged $190 annually in merchandise, a combined expenditure in 1971 of almost $7 million on mail order goods (12).

The growth observed in catalog shopping can be related to recent social, psychological, and economic developments which may alter future shopping patterns as well. The growth of metropolitan areas has influenced the lifestyle of consumers. The profile of isolated rural residents dependent upon mail order buying for a variety of goods is a visage of the past. Urbanization has created new shopping patterns downtown and in outlying malls. With such a variety of shopping areas available, it would seem that the necessity for catalog buying would be minimized. However, in the late 1960's, 70 to 80 percent of catalog sales were in the metropolitan market, compared to 50 percent in 1950 (4). What factors, then, motivate consumers to shop at home?

Convenience may be an important motive. Locked-in shoppers such as mothers with small children, the elderly, and the handicapped frequently shop at home because shopping downtown is too difficult. Furthermore, the traffic problems associated with downtown and outlying shopping centers create a need for more convenient shopping methods. Particularly in regard to the recent gasoline shortage and the uncertainties of the future relative to energy, the in-home convenience of catalog buying provides consumers with a viable alternative to remote, in-store shopping (6).

Another factor contributing to the increase in catalog buying may be the reduction of risk which consumers in the past have associated with buying unseen catalog merchandise. Manufacturers and retailers have made great strides in standardizing and branding products. Consumers themselves have become more educated and sophisticated shoppers. Furthermore, the self-service format of supermarkets and discount stores has contributed to the consumer's ability to judge quality by forcing choice in merchandise with little or no aid from salesclerks (7).

Although retail sales statistics indicate an increase in mail order purchases, they offer no information which may be utilized to identify frequent catalog shoppers. Moreover, the research which has been conducted related to catalog shopping behavior primarily describes consumers on the bases of demographic and socio-economic characteristics (6). Since several authors (2, 10, 11) suggest that recent changes in socio-economic characteristics of consumers raise doubt as to the usefulness of these valuables, life-style analysis was employed in this exploratory study to examine mail order, catalog, purchasing behavior. The specific objectives were:

(1) To identify stratified groups of Sears, Roebuck and Company shoppers based on life-style characteristics, and

(2) To examine these groups formed on the basis of life-style characteristics in order to determine if they vary significantly on the basis of catalog shopping frequency.

Methodology

Sample

The sample for the study consisted of 680 Tuscaloosa, Alabama, residents who were randomly chosen from the Sears, Roebuck and Company catalog mailing list. The 680 member sample represented ten percent of all Tuscaloosa residents who received a Sears Roebuck and Company catalog in 1974. In each case only female subjects were retained for the study. In the event that a male name appeared in the sample, survey material was sent to the "Mrs." in the household.

Questionnaire

Each of the 680 subjects in the sample was sent a questionnaire through the mail. A business reply envelope was also included in order to make responding more convenient for the subjects. Responses were collected for a two week period. One week following the initial mailing, a post card reminder was sent to each subject.

The questionnaire utilized in the study was composed of three parts: life-style analysis, catalog usage index, and demographics. Both catalog usage as determined by the frequency of purchasing catalog items and demographics were used to group and classify the catalog shopper.

The life-style portion of the questionnaire consisted of forty-five Likert statements directly related to nine life-style variables (Table 1). Each statement was rated on a six point continuum from definitely agree to definitely disagree. Statements for the questionnaire were developed from unstructured interviews and previous research conducted by Reynolds and Martin (9) and Tigert and Arnold (13).

A pilot study was performed in order to determine the overall readibility of the questionnaire items and to determine if each life-style statement was unidimensional. For each statement an item analysis was performed to determine the correlation between that statement and the life-style variables to which it was related (8). Negatively correlated items generally indicate that the numeral values for the scale are not properly assigned and should be reversed. Zero or very low correlation coefficients suggest that the statement fails to measure the life-style dimension to which it is related. In each case statements utilized in the study were highly related to their respective life-style variable yet only slightly correlated with the total pool of statements for the entire questionnaire. Therefore, each of the forty-five Likert statements appear to be differentiating in regard to life-style variables and were thus retained for the final questionnaire.

Statistical Analysis

Catalog shopping frequency was measured by respondents' perception of their "usual" shopping behavior for 39 products. The total pool of 39 products was studied simultaneously, utilizing multivariate statistical techniques in order to provide a more complete description of catalog shopping behavior. Specifically, respondents indicated shopping patterns by scoring, for each product listed, a scale ranging from one to six with "one" indicating the respondent never buys the product through the mail and "six" indicating that the respondent always buys the product through the mail.

The total sample of 280 respondents was randomly assigned to two subsamples since computer capacity allowed for the grouping of a maximum of 150 subjects. Ward's (16, 17) hierarchial grouping technique was then applied to each of the sub-groups in order to maximize the homogeneity of profiles within the same clusters taking account of all profile variables and all clusters at the same time. More specifically, the hierarchial grouping logarithm starts with N one-member groups of individuals and combines the groups until two n-member groups are formed. At each level of the grouping process, the groups are combined so as to minimally increase the within group variance with each successive grouping. At any given stage in the process, a significant increase in the within group variance indicates that the grouping directly preceding that grouping is the optimal clustering of subjects.

TABLE 1

Questionnaire Statements Related to Life-Style Variables

Life-Style Variable	Statement	Corresponding Number in Questionnaire
Fashion Consciousness	1. An important part of my life and activities is dressing smartly	19
	2. I try to keep my wardrobe up-to-date with the latest fashions	20
	3. When I must choose between the two, I usually dress for fashion, not for comfort	35
	4. I enjoy looking through fashion magazines	12
	5. I love to shop for clothes	45
Price Consciousness	1. I shop a lot for "specials"	32
	2. I find myself checking the prices in the grocery store even for small items	44
	3. I usually watch the advertisements for announcements of sales	9
	4. A person can save a lot of money by shopping around for bargains	15
	5. I do a lot of shopping during the after-Christmas sales	17
Sociable	1. I often visit friends in the evening	2
	2. I do more things socially than do most of my friends	24
	3. An important part of my life is being with my friends	16
	4. I would rather spend a quiet evening at home than to go out to a party	22
	5. Television is a primary source of my entertainment	36

TABLE 1 (Continued)

Questionnaire Statements Related to Life-Style Variables

Life-Style Variable	Statement	Corresponding Number in Questionnaire
Credit User	1. I buy many things on credit or with a charge card	26
	2. I like to pay cash for everything I buy	38
	3. It's good to have charge accounts	14
	4. To buy anything, other than a house or car, on credit is unwise	18
	5. I use credit cards often	29
Self Confident	1. I am more self-confident than most people	33
	2. I think I have a lot of personal ability	23
	3. When I set my mind to do something I usually can do it	4
	4. I like to consider myself talented in one or more respects	31
	5. I like to be considered a leader	8
Information Seeker	1. I often seek out the advice of my friends regarding which brand to buy	21
	2. I spend a lot of time talking with my friends about products and brands	39
	3. My neighbors or friends usually give me good advice on what brands to buy in the grocery store	10
	4. When I find a new brand I like, I usually tell my friends about it	43
	5. I always read the advertisements in a magazine or newspaper	37

TABLE I (Continued)

Questionnaire Statements Related to Life-Style Variables

Life-Style Variable	Statement	Corresponding Number in Questionnaire
Innovator	1. When I see a new brand on the shelf, I often buy it just to see what it's like.	3
	2. I often try new brands before my friends and neighbors do.	42
	3. I like to try new and different things	40
	4. I like to wait until a new product has been accepted by most of my friends before I try it.	34
	5. I had rather purchase the brands I usually buy than to try something new.	28
Time Conscious	1. I wish I had more time to do just the things I really want to do	27
	2. It takes too much time to shop downtown.	1
	3. I always shop where it saves me time	7
	4. The world is changing too rapidly.	5
	5. I don't like to shop in supermarkets where I have to spend a lot of time waiting in line to pay for my groceries.	25
Store Loyal	1. I do most of my shopping in the same stores I have always shopped in.	11
	2. Once I get used to where things are in a supermarket, I hate to change stores.	13
	3. Once I have made a choice on which store to buy clothes in, I am likely to shop in that store without trying other stores	30
	4. I usually shop for groceries in more than one store.	6
	5. I usually look in several stores before I make a purchase.	41

In order to determine the successfulness of the Ward's grouping technique, a coefficient of profile similarity was determined between every possible combination of catalog shopping groups (3). Catalog shopping groups formed a five cluster structure in which Group I, Group II, Group III, Group IV, and Group V represented most frequent catalog shoppers, frequent catalog shoppers, moderate catalog shoppers, occasional catalog shoppers, and infrequent catalog shoppers, respectively. When separation between groups is optimal the coefficient of profile similarity approaches -1.00, indicating that groups are less similar than would be expected by chance alone. Lower coefficients between any two groups would signify the need for further grouping.

For the purpose of comparing the previously formed catalog shopping groups with the nine life-style variables, responses related to each of the variables were summed for each subject thus giving nine scores to be utilized in the analysis. The life-style variables were then used to develop descriptive portraits of the identified catalog shopping groups using multiple discriminant analysis.

The objective of multiple discriminant analysis in this study was to produce an orthogonal function that would discriminate between frequent catalog shoppers and infrequent catalog shoppers. To accomplish this, weights were assigned to the life-style variables such that the standard deviation within groups is minimized and between group variance is maximized. Since the dependent variable, catalog shopping frequency, is discreet in nature, discriminant analysis rather than regression analysis, which assumes the dependent variable is a random variate, was chosen (1).

Findings

Identification of Catalog Shopping Groups

The 280 catalog shoppers who responded to the questionnaire appeared to cluster into five independent groups on the bases of their "usual" purchase behavior for certain catalog items. Mean shopping pattern profiles were determined for each of the five catalog shopping groups. Group I respresents individuals who most frequently purchase merchandise from mail order catalogs. On the six point rating continuum for products in the questionnaire, Group I shoppers most frequently chose "3" which referred to the statement "I frequently buy through mail order catalogs" and "4" which referred to the statement "I occasionally buy through mail order catalogs." Similarly, Group II shopping means ranged from "2" to "3" indicating frequent catalog shopping behavior. Moderate and occasional catalog shoppers were delineated by Group III and Group IV means respectively. Group V represented a fifth segment, the infrequent shopper, who rarely places a catalog order. Means for the infrequent shoppers on each of the thirty-nine products were "one" indicating a tendency to seldom shop by mail order catalog.

Although shopping groups differed on the basis of purchase frequency, there was little difference in type of product purchased among the five groups. In general, however, less frequent catalog shoppers did tend to purchase more jewelry, gifts, and toys while frequent catalog shoppers ordered both gift items and staple goods from mail order catalogs.

Analysis of Catalog Shopping Groups

After the five catalog shopping groups had been identified an effort was made to determine if a relationship existed between shopping groups and a set of nine life-style variables, a mean life-style score was determined for each of the groups with regard to each of the life-style variables (Table 2). Considering mean scores alone, a rough profile could be developed for each of the five groups. Group I shoppers, the most frequent catalog shopping group, appeared to be "fashion conscious," "price conscious," "innovators" who are neither "credit users" nor "store loyal." Moreover, the most frequent shoppers, to a lesser extent, seemed to be more "price conscious" and "self-confident" than did less frequent catalog shoppers. On the other hand, less frequent shopping groups had a greater inclination toward "credit card usage" and "store loyalty."

Although mean scores are useful in indicating characterisitics of shopping groups, reliability of the measures in separating the groups must be determined in order to provide meaningful contrasts. When univariate F-tests were performed between the five groups on each variable only "price conscious" and "innovator" proved statistically significant at the .05 level (Table 3). Therefore, catalog shopping frequency groups appear to be best profiled by responses to statements related to their attitudes toward price and their innovativeness.

In order to examine the ability of life-style variables to maximally separate catalog shopping groups, a discriminant analysis was performed on the data. One discriminante score was extracted which accounted for 57.26 percent of the variance. To determine the extent to which each life-style variable was associated with the first discriminant score, discriminant correlation coefficients were determined between each life-style variable and the discriminante score (Table 4). Correlation coefficients were also calculated for the other three discriminant scores extracted by the discriminant analysis; however, due to the limited amount of variance they explain, further analysis of these scores was abandoned.

Four of the nine life-style variables were strongly associated with the first discriminant score. More specifically, "price consciousness" correlated 0.593 with the first discriminant score, "sociable" correlated 0.5730, "innovator" correlated 0.7168, and "store loyal" correlated -0.5708. Since the proportion of variance accounted for by a variable is the correlation coefficient squared, "price conscious," "sociable," and "innovator" explained approximately 36 percent, 33 percent, and 54 percent, respectively, of the variance associated with the first discriminant score. "Store loyal," however, was negatively correlated with the discriminant score, indicating that shoppers who tend to be "price conscious," "sociable," and "innovative" frequently shop for goods and services in more than one store.

In addition, "price conscious" and "innovator" whose correlation with the principle discriminant score was highly positive were also most consistent in rankings across the five groups in the mean profile analysis. Similarly, "store loyalty" which has a high negative correlation with the discriminant score was also consistent in ranking of groups; however, the

TABLE 2

Mean Life-Style Profile of Catalog Shopping Groups

Variable	Group I Most Frequent Catalog Shoppers	Group II Frequent Catalog Shoppers	Group III Moderate Catalog Shoppers	Group IV Occasional Catalog Shoppers	Group V Infrequent Catalog Shoppers
Fashion Consciousness	19.4412	19.2222	18.5352	18.3636	19.2343
Price Consciousness **	23.3235	22.5555	21.1268	22.3636	20.7567
Sociable	17.2647	18.4444	16.2676	15.6909	17.0360
Credit User	16.0000	15.7778	18.0986	16.7091	16.7477
Self-confident	22.1765	21.3333	21.9577	22.3091	22.2072
Information Seeker	17.9118	17.6667	18.2958	17.5091	16.8829
Innovator*	20.6470	17.7778	17.2535	18.1818	17.4775
Time Conscious	20.6176	19.6667	21.5775	20.9091	21.5225
Store Loyal	16.7647	17.8889	19.1127	18.2364	19.3784

* $p \leq .01$

** $p \leq .05$

TABLE 3

Univariate F-tests for Each of the Nine Life-Style Variables

Variable	Mean Square Between	Mean Square Within	F-ratio	Probability
Fashion Consciousness	13.8906	27.0430	0.5137	0.72
Price Consciousness	58.[illegible]44	25.2470	2.3264	0.05*
Sociable	29.8594	20.6564	1.4455	0.21
Credit User	36.1250	52.1682	0.6925	0.60
Self-Confident	2.5781	16.4439	0.1568	0.95
Information Seekr	23.2812	21.0145	1.1079	0.35
Innovator	77.4375	23.0066	3.3659	0.01*
Time Conscious	14.6406	18.8502	0.7767	0.54
Store Loyal	52.0469	25.4266	2.0469	0.08

*$P \leq .05$

TABLE 4

Discriminant Scores for Nine Life-Style Variables

Variables	Discriminant Scores I	II	III	IV
Fashion Consciousness	0.0452	-0.3775	0.1289	0.3019
Price Consciousness**	0.5930	-0.229	0.1183	-0.2987
Sociable	0.5730	-0.5730	0.6523	0.0912
Credit User	-0.2411	0.3102	0.1698	0.2338
Self-Confident	0.0322	-0.0173	-0.3690	0.1816
Information Seeker	0.0693	0.4884	0.5930	0.1413
Innovator*	0.7168	-0.0524	0.1338	0.5912
Time Conscious.	-0.2986	0.0232	-0.1894	0.5978
Store Loyal	-0.5708	-0.1266	-0.2390	0.0263

*p ≤ .01

**p ≤ .05

ranking was inversely related to catalog shopping frequency. Therefore, "price conscious" and "innovator" related statements because of their statistical significance and because of their highly positive relationship with the discriminant score, appear to be most important in identifying catalog shopping groups.

To further examine the data, group centroids (multivariate means) on the first discriminant score were obtained (Table 5). The centroids positioned each of the groups in a one-dimension space by their relationships to the nine life-style variables. The relative distance between each of the groups on the vector directly relates to the centroid order. Therefore, Group III, moderate catalog shoppers, and Group V, non-catalog shoppers are lowest on the vector; Group II, frequent catalog shoppers, and Group IV, infrequent catalog shoppers are located relatively close to each other near the middle of the vector; and Group I, most frequent catalog shoppers, occupies the highest position on the scale. Positioning on the vector would tend to indicate that although Group II is different from Group IV and III is different from Group V in regard to catalog shopping behavior, little difference is exhibited in their life-style profiles.

Discussion

Although this study was limited to catalog shoppers in one community, the investigation does offer insight for mail order retailers. More specifically, the research findings indicated that residents in a trade area can be segmented on the basis of catalog shopping behavior and that these segments can be distinguished by certain aspects of the members' style of life. Therefore, analyses of the relationship between life-style variables and catalog shopping behavior in this study offer mail order retailers exciting possibilities for reaching various segments of the catalog market.

Thus, in light of this investigation, ratailers desiring to capture the segment of the catalog market which most frequently utilizes mail order catalogs would be wise to stress the ease and time-saving aspect of catalog purchasing in promotional campaigns. Furthermore, since frequent catalog shoppers also tend to be more innovative, these shoppers would be expected to perceive less risk associated with catalog buying. However, frequent catalog buyers would also be inclined to demand more variety and novelty in product lines offered by mail order retailers.

On the other hand, since less frequent catalog buyers appear to be more store loyal and more likely to make credit purchases, retailers seekings to cultivate this market must develop marketing strategies unique to infrequent catalog shoppers. More specifically, mail-order retailers should concentrate on developing consumer loyalty since in most cases once an infrequent catalog shopper chooses a store or catalog from which to shop, most of his purchases are made there. Furthermore, since infrequent catalog shoppers have a high propensity to make credit purchases, catalog retailers interested in developing this segment should provide a wide variety of credit options in order to attract this catalog shopping segment.

TABLE 5

Group Centroids (Multivariate Means)

Group	Centroid
I. Most-Frequent Catalog Shoppers	6.1799
II. Frequent Catalog Shoppers	-3.7153
III. Moderate Catalog Shoppers	1.5918
IV. Occasional Catalog Shoppers	3.7546
V. Infrequent Catalog Shoppers	1.9573

Furthermore, life-style profiles of catalog shopping segments could provide insight for consumer educators particularly in the area of educational material planning. Moreover, knowledge of the aspects of consumer life-styles which affect catalog purchase behavior is essential in directing consumers toward more intelligent catalog purchases.

More specifically, since more frequent catalog shoppers are inclined to purchase less expensive, relatively new merchandise, these consumers are particularly susceptible to the risks associated with purchasing unseen catalog goods. Therefore, although larger mail order retailers have made great strides in standardizing and branding mail order goods, less reputable dealers often offer inexpensive, inferior merchandise in order to attract consumers. Thus, consumer educators should be especially concerned with developing educational materials which will alert catalog purchasers to the fact that the price and newness of a product are not always sufficient indicators of the quality of the merchandise.

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A TECHNIQUE FOR THE STUDY OF SPATIAL ACTIVITY PATTERNS OF INTRA-MALL SHOPPERS

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With the increased mobility of the population after World War II, the shopping center became a retail and social phenomenon in America. Many Americans have been lured away from the CBD by the convenience and the variety of products and services offered in these business centers. Families are combining shopping trips and entertainment.

Although numerous studies have been made concerning shopping centers, little if any information is available concerning spatial activity patterns within the shopping center. These patterns are operationally defined as the routine patterns followed by shoppers as they attempt to maximize the marginal utility achieved from various kinds of shopping trips within a mall.

Purpose

The two-fold purpose of this study was first, to identify empirically the existence of spatial activity patterns within the shopping center, and second, to develop a method of identifying activity patterns of shoppers within a mall.

The value of this study lies not with established malls, but with the planning and organization of new malls and/or additions to existing malls. The information technique presented here has pragmatic application for the complex designer and/or the tenant in determining the best tenant mix/tenant selection.

Site and Situation

A. Location

This study took place at McFarland Mall, which at the present time is the largest center of its type in the Tuscaloosa urbanized area. Located at the intersection of Skyland Boulevard and McFarland Boulevard, and also the interchange of Interstate 59, it covers approximately 40 acres of Section 31, township 21S, range 9W of Tuscaloosa County, Alabama.[1]

Evaluating the general growth areas of Tuscaloosa, there is a strong trend toward the southeast. These major areas of development are within easy access to the activity. These physical location factors contribute to the overall activity at this center.

B. Type of Center

The classification of shopping centers has been discussed in the literature by Kelley,[2] Baker and Funare,[3] Hoyt, and others. Although the definitions differ in detail, their basic tenets are similar.

Kelley defines the regional shopping center as, "one designed to serve from 100,000 to one million or more residing within 30 minutes driving time of the city. Included are one or two major department store branches in addition to convenience and specialty goods stores. Branches include 100,000 to 300,000 square feet of selling space." Kelley went on to describe these centers as offering the most variety of goods and services outside the CBD.[4]

McFarland Mall consists of 48 businesses occupying 400,000 square feet of store space.[5] It is located on a 40-acre site in Tuscaloosa County, which had an estimated 1972 population of 117,700. Because of this close adherence to the Kelley definition, McFarland Mall will be classified as a regional center for the purpose of the study.

C. Populous Characteristics

The most commonly used and most valuable indicators of a community or urban area are the characteristics of the people who live there.

The general characteristics of the population of Tuscaloosa show that in almost every age group females outnumber males. There is also an indication of outmigration in the twenty- to twenty-four year age group. This was more pronounced for the male sector than for the female sector, as age, irrespective of sex, increases the importance to the retailer and the developer, especially if the results of this study continue to be substantiated.[6]

D. Internal Layout

The mall, which was completed in 1968, was designed by developer Ward McFarland, Inc., to incorporate the idea of retail affinity. The L-shape divides the area into three distinct segments. (Appendix A)

The section from Woolco to the corner was designed to serve a lower-income clientele. This will be referred to as the Woolco or the "low-end."

The other wing, from Gayfers to the corner, was arranged to serve a middle-to high-income group with the inclusion of some specialty stores. This will be called the "high-end." Another section that needs an identification is the area where the specialty stores are concentrated. This will be termed the "specialty area," and it features such stores as the Beehive, the Little Gallery, and Baskin Robbins. (Appendix A)

Statement of Hypotheses

The following four hypotheses were selected as the foci of the study:

H_1: SAP's do exist for intra-mall shoppers

H_2: SAP's are a function of Age, Income, Sex, Composition of Shopping Group, and Purpose of the Shopping Trip, or SAP=f (A,I,S,C,P)

H3: Some relationship does exist between (1) driving time to the mall, (2) time spent in the mall, and (3) SAP's

H_4: Some relationship does exist between the individual's SAP and the physical arrangement of the stores.

These hypothese provide the framework for the remainder of the study.

Methodology

A three-part instrument was developed to collect and record the data: (1) a scale drawing of the mall layout for consumers to plot their shopping pattern; (2) a questionnaire administered to the shoppers by an interviewer; and (3) an observation questionnaire completed by the interviewer. From the data generated by the interview/observation technique, some inferences could be made from the SAO's of intra-mall shoppers.

The instrument was designed to generate the information needed for testing the four hypotheses. The scale drawing of the mall layout was used to aid the respondent in communicating the pathway followed, as well as the stores visited during the trip. Each respondent was asked to retrace on the drawing the exact path the sequence he followed through the mall. This included the entrance and exit points, as well as the actual pattern of movement through the mall. With the scale drawing to aid recall, the process of plotting the spatial activity pattern was accomplished with little difficulty.

Next, the respondent was asked a short series of questions, including location of residence, travel time to the mall from the residence, purpose of the shoping trip, time spent at the mall, stores shopped most often, and approximate total family income.

As the respondent departed, the interviewer recorded a few observations of the shopper just interviewed -- approximate age, composition of the shopping group, sex, exit used, and number of bags the shopper was carrying.

The total interview/observation sequence was brief -- less than two minutes; consequently, shoppers were detained only momentarily, and thus there were no refusals.

A quota sample was used to select the respondents to be interviewed. These respondents were classified into groups according to age, income, sex, composition of shopping group, and purpose of shopping trip. The selection of respondents was made so that the proportion of sample members from each stratum would reflect the relative size and heterogeneity of that stratum in the population.

As a check against the results of the sample, the distributions of income and sex achieved in the sample were compared with the population proportions promulgated by census data. There was very little difference between sample distributions and those of the Tuscaloosa SMSA census data. A total of sixty-five interview/observations were completed during the time period at the mall.

To pretest the interview/observation technique, several respondents were followed from the time they entered the mall to the time of exit before the instrument was administered. Upon leaving the mall, the respondent was asked to recreate his pattern through the mall and answer the questions. Finally, the observations were made. This process tested the reliability of the responses given from recall by those shoppers stopped only as they left the mall.

To carry the testing of the instrument a step further, a group of thirty-five respondents was asked to recreate, with the aid of the scale drawing of the mall layout, the pattern followed on their last shopping trip to the mall. The respondents experienced little difficulty in recreating the travel pattern through the mall when shown the scale drawing to aid recall. Thus, a total of one hundred interview/observations was made using this instrument. However, the one hundred interview/observations contained the responses of more than one hundred individuals because some of the respondents were members of shopping groups. The sample consisted of a total of 198 individuals.

When the data were gathered, the next task was to analyze the spatial activity patterns. An acetate transparency was made for each map completed by all respondents. This transparency was placed on a scale drawing of the mall layout to reproduce the pattern followed by each shopper. Each of the transparencies was coded with a five-digit code to identify the socio-economic characteristics of the respondent mapped. By using this method of coding, the spatial activity patterns could be grouped by any of those socio-economic characteristics for analytical purposes. When all responses falling into one income range are grouped, a composite spatial activity pattern can be developed. The value of this procedure is unlimited and can be used to analyze visually the patterns of a common group.

To carry the analysis further, the relative concentration of respondents in each group in the various mall segments was analyzed. The mall corridors were divided into one-inch segments, each representing 100'. In each group, such as income group $10,000 - $14,999, the respondents passing through a particular segment were counted. Then, each segment was shaded its respective color, reflecting its level of concentration in relation to the other segments for that particular group. The use of Mall Segment Analysis (MSA) facilitates both the quantitative and qualitative analysis of the aggregate patterns followed by the various groups. This type of analysis allowed the researchers to draw inferences about the patterns followed by the various groups of respondents.

Also, the average number of feet traveled through the mall corridors for each group was then computed, using the following formula:

$$\text{Average Feet Traveled} = \frac{\sum_{i=1}^{n} S_i}{N}$$

S_i = the number of feet traveled in the ith segment, and N = the total number of respondents in that group.

Results

The data collected enabled the researchers to draw a number of inferences concerning spatial shopping patterns of McFarland Mall patrons. The use of transparencies for the analysis of SAP's provided a convenient method of spotting these patterns of intra-mall shoppers.

In addition to the use of transparencies, a Mall Segment Analysis (MSA) helped to determine the areas of heaviest concentration of the SAP's. This technique was useful also in determining the differences observed between and within each demographic group.

The first hypothesis to be tested was:

H_1: SAP's do exist for intra-mall shoppers.

When the transparencies were combined into common groups by age, income, sex, composition of the shopping group, or purpose of shopping trip, distinct patterns began to emerge. As an example, the patterns of all individuals whose income level fell between $10,000 and $14,999 were placed together, revealing a common pattern followed by each shopper. When the same procedure was followed for the other groups, the commonality of patterns became evident. Thus, it was concluded that SAP's do exist for intra-mall shoppers.

Spatial activity patterns are considered to be overt behavior of the intra-mall shopper in response to a group of stimuli. It is believed that the shopper forms a cognitive mental pattern as part of the mental process completed prior to the actual shopping venture.

With the contention established that spatial activity patterns exist for intra-mall shoppers, the study examined in greater depth some of the more important factors affecting the shape of the pattern. Carrying the research a step further, the MSA's reinforced the existence of SAP's. The test results of the first hypothesis lead to a second hypothesis to be examined for a greater understanding of SAP's:

> H_2: SAP's are a function of age, income, sex, composition of the shopping group, and purpose of the shopping trip, or SAP, or SAP= f(A,I,S,C,P).

Though this list of variables having an effect on the shape of SAP's is not all-inclusive, these variables are among the most important determinants.

A. Income

Income was a variable that affected the form of the activity pattern. Table I shows the relationship of income group to the average number of feet traveled for each SAP.

The income group of less than $5,000 had its heaviest concentration at the "low-end" and traveled an average of 716.6 feet, which was farther than any other group except the more than $20,000 and student categories. This fact supports the hypotheses that lower income shoppers will concentrate their SAP's toward the "low-end," but will travel most of the area.

The shoppers in the income range from $5,000 to $9,999 traveled near both the higher- and lower-end stores, averaging 600 feet of mall area, which was the shortest SAO of any income group. The SAP's of the $10,000 to $14,999 income group were heavily concentrated at the "low-end," but the shoppers left the area before entering Woolco. Many of these SAP's showed the ABC store as the reason for their travel to this area.

A contrast was observed when analyzing the $15,000 to $19,999 group, who shifted their SAP to the high-end and traveled an average of 83 feet farther than the $10,000 to $14,999 income group. The heaviest concentration for this group was at Gayfers. This group also demonstrated more use of the entire "Specialty Area" than any other group.

Similar to the $10,000 to $14,999 group, the shoppers in the over $20,000 category concentrated their SAP in the "high-end," although they traveled the entire mall, with very light frequence of Woolco.

Surprisingly enough, they did not frequent both sides of the "Specialty Area," only the Beehive - Baskin Robbines corridor. One observation with this group is the fact that their average length of SAP (800 feet) was longer than the previous groups discussed. One reason for this might be that they may have more time and want to "look."

The final income category to be discussed is that of students. This group averaged 1028.6 feet of SAO and traveled the entire area, with the lightest concentration in the "Specialty Area." The reason for this lengthy trip could be that many of these shoppers come to the mall for recreation. Table I and Figure I show the relationship of the average length of the trip traveled for the individual income categories.

B. Age

When the composites by age group were examined, several observations were made concerning SAP's. (Table II) Shoppers in the 10-20 age group seemed to have no preference for any particular section of the mall. An interesting finding about this category was that they traveled farther than any other group. This finding corresponds with the Student Income category discussed earlier and seems to have logical implications. The recreation purpose of their trip and their youth can be said to be determining factors.

The 21-30 age group balanced their trip at both ends of the mall, equalizing the number of observations at both anchor tenants -- Gayfers and Woolco. The heaviest concentration was observed at the "high-end," many of these shoppers being upwardly mobile and striving for established incomes. This might help explain why their average trip was the shortest of any age group -- 623 feet. Time spent and the presence of children also helped to explain this observation.

Traveling only eight additional average feet, the 31-40 age group showed their heaviest use of the "low-end," excluding Woolco. This was not true of the "high-end" anchor tenant, Gayfers. (Here the second highest concentration was observed.) This age group frequented the "Specialty Area" more than any other in this demographic classification, with the Beehive - Baskin Robbins corridor receiving the most attention.

The 41-50 age group dramatically showed favor to the "high-end." The greatest contrast between the two anchor tenants could be seen here. Gayfers received the heaviest traffic, while Woolco had slight activity. This age group is directly related to the higher income groups and shows a similar, but even more pronounced, pattern.

Approaching retirement, the 51-60 age group showed a definite concentration at the "low-end." They were a mobile group and traveled an average of 885.7 feet per SAO, which is next to the highest in this classification. The members of this age group were most often alone or with a mate and did not have children in the group. Therefore, they seemed to go for pleasure and were quite independent, which fact is demonstrated by the trip length.

The 60 years or older category ranked fourth in average length of SAP, and these shoppers spread their trips throughout the entire mall. They did not have a significant preference for either the "high-end" or the "low-end." Many of these shoppers were members of a lower income category since retirement. However, no significant difference was observed between the pattern of this age group and income. They may still hold the same pattern they had before retirement. Figure II and Table II depict the relationships that exist among age groups.

TABLE I

Average Feet Traveled By Each Income Group

	Income Group	Average Feet Traveled	Rank
1.	Less Than $5,000	716.6	3
2.	$5,000 - $9,999	600.0	6
3.	$10,000 - $14,999	625.0	5
4.	$15,000 - $19,999	693.0	4
5.	Greater Than $20,000	810.0	2
6.	Student Income Range	1028.6	1

FIGURE I

Average Feet Traveled By Income Groups

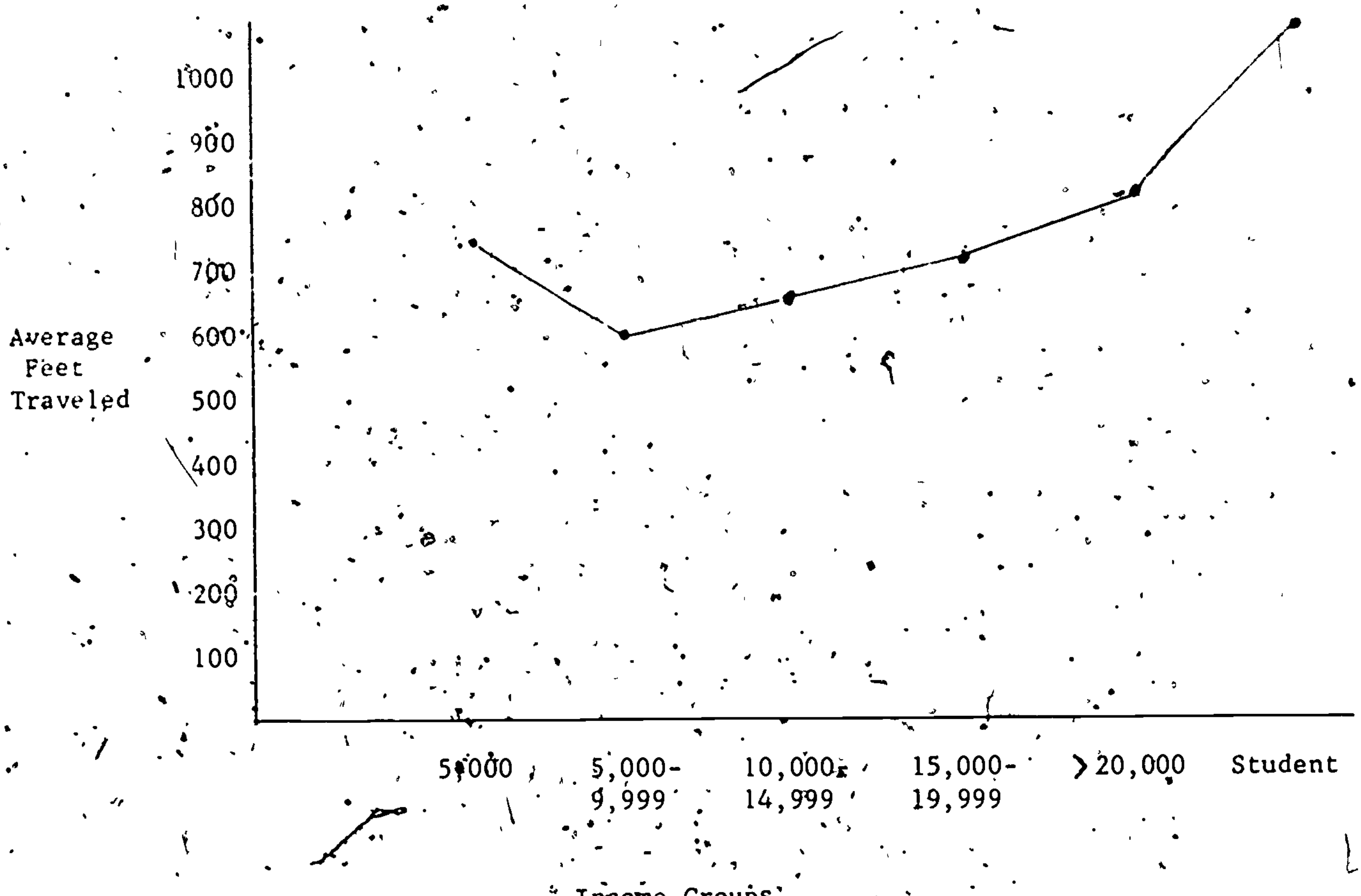
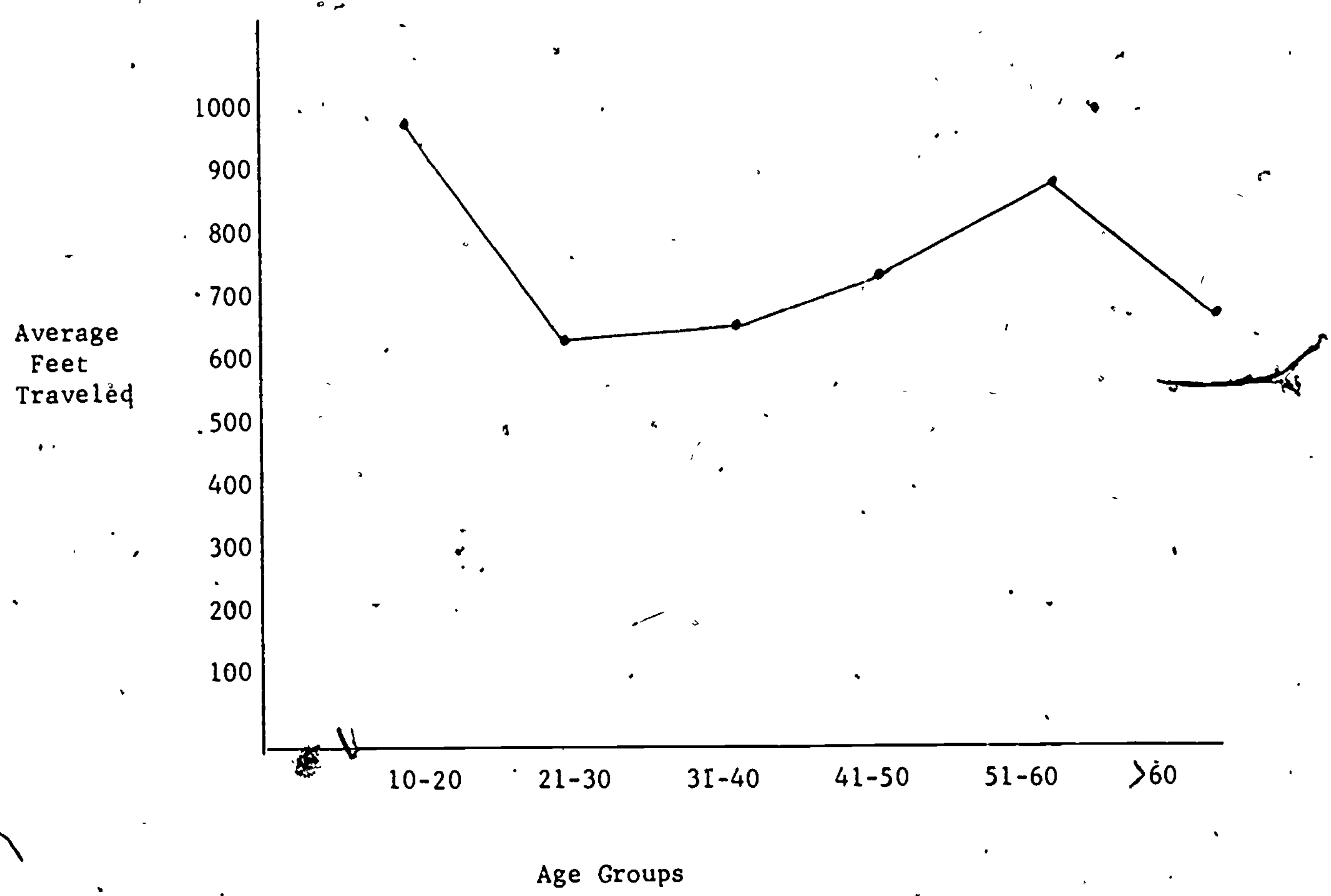


TABLE II

Average Feet Traveled By Each Age Group

	Age Group	Average Feet Traveled	Rank
1.	10 - 20 Years Old	950.0	1
2.	21 - 30 Years Old	623.0	6
3.	31 - 40 Years Old	631.0	5
4.	41 - 50 Years Old	723.0	3
5.	51 - 60 Years Old	885.0	2
6.	Over 60 Years Old	683.0	4

FIGURE II



C. Composition of Shopping Group

Composition of the shopping group gives added insight into the determination of SAP's, which can be seen by Table III and Figure III. In length of trip (616 feet), single shoppers ranked second only to two or more people of the same sex: The single shopper frequented the entire mall corridor, with no significant emphasis on any area except the "high-end" tenant, Gayfers, which had by far the heaviest concentration. Single shoppers were the most frequent visitors to the "Specialty Area."

Adding a mate to the single shopper decreased the length of the trip by 21 feet and shifted the area of concentration. Now the heaviest traffic was near the "low-end," with the heaviest in front of the ABC store. These respondents did not, however, show increased patronage to the "low-end" anchor tenant. The "Specialty Area" lost considerable traffic when the shopper was accompanied by a mate.

When single family members shopped with children, the length of the trip decreased even more, thus forcing this category to last place. There was no difference in the patronage of the anchor tenants. This group traveled the entire corridor except for the "Specialty Area" and gave only slight favor to the "high-end."

Two or more persons of the same sex were significantly different in at least one aspect -- the length of the average shopping trip. They were by far the farthest traveling group (Table III), giving slight preference to the "low-end." A 37 per cent increase in average length was experienced when two or more traveled together.

Another variable that acted as a further determinant of the pattern was the sex of the shopper (Table IV and Figure IV).

Lone male shoppers exhibited a slight tendency toward the "high-end," as did lone female shoppers; conversely, the combination of both sexes shifted the concentration to the "low-end."

The "Specialty Area" was frequented most often by the females and second by the combination, while males frequented it the least. The "high-end" tenant, Gayfers, was dominant for the women as well as the men, but was not as strong for the combination of sexes.

The females traveled the longest average SAP, an average of 263.6 feet more than the males. However, when males and females were in a group together, the trip of the female was curtailed more than the trip of the male was increased (Table IV).

From this brief analysis, women shopping at McFarland Mall seem to travel farther and frequent more areas than do men or combination groups, although other patterns are similar except for the concentration in the "Specialty Area."

TABLE III

Average Feet Traveled By Group Composition

Group Composition	Average Feet Traveled	Rank
1. Single Shopper	616.0	2
2. Couple (Married or Otherwise)	595.0	3
3. Single Member With Children	583.3	4
4. Two or More of the Same Sex	845.5	1

FIGURE III

Average Feet Traveled By Group Composition

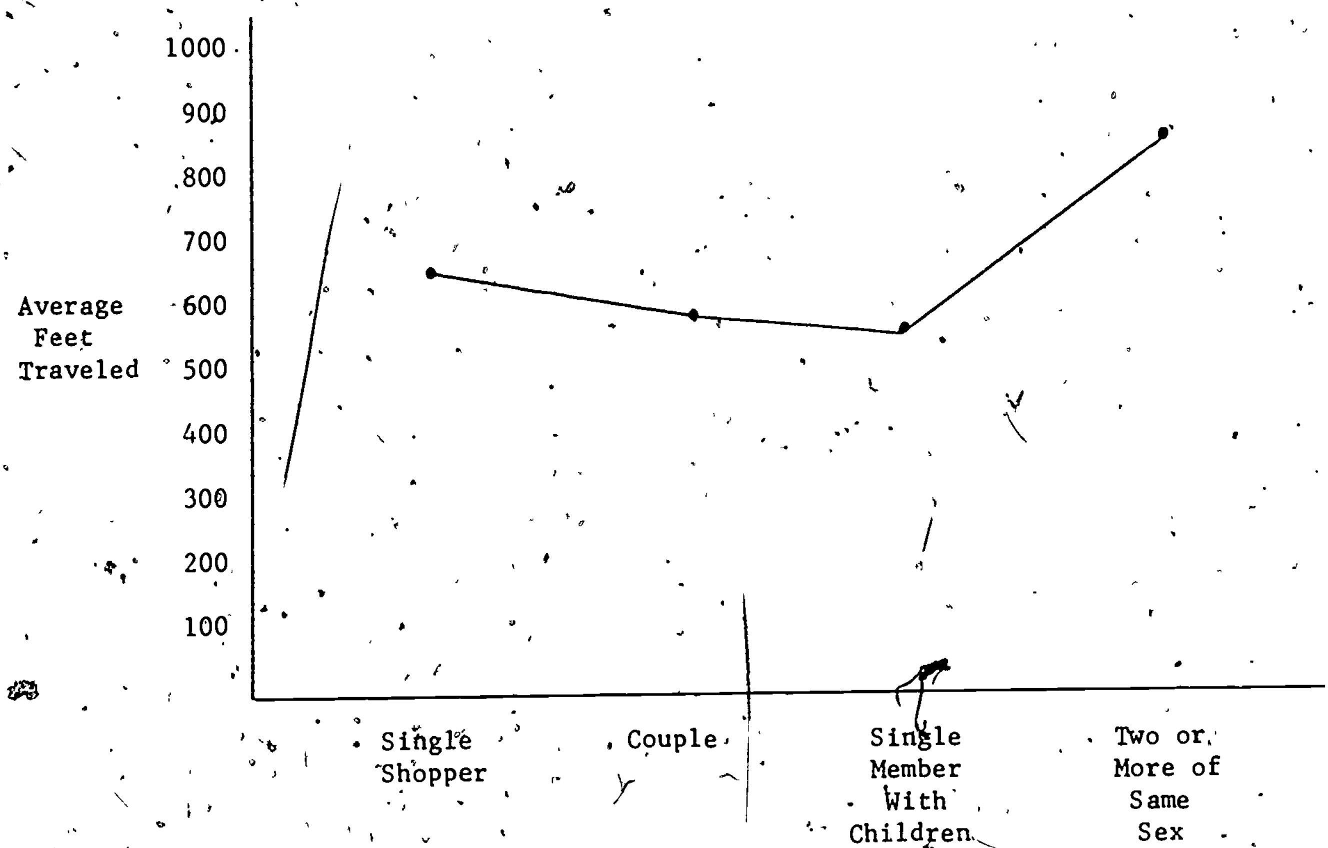


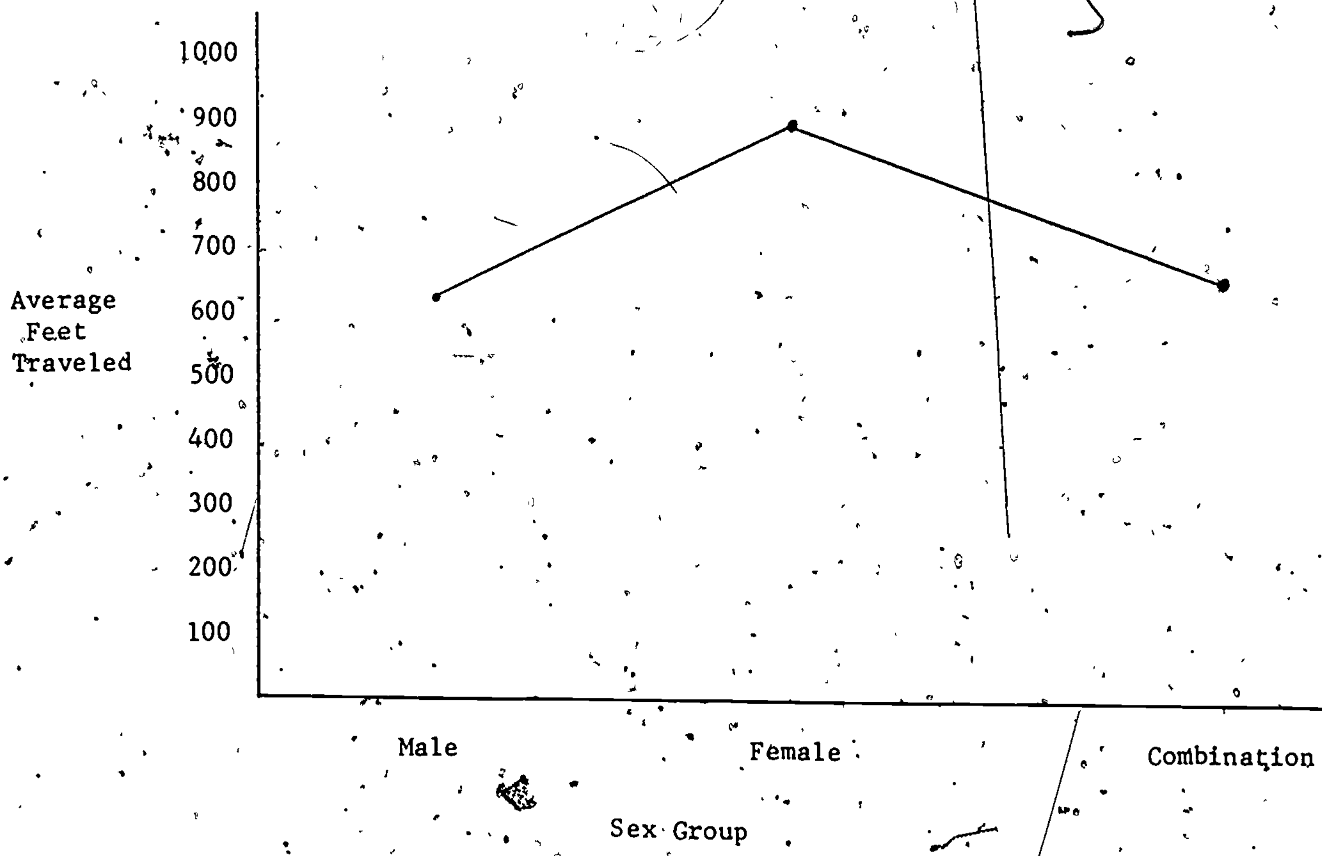
TABLE IV

Average Feet Traveled By Sex Group

	Sex	Average Feet Traveled	Rank
1.	Male	605.8	3
2.	Female	869.5	1
3.	Combination	668.1	2

FIGURE IV

Average Feet Traveled By Sex Group



D. Purpose of Shopping Trip

The respondents were asked to classify whether their trip was single-purpose, multiple-purpose, or "just looking." Some interesting results emerged, which can be seen in Table V and Figure V.

Those shoppers who said they came for a specific purpose actually visited all areas of the mall and traveled an average of 554.3 feet, while those who said they had more than one purpose exhibited a much longer trip, 768.2 feet, which was the longest of any in this classification. The responses from the single- and multiple-purpose shoppers dramatically show the areas visited. The single-purpose shoppers were drawn equally to both anchor tenants, while those of multiple purpose tended toward the "high-end" anchor tenant. The power to draw people for a single purpose was shown by the specialty stores such as the Beehive, Little Gallery and ABC Store.

Those who said they were "just looking" did just that. They equalized their trips throughout the entire corridor and "looked" everywhere except one section of the "Specialty Area."

From the preceding analysis of the factors influencing the spatial activity patterns of intra-mall shoppers, it was evident that there were certain determinants that could be used in the design of mall layout, as well as tenant selection/tenant mix. Retail merchants could benefit greatly from the use of such patterns.

H_3: Some relationship does exist between
(1) the driving time to the mall,
(2) the time spent in the mall, and
(3) the spatial activity patterns.

As was expected, a relationship was found between the driving time to McFarland Mall and the length of time spent at the Mall. Although the data obtained did not lend themselves to exact time comparisons, people who live more than 15 minutes driving time from the mall stayed an average of from one to two hours, while those living less than 15 minutes from the mall averaged less than one hour's shopping time.

Single family members with small children tended to spend less time in the mall than those shoppers who were alone or with other adults, regardless of their age category.

Although the activity patterns of those who came for a single purpose and those who had more than one purpose were similar, the time spent differed between these two groups. The single-purpose shoppers stayed a slightly shorter time than did those who said they had multiple purposes.

Females shopping alone or with another female stayed longer than did males either alone or with another male.

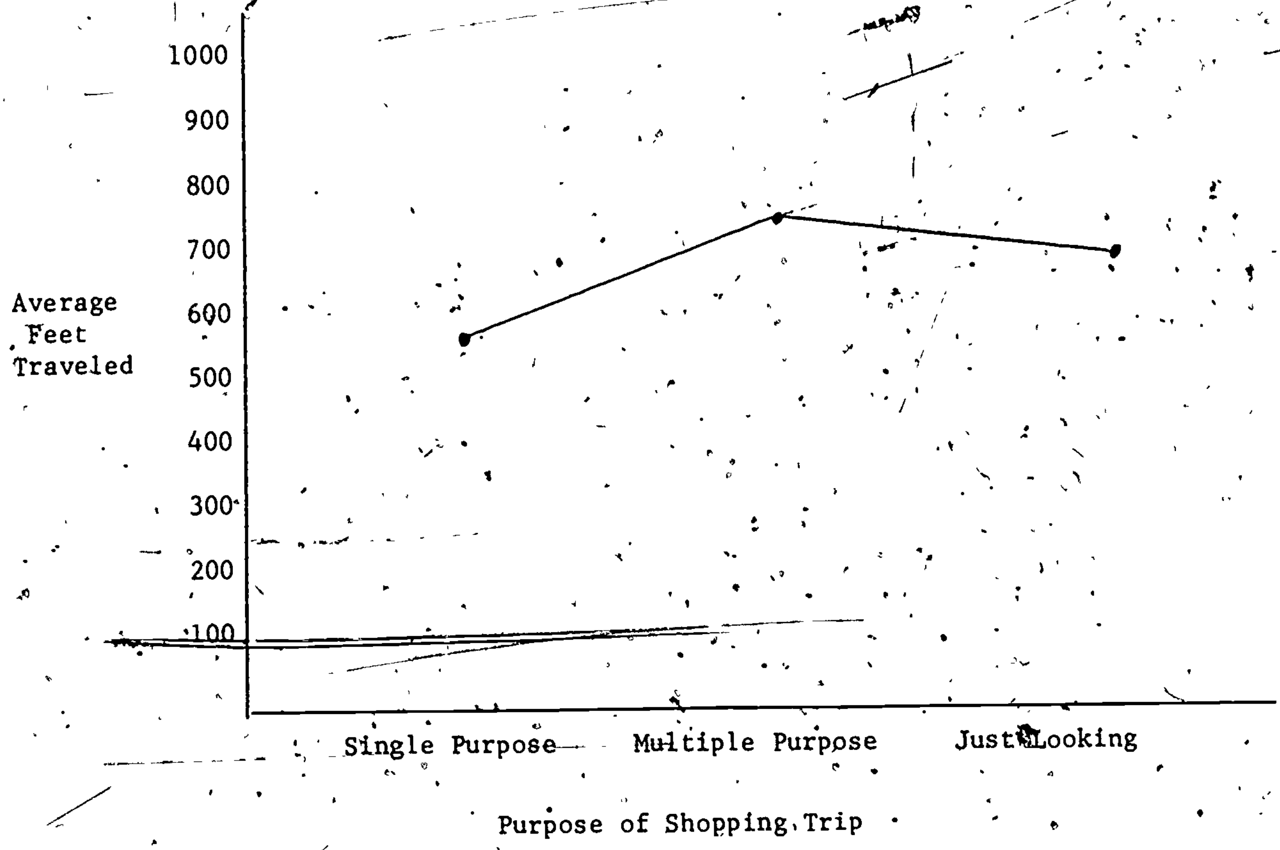
TABLE V

Average Feet Traveled By Purpose of Shopping Trip

Purpose	Average Feet Traveled	Rank
1. Single Purpose	554.3	3
2. Multiple Purpose	768.2	1
3. Just Looking	712.5	2

FIGURE V

Average Feet Traveled By Purpose of Shopping Trip



The income groups that tended to shop more of the mall spent more total time in the process. The individuals and couples who visited only one store stayed on the average less than one-half hour, while those who made more than one stop stayed more than one hour.

Although there were limitations involved in the type of data and the manner of collection concerning the above hypothesis, it does seem to have merit for further study of a more detailed nature.

The fourth hypothesis to be tested concerns a relationship between an intra-mall shopper's spatial activity pattern and the physical arrangement of the stores.

> H_4: Some relationship does exist between the spatial activity patterns of intra-mall shoppers and the physical arrangement of stores.

Given the fact that spatial activity patterns do exist, it is imperative that the arrangement of stores within the mall correspond to the desires of the shoppers. Shoppers attempt to maximize the utility of their shopping trips by the nature of the pattern followed through the mall. Sample patterns flow smoothly in a logical sequence with little effort wasted, which indicates the concept of shopper efficiency. Each shopper attempts to accomplish the trip with minimum time, energy, and money spent on movement.

The stores in the mall tend to be arranged in groups with somewhat common elements. These elements could be relative to the cost of goods handled, store image, or a variety of other factors. To be as efficient as possible, the physical arrangement of the stores must be made in an orderly fashion. For this to be accomplished, areas of the mall must be matched with the shoppers' spatial activity patterns. Until now no criteria have been promulgated for the basis of this arrangement, even though the matching has been somewhat effectively accomplished. If "mall segmentation" is matched with market segmentation, the matching task might be accomplished more effectively. The objective of this method is to reduce the costs associated with travel in the mall, and thus increase the marginal utility of the shopping trip. Consideration in planning mall layout should be given to the market segment appealed to by each retail outlet. The stores with common market segments should be grouped to form mall segments. This grouping would locate the stores with common appeals in the same area. If this were done, the spatial activity patterns of shoppers would more easily achieve a higher level of marginal utility.

Conclusions

The purpose of this study was to develop techniques for analyzing the behavior of intra-mall shoppers. Four hypotheses concerning the spatial activity patterns (SAP) of intra-mall shoppers were tested.

The first hypothesis (H_1) was accepted: spatial activity patterns do exist for intra-mall shoppers. Evidence of such a pattern supports the contention that shoppers somewhat preplan their shopping trips.

The second hypothesis (H_2) was accepted. Through the use of Mall Segment Analysis (MSA) for each of the groupings, distinct patterns of concentration emerged. Similar patterns were found in each grouping, and inferences could be drawn that indicated variations of patterns were associated with variations of age, income, sex, composition of shopping group, and purpose of shopping trip. Therefore, it was concluded that SAP=f(A,I,S,C,P).

The third hypothesis (H_3) was accepted. Adequate evidence was found to indicate a relationship between the individual's spatial activity pattern and the physical arrangement of the stores. Using MSA to develop the segment concentration exhibits presented earlier, it became evident that various income groups concentrated their activities in those areas designed by the developer to serve them. The lower income groups shopped the "low-end," while the higher and middle income groups shopped the "high-end." One interesting observation was that both the lowest and highest groups traveled a similar pattern, which was the entire length of the mall. It was noted, however, that these two income groups made the majority of their purchases at opposite ends of the mall.

This study makes no pretention to be definitive in nature; the purpose of the study was merely to show relevance of such a technique to the study of consumer behavior.

One vital question must still be answered: What is the value of such a study of consumer behavior? The benefits derived from such a study lend themselves to three groups: (1) Center Developer, (2) Tenant, and (3) Shopper. Studies involving consumer behavior such as this will give additional insight for the shopping center developer into the tenant mix/tenant selection process. One of the most important questions affecting the tenant mix/tenant selection process has been answered here -- where do the people shop after entering the mall or center? The developer should use information such as this in choosing and placing tenants in the complex.

The tenant in a proposed mall can benefit from this type of information also. This information can be used by the tenant in selecting a location within the mall and also for determining an acceptable range that can be paid for rent. For example, if a tenant is a phonograph record dealer and knows his target market's average feet traveled, then he can position himself with respect to exits, etc., for the most advantageous position at the least cost.

The shopper also benefits from this type of study in that the information provides developers and tenants with ways to reduce the cost of the shopping trip as defined earlier. The shopper's trip within the mall could be simplified to the greatest extent.

There are also some strategy implications for the tenants within a complex. For example, this information could help answer the question of how a tenant can get his market segment to his store once a shopper enters the mall.

Perhaps this study has an even broader implication: Should we be studying malls as single units, or should we be examining them from an internal segment viewpoint? This basic question needs an answer, and hopefully when a greater fund of knowledge is compiled, the answer will be found.

Future investigation of spatial activity patterns using MSA has merit. These studies could take a number of avenues; however, the following list is a beginning of the vast amount of research that should be done in this area.

1. Studies of different malls should be made to determine what effect shape and organization of the mall have on traffic patterns.

2. A study should be made to determine whether sales or other attractions influence people's activity patterns.

3. A comparison should be made of the gross leasable area and SAP.

4. A comparison should be made of the rents paid by the retail establishments and the characteristics of the shoppers making purchases in these stores.

Footnotes

1. Paradeso, Clay, Ruben, Frank, Traylor, Tim, and Wildes, Bill, Aspects of Frequency of Visitation and Tributary Area of McFarland Mall directed by N. G. Lineback Department of Geography January 1970, p. 2.

2. Kelley, Eugene Shopping Centers Locating Controlled Regional Centers The Eno Foundation for Highway Traffic Control 1956, p. 7.

3. Baker, Geoffrey, and Funaro, Bruno Shopping Centers Design and Operation Reinhold Publishing Corporation: New York 1951.

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5. Shopping Center Directory (10th ed.) Chicago: National Research Bureau, Inc., 1968, p. 24.

6. Census Tracts Tuscaloosa, Ala. 1970 Census of Population and Housing U.S. Department of Commerce Bureau of the Census. PHC (1)-220 Table P-1.

THE ECOLOGICAL PRODUCT BUYING MOTIVE

A CHALLENGE FOR CONSUMER EDUCATION

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"A man is called selfish,
not for pursuing his own good,
but for neglecting his neighbors."

-- Richard Whately

The subject of what consumers buy and why they purchase as they do has been a popular topic for market researchers. More recently, a number of research projects have centered on consumers' willingness to alter their buying behavior in favor of products that are sold with an ecology appeal. Information that has been garnered from these initial efforts is both fascinating and revealing about the nature of the buying public's involvement in societal economics.

Societal Economics is a useful term for describing the typical tradeoffs that consumers often face in the marketplace when they are confronted with purchase decisions that trade personal preferences for societal good. This type of purchase situation is typical of the decision that a consumer must make between throwaway containers (convenience) and returnable bottles (environmentally safe). Similar decisions are made when choosing between low vs. high phosphate content detergents and leaded vs. unleaded gasolines. The present list of products that fit neatly into the framework of analysis for describing Societal Economics is not extensive; however, the concept is suitable for speculation about a wide range of products and services that are rapidly becoming societal vs. personal tradeoffs.

Societal Economics and Voluntarism

People who are over the age of 40 will probably recall the emergency rationing programs of WW II and the importance of voluntary compliance in power and product consumption throughout a troubled world. A time of crisis brought a mutual dependence among consumers and producers alike.

More recently, 55 mile per hour speed limits and lowered thermostats were results of a contemporary energy crisis. It was fascinating to be in Los Angeles and to watch drivers on our freeways "going slow" and holding to 55 mph weeks before the new speed limits became law!

<u>The point is</u>: Is it possible for a responsible public to react in a voluntary fashion for the benefit of the society as a whole? Likewise, can the concept of a voluntary action be transferred to voluntary consumption behavior?

At the heart of these questions lies an issue so simple and yet so important to the democratic form of capitalism that it is fundamental and necessary to expand on the nature of voluntarism.

<u>Consumerism, The Marketing Concept, and Intelligent Consumption</u>

The three items of Consumerism, Marketing Concept, and Intelligent Consumption are all related to the idea of societal economics. The marketing concept, said simply, refers to a corporate philosophy that places the firm's customers at the focus of its business activity. Consumerism, although more difficult to define, generally refers to:

> . . . the widening range of activities of government business, and independent organizations that are designed to protect individuals from practices (of both business and government) that infringe upon their rights as consumers./1/

Interestingly, the tenor of current writing in marketing seems to indicate that the marketing concept is changing, or at least in transition, and that consumerism may be responsible (at least in part)/2,3,4/. Intelligent consumption is a concept that refers to the inherent responsibilities that consumers have in order to generate maximum personal satisfaction per dollar expended in the marketplace. Rothe elaborates as follows:

> . . . the intelligent consumer needs information, choice, safety, recourse, and the capacity to decide. Intelligent consumption also requires that the individual consumers' consumption choices reflect his awareness of the critical social problems of resources (scarcity) and environment (pollution) /5/.

The three philosophies of consumerism, intelligent consumption, and the marketing concept represent different, and yet similar approaches to describe institutions, individuals and their relationship within society. Such relationships are the primary subject of this paper and the nature of voluntary consumption behavior.

The marketing concept has had a somewhat mixed performance record as corporate management has tried to sort out the ever changing structure of the markets they serve.

The essential element of the marketing concept that has relevance here, is that this philosophy has at its roots the idea of "listening" -- listening to consumers and producing to meet their needs.

Consumerism, likewise, has at its base the concept of "speaking" -- making known the dilemmas of frustrated consumers that aren't being listened to often or well enough.

Intelligent consumption positions the consumer alongside the producer and fixes the responsibilities of exchange in the marketplace on both parties. The consumer is assumed to want to perform intelligently and responsibly, and the producer is assumed to offer products, information, and recourse that make for just and sensible exchange.

Voluntary consumption behavior is a subset of intelligent consumption.

Intelligent consumption means purchase behavior that is thoughtful, rational, and the maximization of personal satisfaction. Voluntary consumption means trading off a certain degree of satisfaction for other forms of benefit -- in this case, social welfare.

Voluntary Consumption and the Ecology Motive

The general theme of the "Ecology Movement" has been the focus on "quality of life" issues. Often, products and the firms who make them have been the targets of public outrage as the industrial society spawned the tragedies of polluted waterways, fouled air, and health hazards. The curious dilemma for a disturbed public is that not only are the industrialists at fault, but also the public they serve. The very basic tenets of the marketing concept, recalled, yield -- the consumer as the focus of product development and production!

Rather than dwell on whom is at fault in producing our ecological problems, it is perhaps useful to examine a classic case of voluntary consumption.

The ecology movement has provided us with a unique way to observe how consumers will react to motives that are essentially social in nature. For example, in the late 60's when the ecology movement really began to surface, a whole set of new products such as biodegradeable containers and low phosphate detergents began to come on the market. Often times, these products were less convenient and even more expensive than similar competing items. Consumers who opted for these new products were likely demonstrating voluntary consumption behavior.

Market researchers were quick to see the opportunity to observe consumer response to ecology issues. In late 1970, this author had the opportunity to conduct a special sales audit of ecologically oriented products in a major western food store chain in the Colorado area. The research focused on an effort by the food chain to inform consumers about how to be "ecologically conscious." Their venture was analyzed and its success reported in July of 1971/6/. Results of the study determined that ecological buying motives were sufficiently strong to cause significant erosion of market share in high phosphate detergent products. Likewise, returnable bottles and biodegradeable containers showed marked consumer interests. This study along with 9 other relevant research pieces are portrayed as the subject of Figure 1. The illustration points out the wide range of issues and interests in the last four years of consumer-product ecology research.

A follow-up study to the Denver store audit was made by Herberger and Buchanan and reported in July of 1971. Here, the authors added the dimension of price sensitivity to the ecology motive. It was noted that a significant market segment was responsive to the ecology issue. However, in the presence of fluctuating prices the ecology buying motive was determined to be somewhat weak.

Kassarjian, in July of 1971, reported an interesting study of consumer response to a proported environmentally sound Chevron F-310 gasoline /7/. Among his most revealing findings was that the segment of the market most concerned about pollution was more aware of a product that promised a potential solution to that problem. Likewise, consumers stated that they were willing to pay a higher price for a product that would aid in the reduction of air pollution in the Los Angeles area. At least for a brief period of time, retailers of the Chevron F-310 gasoline noted no significant decrease in sales, even though their product was priced several cents a gallon more than competing products nearby. Kassarjian was unable to uncover any significant demographic or socio-psychological descriptives of consumers who were likely to be more concerned about ecology issues. He concluded his study by saying that it was apparent

> . . . that there is no simple segmentation variable other than the additive itself. The important variable of concern to the marketer is not related to the usual market segmentation criteria, but rather the level of concern about the issue at hand, whether it be nonreturnable bottles, high phosphate detergents, aluminum cans, or excessive use of paper bags dispensed at supermarkets /8/.

After the Kassarjian study came the Herberger and Greenberg investigation of consumer's relative knowledge and awareness of ecological information /9/. This particular study also focused on identifying those consumers who are ecologically concerned. The study was able to pinpoint a number of significant demographics including income and marital status as major predictors of ecology consciousness.

Kinnear, Taylor, and Ahmed /10/ as well as Mazis, Settle, and Leslie /11/ followed a similar tact to Kassarjian's work with an analysis of important sociopsychographic identification. These studies found that such identifiers as tolerance, understanding, avoidance, and the consumer's perceived effectiveness of affecting his environment showed significant relationships to ecological concern. Likewise, the latter research effort dwelled on psychological reactance theory and the strength of brand loyalty in the presence of ecology product relationships.

FIGURE 1

ISSUES OF INTEREST IN MOST RECENT CONSUMER ECOLOGY RESEARCH

	Consumer Acceptance of Ecology	Level of Ecology Motive	Observed Actual Purchase Behavior	Social Responsibility	Attitudes	Knowledge	Socio-Economic Identification	Socio-Psychographic Identification	Level of Brand Loyalt
Herberger (7/71)	X	X	X						X
Herberger, Buchanan (8/71)	X	X							X
Herberger, Greenburg (1/72)	X	X	X		X	X	X		
Kinnear, Taylor, Ahmed (4/74)	X	X	X		X		X	X	
Mazis, Settle, Leslie (11/73)	X		X		X	X		X	X
Kinnear, Taylor (5/73)	X	X	X		X				X
Henion (2/72)	X	X	X				X		X
Anderson, Jr. Cunningham, (2/72)				X	X			X	
Kassarjian (7/71)	X				X		X	X	X
Herberger, Kanter (2/75)	X			X	X				

In 1972, Henion reported a study where shares of market for brands of detergents were analyzed in the presence of ecologically relevant information. High phosphate detergents, it was found, lost as much as 12% of their actual market share in an experimental situation. This study, and others, seem to indicate that there is an ecological buying motive /12/.

Herberger and Kanter in a recent study completed in February of 1975, drew on a major contribution by Anderson and Cunningham in 1972 /13,14/. The Herberger and Kanter research effort brough together the two issues of ecological knowledge and a measure of social responsibility among British housewives. As in other studies certain socio-economic indicators, such as social class and education, were significant indicators of a high degree of social responsibility and, likewise, knowledge of the ecological issues. Although this latter study did not actually observe consumer purchase behavior, it does set the stage for further research in the area of social consciousness and the ecology buying motive.

A summary of the general findings of ecological research to this point in time is the subject of Figure 2. The major issues that have been addressed by researchers include: Consumer Acceptance of Eco-Information, Level of Eco-Motive as it Relates to Brand Loyalty, Social Responsibility, Attitudes, Knowledge, and Socio-Economic and Socio-Pyschographic Identification. Figure 2 is broken out into two areas labeled Pro, meaning positive findings with respect to the ecology-product motive, and Con, meaning findings that tend to go against the strength of the motive in the ecological buying segment.

Consumer Acceptance of Ecological Information

Virtually the entire complement of research that has been done to this point indicates that consumers accept the importance of preservation of the quality of life. The problem seems to be that even though there is wide spread acceptance of the terminology of ecological preservation, there is a great deal of confusion over how to react in the marketplace. Typical of this situation are the major controversies that have surrounded phosphates and their effect on the environment /15/. Is it any wonder that consumers get confused when they are presented with as many as four different types of gasoline at a single station? Which is the most ecological purchase, unleaded gasoline? Perhaps, low lead? Or maybe even clean burning hi-test? This type of purchase decision confusion ultimately makes it very difficult for consumers to act in responsible ways. Likewise, it points out the extreme importance of accurate, simple, and actionable information with regard to product-ecology relationships. One of the premier challenges for consumer education seems to be how to communicate effectively with a consuming public that wants to react responsibly to such issues as the ecology-product relationship.

Social Responsibility Correlation

The issue of quality of life, or ecological preservation, is a subset of the general concept of social responsibility. This is particularly true since the individual purchase behavior of consumers ultimately has an effect on the population as a whole, albiet a small effect in any one individual's

FIGURE 2

SUMMARY OF GENERAL FINDINGS

RESEARCH ISSUE	PRO	CON
Consumer Acceptance of Eco-Information	Accept importance of ecology information	Confused over terminology Difficult to act
Level of Eco-Motive vs. Brand Loyalty	There is an Eco-Motive Buying segment Strong motive for this segment	Relatively low in importance to general population Probably less than 12% of population alter buying behavior
Social Responsibility Correlation	Eco-Motive is probably strongly tied to an identifiable social consciousness	Socially responsible population is a clear minority Social responsibility is non-actionable
Attitudes	Strong feeling of concern for Eco-deterioration Some preference for Eco-safe products	Attitudes are non-actionable General population feels unable to do anything General frustration
Knowledge	Wide spread general awareness Cues are identifiable	Mixed, concentrated among a few Often inaccurate
Socio-Economic Identification	College educated High occupational attainment Pre middle aged	Lower status occupations Lower income groups Middle age and older
Socio-Psychographic Identification	Less alienated Less conservative Consumer effectiveness is high Open to new ideas Strong desire to know Less status conscience	More alienated More conservative Closed to new ideas High in harm avoidance More status conscience

case. Measures of social responsibility, such as that of the Anderson and Cunningham study and the Herberger and Kanter study, are forerunners of our ability to isolate those people who can be converted to more socially responsible behavior. The social responsibility correlation with the ecology buying motive lies at the heart of a strong educational program aimed at voluntary consumption behavior.

Attitudes and Knowledge

As mentioned earlier, the public's general attitude toward quality of life is positive.. There is evidence to suggest that the issue of quality of life will pale in the presence of economic disorders such as inflation, recession, or more generally, stagflation. Once again, the challenge for consumer education lies in the fact that, even though consumers have a sincere interest and concern for their ecology, these attitudes are often quite specifically non-actionable. Certain kinds of purchase behavior can yield a degree of satisfaction for the eco-motive; however, consumers in general nee to know more, and how to act in responsible ways.

It seems paradoxical to find that we have an indentifiable audience of innovators, or early adopters, of the ecology-product concern concept, and, yet, we seem to have done little to take advantage of the body of theory tha is available for transmitting this knowledge and awareness to the population at large.

Socio-Economic Identification vs. Socio-Psychographic Identification

On the issue of how to identify individuals who are socially responsible and who understand the need for ecological purchase behavior there are mixed results from research. It is clear, however, that the ecological buyi motive is complex at best and somewhat difficult to describe in simple demographic terms. Perhaps one of the most serious causes for concern in the ecology-product relationship comes from the fact that there is strong evidence to suggest that the better educated, more affluent members of the consuming public are the most likely candidates for responsible voluntary consumption behavior. This is not to suggest that lower income, less educated people are less socially responsible. Quite to the contrary, it would seem that the basic motive of ecology as a purchase criteria is simply lower in the overall evoked motive set. Here the challenge for consumer education will be to convince members of various socio-economic strata of the importance of individual, voluntary consumption that reflects on society as a whole. There is little evidence to suggest that being an ecology-conscious buyer is necessarily more costly.

The distribution of intelligent, voluntary consumption is a problem unt itself, particularly when the proportion of the world's less affluent countr and people continues to grow. Clearly, the survival motive is short-run and strong. Equally clear, is the fact that quality of life through intelligent, voluntary consumption is a weaker motive and perceived as a long-run problem by the majority of people.

Recommendations for Action

A central these of this paper is the availability of a consumer purchase motive called, "ecology consciousness." It has been shown that this motive is demonstrated in the form of voluntary consumption behavior as consumers tradeoff degrees of individual satisfaction for the corporate good of "Society" as a whole. The question remains, however, as to how to broaden the participants in eco-conscious purchase behavior.

As pointed out earlier, social responsibility is not necessarily dependent on social class or economic strata. Instead, socially responsible or eco-conscious consumers tend to have better facility with information that is necessary for this form of intelligent consumption.

Recommendation One

Clear, concise, and <u>actionable</u> information must be available to all consumers at the point of sale. Sounds like an old song! However, the key point is actionable information. Some time ago with the truth in labeling act, and more recently with the enforcing of nutritional labeling, consumers have been given access to greater amounts of information /16/. While the intent of food labeling regulations is to facilitate value comparisons, the consumer is still faced with the problem of personal optimization. How does the housewife translate nutrition, cholesterol and fatty acid labeling, imitation foods, dietary foods and other "nonstandardized" foods as well as price and size variance into a comparative model? Certainly with difficulty, if at all /17/. The nature of labeling regulations serves as a good model, however, for the eco-conscious buyer. Already, laws are on the books requiring environmental impact statements on new land developments. Would it not be possible to classify certain types of goods, and perhaps services, as environmental risks? Impractical? Please read recommendation two.

Recommendation Two

Long ago marketing practitioners recognized that product distribution systems such as food stores, retail shopping centers, etc. were in fact buying institutions for their customers. Recommendation two is aimed at the distribution end of the marketing function: add environmental impact information to your reasons for buying. It is important that the concept of intelligent consumption be carried through to the retail and wholesale level. Distributors have an obligation to their customers to buy responsibly, to buy products that can reflect the consumer's general concern for their quality of life. This proposal can be an important differential market advantage for the alert retailer. If the customer market you serve objects to having their freedom of selection restricted, then classify your product offerings into risk categories. Make it simple, but above all, make the decision to inform customers of how their purchases can affect their quality of life.

There are a number of obvious ways to accomplish environmental consciousness as a marketable advantage. To begin with, the retailer and even the wholesale distributor can publish their "reasons for buying." Would it not be possible for a food retailer to color code those products that are of questionable environmental impact? What about a "best buy's for the environment" section?

There are many problems associated with relying on the independent businessman to make the judgements necessary for a consumer's voluntary intelligent consumption, not the least of which is the confusing babble that surrounds what is and is not bad for the environment. Information quality is the subject of recommendation three.

Recommendation Three

Earlier the question was asked, "Is it possible for a responsible public to react in a voluntary fashion for the benefit of the society as a whole?" It is the author's contention that it is not only possible, but essential. The most disturbing conclusion that runs as a common thread among researchers of consumer-product relationships is that the public must be protected from the risk of unprincipled business practices as well as protected from themselves. The conclusion, though perhaps inevitable, has fostered a growing reliance upon federal, state, and local legislation, as well as the public's abdication of their privelege of free, intelligent consumption. This abdication has in the author's opinion, been made in favor of governmental regulatory agencies and has succeded in creating a "third world" of capitalism that is replete with a cause (consumerism) and vocal advocates. This "third world" is not necessarily bad, however; in fact, it may have been the only way to get the attention of management, government, and the public as well. The danger is in the evolution of a dependence on a legalistic relationship between consumer, producer-distributor, and retailer. This evolution has set-up corporate management in an adversary relationship with their own consuming public -- quite a contrary notion to intelligent, voluntary consumption! How did the public come to the point of relying so heavily on governmental regulatory agencies? Quite simply, implied authority and objectivity.

It is normal for the public to look to an objective third party as a source of information and ultimately, protection. The recommendation would be, therefore, that federal agencies recognize their implied credibility and do more in the way of communicating accurate, actionable information to the business community as well as to the consumer. The focus should be on the independence of research and comparative product evaluation more so than on legal redress. Government should be a partner in the business-consumer relationship.

Recommendation Four

From the businessman's standpoint, the marketing concept is still livable, still viable. The producer must broaden the product bundle to include information that will assist the consumer in buying intelligently. If the manufacturer's product has attributes that make it more environmentally sound, say so. The area of environmental impact studies as they apply to products and services is an excellent way for regulatory agencies to get comparative information to both consumers and marketing distributionfirms. An even better approach would be for trade associations to take the responsibility for self-regulation in assessing their member's products' on the quality of life.

In conclusion, these recommendations touch the surface of a number of deeper problems as they relate to the education of consumers and the ecology buying motive. To begin with, the technology is still developing that will allow industry and government alike to judge what is safe, or less dangerous, for our environment. Environmental systems analysis is a whole new field that is yet to come of age. It is the wish of the author that the warnings of a danger in too much consumer-government reliance do not overshadow the hope that is seen among buyers that are ecologically conscious. As we move into a period of resource scarcity, the measure of stability in our culture may be the degree to which we can rely on each other to "voluntarily" do what is best for our society as a whole.

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PRELIMINARY RESULTS ON A SURVEY OF CONSUMER ATTITUDES TOWARD CONSUMER PROBLEMS

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Design of Attitude Questionnaire

At an all encompassing level of generality, the economic system can be perceived as composed of three major power blocks: business, government and the consumers. The interactions and feedbacks among these blocks form a complicated system. The consumer interest is one of the major components of that system. Efficient and equitable alternatives for the consumer well-being ought to be provided by government and business. The same impediments that limit consumer welfare ultimately inhibit business and government from achieving their desired ends. The rise of consumerism pleads the case for strong consumer policy the outcome of which should be to alleviate problems that hamper the welfare of individuals. The argument that an amelioration of the consumer position must come about through an increased responsiveness in the standard motivations and dynamic adaptive changes in the existing institutions of business and government does not face the historical fact of emerging effective consumer action for policy change /1,2,3/.

Yet, while there is a wide debate in this area, we have very little direct information from the consumers themselves as to how they feel about some of these issues. Nowadays one can hardly conceive of medicine without asking the patient about his symptoms (although the care may not be left to the patient). Yet, debates about consumer policy neglect the views of the consumer themselves. Thus, it appears quite important and relevant at this time to undertake a survey of consumer attitudes towards consumer problems and concerns. It is of crucial importance to take consumer views into account in policy making since besides being voters they also are shouldering the burden of taxes (some of them paying for consumer policy measures) as well as high prices and deteriorating quality of products and the environment. Thus, it is essential for consumers to have a voice in consumer policy making which ought to be directed at the improvement of the economic and personal welfare of the consumers.

Basic groundwork has been done in this area by Burton /4/ and Gaedeke /5/ in their doctoral dissertations. They surveyed segments of the educated public actively concerned with consumer problems and issues. Burton surveyed teachers of consumer education, the final say about his questionnaire resting with a jury of past presidents of the American Council for Consumer Interests. Gaedeke surveyed business-oriented and consumer-oriented spokemen for their respective associations as picked from lists of individuals who testified or provided evidence for the record during Congressional Hearings involving consumer issues, a third group of respondents was drawn from Senate staff members and other government individuals involved directly in consumer protection activities. Burton had 234 respondents and Gaedeka 65. The design of their questionnaire was based on the literature and a large number of frequently stated assertions about consumerism. Burton's final questionnaire was composed of 48 items while Gaedeke covered 67 items. These works represent major efforts to uncover the dimensions of consumer problems. The amount of background work involved is considerable and the design of the questionnaires (particularly that of Burton) were useful in the initial stages of our thinking. Insights were also derived from Shirley Schecter's doctoral dissertation "Consumer Rights, Information and Consumer's Strength of Commitment to Consumerism Issues" /6/. She uses Burton's, Gaedeke's and her own questionnaire to survey college students' attitudes towards consumer problems and degree of correlation between knowledge of issues and commitment towards action to remedy such problems.

In addition to the above basic work, the literature on attitudes and survey methods was surveyed. Admittedly, the design and testing of attitudes questionnaires as well as administering the survey are very challenging. The following argument is based in part on the literature in references /7/ to /19/.

The design of the attitudes survey questionnaire followed the well established procedure discussed in this literature. Consumer awareness means that a person recognizes an issue or a problem as being relevant to his environment. Attitudes is a stronger feeling in the sense that a person not only recognizes the issue but also has a point of view /7,14/17,19/. Both awareness and attitudes are functions of knowledge, information or exposure through personal experiences.

Knowledge is taken here to include information on products (price, quality, servicing, etc.); on sources of product information (government publications, Consumer Reports, etc.); and on channels for the resolution of various consumer grievances (FTC for deceptive advertising, state and city departments of consumer affairs, small claims courts, etc.). Experience refers to problems encountered by consumers with defective products, deceptive advertising and trade practices, etc.

Attitudes will be interpreted to include opinions on policy issues, particularly those subsumed under the general headings of consumer protection (government regulation), consumer advocacy (i.e., self-help organizations), and consumer education (i.e., either governmental or involving a government subsidy).

Relevant issues were chosen from previous and current studies (Burton, Gaedeke, Schecter), newspapers, magazines, Journal of Consumer Affairs and other professional journals, government publications, news releases, extension material, discussions of a "panel of experts" (seminar group for Hatch 408 meeting regularly and composed of three faculty members, one research associate and 10 to 12 graduate students).

On the whole, Oppenheim's definition of attitude /7, p. 105/ is adequate for our purpose. This definition is as follows. Attitude: "state of readiness, a tendency to act or react in a certain manner when confronted with certain stimuli." The stimuli is a statement and what is measured is the strength of the reaction.

The final statements were developed on the basis of relevant issues chosen as described earlier. They were evaluated through pretests with a larger number of statements.

The statements are listed randomly by "drawing from a hat" to avoid any presentation bias. For the same reason, negatively and positively phrased statements alternate.

The respondent is provided with an array of possible stands on an issue via several related questions spread throughout the questionnaire. Thus, each statement is simple, clear, direct, unambiguous and concise. Statements which can be interpreted more than one way were avoided. The final form of the statements were worked out after pre-testing in the course of several meetings of the seminar "group of experts" mentioned earlier. The response is coded according to a lickert scale, i.e., the respondent is asked to evaluate the items on a five-category scale ranging from strongly-agree to strongly-disagree. The lickert scale is useful for its simplicity and is as accurate as other more complex methods of rating /10/.

Validity, Reliability and Discrimination: Statistical Methodology for Testing "Goodness" of Questionnaire

The design of a questionnaire does have to meet certain statistical methodological standards in order for the research to really reflect existing attitudes rather than clusters of random responses with little pattern and very little statistical meaning.

Validity

The first methodological question relates to content validity. Since our items are based partly on existing surveys which were well developed as well as repeated meetings of our "group of experts" we felt that the instrument offers a high degree of validity.

Discrimination

Discrimination can be looked at three levels: (i) item analysis, (ii) differentiated groupings and (iii) an overwhole test of differences. The discrimination here is between pro-business and pro-consumer attitudes. Thus, an item is good if it differentiates between these two groups. Our initial attitude questionnaire was composed of 40 items and was pre-tested on 24 respondents (some from around Cornell, some from rural areas). The final questionnaire was composed of 30 items based on this pre-test. It follows.

	Strongly Agree	Agree	Don't Know	Disagree	Strongly Disagree
1. Government control over the drug industry to insure the safety of drugs is too strict.	SA	A	DK	D	SD
2. Many advertisers make false claims about their products.	SA	A	DK	D	SD
3. Consumer groups are meddling too much in the business system.	SA	A	DK	D	SD
4. There aren't enough places to which a dissatisfied customer can complain.	SA	A	DK	D	SD
5. Industry, rather than government should establish safety standards for products.	SA	A	DK	D	SD
6. Consumers should be encouraged to become involved in setting public utility rates.	SA	A	DK	D	SD
7. In recent years, the government has been spending too much money on consumer protection.	SA	A	DK	D	SD
8. There should be a professional employed in the local government to receive consumer complaints.	SA	A	DK	D	SD
9. The government should be stricter in policing advertising.	SA	A	DK	D	SD
10. The Better Business Bureau is helpful in handling consumer complaints.	SA	A	DK	D	SD
11. The quality of consumer products today is poorer than it was a few years ago.	SA	A	DK	D	SD
12. Industry should be left free to regulate itself without government interference.	SA	A	DK	D	SD
13. Contacting the federal government in Washington, D.C. is a good way of handling consumer problems.	SA	A	DK	D	SD
14. When buying consumer products you generally get what you pay for.	SA	A	DK	D	SD
15. Advertisements provide adequate information about product quality.	SA	A	DK	D	SD

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	Strongly Agree	Agree	Don't Know	Disagree	Strongly Disagree
16. Consumer problems are not as bad as newspaper and T.V. reports make them appear.	SA	A	DK	D	SD
17. The government should not require anti-pollution devices in motor vehicles.	SA	A	DK	D	SD
18. Advertisers use gimmicks more often than facts.	SA	A	DK	D	SD
19. The advice of professional consumer spokesmen like Ralph Nader should be disregarded.	SA	A	DK	D	SD
20. Most businesses do a good job of handling complaints.	SA	A	DK	D	SD
21. Federal Regulatory Agencies adequately protect consumers against unethical business practices.	SA	A	DK	D	SD
22. We need safer cars even if they become more expensive.	SA	A	DK	D	SD
23. The consumer is taken advantage of too often.	SA	A	DK	D	SD
24. Commercials are often informative.	SA	A	DK	D	SD
25. A strong consumer movement is needed to protect consumers from big business.	SA	A	DK	D	SD
26. It is easy to settle consumer problems in a small claims court.	SA	A	DK	D	SD
27. This claim is useful for shopping: "When tested against other brands, our product proved best."	SA	A	DK	D	SD
28. Relative to other major social issues, consumer problems are not very important.	SA	A	DK	D	SD
29. Industry should clean up pollution even if the prices that consumers pay go up.	SA	A	DK	D	SD
30. We need more consumer protection even if consumers have to pay for it.	SA	A	DK	D	SD

AFTER YOU HAVE COMPLETED THIS SECTION PLEASE RETURN FOLDER TO THE INTERVIEWER.

Reliability

Reliability refers to the degree to which a measuring procedure gives consistent results. The coefficient of reliability is much higher for the total questionnaire than it is for any of the subsets. One should expect the reliability on subsets to be lower because we are now only asking the respondents four to six times to determine his "entire" attitude towards a part of consumerism.

Population

The purpose of this survey is to interview personally a random sample of a total of 900 respondents. The interview covers a questionnaire which is designed to "explore consumers' attitudes and views toward consumer issues, their experience with the purchase and repair of consumer products and the information they use--or would like to have--when they make their purchasing decisions."[1] /1/

The population to be interviewed comprises a rural and an urban sample in upstate New York. For feasibility reason of field costs, in view of available resources and time constraints, the sample is drawn from a sub-population roughly with a 50-60 mile radius of Ithaca.

Stratification of Sample

The sample is stratified according to rural and urban dimensions. The definitions of rural and urban are as follows:

rural: towns of < 2500 inhabitants outside SMSA's
urban: blocks within urbanized SMSA's regions

Cluster Sampling

The area is still, however, too vast an area to draw a random sample from as such since it would be extremely costly to construct a list of the elements in the population. Thus, we need to define smaller units which will prove manageable. For this purpose a sampling unit consisting of a cluster of smaller units (elements[3] /3/) has been constructed.

Rural and Urban Sampling

Construct an exhaustive listing of all towns with population 2500 inhabitants in all counties considered.[4] Instead of population size, per se, we will use number of households since this gives us a manageable unit to work with. Assign to categories of 100 households integer numbers from 1 to 252. Out of this cluster /1, 252/ using the table of random numbers, draw a random sample of 10 towns,

$$\text{since: } m_i = M_i \left(\frac{f_o}{nz_i}\right) = \frac{M_i}{z_i k} \qquad (3)$$

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The drawing of the urban sample is methodologically similar to that for the rural sample. In the urban areas we are dealing with SMSA's partitioned according to census tracts. These tracts are composed of city blocks.

Construct an exhaustive listing of all census tracts within urban areas of SMSA's and code numbers of living units per census tract. Consider listings of city blocks within census tracts as clusters primary units. Again due to limitation of resources and size of sample, this had to be reduced to a more manageable sample size. Similarly to rural sampling equation (1) is used to take a random sample in proportion to size of units. Thus, 25 tracts were selected using the table of random numbers.

Given these 25 census tracts, list all urban blocks and corresponding number of year around living units. Assign consecutive numbers to the blocks. Using the random number table we select blocks within the tracts and we compute z_i for each block. Using equation:

$$m_i = M_i \left(\frac{f_o}{nz_i}\right) = \frac{M_i}{z_i k},$$

we obtain the number of required households in each block.

Overview of demographic characteristics of the population, types of complaints and attitudes; coding and computerized classification of data.

The response of consumers to the question, "What do you think is the number one consumer problem?" is indicated in the table below:

Types of Complaints

Type of Complaints	1st Sample Rural		1st Sample Urban		2nd Sample Rural		2nd Sample Urban	
High prices	43.5%	52.4	20.9%	38.1	43%	54.3	31%	39.1
Advertising	10.5%		22.1%		10.8%		21.8%	
Quality	8.9%		17.2%		11.3%		8.1%	
Servicing	14.1%		15.2%		11.8%		16.8%	
Total %	77%		75.40%		76.90%		77.70%	

On the whole, almost 80 percent of the respondents find that the most important consumer problem falls in four categories: high prices, advertising, quality and servicing of products. At no time, more than about 12

Footnotes Used in Preliminary Version

1. Copy of press release in Appendix 1

3. "Single-Stage Cluster Sampling" in /3/.

4. Table 33. General Characteristics for county subdivisions: 1970 in /2/, pp. 34-208-on. Example in Appendix 2.

percent of the respondents say there is no problem. Thus, this is a first indication that consumers are concerned, they see that there are problems for the consumers. They are aware of the marketplace as an environmental framework reflecting a quality of life dimension.

More specifically, more than 44 percent of 875 respondents who live in rural areas are concerned with inflation both in June and September while the percentage of urban residents with the same concerns rose from 21 percent in June to 31 percent in September. Thus, rural consumers feel the impact of inflation earlier and more strongly than their urban counterparts.

Certain characteristics of the rural population could be responsible for this sizeable difference in the response of urban versus rural residents. The income distribution shows that on the average, 50 percent of the rural residents in the sample earn less than $10,000, while in urban areas the corresponding figure is 35 percent. One-third more urbanites than rural people earn $15,000 or higher.

The age distribution indicates that the percentage of elderly in the rural subsample is only slightly higher than the corresponding urban one, while the difference between these two areas for age groups 35-54 is very sizeable, one-fourth more people in this age bracket being urbanites. This is the age group where income is higher thus it is not surprising that the standard of living as measured by income is lower in rural areas. Thus, rural consumers feel the pinch of inflation hard and early.

Family size (number of persons) shows that the number of persons in the family and the number of children does not on the whole indicate the existence of any major differences in the distribution in family size between rural and urban areas. There is a somewhat larger proportion of rural families with three children under six (4 percent versus .4 percent). This influence would, of course, reinforce the pinch from inflation.

As inflation climbs from eight to ten to fourteen percent as shown by the consumer price index and as wage and other earnings increase with a sizeable lag, there is a shift among types of expenditures within the consumers' budget. This is compounded by even higher differential price increases, for instance food prices went up by 25 percent or more. Basic essentials like food, housing, transportation, clothing, make up about 80 percent of consumers' budgets (including taxes). As the discrepancies between earnings and spending grow, consumers rearrange their spending. Since basics are hard to cut, luxuries such as entertainment, gifts, vacations, etc., will be cut first. However, the psychology of affluence still lingers on in life-styles habits and therefore consumers will first shift from more expensive luxuries to cheaper ones and also to "free" goods. An illustration might be the spectacular increase in museums visits. Museums are usually free or cheap compared to alternative sources of recreation. In addition, they now offer a variety of programs such as exhibits, movies, concerts, cheap cafeterias, etc. Recently, the Christian Science Monitor reports an increase from 200 million visits in 1962 to 700 million and up last year, according to the American Association of Museums.

Museums appear as a public good with no or low fees and one wonders if their subsidies should not be increased. Museums are usually more accessible to urbanites than rural residents and this kind of opportunity for shifting consumers' preferences for luxury substitutes may not be readily available in rural areas. Although this is only an example, it may reflect a pattern and thus it is not surprising that rural residents feel the pinge of inflation much more strongly than urban residents. Possibly, they also have fewer diversions than urban consumers and thus it may be more difficult for them to rearrange their budgets so that they can receive sufficient satisfaction psychologically. A by-product of high inflation is usually a compensatory tendency by producers and sellers to recoup via the quality of good. Thus, high prices entail low quality. This is reflected in the sentiment of the consumers in this survey. For both periods 17 percent of urban consumers mention quality and servicing of goods as the problem. While 11 percent of rural consumers in June mentioned advertising as the problem, in September, 11 percent mentioned quality of goods as problem number one.

In terms of the occupational configuration, as is well known, rural areas in New York State are by no means populated by farmers. While for the United States as a whole seven out of every ten workers are in services. This appears to be true also for New York State.

Analysis of Results of the Attitudes' Survey

Consumer problems are an important social issue even relative to other social issues and are not overdramatized in the press. Consumer groups are not meddling too much in business, in fact the consumer movement is needed to protect the consumer from business. There ought to be more places where the consumers can vent their frustrations. These are views of the consumers. From June to September the survey period, the state of the economy worsened sizeably, in particular, the stock market (Dow Jones index) took a nose dive from about 850 in June to 650 in September. The response to the questions from June to September seem to indicate a strengthening in the pro-consumer attitudes of the respondents.

The tables herewith show percentage response to specific questions. These results indicate that consumers view quality-of-life in the marketplace as an important issue, they want action to be taken and they want control over their environment.

Thus, not only the consumers feel a concern for consumer problems, they also feel that these concerns are important and are not overdramatized in the media. Also, they feel that consumers themselves can and should act to remedy such problems.

So far, only the general question plus a few of the 30 attitude questions have been analyzed. A more systematic, simultaneous and comprehensive analysis of all the attitude questions combined can be achieved via factor analysis.

Some Attitudes Regarding

Consumer Problems

Questions	No %	Yes %
Consumer groups are meddling too much with the business system	58.9%	16.2%
There aren't enough places to which a dissatisfied customer can complain	23.8%	68.5%
Consumer problems are not as bad as newspaper and T.V. reports make them appear	63.0%	20.3%
A strong consumer movement is needed to protect consumers from big business	8.1%	76.7%
Relative to other major social issues, consumer problems are not very important	80.2%	11.6%

No means disagree with the question as phrased, yes means agree

Major Themes Regarding Consumer Problems

(A) Consumer problems are important, action should be taken, the respondents are willing to pay for such action.

(B) Consumers are taken advantage of too often and there exists no adequate recourse for them to voice their grievances.

(C) Car safety, environmental quality and consumer protection in general are areas of concern. Consumers are willing to shoulder some cost for their improvement.

(D) Consumers do not have confidence in business and mistrust advertising.

These themes can be explained as follows:

(A) Consumer problems are important, action should be taken and the respondents are willing to pay for such action.

This is the most important theme both for urban and rural residents. They expressed very strong feelings on this theme. They favor action through consumer groups, government protection and regulation of industry in general. Consumer advocates and strong consumer movements are considered necessary to help getting action. The respondents favor these actions even if they impose some costs on the consumer. The questionnaire did not cover a discussion of the amount of costs that consumers would be willing to pay.

The only differences between urban and rural residents are that rural people don't feel as strongly as urbanites about the view that "Relative to other major social issues, consumer problems are not very important;" they regard it as important but not of primary importance (relative to inflation). Indeed, another part of the survey shows that rural residents feel the pinch of inflation more strongly (and earlier) than urban residents. Also rural consumers do not feel that consumer movements are essential to protect consumers from big business. In matter of safety regulation they feel business should set its own standards, presumably under the general regulation of government which they advocate.

(B) Consumers are taken advantage of too often and there exists not adequate recourse for them to voice their grievances.

Consumers are taken advantage of too often in the sense that they pay too much for what they get, increasingly the quality of goods is poor, advertising is a problem.

This is the next most important theme both for urban and rural residents. Again, they share their complaints about the high prices and low quality of the products they buy. The urban-rural differences are that urbanites view advertising as a problem basically because they feel advertising is dishonest while rural residents feel that advertising should be policed by the government more carefully. Also, the analysis shows that rural residents are concerned about the consumers' role in setting utility rates. This may be because rural residents have lower incomes and as a fixed expenditure in the budget they feel utilities as a greater burden. While for urbanites, food is the greater burden.

(C) Car safety, environmental quality and consumer protection in general are areas of concern. Consumers are willing to shoulder some cost for their improvement.

Both urban and rural residents agree on this item although they give it a somewhat different ranking. It is the third most important theme for the urbanites, but the fourth one for rural people. Again, the consumers exhibit the willingness to pay some cost although magnitudes are not specified.

(D) Degree of confidence in business and views about advertising.

This theme is the fourth most important for urbanites and the third most important for rural residents.

Urban consumers do not have great confidence in business and support a stronger role by government in handling consumer complaints and policing advertising. While rural residents have more confidence in business adequcy in representing their products and handling complaints, they view commercials as providing information but not enough about the quality of the products.

Thus, while advertising is perceived by both urban and rural residents as an area of special concern, their views are somewhat different. Urbanites strongly perceive advertising as being dishonest and give it a very low priority as a medium for information and at any rate it does not give good information about quality of products and rankings of different brands.

Rural residents view advertising in the opposite direction. They perceive it as giving information although they agree with urbanites it does not give good information about quality of products. They also perceive advertising as dishonest but give it a lower priority in their concerns.

These results are in accordance with the literature which points out that urbanites are victims of merchants particularly in the slums. This also ties in with the feeling that urbanites have for a strong consumer movement. On the other hand, in rural areas business operates at a more personal level, the flow of residents in and out of shops is composed of local people, merchants are more clearly known as specific individuals and they have closer ties with the community. Thus, possibly the level of business ethics is higher in rural areas than in urban areas.

Overall, the survey dispels (i) first of all the myth of consumer apathy. The general public is aware of consumer problems and demands that something be done. In fact, consumers are willing to shoulder some cost for it. Of course, what is the best institutional and policy mix which would be optimum requires considerable study; (ii) secondly, it also contradicts the rationale of certain businesses that "if we don't deal with safety or pollution control it is because we would have to pass the cost to consumers in the form of higher prices." Of course, how much consumers are willing to pay remains an open question.

The rural-urban differences revealed by the survey indicate the special features of the rural environment. The rural residents still maintain personal contacts with shop owners in the community. Ruthless, impersonal exploitation by business has not become an urgent concern. Rural people feel deprivation of information about product quality. Their geographical dispersal makes them doubtful about the effectiveness of consumer movements. They also appear to be less familiar with the institutional framework in the economy and less capable to crystalize their grievances and complaints. Urbanites are more specific, they identify more clearly the agents and channels in the system, they separate more clearly business, government, industry, the legal system (small claims courts) as well as advertising and control of utility rates. For rural residents these dimensions of consumer problems are not so clear cut, their conceptualization is more fuzzy and there are more frequent overlaps in their evaluations of influences.

Not only do consumers feel strongly about consumer problems and the role of consumers in changing the existing order, but they feel strongly in the specific areas of governmental, legal and business capabilities to remedy consumers' problems.

Although we see that consumers are rather distrustful or unsure about the protective and helpful role of the federal government and agencies in general, they support strongly, specific government controls in areas such as drugs, advertising, pollution control devices in cars. Specifically, targeted controls appear more effective to the consumers.

As far as small claims courts are concerned, many consumers simply never even heard of this possible channel of recourse. At any rate, they do not see it as a great facilitation for settlement of consumers' grievances.

Again, we find confidence in the consumers' themselves as actors of effective social change.

Business is not trusted, it should be regulated, cannot be left to itself. On the whole, BBB and business can handle complaints.

More to Come

These are merely the preliminary results. Analysis of the data is continuing. More will be reported at a future date.

-- abstracted by Karen Hull

INFLATION AND RECESSION:

DOUBLE TROUBLE FOR THE AMERICAN CONSUMER

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While the situation in the economy is certainly far from good, I think that it is reasonable, as we assess the American economy today and look toward the future, to take note of certain things which are presently happening and which augur developments for the future. And so what I would like to do with you is to briefly give my own assessment of the economy, particularly in light of fiscal policy actions which were taken by the Congress, the tax bill which was signed by the President, and then to address myself to the matter of the outlook for the economy, both in terms of the matter of recession and the matter of inflation.

Today the Labor Department will release its unemployment figures for March. I would suspect that they will show an American economy with an unemployment rate of at least 8.5 per cent, up from 8.2 per cent, which was the prevailing rate for January and February. When that rate held in February, a number of people seized on it, and assumed that we had now seen the worst of the unemployment in the United States. That is to say that it had peaked in February and from this point on, one might reasonably expect improvements. I would like to make two points: first, that was an incorrect assumption. It was incorrect because if they had taken the time to analyze these figures carefully they would have noted that unemployment did indeed rise in February by a half million, but this was precisely matched by a decline in the labor force of half a million. And since the unemployment rate is the statistical relationship between those who are unemployed as a percentage of the civilian labor force, it washed out. The fact is that the unemployment rate does lag behind every other indicator in the economy insofar as an improvement in a cyclical recovery period. And therefore, one should be realistic and candid about this.

Secretary of the Treasury Simon is probably correct, but perhaps may be understating when he says that the unemployment rate will reach nine per cent. It's quite likely that it will reach higher than nine per cent before it eventually starts to come down. And I would suggest that by year's end it still may be painfully close to nine per cent. This, however, is below the ten per cent figure that George Meany has suggested as going to characterize the labor markets in the United States. We will not, I am quite confident, reach ten per cent, but this is not to minimize the unemployment problem in the United States. It is a severe problem, it is of the gravest magnitude that we have confronted during the entire postwar period; indeed, since the depression of the 1930's. So I don't minimize this.

But, in looking at the economy some things are quite clear, and that is, as with every other cyclical period from which this economy has moved, we are now clearly seeing those events in train, which suggest that it is reasonable for us to anticipate a bottoming out of this economy some time during the summer months. For example, looking at what has been happening to production in the United States, we note that for at least the last five months industrial production has declined. And when the most recent data is released, it will probably show further declines. At the same time sales have not really been very strong. With the exception of the rebate program in automobiles, consumer durable sales are really way off. But related to what is happening to production and the sales, one must look back to see what was happening earlier in the economy. What was happening then was a tremendous increase in the level of inventories in the hands of manufacturers and businessmen. These did, in fact, stem from that time of shortages and dramatic price increases when businessmen felt as though they could not get the merchandise they needed, whether it be finished goods or intermediate goods. And so we saw double and triple ordering from various sources in order to build up the stocks of merchandise in anticipation of still higher rates and price inflation.

But as the weakness in the economy manifested itself very clearly in 1974, we not only had a voluntary accumulation -- deliberate accumulation -- of stocks by businesses, but increasingly there was an involuntary element that entered into it. Even when businessmen tried to cut back, sales had weakened so dramatically that they were left with rising levels of inventories. And before this economy can ever pull out of any recession, particularly a recession of this magnitude, one which I would submit is now in its 15th or 16th month, those inventories have to be worked off. And before we begin a resumption of production, you have to establish a more meaningful relationship between your unsold merchandise and the rate at which you are selling that merchandise. And so it is that we now are clearly seeing a very dramatic adjustment being made in inventories in the American economy.

It is for that reason that when the first quarter Gross National Product figures are released, sometime later this month, they will probably show a decline in real economic activity, at least as large in magnitude as that experienced in the fourth quarter of 1974, and that, you might recall, was in excess of nine per cent. Just as adding to inventories increases economic activity and Gross National Product figures, when businessmen stop ordering and start living off the shelf, that serves to depress activity, and in the Gross National Product accounts, it is recorded as a minus. This will pull economic activity levels down. But as we begin to see a better relationship established, as consumers begin to respond to the stimulus of tax relief recently enacted by Congress; as the rate of inflation diminishes and their real purchasing power begins to move up perceptibly, we can expect to see some encouragement in terms of renewed consumer spending. These are the kinds of things which suggest to me that while for the second quarter we may still witness declined real activity levels and rising unemployment, nonetheless, it would still be a considerably reduced rate from that in the first quarter, I'm reasonably confident that by the third quarter of this year the economy will clearly have bottomed out, and by the fourth quarter we certainly will be seeing real growth.

I find myself in a rather strange position, being in agreement with the administration in terms of the shape of economic events as they see it. I will, however, part company in suggesting that more than a year ago I felt we were in a recession, and it took the President of the United States and the Administration a long time to catch up with what the American people had known for a long time. But it is refreshing to see that events are being perceived more readily, and I think this augurs well for the future.

Now given the fact that the economy is showing signs of at least improvement in strength, what does this imply for inflation? Well, we have, in the last five months, seen the Wholesale Price Index decline, moved largely by declining product prices in the farm sector, to a much lesser extent a slower rise in the price of industrial commodities. We have not yet seen any declines in prices at retail, at least as measured by the Consumer Price Index. What we have seen, however, is a reduction in the rate of inflation. If one wants to be a realist, that is what we should anticipate in 1975; that is, rather than absolute price reduction in the agggregate, a reduction in the rate of price increase. And I point out to you that the roughly twelve per cent rate of inflation which showed up in the Consumer Price Index last year is now estimated by most economists to be roughly in the seven per cent area for 1975, which is still an awfully lot of inflation -- a lot more than consumers lived with during the 1960's.

So the problem of inflation is one which is still with us. The fact that so many are prone to seize on the problem of recession, which is indeed a problem, to the exclusion of concern over inflation, is something which troubles me greatly, because I don't view today's recession and today's inflation as being independent phenomenon. Rather, the accelerated rate of inflation which cut deeply into discretionary real purchasing power on the part of consumers, the accelerated inflation which eroded the real purchasing power of businessmen's capital outlay funds, in a very real sense, contributed to the decline in real economic activity, because the amunition -- the purchasing power -- was not there to sustain those levels of economic activity. Until such time as we can reasonably anticipate stable prices, or reasonably stable prices, the prospect for sustained economic advance, with high employment levels and without concern over recession, that possibility is largely precluded. And so it is that with this kind of an analysis of the economy you can address yourself to the matter of fiscal policy and tax relief which was recently afforded by the Congress of the United States.

It's interesting to trace the history of that tax relief. Not too many months ago the President of the United States was chiding the United States Congress because Congress had failed to do what? To pass a tax increase, which along with WIN buttons was supposed to eradicate public enemy number one -- inflation. Well, Congress, and I'm not sure in its infinite wisdom, did not pass that tax increase, and that is probably one of the best things Congress had done, while doing nothing in recent months. Economic events were very rapid and the notion of the tax increase seemed rather strange to anybody with knowledge of economic affairs. So it was no surprise when early this year in his State of the Union Message, President Ford suggested that what this country now needed most of all was a tax reduction -- a tax reduction, my recollection was, of roughly $16 billion in magnitude. It was in the form of a rebate against 1974 tax liabilities.

This was taken by the House Ways and Means Committee and they transformed it into a tax package of roughly $21 billion, which was then taken by the United States Senate and transformed into a tax package of, roughly $31 billion, which bounced back in conference committee, and which ultimately emerged as a tax package of roughly $22 billion. Well, included in that were a whole series of goodies. If you happen to be fortunate enough (although if you tried to live off it, I don't know whether fortunate is the appropriate term) to be a social security recipient, Mike Mansfield said, "$100 for you." But Congress said, "No, that's too much. Let's make it $50."

If you happen to be in the construction trade unions or a builder, the Congress certainly had something for you, and that was a $2000 tax rebate to any American who would purchase a new house if that house was either constructed and unsold, or in the process of construction as of March 27, 1975, and if purchased as a principal residence within the next twelve months. I was really waiting for somebody to come out with a special rebate to Americans for purchasing groceries, since that certainly would have helped an awful lot of American consumers independent of home purchases.

But what I am saying to you is that included in that tax package was a whole variety of measures, some of which were meaningful and some of which were not, some of which were addressed to the problems of inflation and/or recession, some of which were not. What started out as a meaningful exercise in providing some fiscal relief, ultimately deteriorated into a demonstration of one particular interest group managing to convince the Congress of the United States to offer it tax relief, even if this meant coming at the expense of some other group. And make no mistake about this. While I would submit that this economy needs help, and should have help, the Congress of the United States and the United States Treasury can only help in terms of tax relief, by borrowing funds to give the American economy because they do not have any surplus funds. And so the larger this package, the larger the deficit.

For 1975 it is now estimated the Treasury borrowing requirements will run about $80 billion. Estimates of their cash needs have changed dramatically just within the last several weeks, from under 5 billion now to close to 18 billion dollars before the end of June. We are already beginning to see in money and capital markets response to the enormity of the Treasury's borrowing requirements. As someone in the Federal Reserve, I am acutely concerned and sensitive to the implications of these kinds of borrowing requirements on the nation's money and capital markets, because one of the vital ingredients in recovery is a prevailing level of interest rates which is consistent with that recovery; and I think Chairman Burns of the Board has made his concern made known quite clearly.

So while it is proper to help this economy, we have to recognize two things: that too much help might in many instances be even more harmful than too little help, and that there is a cost attached to the help which is extended. Nothing, and I mean nothing, that means anything to us, including tax relief, is costless. And if in the final analysis, it turns out that this relief was too much and that the implications of treasury borrowing requirements do strain the money and credit markets and generate ultimately excessive economic activity next year, then the rate of inflation is likely to respond and we're liable to be asking ourselves by the end of 1976, "What did that tax relief cost us in terms of inflation?" Because to be quite realistic, it would be a very cruel hoax to perpetrate on the American people, to hand them a tax rebate check of $100 and have inflation in eighteen months take back $101. So it is going to be rather interesting to watch what the Congress does in the months ahead, to see whether or not the level of federal spending moves dramatically above where it is now projected, given this particular program.

Under the circumstances I've described, and with the concerns that I have indicated to you, nonetheless, it does now seem reasonable to anticipate that the American economy will in 1976 be growing. And I would suspect that despite the prevalence of high unemployment rates, one of our major concerns next year is going to be to keep that growth rate in check, lest it does rekindle inflation, which I suggested to you will be in the process of unwinding in 1975. But before I conclude my remarks, I think it's appropriate to pose a question which Congress has ~~not~~ thus far addressed and which too many of us don't really ask, and that is: How can one have inflation and recession simultaneously?

Everything I ever learned as an economist suggested that inflation was a result of excess demands: more money demands being made than there was a capacity to provide real goods and services. The definition of recession is: a shortage of demand, an excess of supply. Yet, we find these things co-existing. The reason, I think, they co-exist relates to structural problems within the American economy itself. And these problems have not, thus far, been addressed by fiscal policy. These are the problems which, I think, relate to growing levels of economic concentration in the business segment of the American economy.

Larger and larger firms are coming to dominate particular industries with the ability, in effect, to administer their prices or to resist price declines at a time when demand declines. It took almost catastrophic events in the automobile industry, for example, to move them to do what any shopkeeper would have done immediately: when his sales began to fall, to lower their prices. And even when they lowered them, they would not dignify it by saying it was a price reduction; it was termed a rebate program.

Similarly, on the labor market side, we have George Meaney, sunning himself in Bal Harbour, Florida, concerning himself with the plight of the American worker, even as his construction union workers have an unemployment rate of anywhere from 15 to 20 per cent, and are probably the most highly payed workers of any skill in the United States. As if their wage rates are unrealated to the level of unemployment, which they presently enjoy. As if their wage rates are not a crucial factor in what has been happening to the housing markets in the United States in terms of the price of housing, and the phenomenon of having people priced out of the housing market that five or ten years ago they could look forward to.

These are the kinds of structural problems which have not yet been addressed. If they are not addressed, if the matter of growing economic power on the business side and on the labor side is not addressed, whether by anti-trust or by regulatory procedures, or by an absence of regulatory procedures, which often themselves impede competition, then I would submit to you that no matter how fortunate we are in bailing ourselves out of our present predicament, it will not be too long before, in the future, we are likely again to be confronted with this same set of problems.

The pure and simple truth is that when an economy such as ours is confronted with high rates of inflation, the imperfect structure means that we have to squeeze it that much harder to get prices and costs to respond. And when that squeezing is done, again given the structure of that economy, those who are least able to tolerate that pressure are the first ones to feel it -- those who are unorganized, for whom something called free enterprise is something that they live with, and distinctly different from the kind of free enterprise notions that exist in Lockheed and the Penn Central.

We must -- and should -- hope for intelligent and prudent monetary policy by the Federal Reserve System because these are important determinants of what happens in the American economy. But at the same time we should also insist upon intelligent, prudent, and aggressive policy on the part of the United States Department of Justice Anti-Trust Division in terms of turning this economy around and making it look more like the competitive model that economic textbooks describe in talking about our enterprise system.

Finally, I think we are going ~~to~~ have to recognize, and the energy crisis gave us a reason to think about this, that things <u>are</u> scarce in this world, and perhaps in this sense the theme of this meeting is quite appropriate. Everything we want is limited. If you want something, you've got to give up something to get it and that's the cost. We were nurtured on a view that growth in the United States and throughout the industrialized world was literally boundless, and that we could always look forward next year to more in the way of things than we had last year. We didn't have to think about the costs. We are now finding that that's sheer nonsense, and in a very real sense, "there ain't no free lunch." The things we want do have costs and there are limits on the capacity of an economy to satisfy our aspirations. Not only do we see real economic limits, but we see the limits clearly being manifested in terms of what we have done to the quality of our lives in terms of deteriorating environment and the like.

So I think that despite the fact that we are living through a period of very substantial travail, that something good ultimately will come of this; An appreciation for the fact that our aspirations are subject to the same kinds of constraints that economists have always suggested do exist; An appreciation for the fact that economics is relevant because it does deal with limitations and the economy has those limitations; An appreciation that even in our concern for rightfully addressing the matter of recession, we had better beconcerning ourselves about inflation, too. Because if we don't concern ourselves about it, we are not going to be solving a problem, but papering over a problem. If we've learned this much, then it may well be that a very costly episode in our economic history can bring with it some very tangible and visible economic benefits for the longer run.

THE CONSUMER, THE SAVER, AND THE FEDERAL RESERVE

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Let me first ~~dip briefly in~~to the history of the Federal Reserve System's relationship to the economic concerns of the ordinary citizen -- the individual consumer. Then I will describe the work of the new Office of Saver and Consumer Affairs at the Federal Reserve Board, which formalizes the System's interest in the consumer in the light of new duties given to the Board by recent consumer-~~oriented~~ legislation. Finally, I would like to look briefly at what seems probable in the near future.

SOME BACKGROUND

Economic stability, banking soundness. -- It is a truism that the main functions of the Federal Reserve have related to (1) monetary policy, and (2) bank supervision. To most people, both of these have seemed far removed from the every-day life of the average saver of consumer. The fact is, however, that the Federal Reserve's activities, even its most basic and seemingly remote functions, always ~~since the~~ inception of the System in 1913, have been closely related to the economic interests of ordinary people. Bankers, whose lending and other services -- such as deposit receivings, check paying, interest paying and many other activities -- are affected by the Federal Reserve Act and Federal Reserve regulations, are well aware that the Federal Reserve is and always has been closely associated with the interests of the individual consumer.

This has been heightened in a broad way as many banks have entered bank holding companies, and have embarked upon nonbanking service activities bringing them into further contact with a wide range of consumer interests. On its part, the Federal Reserve has indicated its concern with the evident interests of consumers in this broadening of banking's activities by placing great emphasis on the public benefit test, stated in the

Bank Holding Company Act (12 U.S.C. 1843 /c/ /8/), of whether a proposed bank holding company expansion should or should not be permitted.

Thus, in a realistic sense, both monetary policy and bank supervision are intimately related to the affairs of savers and consumers. When the Federal Reserve helps maintain economic stability, it is helping to maintain the security of each individual's job, as well as the value of his or her paycheck and his or her savings. Similarly, when the System helps to maintain banking soundness, it is helping to maintain the safety of the depositor's savings as well as the continued availability of adequate consumer credit.

The fact that Federal Reserve monetary and supervisory activities serve the individual largely in an indirect fashion does not diminish the significance to the individual of Federal Reserve actions, and it makes Federal Reserve awareness of that significance all the more important. In deliberations on monetary and supervisory policies, the Federal Reserve must constantly be alert to the fact that the ultimate objective of its policies is to serve the best interests of the individual as jobholder, consumer and saver.

Securities Credit Regulation. -- In 1934 the System was given the responsibility for setting margin requirements on credit to purchase or carry securities. The principal purpose of this legislation was to restrain the potentially destabilizing use of credit in the securities markets.

It has been found that excessive use of credit to purchase securities tended to drive up securities prices to unrealistic heights; then when the speculative fever subsided, as it inevitably must, the process was, in effect, reversed -- the decline in securities prices snowballed and was made more severe as securities carried on thin margins declined in market values and had to be sold to meet margin calls.

While the securities credit regulations provided indirect protection for the saver and investor by helping to avoid destabilization of securities markets to which he had entrusted his funds, the regulations also provided a more direct protection for him. The legislative history of this statutory provision -- technically section 7 of the Securities Exchange Act of 1934 (15 U.S.C., sec. 78g) -- shows that Congress was also concerned with an important ancillary efffect of the regulation. By limiting the extent to which an individual could be induced to buy securities on thin margin, the legislation reduced the chances of his being overcommitted and also of his being sold out if the market declines.

Note that this 1934 legislation assigned to the Federal Reserve the task of writing credit regulations and set the pattern of covering all creditors who extend the specified type of credit. Congress did not limit coverage to banks or even to securities brokers and dealers, but made it usiversal. The statue and regulations do, however, recognize the widely diverse practices, procedures and functions of different kinds of creditors. Accordingly, the requirements are carefully tailored so that they will fit the different situations as equitably as practicable while producing approximately equivalent results.

Hence, the Board's Regulation T (12 CFR 220) applies to brokers and dealers. Regulation U (12 CFR 221) applies to banks. And Regulation G (12 CFR 207) applies to all others who extend securities credit. Regulation X (12 CFR 224) forbids borrowings that would conflict with or undermine the lending rules in the other regulations. Each regulation has the same objective, but each attempts to reach that objective in the manner best suited to the particular circumstances in which it applies.

Truth in Lending. -- In 1968, Congress passed the Truth in Lending Act (15 U.S.C. sec. 1601). This legislation attempts to give the customer the facts about the cost and other pertinent aspects of credit he may be using. This is intended to permit him to shop for credit in somewhat the way he can shop by cost comparison for other things. In addition, if a credit creates any lien on his home, the Act gives him the protection of allowing him to cancel the transaction anytime within three business days.

The Truth in Lending legislation followed the pattern of the 1934 securities credit law by providing universal coverage and directing the Federal Reserve Board to write implementing regulations. The Act applies not only to all banks, but also to all others who extend consumer credit, including savings and loan associations, credit unions, finance companies and retailers.

The Federal Reserve Board issued a single regulation -- Regulation Z (12 CFR 226) -- to implement the Truth in Lending Act, but that regulation contains varied provisions designed to provide reasonable adjustments, so far as practicable, for the diverse situations to which it applies. Basically, this regulation aims at making sure the consumer gets in practice what the law promises -- clear, conspicuous and complete information as to the costs of the credit he is accepting.

Mechanism Outlined

The Truth in Lending Act also spelled out the mechanism by which regulations written by a single agency, but applying universally, would be enforced among widely divergent industries. It specified that the statute and regulations would be enforced as to each Federally supervised institution by its existing primary federal supervisor. For example, national banks by the Comptroller of the Currency, State member banks of the Federal Reserve System by the Federal Reserve, insured nonmember banks by the Federal Deposit Insurance Corporation, insured savings and loan associations by the Federal Home Loan Bank Board, etc. As to all other creditors -- for example, finance companies, retailers, etc. -- the Federal Trade Commission is the enforcing agency.

This rounded out the pattern of (1) universal coverage, (2) Federal Reserve writing of regulations, and (3) enforcement through existing agencies, that has since been followed by other legislation designed to help the consumer in the field of credit.

In 1970, Congress followed that pattern when it decided to correct abuses connected with credit cards. It added to the Truth in Lending Act -- and thereby fitted into that pattern -- prohibitions against unsolicited distributions of credit cards and limitations on liability for unauthorized use of credit cards (15 U.S.C. 1642).

Board Organization for Saver and Consumer Affairs

How has the response to these various responsibilities related to saver and consumer affairs been organized at the Federal Reserve Board?

With respect to the general responsibilities that relate to monetary and supervisory activities, consideration of saver and consumer aspects is woven into the general formulation and administration of policy. Among the great mass of economic information that it constantly studies, the Board gives especially close attention in its deliberations and its actions to information on employment and unemployment and to the movement of various prices, especially consumer prices -- in other words, to the individual's job and the prices he or she must pay.

With the passage of the Truth in Lending Act in 1968, the Board placed administration of both that Act and of the securities credit provisions of the Securities Exchange Act of 1934 in the Division of Supervision and Regulation, which had responsibility for administration of bank supervision, including the Bank Holding Company Act, and of which I was director. This assignment ~~may not~~ have been unrelated to the fact that I had previously worked on securities credit regulation when I was Assistant General Counsel in the Board's Legal Division.

As of August 5, 1974, the Board transferred administration of Truth in Lending and Securities Credit Regulation to a new division -- the Office of Saver and Consumer Affairs, of which I was made Director. Janet Hart, who had worked on these subjects as Assistant Director in the Division of Supervision and Regulation, became Deputy Director of the new division. A Member of the Board, Jeffrey M. Bucher, was given special responsibilities with respect to the new division, although all policy decisions will, of course, be made by the Board itself.

The new Office of Saver and Consumer Affairs will do more than merely continue administration of Truth in Lending and Securities Credit Regulation. It was created also in anticipation of certain pending consumer affairs legislation which I will discuss in a moment. In addition, it will have specific responsibility for helping to assure the Board that the interests of savers and consumers are given adequate and specific attention in considerations leading to all Board decisions. The carrying out of these responsibilities will be aided by the fact that I am also Assistant to the Board with continuing interest in supervisory matters.

Thus, the Board's historic relationship to consumer affairs has now been both tightened and formalized in the light of the increasingly specific consumer-saver responsibilities that the Congress has been placing upon the Board.

Some Developments and Prospects

On October 28, 1974, the President signed into law H. R. 11221, which became Public Law 93-495. Besides several provisions not relevant to the present discussion and several amendments to the Truth in Lending Act, the new law contains two new consumer protection acts that follow the Truth in Lending pattern.

Fair Credit Billing. -- One of these new acts is called the "Fair Credit Billing Act." It is in the form of a new chapter added to the Truth in Lending Act. It might be described as the legislative response to the frustration that has swept over countless consumers who have found themselves arguing hopelessly with an unresponsive computer about errors the computer had made in their bills. The legislation establishes procedures for the correction of billing errors in open-end credit accounts, and forbids a creditor to restrict or close out a customer's account or take action against the customer's credit rating in regard to any account as to which such procedures are in process.

Subject to certain conditions, the new legislation also permits the holder of a credit card to utilize against the issuer of the card any defenses arising out of a transaction in which the credit card is used. For example, if a card holder uses his credit card to buy merchandise that turns out to be defective, the card holder can, by meeting specified conditions, use any defense against the card issuer that he could use aginst the seller of the merchandise.

The new Act contains a one-year deferred effective date, and during that time, the Board will be preparing implementing regulations.

Equal Credit Opportunity Act. -- The second new consumer protection act contained in Public Law 93-495 is the "Equal Credit Opportunity Act." This forbids discrimination in credit on the basis of sex or marital status. It might be described as the legislative response to the frustration experienced by many creditworthy women who have been denied credit or credit standing for no other reason than their sex or marital status. It is also a Congressional recognition of the great opportunity that stands before creditors who will attempt to meet the legitimate credit needs of the millions of creditworthy women.

The Act is not limited to consumer credit, but applies to all credit, including business credit.

The legislation follows the Truth in Lending pattern and directs the Federal Reserve Board to issue implementing regulations. The Act provides a one-year deferred effective date, a span which our experience with Truth in Lending indicates to be fully needed for preparing the necessary regulations.

Unfair or Deceptive Acts or Practices. -- On January 4, 1975, the President signed into law Public Law 93-637, the Federal Trade Commission Improvement Act, which considerably further enlarged the responsibilities of the Federal Reserve in the area of saver and consumer affairs.

Besides a number of provisions not relevant to our present discussion, the legislation did several things:

1. For the first time banks were made specifically subject to the prohibition in the Federal Trade Commission Act against "unfair or deceptive acts or practices."

2. The Federal Reserve Board was directed to prescribe rules to carry out that prohibition as to banks.

3. Within sixty days after the effective date of any regulations issued by the Federal Trade Commission proscribing acts or practices as being unfair or deceptive, the Federal Reserve Board will have to issue similar regulations proscribing similar acts or practices by banks. The Board could omit issuance of such regulations only if it made a published finding that such acts or practices by banks would not be unfair or deceptive or that such regulations would seriously conflict with essential monetary and payments systems policies of the Board.

4. Existing Federal agencies supervising banks are utilized to enforce regulations issued by the Board. Each such agency is directed to establish a division of consumer affairs "which shall receive and take appropriate action upon complaints with respect "to" unfair or deceptive acts or practices by institutions subject to its jurisdiction. The Board, as I have noted, has already established the Office of Saver and Consumer Affairs.

You will note that this legislation follows the Truth in Lending pattern partly, but not completely. The main difference is that the writing of regulations is divided between the Federal Reserve Board (as to banks) and the Federal Trade Commission (as to all others).

Now, to look ahead a little. The phrase "unfair of deceptive acts or practices" is, to say the least, broad and flexible. Its meaning will necessarily vary with different circumstances. (For an extensive analysis of the phrase as it appears in the Federal Trade Commission Act, see the socalled "octane ratings case" (National Petroleum Refiners Association et al v. Federal Trade Commission et al, 482 F. 2d 672, 1973). Some clues as to some things the phrase might include may be gleaned from the report issued by the National Commission on Consumer Finance, the temporary study commission created by the legislation that included the Truth in Lending Act.

That report in Chapter 3 discussed -- and to some extent criticized -- a number of controversial acts or practices in the consumer credit field, including such things as confessions of judgment, deficiency judgments, cross collateralization, coersive reaffirmations following bankruptcy and many others. Any such listing, even as extensive as that in the report, obviously can be only a sample of the many and diverse acts or practices that may have the potential of being held to be subject to the phrase.

I should add that this brief listing of legislation that has been enacted should by no means be taken as a complete catalog of consumer protection measures that have been proposed in one form or another. There are many others at various stages of consideration in the Congress, and still more will probably come forward.

This should not be surprising. Experts point out that our economy has long since left the agricultural stage, and almost thirty years ago moved from the industrial to the service stage. About 70 per cent of the nation's total labor force is now engaged in providing services. That leaves only 25 per cent engaged in manufacturing and 4 per cent in agriculture. Even putting to one side the 21 per cent who are employed in providing government services at the Federal, State, or local level, you will see that about 50 per cent of the total labor force works in other service industries.

In this setting, it is only natural that the consumer should be king. And with extra capital desperately needed throughout the economy, all of us would probably be better off if the saver could also be accorded an increased degree of royal status. Many of the measures to protect savers and consumers are, after all, merely restatements of sound and equitable business practices -- opportunities to serve customers that have not previously been adequately served. That is the path of future progress for our service economy.

TRANSPORTATION POLICIES

NEW STRENGTHS FOR THE EXISTING STRUCTURE

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Just a few short years ago, it was possible to note with interest the news that Detroit was turning out 10 million automobiles a year. American productivity, after all, was the wonder of the world. We could read, without wincing, that the United States, making up six per cent of the global population, consumers 30 per cent of its energy resources. Even if we were the most profligate people on earth, it seemed, there was plenty more energy where that came from. The dollar was sound and the job market good. The road to suburbia was jampacked with cars while the airlines sent up half-empty planes. The nation's transportation system, spending about $200 billion a year, a fifth of the Gross National Product, was the moveable feast of American prosperity.

We are well aware today that the party's over. The only words that we hear about the recession, inflation and energy shortage are serious and sobering. From all indications, the economic picture will worsen before there is a measurable recovery.

A learned man once said, "we must think of our whole economics in terms of a preventive pathology instead of a curative pathology." In large part, the preventive phase for the United States has gone by and we are left with the cure as the only recourse. But adversity is the harsh teacher. We can take the past mistakes and wisely influence the future. I believe that is our direction at the Department of Transportation.

The three problems of inflation, recession, and energy powerfully affect the Department's mission. We are charged with the safe and efficient movement of people and goods in this country. And the hard times of today serve to reinforce our belief that the transportation policy for the future must incorporate change.

Less than a decade ago, in 1966, the DOT was established by the Congress. We have authority over the activities of 105 million automobiles, 23 million trucks and 4 million motorcycles, as well as 50 thousand city buses and 25 thousand intercity buses. We are involved with the operations of 1.7 million freight cars and 27,000 locomotives, 140 thousand airplanes including a commercial fleet of 2,500 large air carriers and, in addition, all of the thousands of vessels moving on our rivers and waterways.

Now, I am not trying to dazzle you with figures or impress you with our responsibilities. The amount of machinery in motion in this country tells only part of the story. I do want to illustrate why, in the course of almost 10 years, the Department has not developed a set formula for controlling this whirlpool of technology.

It is not only that the transportation network is big. It is a question of complicated goals and policies. We establish national goals of primary importance. We attempt to agree on policies to advance these goals. We then develop and implement programs to carry out the policies.

The trouble is, policies have been established at different times in response to different problems. The energy shortage, for instance, brings on new goals and other elements must be adjusted to them. This leads to a wide variance between the priorities of one time and another, just as the recession becomes more menacing than inflation. We have to constantly shift with the times and at the same time, try to plan for the future. Transportation is of itself an intermediate function, not an end but a means. It is a link between other economic and social activities. It is, therefore, continuously affected by the changes of economic and political forces. In planning for any transportation program, we now have to think of the inflationary impact and the effects on recession, just as we must write out an environmental impact.

Another complication in forming national policy is the mixed public-private nature of our financial system and the division of governments. In a nation that incorporates Federal, State and Local authorities, in such number, it is most difficult to single out one group as being totally, even mainly responsible. We are not capable of bringing all of these people who make transportation decisions under one umbrella and having them write out a single "grand design."

Last year, with all of the inter-related problems, I believe that the Department of Transportation made a beginning toward a set policy. It is something that we can build on. As presented to the Congress, it is an outline of the course that the Federal Government hopes to steer through the end of this century.

Among other things, we proposed to avoid a continuous Federal financial role and instead encourage competition in a free enterprise economy. We asked for a new cooperation among the modes of transportation -- buses, trains, planes -- with the joint use of terminals. We would end the old separation of transportation facilities. DOT called for an improved system of providing transportation for rural America, to help those communities served only by the motor vehicle.

We advocated that when Federal expenditures become necessary, that money should be recovered in fees, from those who benefit. It is controversial, I know, but we think that the users to inland waterways, for example, should pay for taking advantage of a government-developed complex.

Most importantly of all, we advanced to the Congress that in all areas of transportation, the main problem in the next decade is not the capacity to handle passengers and freight movement. It is better management of existing resources, a halt to the pell mell construction of the past 30 years. In so many cases, there is no need for expansion and existing systems will do -- *if* they are improved. This concept bears heavily on the present struggle with inflation as well as unemployment. Jobs can be created just as readily in maintenance and improvement. This is no time to be building more and spending more.

Sufficiency is the word that comes closest to describing our situation. If we improve and use transportation facilities that we already have, we strike against inflationary expenditures. If we charge the user, we staunch the overflow of Federal money. Rather than a massive dose of new and expensive technology, we mainly require the measured application of common sense.

We have taken this principle into the planning for every transportation mode. As a nation heavily dependent on the motor vehicle, Americans are conditioned to think in terms of unlimited highways. And since the end of World War II, the U.S. highway system has increased by 12 per cent to its present 3.7 million miles. The heart of this total is the 42,500 mile Interstate system, which is now nearing completion. The entire national complex of highways carries 7 per cent of intercity passenger traffic and 23 per cent of total ton miles of freight.

With very few exceptions, the physical capacity of the total highway network is far beyond its actual usage. There is congestion at peak hours on about 25 thousand miles of rural arteries. But the major jams occur only at certain times of the year and mainly in the urban areas. The conclusion, then, is obvious.

We believe that better traffic management and improvements to public transportation -- actions such as carpooling and exclusive bus lanes -- are more of a solution than simply pouring concrete and building more highways. The Federal Government will have to assist the States in the continuous upgrading and maintenance of the heavily traveled roads but this is part of the price for making do with what we have. When President Ford released the $2 billion in impounded highway funds in Fedruary, the Department of Transportation was quick to announce that the money would be used mainly to update and renew existing road systems and not for new construction. There is also a good chance that some of the funds will be channeled into mass transit and railroads. As for highway work, the 2 billion will not be at cross-purposes with the nation's energy conservation goals. Instead, the money will serve to make the national road system more efficient and safer.

Overall, the Department of Transportation is totally committed to reducing automobile use, especially in the cities. Now, arguing the good and bad features of the automobile has become a national pasttime. Most of us in this room own a car and it would take an act of celestial displeasure to ever pry us out of it. But we cannot gainsay its bad side. 100 million automobiles contribute heavily to air pollution in our cities, 39 per cent of it. The auto consumes 30 per cent of all liquid petroleum in this country and we have had a taste of how an Arab oil embargo can jar our dependence.

Because there are so many automobiles, a good deal of our Departmental time and effort is devoted to their safety and environmental improvements and to greater fuel efficiency. But we want very badly to get people out of the passenger car and onto public transportation. And the problems there are terrific. Our cities grew up over the past half century in a haphazard fashion, with the rush to the suburbs and little thought or planning for future transportation needs. The result is today's "sprawl" -- large outlying areas that are served efficiently only by the automobile.

Money has not been the whole answer. Since 1970, the Urban Mass Transit Administration's grant program has given over $3 billion to over 150 cities to either buy buses or to build and improve rail systems. Legislation for mass transit passed the last session of Congress, with Administration backing, which will provide $11.8 billion over a six-year period. The new flow of money will be put to the best possible use, of course, but it does not negate the necessity for better using our existing resources.

We have to encourage the urban areas to operate their transit and highway systems more effectively. All of us tend to fall into patterns, and sometimes they are the wrong patterns. In many municipal regions of the country, lack of comprehensive management is a real drawback. Much of the urban mass transit activity is geared only to the peak-hour capacity. During most of the day, the streets and the transit vehicles are underutilized; less than 25 per cent of the available transit seat miles are actually in use. In so many cases, new equipment is just not needed. And in the big cities, as the result of high density and accompanying congestion, the cost of constructing and operating transit facilities is very high. If there is a long-term solution, it lies with the urban planner.

We will provide the Federal funds that are both dependable over time and flexible in use. But it is the non-Federal Government mechanisms that have the authority to make and implement all relevant urban plans, appropriate to the size and structure of their areas. With intelligent direction, existing systems can better serve the public while cutting expenses. This means the development of quality bus lines, expanded jitney and taxi service, and sensible incentives to carpooling. Urban authorities have to institute changes in the present traffic patterns by stretching out and reducing rush-hour peaks. The smart city planners today know their area and its capacity. It is their initiatives which will untangle traffic and move people.

The sick man of the whole transportation industry, of course, is the railroad system. In recent years, the Federal Government and the Congress have been deeply involved in trying to save the railroads and in this area, our efforts are largely curative. Too much damage had been done before the government stepped in.

The rails have been drifting and going downhill for a quarter of a century but their troubles go back much farther than that. Our basic regulatory policy has changed very little since 1887, when the Interstate Commerce Commission was formed. Railroads had a monopoly back then, for passengers and freight. But in that long time span between the 19th century and today, the competitive position of the rails has given way to other modes -- pipelines, trucks, barges and air. When you garnish that situation with corporate mismanagement in many cases, the result is today's railroad mess.

American rail companies earn net profits as a per cent of equity for the industry lower than one per cent. Many of the companies cannot generate sufficient earnings to make needed improvements in tracks, roadbeds and facilities. The industry's share of total intercity freight ton miles and the average revenue per ton mile are almost at the bottom. The railroads are also burdened by many miles of uneconomic lines, a financial drain that adds substantially to operating costs.

The pressing need is money and Congress has been reluctantly providing it. Two years ago, the shaky Northeast Railroad System, which serves the densely populated area between Washington and Boston, received invaluable assistance. The House and Senate recently passed amendments to the Regional Rail Reorganization Act allocating $375 million to the suffering rail lines. But with this legislation, the Department of Transportation has also demanded reform in the antiquated regulatory process.

We have to strike out the outmoded restrictions that impede the whole surface transportation complex. We must permit the lines far more pricing flexibility so they can compete more effectively for traffic, especially where they have a cost advantage. It is necessary to reduce the excess capacity in main line track and to eliminate light density lines. In so doing, the railroad firms can then lower per unit operating costs and help to restore their own finances without the need for a continuous government handout. Passenger service has to be revitalized for the whole country. And with that kind of railroad improvement, and regulatory reform, we can hold off any future wreckage like that of the Penn Central. Again, the idea is to improve and upgrade the resources we have right now to build a healthy and viable American rail system.

Over a year ago, beginning with the Arab oil embargo, some of the airlines began sending up distress signals. The boom years brought on by jet aircraft had obviously closed out and U.S. flag international carriers were in a serious financial plight. Pan American, the pioneer in overseas flight, said it could not operate without subsidies running into the many millions and Trans World also proclaimed itself in trouble.

One immediate cause of the carriers' financial difficulty, of course, was the steep and rapid rise in fuel prices since the oil embargo. Another was the drop in passenger traffic. More serious and deep-seated were the problems of the overall international regulatory regime, the competitive structure, and the practices of some foreign airlines and their governments.

Today, the situation is a little less dire. Pan Am first asked for a Federal bail-out, which was not forthcoming, and then a possible merger with Trans World. Finally, after months of negotiation, the Ford Administration approved a $300 million Iranian investment in Pan American and the infusion of petrodollars is certain to alleviate the immediate financial problem.

Domestically, the air carriers are in pretty good shape. The increased use of wide-bodied jets, planned improvement in air traffic control systems, and certain scheduling and operational changes should meet the projected increase in capacity requirements for at least the next decade. Certain airports do experience much higher levels of use in relation to their capacity, the three New York Airports for example. But we anticipate few, if any, major additions to the nation's airport capacity -- that is, new airports -- during the 1980's. There is always local resistance to them and also traffic has to reach very high levels before the carriers find it profitable to serve more than one airport in a large metropolitan area. Our major efforts, physically, will be on increasing the capacity of existing facilities, including ground passenger handling, and more careful assessment of the roles of multiple airports in the metropolitan regions. Legally, the government emphasis will be on regulatory reform.

Here again, as with the railroads, civil aviation suffers from a regulation system that is inefficient and costly. Over the coming months, the Ford Administration will be submitting legislation to "deregulate" the airlines. We seek to remove the Federal Government control over determining the price of airline tickets, in designating which companies may enter the airline business and what routes they may fly. We claim that the Civil Aeronautics Board, which was patterned largely on the old ICC, was created to promote and protect a fledgling industry. But the airline industry is now mature and it requires much greater flexibility as an economic force.

Sufficiency is also the word to apply to our 25,00 miles of navigable rivers, canals and coastal waterways. It appears that most, if not all, of the high priority opportunities for developing rivers and coastal areas have already been exploited. The capacity of the present system, except for a few bottlenecks, is many times its present level of usage. Even traffic on the St. Lawrence Seaway has been leveling off in recent years, although it's still at a record high.

Whatever the mode of travel, the public need figures very strongly in all of our planning. I can assure you that our Department is listening to the transportation consumer. The Office of Consumer Affairs, one of seven offices under my jurisdiction, is there to transmit the concerns of the traveling public to the decision-making process and to suggest remedial actions. The Office Director is Ann Uccello, a former Mayor of Hartford, Connecticut, and one who knows civic problems and people first-hand.

She and her staff have conducted 54 consumer public hearings in 21 States over the past few years. Through individual testimony and responses to a 29-item questionnaire, the Consumer Affairs Office has, in effect, taken the consensus of thousands of users of the transportation system.

People do want a reduced emphasis on automobile travel and highway construction. They are calling for a better balanced system, with convenient and efficient mass transportation, intermodal transport centers, and improved routes and scheduling in bus services.

There is public pressure to break the Highway Trust Fund and create a general transportation fund. Consumers demand greater citizen participation at every stage of transportation planning. They are most unhappy with the present practices in auto repair and guarantees and they want reforms in auto insurance.

Among the most vocal participants in our program have been the handicapped and the elderly, many of them representing local or national groups. They completely reject "separate but equal" facilities and they are insistent on a public transportation system that is barrier free. We have heard any number of suggestions for dial-a-ride and jitneys and buses to service the elderly, and for low cost or free transportation for the poor and minorities in both the inncercity and rural areas.

These changes and innovations in our transportation complexes are badly needed. They are an important part of the system of Departmental goals and policies. And they fit very well into our policy of sufficiency.

We know now that we have exploited most of the resources available in this country. More than just cornerstones, we have built the whole structure. This is the time for better maintenance of our transportation house and for home-improvement. We are up to capacity in many areas of travel and transport. But we have the foundation now for a national policy that recognizes that the energy sources and land use of the United States are finite.

The main problem is not the ability and means to handle large freight and passenger movement. In the next decade and, indeed, through the rest of this century, the real mission of the Department of Transportation is better management, doing it well. In this deepening time of national austerity, the legendary resourcefulness of this country will be severely tested. I am confident we will prevail.

FOOD AND FIBERS

(WITH AND WITHOUT SYNTHETICS FROM PETROLEUM)

Bill C. Price
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Two of man's most basic human needs are food and clothing. We can't meet these needs without the help of petrochemicals. Petrochemicals are produced from oil and natural gas. With the critical situation we face of depleting these two finite natural resources, oil and gas, it seems particularly timely to recognize the important role petrochemicals play in meeting societies desires and necessities.

Just to re-establish -- petrochemicals include an array of plastics, rubber, agricultural chemicals, pharmaceuticals, fibers, solvents and a host of other consumer products such as detergents and antifreeze. The availability of petrochemicals is closely related to our energy situation since about 94% of our available oil and natural gas, the raw materials for petrochemicals, is used to generate energy.

As we visit, I'm going to share some information with you that will include a few statistics. I hope you will jot some of these numbers down. I am convinced they are important to us and I hope you will find they are worth sharing with others.

Consider, with me, the impact of petrochemical synthetics on our Food and Fibers supply.

What do you think would haqpen in the areas of food and fibers if we did away with petrochemical based synthetics? Make some guesses if you will -- for your use -- jot down what you think would happen -- if we did away with petrochemicals.

How many meals would you have to give up each week? What costs are involved?

What is the cost of petrochemical fertilizer per bushel of corn produced?

How about fibers? How would your lifestyle be affected if petrochemical based fibers were eliminated? How many ~~dresses of~~ every ten women's dresses would be given up? How many suits of every ten men's suits would be given up? What are the costs of petrochemicals going into a $125 men's suit.

With regard to food -- if we eliminate synthetic fertilizer, manufactured from petroleum -- are you ready to give up 6.3 meals per week, 322 meals per year? (That's for every man, woman and child in this country.)

Aqueous Ammonia, Ammonia Nitrate, and Urea are synthetic fertilizers -- petrochemicals. A conservative computation shows that productivity from our tillable soil would be reduced 30 percent, if commercial fertilizers were no longer available. All crop production would decline 30 percent and with the exception of fish that would include principle meats since beef, pork and poultry are converted plant life.

Synthetic fertilizer is surely one of the farmer's greatest productivity aids in supplying food for our society, allowing us 30 percent more production from out tillable soil.

What does this productivity aid cost us? Is it a bargain? Since so much of our fertilizer is petrochemical how are increasing oil and natural gas prices affecting us?

Let's use a familiar vegetable, corn, as a base of reference. The cost of nitrogen from ammonia costs about 12¢ per bushel of corn produced. Corn is valued at about $3.50 per bushel. So nitrogen for fertilizer costs about 3% of the selling price and for that, we get 30% more corn.

Incidentally -- in the past 30 months the cost of nitrogen from Aqueous Ammonia has increased from 8¢/bushel to 12¢/bushel or 50% while corn has increased from $12.5 to $3.50 per bushel or 180%.

For 10¢ per bushel we get 30 percent more corn and petrochemical fertilizers assist all consumers in getting maximum use of our individual resources.

How about petroleum based synthetic fibers? Recall with me that nylon, acrylics and polyesters are all converted petroleum products -- Petrochemical synthetics from oil and gas.

How did you guess on giving up petrochemical based fibers?

Were you women ready to give up -

8 out of 10 dresses;

Additionally are you willing to give up -

7 of every 10 sweaters;
All hosiery;
Essentially all undergarments;
And while we're on wardrobes and from the non-fiberous plastics - were you ready to give up nearly all of your shoes and boots?

Were you men prepared to give up -

5 out of 10 suits - plus
½ of your shirts, slacks and coasts
And from 1/3 to ½ of your shoes?

In the area of home furnishings would we like to do away with -

9½ out of every 10 yards of carpet;
8 out of every 10 blankets;
7 out of 10 curtains;
60 percent of our drapes and
80 percent of the upholstery we use?

Synthetic Fibers aid consumers in many ways as far as helping maximize the use of our resources. They are durable, soil resistant, wrinkle resistant, and can be washed and worn. Additionally petrochemicals provide not only high quality fiber products but also provide very economical raw materials. Just what kind of a bargain are synthetic fibers? And since they also are petrochemicals -- how are increasing oil and natural gas prices affecting use in this area?

Using a man's polyester suit as a basis for discussion - We require about 2½ pounds of DMT and 1 pound of ethylene glycol to produce 3½ pounds of polyester for a suit. The 3½ pounds of petrochemicals have increased from $1.16 to $1.95 in the past 30 months and go into a man's suit that cost about $100 to $150.

Synthetic petrochemicals again assist the consumer in maximizing use of his resources. And increasing oil and natural gas prices have a minimal effect on the cost of the finished product.

Even if we wanted to, we can't go back to natural fibers for our total needs. Wool is too expensive and we can't raise that many sheep. Where cotton is concerned - we can't raise enough to replace synthetics.

Wait a minute, some will say, let's just cultivate more land -- use more acreage! With regard to food let's forget fertilizer and put more land in food production. And in the case of fibers, let's just raise more cotton.

In the U.S. today we have about 353 million acres in crop production. Ten million of that is in cotton, leaving 343 million acres in food production. The Department of Agriculture tells us that, if everything goes well, we may be able to add 33 million more acres of tillable soil by 1980. If we had to replace the productive effect of synthetic fertilizer used in food production with added acreage we would have to add 103 million acres.

To replace our synthetic fibers with cotton -- and without fertilizer -- would require 51 million additional acres of land.

If we combine the additional acreage required for food production without commercial fertilizers and to replace synthetic fibers with cotton, we would need 154 million additional acres of cropland.

All of those acres get a little mind boggling for me and I really don't think well in acres. So let's consider, in a different way, the added land area we would require to produce food and fabrics if we didn't have synthetic fertilizer and synthetic fibers.

Starting from the east coast and using a variety of sizes of states, replacement would require land area equal to about that of Massachusetts, Rhode Island, New York, Pennsylvania, New Jersey, Delaware, Maryland, West Virginia, Ohio and Kentucky. That's additional to what we already have -- we can't do it.

These synthetics, petrochemicals, derived from oil and natural gas are related to our current energy situation.

Over 90 percent of our available oil and gas goes into energy generation. Oil and natural gas currently supply about 76 percent of our total national energy fuel requirements. The Department of Interior expects oil and gas to supply over 50% of our energy requirement through the year 2000. We are depleting a finite resource and we're not doing nearly enough about providing incentives to search for more oil and gas nor are we doing enough toward developing alternative sources of energy so that we may be assured of having adequate supply for a portion of our energy needs and adequate feedstocks for synthetics in future years.

We are using oil at a geometrically increasing rate. Consider our total oil and natural gas use to date. From the discovery of oil in 1859 all the way up through World War I, World War II, and the booming years of the 50's up to 1960, we used 115 billion barrels of oil in this country. In the 10 year period of the 60's we used 110 billion barrels of oil -- nearly as much as in all previous history. We would have used 272 billion barrels of oil in the decade of the 1970's -- more than all previous history again -- but it probably won't be available.

Significant new energy sources, ones that don't rely on oil and gas, aren't likely before 1985 to 1990.

Both the petroleum industry and the petrochemical industry are faced with trying to meet the needs of we consumers, while being continually discouraged and confronted with more and more legislative limitations and governmental controls.

It is imperative that we encourage private enterprise to search for the petrochemical feedstocks oil and natural gas, rather than discouraging the search through more governmental limitation, because synthetics from petrochemicals are extremely important in meeting a wide array of our product needs and desires today.

Petrochemicals are important in everything from aspirin production to automobile antifreeze, from milk cartons to aerospace shields, we're in constant contact with petrochemicals from the time we crawl from between those polyester sheets in the morning until we flip off that plastic light switch at night. Petrochemicals are important in almost every phase of the lifestyle we've come to want and enjoy in this country.

More than just being important in providing our wishes and desires, petrochemicals are <u>essential</u> to meeting man's <u>basic needs</u> for food and clothing.

ELECTRICITY AND THE CONSUMER --

IS THE ROMANCE ON THE ROCKS?

Robert K. Zimmerman
Chairman of the Board and President
Kansas City Power and Light

INTRODUCTION

I want to thank you for inviting my industry to participate in your annual meeting. Your council has a reputation for an objective concern about consumer interests. The awesome impact of inflation and the energy situation on every product and service has emphasized your role in their behalf. In the time allotted me, I'm going to share with you some information about the problems of the electric industry as they relate to consumers, together with some of the conclusions I have reached. As your program indicates, I'd like to begin by talking about a romance.

THE 80-YEAR-OLD ROMANCE

Since they began inauspiciously a century ago, electric utilities have had a growing romance with consumers. In those early days, the important use of electricity was to power street cars. Extra electricity available at sunset was sold for lighting. In many cities, there were 9 o'clock, 10 o'clock, midnight and all-night circuits from which to choose. Payment often was in advance, eliminating collection problems. In Kansas City during the 1890's, a kilowatt hour cost about 20 cents.

Then there came the development of electric appliances, starting with the flat iron, and electricity was off on its mad adventure with the American consumer. The goal was the ultimate development of the good life, which at least in part has been achieved. Today, more than 250 time and labor-saving appliances are available, which have freed the household from a never-ending list of chores.

At the same time, a bond just as strong was developing between electricity and commerce and industry. Electricity became the growth vitamin for the continuing industrial revolution, establishing jobs, increasing productivity, and -- through improved efficiency -- making both the necessities of life and many of the luxuries available to almost everyone.

The romance was also good for the electric utility industry. Expanding usage resulted in an incredible growth rate, which doubled our customers' kilowatt hour requirements every 10 years. This made possible the development of efficiencies in production, transmission and distribtuion of power to people. The fixed charges of taxes, depreciation and interest on borrowed capital could be spread over more kilowatt hours. The 20 cents, which the average residential consumer paid for a kilowatt hour at the turn of the century, had dropped to 2.5 cents by 1970. The industry was able to accomplish this while absorbing the growing impact of inflation following the wars, which more than doubled the price of many other products and services.

At the same time, a steady, modest growth in earnings made utilities attractive to investors in bonds and stocks, which have provided about 60 per cent of the capital investment for utility expansion. Capital reruirements have been substantial. The off-shoot of the traction firms has grown to become the nation's most capital intensive industry, accounting for some 13 ½ per cent of total capital investment. Between $4 and $5 of investment are required for every $1 of revenue received. This is about five to 10 times the ratio of most basic industries.

THE MELLOWING ROMANCE HAS LOST ITS BLOOM

The romance between electricity and consumers appeared to be on solid ground. Usage had climbed in 1970 to the point where it was about six times 1945 levels with an average kilowatt hour cost of 30 per cent less. While bills were higher, unit cost had decreased.

In the last five years, the picture has changed dramatically. Fuel costs have soared. The financial community is disenchanted. Regulatory commissions are being harrassed. Consumption was flat in 1974 for the first time since the 30's. Power bills are higher than ever. Consumers are reeling and revolting. In short, things are in what can only be described as "a mess."

INFLATION IS MAIN PROBLEM

What happened to undermine one of the nation's strongest and most vital industries? The answer is complicated, but generally involves the combined impact of inflation, the fuel situation, the cost of meeting environmental rules, and regulatory lag.

No longer a term of vague economic jargon, "inflation' has come to have a personal meaning for every American consumer. The rate of inflation continues well into the double-digit range, and has emerged as our nation's most serious problem. It has had a "double-barreled" effect on the capital intensive power industry, causing both significant increases in construction and operating costs and record-high costs of borrowed money.

Let me turn to my own company for an example. The common industry yardstick for measuring the cost of building power plants is the cost per kilowatt installed. We completed a plant in 1969 at an installed cost of $111/kilowatt. The comparable cost of a plant which went on line four years later in 1973 was about twice the 1969 figure. On the same basis, projected costs of future plants indicate ratios of three times by 1977, four times by 1980, and the installed cost of a plant proposed for 1982 will be eight times the 1969 figure.

ACCELERATING FUEL COSTS

Problems of fuel cost and availability are equally pressing. Electric utilities consumed large quantities of fuel necessary to create the heat energy to boil the water. . . to make the steam. . . which turns the turbines and generators of the large, base load power plants from which most Americans receive their electricity. Some three-fourths of the industry's production capability is fired by fossil fuels, that is either oil, natural gas or coal. For many years, these fuels were available under extended contracts at modestly increasing prices. However, inflation, the Arab oil embargo and resulting energy crisis have changed all that.

In the last three years, the price of fuel oil has quadrupled, natural gas -- if available -- had doubled, and the delivered cost of coal purchased under long-term contracts has risen about 50 per cent. Furthermore, the price of spot-purchased coal has increased in some cases to a level near that of fuel oil.

Some utilities have always used oil for basic fuel. Others, particularly those along the eastern seaboard, converted coal-fired boilers to oil and added more oil-burning capacity when environmental restrictions prevented the burning of coals available in that region. In some cases where consumers are served mainly from oil-fired power systems, skyrocketing fuel costs have doubled electric service bills.

Regulatory agencies of 32 states have authorized increased fuel costs to be passed on directly to all customers, according to the number of kilowatt hours consumed. While the fuel adjustments enable consumers to pay their fair share of fuel price increases, the sizeable fair share involved is causing stormy discontent. However, without fuel adjustment clauses many utilities in all likelihood would be bankrupt.

THE HIGH COST OF CLEAN AIR

The consumer is also learning that the nation's environmental goals are having an impact on the price of products and services. The potential cost of meeting environmental rules and regulations by the electric industry is only now being revealed. The real issue today is not whether we will have clean air and water -- those decisions have already been made -- but the issue is rather how and at what costs, social and economic, we will accomplish it.

The electric industry believes that consumers have a real stake in amendments to the Clean Air Act of 1970, soon to be considered by Congress. Impending decisions will directly affect the price people pay for electricity, as well as the amount of electricity available to meet future needs.

One issue involves the establishment of national emission limitations for sulfur dioxide, an invisible, gaseous pollutant released when coal, and some kinds of oil are burned. Sulfur dioxide is a problem only in portions of some Metropolitan areas. To establish limitations for application nationwide, including areas which meet the ambient air standards set by the Environmental Protection Agency to protect human health and welfare, would require the needless expense of billions of dollars.

The EPA estimates that the use of scrubbers, that is, devices which remove particulates and sulfur by washing boiler flue gases, on coal burning electric generating plants will increase the cost of electricity to the consumer by 17 per cent. Senator James A. McClure, a member of the Senate Subcommittee on Environmental Pollution, predicts a 20 to 30 per cent increase. Continuing inflation could make both estimates low.

Based on EPA forecasts of generating capacity requiring sulfur removal equipment, by 1980 electric utilities will be required to spend about $7.5 billion for scrubbers. The additional investment for precipitators to control particulates and monitoring could raise the total cost of these requirements to $10 billion. Not included in these costs are the premiums for low sulfur fuels, the cost of controlling the oxides of nitrogen, and the increased operating and maintenance costs necessary to keep the equipment working. Nor do they include the cost of the additional 12 million tons of coal needed annually to provide the power to operate the scrubbers, or the 4 to 7 percent capacity derations from which that power will come.

Amendments to the Clean Air Act supported by the industry will achieve the nation's environmental goals, but will save consumers at least $5 billion in the process. We are stressing a re-evaluation of air quality standards to assure they are not set beyond what is actually required to protect public health and welfare. Essential is a 10-year extension for enforcement of sulfur emission standards to permit research into the many unanswered questions about sulfation. The use of load shifting, intermittent control stragegies and tall stacks should be viewed as a continuing option for meeting ambient air quality standards in the most economical way.

In the water quality area, assurance is required that standards will be established on the basis of what is really needed to protect the environment in the vicinity of a given power plant.

In general, cost/benefit considerations must be taken into account in establishing both air and water quality standards, with a plant-by-plant evaluation of necessary pollution control measures. National standards applied without regard for local situations probably would be much easier to enforce. However, in view of the nation's economic situation, a more realistic approach suggests we should do those things we can afford which makes sense.

This isn't to suggest scrubbers should be abandoned. Some 93 scrubbers are now in operation, under construction or being planned by 39 utilities. My company has taken a lead in the development of scrubber technology. At our La Cygne generating station, we have been operating the most extensive air quality control system ever installed on an electric power plant at a cost to date of $45 million. We estimate that an additional investment over the next two years of $10 million will be required to bring the seven scrubber modules to the desired level of design control capability at that plant.

Our decision to install scrubbers at this location was made because it was the only feasible solution to utilizing low-cost high-sulfur coals that were available from adjacent surface mines. While we think the decision was a good one for this location, the high cost of this technology suggests that it should be employed only where necessary.

STRINGENT MINING LAWS

Also destined to have a serious impact on electric service bills will be the upcoming strip mining legislation, which early in March passed both houses of Congress in slightly different versions by overwhelming margins. Among the broad provisions of these bills are new curbs on how and where land can be surface mined, including a requirement that land be restored to its approximate original contours, and allowing surface owners to veto strip mining by those owning the mineral rights. The proposed law would tax surface-mined coal 35 cents a ton and deep-mined coal 25 cents a ton to help pay for the reclamation of abandoned mining operations. The National Coal Association, which opposes the bills, told the press that added expenses caused by provisions in the bills, could raise the mined price of coal by $2.50 a ton.

Perhaps of greater concern than this substantial increase is the fact that the law will probably prevent the mining of millions of tons of coal at a time when our nation needs it most. While no one would quarrel with the need for responsible reclamation laws, the surface mining bills in their present form -- with more stringent provisions than those in the bill which the President vetoed last year -- are a move in the wrong direction. Considering the mood of Congress, the bill which emerges from the conference committee will be stringent, and will probably become law.

The United States has far more coal than the world oil and natural gas reserves combined. The known U. S. supply is estimated at between 300 and 500 years. However, environmental regulations prevent the burning of an estimated 80 per cent of this coal. The strip mining bill will further reduce the usable reserves.

REGULATORY LAG

I mentioned regulatory lag as a serious problem. This is a term used to describe the time delay between the application for a rate increase and the final decision by regulatory authorities. Private utility companies are regulated by state agencies, which operate under the authority of statutes originally adopted 50 to 60 years ago. The process worked well up until recently when it has become apparent that it is not geared for the emergency of these times.

Rate increase applications are handled in various ways according to procedures following statutory requirements. But, in general such applications seek a stipulated rate of return on an historical rate base -- the total investment in plant and facilities dedicated to rendering service to customers during a test year -- a time period preceding the rate application.

The process involved in evaluating an application usually includes a complete audit of the test year expenses by the state agency, adequate accommodation for the testimony of the public and intervenors, and both public and formal hearings. At the formal hearings, testimony of the agency staff, concerning the audit, the company and all intervenors is heard by the regulatory commission, complete with cross examination of witnesses in a court-like atmosphere. The process for rendering a decision often takes from six months to more than a year.

The unprecedented inflationary pressure since 1970 and regulatory lag have combined to wipe out a large portion of the increases authorized. This has placed utilities in the awkward position of increasing the frequency of rate requrests in an effort to earn the rates of return authorized by the state. Translated another way, in recent years, many rate increases have been too little, and even when substantial rate relief has been granted it has often been too late. Consequently, even though electric bills have climbed in the last two years, the actual cost of service rendered has not been met.

These factors have placed the regulatory authorities in the difficult position of maintaining the balance between consumer interest and the financial integrity of the firms they regulate. Some recent improvement has been made in the time delay. Some commissions are permitting a forward-looking test year based, in part, or projected results. However, more creative ways of accelerating the evaluation process will have to be adopted while at the same time protecting the public interest.

CONSERVATION

Further compounding the situation has been the reduction in usage by customers. This has been partly due to national appeals for conservation of energy, but the economic recession and price elasticity have also contributed. Kilowatt hour sales by the industry declined slightly in 1974 from the prior year. However, while general usage was down, in most cases demand during peak periods was not. Last summer, the customers served by my company set six all-time peak demand records. The final record was actually slightly higher than pre-conservation estimates.

The reduced general usage has caused a slight increase in rates for the same reasons that increased usage resulted in a reduction in rates over the last seven decades. The fixed charges of taxes, depreciation and interest cost have to be spread over fewer kilowatt hour sales. The thought of being penalized for conserving, rather than rewarded, was disturbing to most consumers. However, the net savings from cutting waste will always be more than any conservation adjustment to rates.

THE CURRENT PREDICAMENT

With some risk of over simplifying a complicated series of events, this review of major problems brings us to the current predicament. We have moved very rapidly from a long and uninterrupted era of cheap energy to a time of more expensive energy. The necessary adjustment to this economic fact of life is bound to have a serious impact on society. However, of far more serious concern than the question of price is the question of reliability and availability. Some experts believe the conditions are already set in motion which will result in brownouts and blackouts in some parts of the nation within the next four years. Prospects for electric power supply over the next 10 to 15 years appear equally questionable. The problem mainly relates to money.

The capital intensive electric industry has only two basic sources for expansion funds: internally generated cash and the outside investor. Traditionally, about 40 percent of capital requirements are generated internally. This capability is being undermined by the reduction in earnings experienced by many companies. The remaining source, including purchasers of bonds and common and preferred stocks, depends upon a stable market and investor confidence.

Current interest rates on the open market for long-term first mortgage bonds of many utility companies have been in the 11 to 13 percent range. Some preferred stock issues have had dividend rates as high as 14 per cent. Last April, Consolidated Edison of New York omitted a quarterly dividend to common shareholders, the first such action by a major utility. What happened as a result was a devastating blow to the entire industry. Within six months, the common stocks of electric companies listed on the New York Stock Exchange, which had been in a gradual decline for several years, had lost an estimated value of $100 billion from a decade earlier. Consequently, today most electric utilities' common stocks are selling below their look values, some 60 per cent or less.

CONSTRUCTION CURTAILMENTS

This kind of financial atmosphere, coupled with the reaction to higher rates and doubts about being able to generate the revenues necessary to support capital expansion, has caused every electric company to re-evaluate future construction programs. Within the last year, 100 major electric companies have deferred or postponed indefinitely power production units with a combined capacity of 170,000 megawatts. Some 110,000 megawatts of this was nuclear generation. The nuclear units have a higher capital cost, but much lower operating cost and are directly related to national goals for reaching energy independence. If completed, these nuclear units would reduce the demand for fuel oil by an estimated 3.3. million barrels of oil a day, or the equivalent of about 300 per cent of current Middle East imports.

For the short range, the deferments of base-load capacity are causing many companies to resort to the alternative of adding oil-fired peaking turbines. Such units can be installed for about one-fourth the cost of coal-burning units. Their disadvantage is much higher fuel cost and the use of a fuel which is in short supply.

While consumption was flat in 1974, current reports indicate that growth has resumed and will continue in the 4 to 6 per cent range for the next few years. These estimates do not provide for the impact of fuel switching by consumers to electricity.

THE LONG RANGE

For the long range, a limiting of base load capacity will mean higher consumer prices. Some are saying the only solution is socialization of the power industry. This is a natural first reaction, as if a complete government take-over would in some magical way eliminate all of the forces contributing to the situation. Ironically, at the same time, some customers of municipal systems beset by the same problems are approaching private companies to take over the public systems. It is also interesting to note that in the last eight years, the residential rates for power supplied by the Tennessee Valley Authority have increased twice as fast as the comparable rates of private companies.

Should a government take-over be seriously considered, one wonders if the government could afford the cost, coupled with the loss of tax revenues. Currently, about 22 per cent of the revenues of electric companies is paid in taxes to various taxing authorities.

Considerable study is being given to the problems of the elctric industry by the government. There is reason to believe that the Administration and Congress are committed to the concept of a financially healthy investor-owned electric utility industry. Title VII of the Administration's Energy Independence Act deals mainly with encouragement to state regulatory bodies to improve regulation, by eliminating undue regulatory lag, allowing fuel clauses, permitting the inclusion of construction-work-in-progress in the rate base, allowing off-peak pricing, and eliminating prohibitions against the use of normalization in accounting.

In the recently signed tax bill, the investment tax credit for utilities was raised from 4 per cent to 10 per cent, and in other legislation consideration is being given to a proposal for a tax deduction to the corporate issuer of preferred stock dividends.

The single most effective measure to stimulate investor interest in the industry would be tax exemptions for the recipient of dividends on electric utility common stock and new issues of preferred stock. The industry has proposed both of these plans to the Administrations and Congress.

RELIABILITY VERSUS RETRENCHMENT

At basic issue in the entire situation is a reliable and dependable source of electricity supply for the future. The electric companies of the United States, which serve about 80 per cent of our nation's consumers, have had a remarkable past record of reliable service. Utilities do not have the uncomfortable, yet welcome option of retrenchment available to most enterprise. Utilities have an obligation to serve the customer within their service areas. Regulatory agencies have a legal obligation to establish service rates permitting financial integrity to be maintained. Consumers have an obligation to pay for the service they demand. And finally, government has an obligation to establish a balance that enables the system to function.

Perhaps "balance" is the key word. The solutions to inflation will come only after long, arduous and reative effort, and will require sacrifices from every citizen. In this regard, the first step is the attainment of energy independence, which will stop the outflow of cash for oil. Strip mining constraints and the drive for environmental cleanup have to be balanced in accord with the higher priority.

The role of nuclear power is also vital to energy freedom. It can also solve most of the intermediate electricity supply problems and assure consumers of the lowest cost energy. The electric industry long recommended the establishment of a national energy council to coordinate the nation's energy policies. We hope the new Energy Resources Council can meet this end. Through whatever avenue it can be done, however, action must be taken to maximize the use of coal and nuclear fuels, so that oil and natural gas can be conserved for those purposes for which they are uniquely suited. And somehow the means must be found for expediting procedures at all levels of government for reaching decisions on energy facilities. Implicit in this are imporvements in administrative, regulatory and judicial processes involved in nuclear plant approvals.

For the longer term, research and development has a major role in assuring a sound energy future for the nation. Two years ago the Electric Power Research Institute was established at Paola Alto, California, to conduct a privately financed, coordinated program for the development of new technology. EPRI's work complements the fundamental research programs of the Federal government, as we pursue the development of a wide range of energy sources -- solar, geothermal, fuel cells, wind power, magnetohydrodynamics, and fusion. Technological breakthroughs are needed if any of these promising sources can be developed before the turn of the century, or longer.

IS THE ROMANCE ON THE ROCKS?

For the most part, I've painted a dark picture for most of you in my remarks this afternoon. Not to have done so would have been less than honest. I do not personally believe that the long-standing romance between the electric industry and consumers is on the rocks. We've seen some rough times, and perhaps more difficult times may be ahead. While the days of cheap power are over, if we are permitted to do our job, we will continue to deliver reliable power at relatively low cost.

Reaching that point, however, is going to place a special burden on consumers, and those like yourselves who lead consumer opinion.

A large part of the problem can be attributed to the industry's failure to communicate effectively its situation to consumers. We are taking steps to remedy this. And rising power bills may guarantee a listening audience.

Government is in the business of making societal decisions, which require input from an informed electorate. In the past, I sense many of the decisions have been made without much input from the people who eventually pay the bill. In this regard, we usually obtain the kind of government we deserve.

Just as the electric industry is going to try to do a better job of communicating, I hope consumers will do their best to become informed on the complicated issues involved in energy. The decisions now being made are so crucial to the economic well being of our nation and our families, it is imperative that they require the input from an informed majority.

Thank you again for your invitation and your kind attention.

THE CONSUMER MOVEMENT IN
THE ENERGY CRISIS

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Special Note -- May 1, 1975

"This paper may be pertinent to President Ford's announced opposition to the Agency for Consumer Advocacy Bill (S.200). It demonstrates some of the shortcomings of the non-statutory consumer office as a means of making meaningful consumer input into Federal Agency decision making."

Attention should be given the proposition that the consumer movement should effectively represent consumer interests in energy policy in the public forum. The social purpose of consumerism includes this function, known in the credo of consumer advocates as the right to be heard.[1]

Definitions

An evaluation of the consumer movement's achievements in influencing U.S. Government energy policy requires some standardization of terms. The consumer movement is defined as a loose coalition of 75-100 private, nonprofit organizations who are generally regarded as representatives of consumers through an assortment of methods and techniques in public arenas.[2] Most have no staff.

Energy policy is the general thrust and direction of programs of the Federal Government of the U.S. in dealing with the production, importation, pricing, marketing, and social and economic impacts of fossil fuels, other primary energy sources, and electric power. Not all aspects of energy can be said to be the subject of Federal policies.

The energy crisis is the popularized term relating to U.S. energy supply and price problems resulting primarily from the Arab embargo of U.S. oil imports from October 1973 to March 1974. The natural gas shortage, a purely domestic supply problem is also included in the popular use of this term, as are related developments in substitute fuels (coal, uranium) and electricity, the derived form of energy produced from numerous primary fuels.

The Energy Crisis

The energy crisis, its causes and results, is perceived in many ways. Perceptions and realities often have parents from different tribes, and thus it is highly instructive to examine conventional wisdom. In the midst of crisis, there is little real consensus on the essential nature of the U.S. energy problems of 1973-75.

The following statements represent the kinds of expressions, sometimes verified and sometimes not, that are often associated with the energy crisis:

1. Jersey Central Power & Light electric rates rose to 3.27¢ KWH from 1.59¢ KWH between June 1973 to December 1974. This is a 105% increase in 18 months.[3]

2. Electric and gas utility bills rose $9.6 billion in 1974 while power consumption rose 1% and gas dropped 4%. Two thirds of those increases were due to higher (energy) fuel costs.[4]

3. Long lines at gas stations during only a few weeks in 1974 threatened social chaos. Consumer frustrations in turn led to gas station shootings, panic buying, and the near collapse of automobile tourist-dependent industries and local economies.[5]

4. Some poorer people were acknowledged to have stopped buying heating oil at its much higher prices in midwinter 1973-74 and 1974-75 compared to prices through 1972-73.

5. Electrical heat for houses of moderate income people resulted in $200 monthly electric bills in winter periods of 1973-74 and 1974-75.

6. Prospects of major unemployment problems in a year or two were in sight due to natural gas shortages and the lower supply priority for major industrial gas customers.

7. The prospect of controversial nuclear power as a major solution to fossil fuel shortages has become increasingly real in the electric power industry.

8. Arab sheiks were accused of conspiracy.

9. An unspecified oil company conspiracy to increase profits has been suggested more than once as a major cause of the crisis.[6]

10. The Federal Government's options for dealing with the crisis such as through gasoline rationing or 40¢ per gallon taxes on gasoline were often regarded as worse than the problems they were designed to solve.

All of these ways of describing the phenomena of the energy crisis are a familiar genre. The crisis is many things, but the results of it are primarily consumer issues. The ultimate purpose of all U.S. economic activity (and thus the U.S. use of energy resources) is largely to deliver a material standard of living for 212 million people.

Energy problems then are primarily consumer problems. Energy may cost too much. Energy's use affects the physical environment and public health. Energy may be short in the forms of the particular fuels the nation wants. Energy costs and supplies influence life styles and standards of living.

One item of national consensus to date is that the problems of energy are so important and complex that the Federal Government should decide how the issues are going to be resolved.[7] The basic choices aren't clear yet, but in spite of the confusion, the President and the Congress appear headed toward some major decisions within a short time -- during 1975 for certain. The laws that emerge may hurt consumers or help consumers, but as in the case of the recently revised oil depletion allowance, Congress may act on energy without really debating the consumer side of energy issues very much at all.[8]

How should Congress move on the many issues? Should government impose new regulations in some areas? Should we rely on market forces and get government out of supply allocations and price setting in oil and gas particularly? These are matters of enormous importance for the consumer public.

The consumer interest is clear in this scenario, but consumer representation to date has been rather ineffective where it has been present at all.

The Historical Record

A short history of events since late 1973 underscores the difficulties of providing consumer input into energy policy.

Prior to the Arab Embargo, consumer interest in energy policy was, to be indelicate, absent. The conditions that made the U.S. vulnerable to shortages imposed by the embargo in October 1973 and then vulnerable again to the prices imposed by OPEC in December 1973 have long been developing. Government too had done little up to that point. Industry, from oil companies to electric utilities, and a few miscellaneous researchers had shown a nodding recognition of the growing strains on domestic energy supplies, but nobody had yelled "crisis" with force enough to generate action.[9]

A researcher may want to count column inches of news print from mid-1972 to Fall 1973. While there was much press coverage of oil in this period and President Nixon appointed the "minor energy czars," there was no meaningful interest in energy expressed by consumer leaders. This time was before the OPEC countries applied the principles of competition learned from the American Business Schools they had attended[10] and the international oil companies they then hosted. Those "minor czars," now all but forgotten, were General Lincoln and Governor Love, both totally absent from the national limelight in 1975.

The history of consumer movement involvement in energy since Fall, 1973, however, is a history of the Federal Energy Administration and the "major czars."[11]

The Federal Energy Office was created on December 4, 1973 to implement the Emergency Petroleum Allocation Act of November 27, 1973. Congress, unrealistically, mandated that the President establish an allocation program for crude oil and petroleum products by December 27, 1973, but no agency or even a core organizational unit of an agency existed to publish the required regulations and to implement such a nationwide system.

Phase I - Beginnings

There was no consumer office in the Federal Government capable of assuring even a modicum of consumer involvement in the crash development of the new allocation system in 1973. Nonetheless, the HEW Office of Consumer Affairs,[12] the government's small, but resourceful, consumer advocate unit, selected 23 of 23 of the original members of the FEO's Consumer Advisory Committee. This committee, since its inception, headed by Lee White,[13] former chairperson of the Federal Power Commission, quickly became the focus of the consumer movement's attempts to influence federal energy policy.

Phase II - Frustration

The early meetings of the Consumer Advisory Committee to FEO in December and January were non-eventful in spite of the whirlwind events of the embargo, the allocation program, and rising prices. The impact of the crisis became more evident in February, and some committee members complained publicly about their perceived ineffectiveness.

No other formal consumer input of a significant nature into energy policy developed within the Federal government prior to the creation of an Office of Consumer Affairs in FEO on March 13, 1974.[14] The new consumer office was the subject of significant fanfare in an attempt to dispel feelings of consumer leaders that FEO did not care about consumers.

Phase III - Institutionalization

The new consumer office, headed by the author, was the subject of generally rave public statements. The FEO's press release of March 13, 1974 partly quoted William Simon, Administrator, "The consumer will have an even more active role in the formulation of agency policy and operational activities," Simon said.

"The new office will initiate research on consumer issues through independent and FEO sources, as well as act as a watchdog on consumer interests.

"The new office will work with FEO's regional and state offices, as well as with other Federal Agencies and State and Local governments to ensure cooperation and effectiveness.

". . . the new office will participate in FEO's issue meetings and other proceedings to help decide agency policy and direction."

The Consumer Federation of America said in a press release on the same day, March 15, that it "applauds the Federal Energy Office for its formation of an Office of Consumer Affairs."

Ralph Nader in the New York Times, March 14, 1974, was more skeptical,

"Mr. Simon has been criticized in some quarters for having 58 former oil industry employees on his staff. In contrast he has not appointed any of the recognized public interest specialists in the energy field to his office."

Evidently anticipating the appointment of Mr. Richardson, Mr. Nader said, "Another person from Virginia Knauer's office will not suffice to counterbalance the heavy weight of oil industry representatives you have now employed."

The development of an FEO consumer office was not the ultimate achievement of consumer activism on energy matters. The Citizens Energy Conference in mid-February in Washington was largely attended by persons not remotely part of the consumer movement. The spectrum of public interest groups included urban, environmental, ethnic, poverty, and assorted others except for the traditional consumer groups. The conference had no subsequent reincarnations, but instead indicated that much of the consumer concern with energy economics and politics was outside the consumer movement.

The life span of the FEO/FEA consumer office was not particularly eventful. While it waged a quiet war within FEA under Administrator John Sawhill, it produced no visible changes in policy. In carrying out an assignment to analyze substantive consumer issues, it forwarded memos on various subjects that were not made part of the public record.

The relationship of the consumer office to the consumer movement was perhaps typical of the covert relationships of consumer office staffs in the Nixon Administration with the public. Informally, the dialogue was active, but internally the consumer offices had to demonstrate agency loyalty to Administration policy. The official public statements of the FEO consumer staff fell somewhere in between their expressions in informal dialogue and their internal agency stances. The system works well in spite of the sleight of hand in various dialogues because consumer office staff is rarely so publicly visible that it is called upon to be consistent with all of its internal and external publics.

The consumer movement, especially members of the Consumer Advisory Committee, FEO, in effect had created a consumer office through public pressure. The office was to represent consumers, including the Consumer Advisory Committee, in policymaking. Essentially, the process of working with the public had the following characteristics:

1. The traditional consumer movement organizations had little direct impact on the positions advocated internally by the consumer office. The indirect influence consisted primarily of the fact that the fundamental ideology of the movement and office staff were the same. The movement did not have a program to explicity advocate to FEO and consequently did not prove useful in developing the technical rationale of defensible positions for the consumer office's internal bureaucratic advocacy activities.[15]

2. The office obtained assistance from general interest citizens groups other than consumer. The variety of these groups is self-evident from their titles alone[16] and included substantive issue-oriented individuals and groups as well as persons concerned with government procedures in the dealing with the public.[17]

Part of the concern of public interest, including consumer groups in this phase of the enrgy crisis was oriented to the access and procedural problems with FEA and immediate consumer welfare issues. The consumer welfare aspects included the suddenly higher cost of electric power for customers in electric systems dependent on oil-fired generation, the rising costs of heating oil and propane, and the price of gasoline for commuters among others. The welfare focus differs significantly from attempts to influence general policy-making in that it is directed toward alleviating the impact of past policy decisions and market conditions. The policymaker increases prices. The welfare analyst proposes fuel stamps, tax rebates, and emergency set-asides of cheap fuel to help those persons particularly disadvantaged by the policy that originally increased the prices in the market.[18]

The procedural issues that commanded so much of the attention of consumer and public interest groups were multifaceted. Many of the incidents were reported in the press in an effort to discredit the government's integrity and raise the spectre of conspiracies against the public interest. While the government's credibility often was justifiably criticized, one of the undesirable effects of such highly visible attacks on the "Devils" in Washington was to cause the public to think the energy crisis would be largely soluable if the crooks were just purged. The rising profits of oil companies, Watergate problems of President Nixon, rumors of withheld supplies of oil, numbers of former oil executives working within the Federal Energy Administration[19] and other influences certainly were suspect in the public view.

Congressional and press interest tended to parallel the themes of consumer welfare and bureaucratic deafness to the public interest. Few reporters, Congressional staffers, and members of Congress exhibited much familiarity with the complexities of substantive energy policy issues.[20]

Phase IV - Falling Out

The Office of Consumer Affairs was merged with the long dormant FEA Office of Special Impact in mid-August, 1974. The August controversy surrounding the former consumer office was acute and conflicting pressures on the new office from the Administrator of FEA as well as the public, press, and consumer groups have influenced the directions of the new office. Largely, the Office of Consumer Affairs and Special Impact (OCASI) withdrew from liasion from consumer and public interest groups in favor of a self-directed program of its own priorities. OCASI has probably achieved more tangible and measurable results than OCA did by this new course.[21]

OCASI's mission became further obscured by changes of Presidents and the rapidly disintegrating influence and exit of FEA Administrator Sawhill as Energy Czar.[22] OCASI inherited the administrative responsibilities of OCA for the Consumer Advisory Committee (redubbed with the easily forgettable name of Consumer Affairs and Special Impact Advisory Committee -- CASIAC!) The consumer committee has since largely repeated the frustrations of the early history of winter 1973-4 in the form of numerous unrewarded resolutions demanding it be taken seriously.[23]

No other institutions outside FEA have replaced dropout OCASI as the government consumer energy ear nor have the public interest groups interested in energy changed their composition or thrust as the voices of the citizenry. The interface of consumerism and government energy policy has largely stabilized at a near historic low ebb.

History's Lessons

The current status of the consumer movement in the energy crisis is a subject for theologians more than social scientists. The consumer movement is present more in spirit than in body.

The high points of the situation are worth mentioning, however, because there isn't a total vacuum.

1. A Citizens Energy Platform covering nuclear, environmental, problems of minorities and a diverse package of issues has been put together by a Washington-based coalition of activists, mostly not traditional consumer groups.[24]

2. The Consumer Federation of America has been notably active on natural gas deregulation. It favors continued price ceilings.

3. The National Consumers Congress has begun reporting its views on energy in a substantial way through its newsletter.

4. Several lawsuits involving the Consumer Federation of America (CFA), Consumers Union and others on subjects such as two-tier pricing, propane overcharges, and the Federal Power Commission's emergency gas sales have been significant and sometimes successful.[25]

5. There has been a groundswell of state and local groups interested in electric utilities -- rate questions and nuclear plants in particular -- who are not connected with the consumer movement's national organizations.

The consumer movement has aptly demonstrated its several key recurring problems in energy since 1973. First, it doesn't have a recognizable program on the substantive issues. While CFA and others have passed many resolutions and developed the Citizen's Energy Platform, these statements do not offer complete alternative programs for implementation by Congress, FEA, state governments,[26] or the President.

The basic reason that there isn't a consumer energy program is because of a truism: no organization has done the necessary thinking to create one. The issues are complex. The tradeoffs are seen as so painful that they aren't made. Instead of compromising on energy growth, prices, and environmental costs, for example, it is easier to throw up one's hands and demand all: low prices, plentiful supplies, and clean air and water.

A second problem of the movement is that it gets too involved with procedure and makes the right to be heard the primary end in itself. This is not to say that much can be accomplished without consumer offices, advisory councils, and full disclosures by Federal agencies. It hasn't so far. It is very true that there is no one listening and responding significantly in substance in FEA, the White House, or Interior. Virginia Knauer's office has not one person who is an energy specialist and FEA's OCASI is bureaucraticly isolated. Consumer advocates can be and have been led to mumbling and grumbling about their lack of access; so much to the extent that they appear to ignore the substance of their purpose: national energy policy questions.

The third and most unnecessary problem is that the consumer movement has not unified scattered forces into a recognizable voice and force on energy policy matters. There are four levels of public spirited activity or potential that have not jelled into a political voice.

1. The national consumer organizations.

2. The national public interest groups with similar interests to consumer groups. Environmental groups' concerns with electric utilities are nearly identical to those of consumers.[27]

3. The state and local activists interested in prices of fuel oil, rising rents due to heating costs, and in particular electric utility rates.

4. The 99% of the public that is feeling energy crisis impacts, is impatient with unresolved political debate, and has nothing to do with any of the above three levels.

The first problem -- substantive analysis -- is not easily resolved even if it is obviously beneficial to the purposes of consumer organizations. Should consumer platforms develop, problems of organizing consumers behind them and impacting on the government would be made presumably much easier. Intelligent leadership by some consumer leaders with the answers isn't simply going to occur through positive thinking alone. Perhaps, for example, the consumer movement suffers from the fact that the fledgling consumer education movement hasn't had the time to produce the consumer professionals, consumer leaders, and enlightened citizens who could lead it, the consumer movement, to effectively help solve energy issues for the public good.

Certainly, too, energy is not the only issue area where the consumer movement has not so far succeeded in influencing national policy.

Complex Issues Still

Lest consumer leaders and educators think that the issues in the energy crisis are fairly well defined and that resolution of these issues is merely a matter of deductive logic, a look at those substantive issues should dispell the notion:

1. The Oil and Gas Journal (March 24, 1975) reports U.S. oil producing areas are posting record high prices. Domestic prices have hit $12 per barrel. Gasoline prices too have started rising after months of steady decline. All of this is occurring during a literal supply glut, which economists would say should further depress prices or not allow them to rise. (Oil and Gas Journal, March 24, 1975, p. 20; March 31, 1975, p. 52)

2. Environmental Action (March 15, 1975) reports that liquified natural gas -- imported gas which some hope will solve domestic shortages -- creates potential for accidents that is literally beyond belief. The Federal Power Commission said in 1974 that a single serious tanker accident could kill or severely burn 807,000 people in New York City, according to the magazine.

3. Nuclear power is another very real proposed alternative to oil and gas costs and shortages. The proven U.S. reserves of U_3O_8 contain an 8 year supply at current projections according to the Atomic Energy Commission (now the Nuclear Regulatory Commission). Forbes, January 15, 1975, points out the potential for rising prices of U_3O_8 and that U.S. dependence on foreign sources is potential for another international cartel similar to the organization of petroleum exporting countries (OPEC).

4. The Economist, March 7, 1975, claims a growing world glut of oil is destined to lower world prices very soon. Since Alaskan oil (per barrel) will cost $1.25, Arab oil now costs 10¢, and Louisiana offshore production is costing under $4, the fall in prices could easily wreck OPEC, cause prices to go to $5 or less, and abruptly stop the energy crisis altogether.

5. The U.S. is entering soon into a major oil conference with other nations, already agreed in principle that the U.S. should hold domestic and imported energy prices up. This is to be done so

> that oil companies will invest money to bring in new supplies which should bring prices down in the long run. Mr. Kissinger has shaped this U.S. policy now called the "Safety Net": a floor on prices designed to be high enough to cause prices to be low.[28]

In summary, the consumer movement would be expected to represent consumer interests in national energy policymaking. The stakes for consumers are quite high. The issues are complex and many of the realities and facts are still not clear. In overcoming its present shortcomings as the effective consumer voice, research into substantive issues and then the development of positions on those issues is the difficult, necessary first step.

Footnotes

1. John F. Kennedy. Message to the Congress, March 1962. This right to be heard implies that consumers not only will be heard by business, government and other institutions, but that these organizations from time to time will listen and possibly even respond with actions favorable to consumers.

2. "Voluntary Consumer Organization," an unpublished listing periodically updated by the Office of Consumer Affairs, Department of HEW, Washington, D.C. 20201. No definitive list of such organizations is recognized universally in the literature nor can it be because of the constant turnover of such national, state, and local groups.

3. New York Times, March 25, 1975.

4. Ibid.

5. Winnebago Industries, for example, the leading maker of recreational vehicles, saw its common stock drop to 5% of its former price at one point in 1974.

6. An editorial in Today's Sunbeam newspaper, Salem, New Jersey, March 24, 1975, says for example, "One's gorge rises at allegations that fraudulent oil supply schemes may have cheated American consumers out of billions of dollars. As many Salem Countians suspected at the time, those oil tankers weren't cruising back and forth in the Delaware River in late 1973, heavily laden in both directions, for the fun of it."

7. Disagreement on this point comes from some quarters. See Charles F. Luce, "A Battle Plan to Beat the Energy Crisis," Reader's Digest, March 1975. Luce is a leading electric utility executive.

8. Congressional Record, primarily in February and March 1975.

9. Robert A. Anderson in writing "The Energy Crisis" just prior to the Embargo in the conservative opinion quarterly, Freeman, August, 1973 wrote forcefully against government intervention in the atmosphere of crisis he saw approaching in the U.S.

10. Sheik Yamani, Saudi Arabia's chief oil negotiator is a Harvard Graduate.

11. William Simon, December 1973 to April 1974; John Sawhill, April to November 1974; Rogers Morton, November and December 1974; Frank Zarb, December 1974 to date. Morton, Secretary of Interior never was influential because unlike the other three, he did not serve as Administrator of the Federal Energy Administration (until June 27, 1974, FEA was the Presidentially created Federal Energy Office.).

12. The Department of Health, Education and Welfare is the bureaucratic location of the Office since July 1973. Its head, Virginia H. Knauer, also Special Assistant to the President, gives it the role as consumer advocate within the entire Federal system. The Office normally has had a staff of 50-55 since 1973, but the vast majority are involved normally in administration, public relations, publications, and complaint handling functions rather than policy matters.

13. White, still chairman of FEA's successor Consumer Affairs and Special Impact Advisory Committee, is a Democrat and heads the Energy Task Force of the Consumer Federation of America. White is outspoken and a leading critic of Federal energy policy. His appointment was only one of several that made the committee membership unusually credible to the consumer movement.

14. Virginia H. Knauer's Office had loaned several staff members to FEO Office of Gasoline Rationing Planning. The Rationing Office disbanded on April 12, 1974.

15. The office failed to identify means of gaining significant assistance in its mission for a possible number of causes. Substantive energy issues are quite complex technically. Outsiders often don't know subtleties of the bureaucracy's policy games enough to be useful. Policy is often decided in a great haste before outsiders can be consulted. The consumer movement doesn't have the expertise or personnel of any sort to establish the working liasion necessary to effectively lobby or influence policy. The office may have misread consumer movement priorities and thus failed to interface at the right moments on the issues of concern to consumer leaders.

16. Outstanding amounts of assistance came from the Center for Science in the Public Interest; Lobel, Novins & Lamont; National Urban League; Environmental Action Foundation; Movement for Economic Justice; Center for the Study of Responsive Law and Common Cause. Consumer groups were not totally absent, of course, but were relatively less important.

17. Too much emphasis was procedural in the view of the author. The Office also at first spent too much time complaining it wasn't consulted rather than demonstrating its expertise and thus why it ought to be consulted. In any event, FEO did not seek consumer movement leaders views of a substantive nature through its consumer Office at any time as it had originally stated was the purpose of the office.

18. OEO, now Community Services Administration, has two excellent publications on this subject from a government perspective: Coping With the Energy Crisis and The Great Energy Crisis of 1973-74.

19. Most notable was the announcement by Czar William Simon, that 54 then, 69 persons with former energy industry connections were in professional and policy level positions in FEA in early 1974. Most criticized in various Congressional hearings was Robert Bown, a Phillips Petroleum executive on a one year leave with the government, who had been an important figure in January 1974 in the development of regulations under the Emergency Petroleum Allocation Act (see Washington Star News, January 1974). Another notable figure until March 15, 1975 was Assistant Administrator Duke Ligon, formerly with Continental Oil. Later, the subject of bitter Congressional debate in Fall 1974 Senate confirmation proceedings as Assistant Administrator was Melvin Conant, formerly with Exxon Corporation, Conant, whom this author regards as the most creative thinker at high policymaking levels in FEA in mid-1974, by all evidence will be a sorely missed public servant when, as he indicated openly to the Senate, he in some likelihood returns to the petroleum industry. (See Problems in the Federal Energy Administration's Compliance and Enforcement Effort, General Accounting Office, Washington, D.C., December 6, 1974, for a more analytical view of FEA's failings as an allocation agency.)

20. Exceptions were and continue to be Edward Cowan of the New York Times and staff reporters of the Economist (London) in the press corps. Senators Hubert Humphrey, Henry Jackson, Russell Long, and Howard Metzenbaum exhibited comprehensive grasps of energy issues, although they did not often come to the same conclusions.

21. OCASI has begun its own regional public conferences and is largely responsible for FEA's announced intention to fund studies of electric utility rate structures (New York Times, March 25, 1975). OCA on the other hand did not conduct programs and assisted successfully in only one major funding project now being completed in the Paul Douglas Center, non-profit research affiliate of the Consumer Federation of America.

22. Sawhill's decline is objectively seen by the British weekly, The Economist, September 7, 1974. Sawhill was criticized by oil lobbyists as too aloof, by consumer advocates as unfair, by Federal government insiders as a poor manager, and by his chief bureaucratic rivals as uncooperative. Sawhill openly disagreed in public in October with official White House views, was removed, and in departing gained new allies out of former critics in the environmental and consumer groups who now agreed in his view favoring conservation as the most desirable energy priority through 1978-9. Sawhill's grasp of substantive issues, his academic openness in public meetings (a Ph.D. economist and former Assistant Dean at New York University), and his intellectual honesty and non-negotiable position on the issue of conservation were not his only strengths as Czar.

23. Transcripts of committee hearings are available for viewing at FEA, Washington, D.C. 20461.

24. Available for $1.00 from National Consumer Congress, 1346 Connecticut Avenue, N.W., Washington, D.C.

25. See Oil and Gas Journal, March 24, 1974, p. 37.

26. The Council of State Government's National Governor's Conference has a national energy staff. Louisiana, among other producer states, lobbies in force at taxpayer expense quietly with producer organizations -- the multinational oil companies, in particular.

27. Environmental Action issues in recent months are sufficient proof of this point.

28. It follows then (sic) that the higher the price, the lower the price.

ABSTRACT

THE CONSUMER'S REAL NEEDS

Sidney Margolius
Author
Syndicated Columnist

There are no more important and urgent needs than those of the consumer. The consumer's problems are the nation's problems, and the waste of consumer resources that have become so flagrant in our time, has been proven to be the waste of the nation's resources, and is responsible for many of the energy and environmental problems, and the teetering inflation and recession, that plague our country and frighten our people today. Much of the purported consumer protection falls short of the consumer's real needs. Our gains mostly have been some lessening of deceptive selling methods, some reductions in product hazards, and slow but useful reofrms in the pricing and merchandising of prescription drugs and over-the-counter medicines. But effective consumer protection has been almost wholly absent in defending the public against the real problem of the day -- the relentless inflation which has already seen a transfer of billions of dollars from consumers to the pockets of oil companies, mining companies, banks, and food processors. The rise in living costs actually has wiped out all the wage gains made by the average worker in the past seven years.

There are six overriding problems today on which consumers need serious help. These problems are: 1 -- The high cost of food. As you know well enough, food prices have gone up 72 per cent since 1967 and 9 per cent just in the past 12 months.

2 -- Booming medical costs and inadequacies of present private medical insurance, causing real anxieties in many families and encouraging high-pressure promotions of low-value insurance plans seeking to capitalize on these anxieties.

3 -- High housing and operating costs, including mortgages of 8 to 9 per cent and a nation wide increase in fuel oil costs of 107 per cent since 1970, utility rates of 50 per cent, and 16 per cent in the past twelve months alone, with more to come.

4 -- The widespread effects of high interest rates, coupled with collection laws stacked on the side of the sellers. These high rates affect consumers directly in financing homes, cars and other needs, and also lead to high property and other taxes as government and municipal agencies also pay more on their borrowings.

5 -- Serious quality problems which have led to high repair costs especially for cars and household appliances, and which even create safety hazards as shown by the investigations of the Commission on Product Safety. The lack of quality standards, and the further deterioration of quality in a period of inflation, has caused an increase of complaints -- about furniture and clothing now as well as cars and appliances.

6 -- The big jump in costs of car ownership due to the increase in gasoline prices, plus the lofty prices of cars, the already high cost of auto insurance, and the big increase in charges for maintenance and repairs.

-- abstracted by Karen Hull

REMARKS BEFORE THE

AMERICAN COUNCIL ON CONSUMER INTERESTS

Roger D. Colton
ISU-ISPIRG Chairperson
Iowa State University

Good morning. The consumer movement obtains its direction from many different sources. The driving source of ISPIRG's philosophy also comes from different sources. Two people, both of whom could be considered philosophers in their own right, have given impetus to the PIRG movement in general, and to ISPIRG specifically.

About eighteen centuries ago, Plato could well have been speaking to the consumer movement today when he said, "Act or be acted upon." A man of more contemporary nature, Ralph Nader, also addressed the consumer movement. Nader said, "In the marketplace, those who are organized get their way, and those who abdicate, delegate, or vegetate, get taken."

ISPIRG has taken these two ideas and synthesized a wide based program for the organization. In short, ISPIRG has taken the two ideas and developed them into the working philosophy "Organize to act."

ISPIRG is part of a larger PIRG movement across the nation. There are currently over 30 PIRGs, Public Interests Research Groups, across the country. There are also two PIRGs in Canada, one in London, and two in Australia. Nationally, the PIRGs have a combined budget of over $1.5 million and involve over 500,000 college students.

Although ISPIRG is not one of the larger PIRGs in the country, it is one of the stronger. Over 10,000 students support ISPIRG each year. The Iowa-PIRG hires seven staff people on a budget of less than $40,000 a year. When asked how an organization can do that, I always try to explain that advocacy for the public interest is not merely an occupation or a profession, it is a lifestyle. People work for ISPIRG because it is the "right" thing to do.

Three of our staff people work as fulltime lobbyists in the Iowa legislature. These staff members receive back-up support from 35 part-time student lobbyists. Sometimes we are accepted, and sometimes we are not.

One day I was having a terrific argument with a lady about whether Iowa should have an open-primary system based on a similar system in Minnesota. After becoming increasingly frustrated, the lady finally lashed out at me saying, "Your're just one of those radical Democratic, student activists." I plead guilty to all but the second. I'm not a Democrat. So I guess that leaves me as a "radical, Republican, student activist."

We radical Republicans in ISPIRG concentrate our legislative efforts in seven basic areas. These include environment, energy and transportation, land use, social services, government reform, housing and consumerism. I wish to concentrate today on these last two areas.

Consumer credit has been one of ISPIRG's high priorities. The Iowa legislature last year debated and finally adopted, the Uniform Consumer Credit Code (U-Triple C). It was more commonly called the Iowa Consumer Credit Code (I-Triple c). Although ISPIRG had a person working full-time lobbying on the Consumer Code, we won many battles but lost several, too.

ISPIRG successfully lobbied for the prohibition of flipping practices in the state of Iowa. We lost the battle to significantly limit the use of deficiency judgments in Iowa, however. The most heated battle was over the use of holder in due course. The battle ended in compromise. A retailer now cannot sell the contract for a period of thirty days.

Another significant area in which ISPIRG has worked is in the area of landlord-tenant relations. Last year, the Iowa legislature, under the prodding of ISPIRG, passed good reforms in the area of damage or security deposits. Under the old law, tenants had the burden of proof to prove that no damage had occurred if the landlord withheld the deposit. Under the law, which went into effect last July 1, the landlord has the responsibility to prove that damage had happened if he is to withhold the deposit.

This year, ISPIRC is lobbying for further reform in the area of tenant-landlord relations. ISPIRG is supporting the adoption of the Uniform Residential Landlord-Tenant Act, more fondly known as URLTA.

ISPIRG is lobbying for a better provision of services to Iowans. One specific item in this area, is the hearing aid legislation. ISPIRG received what I feel is its biggest compliment when the Iowa Senate considered the hearing aid bill last session. The bill was scheduled to be considered on a Monday morning. However, on Friday afternoon, it came to floor of the Senate for debate. Now if you know the Iowa legislature, you know that nothing happens on Friday afternoon. Usually nothing happens on Monday, Tuesday, Wednesday, or Thursday afternoons either, but nothing is <u>supposed</u> to happen on Friday afternoon. But the hearing bill came up for debate. All of the ISPIRG lobbyists had retreated to the state office to catch up on some long over-due research efforts. But one of the Iowa senators stood up and said, "Now look, we told ISPIRG that this bill would not be debated until Monday. I suggest we defer consideration until the ISPIRG lobbyists are present." The Senate agreed and voted to defer consideration.

One area in which more and more consumer advocates are becoming concerned, is the area of utilities. In Iowa, the Iowa Commerce Commission recently ruled that utility companies can no longer pay for promotional advertising and then pass those costs on to the consumer. It makes no sense, when the country is trying to develop a conservation ethic, to have utility companies advertise to promote consumption. Fortunately, the Commerce Commission agreed, and told Iowa utilities that if they were to advertise, they must pay for it out of profits.

I can go on and on with different consumer legislation that ISPIRG has supported in the Iowa legislature. Nursing home regulation, child care facilities, property taxes. . . but I would like to close with one. This legislation has great meaning, especially in the state of Iowa.

ISPIRG has a staff member working on the bill which would prohibit corporate farming in the state of Iowa. The coalition with which we have been working can be described by only one word. "Weird." You find a student group working with the Farmer's Union, the National Farmer's Organization, the Iowa Grange, and the National Catholic Rural Life Conference. And yet every group works as equals.

Due to these efforts, the legislation to prohibit corporate farming in Iowa was introduced in the Iowa House of Representatives with 72 co-sponsors. This is significant when you realize that there are only 100 members in the House. The bill was recently adopted by an overwhelming vote in the House.

ISPIRG is a unique type of organization in the state of Iowa. ISPIRGers are a unique type of people. I guess there just aren't a lot of hard-core rabble-rousers concerned with someone else's interest around anymore.

Thank you for inviting me to speak today.

CONSUMER ACTION PROGRAMS

Barbara J. McCandless
Assistant to the Secretary
Department of Commerce and Consumer Affairs
State of South Dakota
Pierre, South Dakota 57501

On July 1, 1973, the department of commerce and consumer affairs truly became the consumer office for the state of South Dakota. On that date the various consumer programs associated with state government were consolidated into one department. And that's what I want to talk about this morning.

I'm sure you are aware that many states, about 20, have reorganized their executive branch of state government. South Dakota streamlined its executive branch two years ago. Formerly, about 180 boards, commissions, and departments were each responsible to the governor, who in our state has one administrative assistant. Today, there are one staff and 14 line departments. One of those line departments is the department of commerce and consumer affairs.

The department contains the following divisions: banking and finance, consumer protection, human rights, insurance, and securities, as well as the Athletic and Racing Commissions, and the Electric Mediation Board, which will soon be abolished. (See organization chart on page 179 .) In addition the 20 professional and occupational licensing boards (soon to be 22) and the Public Utilities Commission report only to the department. In other words these 21 boards and commissions perform their own administrative functions.

The division of consumer protection contains 4 programs: consumer protection, heavy scales inspection, retail inspection, and mobile home safety. The newest program to become part of the division is the office of consumer affairs located formerly in the attorney general's office. It is the responsibility of that program to receive and forward to the appropriate agencies of state government the complaints of any citizen of the state relating to consumer affairs. This is also the program that administers the licensing of peddlers and solicitors. Most of the door-to-door salesmen and women that operate in the state are covered by that law. Also, all peddlers and solicitors must register with the sheriff of the county in which they wish to sell. The consumer protection program is also responsible for the enforcement of the Deceptive Trade Practices Act passed in 1969. Highlights of that Act are the declaration of illegality of the old gimmick of bait and switch, deceptive advertising, and any of the many advertising and sales gimmickry that fall between these two offenses. In addition to the division's main office in Pierre, the state capitol, we have a field office in Sioux Falls, the state's largest city, where many consumers file their complaints.

A program that's been in operation in South Dakota for a number of years is responsible for the prevention of mislabeling, misbranding, and adulteration of food products, petroleum products, paints and oils, as well as the regulation of weights and measures used in sales transactions. That's the retail inspection program. We have retail inspectors who test small scales such as those in grocery stores for accuracy. They check to see that foods are not misbranded as well as to see that packages contain the weights stated on them. They also check the gasoline pumps in service stations to see that they are measuring accurately.

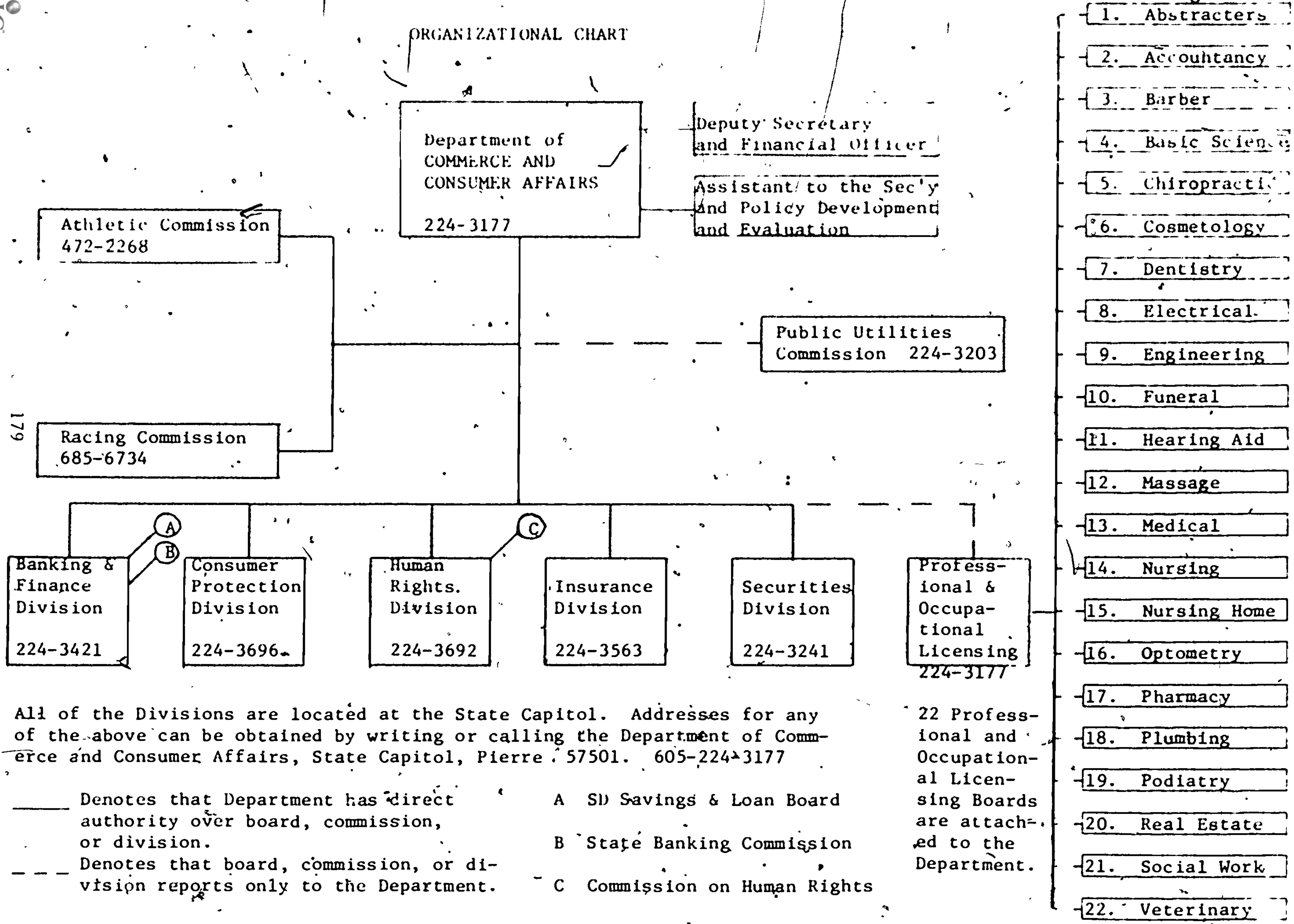
A third program in the division is the testing and inspection of heavy duty scales. We have 4 heavy-duty scale trucks equipped with test weights and equipment for testing scales. All the scales in the state are tested at least once a year, scales at livestock auction markets and those of livestock dealers are tested twice a year. About 1,700 heavy scales are tested annually.

The fourth and final program in the division of consumer protection is that of mobile home safety. On July 1, 1973, coincidental with the reorganization of state government a law known as the South Dakota Mobile Home Safety Act became effective. It requires that mobile homes sold in South Dakota must meet minimal health and safety standards and be in compliance with the Federal standards, ANSI A119.1. In other words the electrical, heating, plumbing, and construction components must meet the substantive standards of the ANSI safety code. We have inspectors in the field handling mobile home complaints, performing the necessary inspection of manufacturing facilities and products, and seeing that the proper seals are placed on these homes before they are offered for sale in South Dakota. It is illegal to connect utilities to any mobile home manufactured after July 1, 1973, unless it has the seal issued by the division.

In summary I'd like to emphasize that the consumer functions of state government are located primarily in one department. Having one central agency makes it easier for the consumer who wishes to lodge a complaint.

SOUTH DAKOTA DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS

ORGANIZATIONAL CHART



All of the Divisions are located at the State Capitol. Addresses for any of the above can be obtained by writing or calling the Department of Commerce and Consumer Affairs, State Capitol, Pierre 57501. 605-224-3177

——— Denotes that Department has direct authority over board, commission, or division.

– – – Denotes that board, commission, or division reports only to the Department.

A SD Savings & Loan Board

B State Banking Commission

C Commission on Human Rights

REMARKS BEFORE

THE AMERICAN COUNCIL ON CONSUMER INTERESTS

Cathy Butts, Director
Consumer Relations Board
Kansas State University

The Consumer Relations Board at K-State is involved in many of the same activities that other members of the panel have shared with you this morning. The Consumer Relations Board at K-State acts as a mediator and clearing-house for consumer grievances, and as a source for information and advice. We provide educational programs that sensitize consumers to their rights and responsibilities, as well as to their role in the marketplace. We conduct research projects on topics affecting local consumers, and we lobby for consumer legislation on the city and state level. But all this didn't happen overnight. It's the fruit of four and a half years of continued expansion.

So, instead of expounding upon the particulars of our procedures for handling complaints, or our research or education projects and duplicating things that have already been presented this morning, I'd like to share with you the history and structure of the Consumer Relations Board. Not that we have the most impressive organization, but perhaps we are unique in that we have continued to grow and expand since our creation.

The Consumer Relations Board was conceived by the minds of Bob Flashman (now completing his PhD. at Ohio State) and eight other students who were searching for relevance and involvement. They recognized that students share many of the problems experienced by other groups of low-income, highly mobile persons, isolated from familiar markets and service. Also, since most students are changing their life pattern and orientation from dependence to independence, students are especially vulnerable to consumer problems ranging from simple misunderstandings to outright frauds, Flashman approached the Student Governing Association and convinced them of the need for a Consumer Relations Board. They opened their doors with a lot of volunteer determination and $50 for operation expenses, but as an official function of S.G.A.

Our first steps were slow, cautious, but determined. One successfully handled complaint, one research problem at a time, we built the credibility that has made us a respected part of the Manhattan community.

When we first began, there were two widely held opinions among local businessmen. One, "it's just another student fad -- ignore them and they'll go away." And in light of the concurring student unrest, riots, and burnings that were taking place on campuses across the United States, some businessmen looked upon the Consumer Relations Board as, "a radical student movement. . . out to destroy the free-enterprise system and every business in Manhattan." But, we haven't gone away, even though some businesses have tried to ignore our existence. Our visibility heightened when a filling station manager looked out one July morning to find members of the C.R.B. picketing his station because he had refused to negotiate any settlement on a consumer grievance. To date, we haven't closed any reputable Manhattan business, but we have stopped several fraudulant ventures that not only rob consumers, but divert sales from honest merchants. In addition, we have resolved hundreds of consumer-business grievances that were simple misunderstandings caused by breakdowns in communications, which, if left unresolved, could have resulted in a dissatisfied customer and a tinted public image as well.

Perhaps a more tangible indication of our creditability was our success in obtaining the cooperation of the Manhattan Chamber of Commerce in establishing a branch office -- Manhattan Consumer-Business Relations Center. Our physical appearance is modest. We have a corner of a conference room which houses our files, desk, phone, and a few thousand promotional brochures. But there is nothing modest about the increasing demands from the community for the same service that we have provided students in the past. Other indications of our progress aren't always as obvious. For example, recently a business member of the Chamber's advisory committee in discussing our goals for the coming year, said: "I wish you'd direct part of your educational programs to making people realize that the marketplace is a two-way street. Sometimes what holds true for businesses also holds true for consumers." I'm not sure I've always put it exactly that way but. . . .

Since our inception there have been several similar groups started on campuses across the country. Partially because of the distribution of Bob Flashman's book, University Consumer Protection,[1] many are patterned after the Consumer Relations Board at Kansas State. Others have taken the fundamental concept and conformed it to their local needs and resources. In our own state, boards were started at six other state colleges, three have survived. What's our secret? I don't know that there is any one answer, but one important reason in the continuity we have been able to build into our program.

Students by their nature are transient. At most, they are on campus for 4 or 5 years. It is necessary, therefore, to have within the structure of any student group a firm foundation to support the program from year to year as the students come and go. Our support has been the Department of Family Economics. Even our existence can be attributed to the foresight and dedication to the consumer interest of its faculty members such as Dr. Morse, Albie Rasmussen and Bill Fasse, who "built the fire" under the group of students that started the Consumer Relations Board; and their continued encouragement for student consumer concern. As a service of the Student Governing Association, we function independently of the department but faculty members stand ready to advise when called upon. The three directors have been master degree candidates of the Department of Family Economics. Because of their orientation to consumer problems during undergraduate work, they were much better prepared to execute programs and sensitive to the need for advocating policies in the consumer's interest. Also, undergraduate students are involved with the Board's activities. They may receive one hour of class credit in Family Economics. They provide the CRB with the man-power needed to give each complaint individual attention, and they benefit from the opportunity to apply classroom theory to real market conflicts. No other laboratory could begin to offer this type of experience. This semester, we have 20 students enrolled in "Consumer Relations Practicum."

There may not be a Family Economics Department on your campus, but I am sure there is some academic home for this type of reciprocal relationship. Other groups have found assistance from the College of Business, or Economics. Still others have found simply one sympathetic faculty member. My point is: there must be an academic home, to foster the continuity that is essential to any student endeavor.

We have also been fortunate in the financial assistance that the Student Governing Association has continued to provide us in fulfilling their goal of providing relevant student services. Student Senators recognized this as a cause which brought direct benefits to all students. A random survey conducted for Dick Retrum's thesis[1] last year confirmed their faith, as ninty per cent (90%) of those responding considered CRB to be a valuable service. SGA provides us with free office space, postage, phones, and a State WATTS line, and a paid director's position. This, with the aid of the Chamber of Commerce, has allowed us to be politically independent and still provide a free service to consumers. Your set-up doesn't have to be elaborate, remember we started with $50. But, if you prove your services are of value, funds for expansion can be found -- but I'll be the first to confess it's not an easy task. I have waiting for me when I return next week, our yearly allocation proceedings, and the re-education process of a new legislative body of the service we do provide.

Like any new organization we have experienced growing pains. But, we have advanced from our childhood and are now racing through the awkwardness of adolescents; but some day soon, like ACCI; we too can say "we're of age."

The vastness of student interest in the consumer movement is evident by the record-breaking student participation at this year's conference. More students are seeking involvement, practical application of their classroom exposures, and preparation for later careers as professional consumerists. I offer the concept of a Student Consumer Relations Board as a vehicle for extending learning beyond the classroom and providing students with the experiences they are seeking.

Footnotes

1. Copies of Bob Flashman's book, University Consumer Protection, Dick Retrum's Thesis, "Students Identification with the Consumer Relations Board," and other materials explaining the Consumer Relations Board at Kansas State, are available from:

   Student Governing Association
   K-State Union
   Manhattan, Kansas 66506

Enclose $3.50 for printing and mailing costs.

CONSUMER AFFAIRS CLEARING HOUSE: A MODEL FOR

LOCAL CONSUMER PROTECTION

Kathleen Browne Ittig
Assistant Professor of Consumer
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For years consumer educators have been urging consumers to register complaints about products or services with both the merchant or manufacturer involved and with the appropriate government agency when fraud is involved. As Bymers has pointed out, "There isn't anyone operating in this consumer education business who hasn't wished from time to time that he really knew the extent of consumer dissatisfaction." (2:10)

At the hearings[1] held by Congress last Spring (1974) on the ill-fated Consumer Controversies Resolution Act (S.2928), the first witness, Mrs. Virginia Knauer, Special Assistant to the President for Consumer Affairs, labeled consumer complaint handling and resolution as "an orphan in this phase of consumerism." (3:24) While stating that the individual complaint is a "vital indicator of our relationship with the consumer," she emphasized that "we don't know very much about the total mosaic of current complaints." (3:24)

As part of her testimony, Mrs. Knauer outlined none needs which in her perception must be met before the optimal method of resolving consumer complaints can be identified. Among the needs she listed was the need "to refine and analyze proposals for a uniform system for accumulating and publishing consumer complaint statistics in order to establish priorities" as well as the need "to better define the role of State and local consumer protection offices and determine the resources required to play a primary or monitoring role in the development and operation of complaint resolving system." (3:25)

Background

Consumer Affairs Clearing House for Western New York was inaugurated in Buffalo on February 15, 1972 as a joint effort of over twenty (20) government and private agencies to coordinate the resolution of consumer complaints. The impetus for establishing Consumer Affairs Clearing House came from the Consumer Committee of the Buffalo Federal Executive Board under the leadership of the then director of the defunct Western New York Office of the Federal Trade Commission, Earl Stackhouse.

Most of the initial participants represented law enforcement agencies at some level of government. Non-government input was provided by representatives from the Urban League, State University College at Buffalo, and the Better Business Bureau of Western New York. Figure 1 presents a model of the traditional consumer complaint settlement system, under which the consumer contacts consumer redress agencies on a hit or miss basis. Figure 2 presents the basic idea behind the Consumer Affairs Clearing House which centralizes the complaint handling process.

Consumer Affairs Clearing House was formed for the purpose of maximizing the effectiveness of the consumer protection agencies in Western New York. Coordination of law enforcement activities in the consumer fraud area has been CACH's major thrust. Prior to the formation of CACH many of the agencies operated in a vacuum without any association with others working on related problems. This created several difficulties including duplication of effort as represented by two or more agencies working to solve the same complaint because of overlapping jurisdictions or vague statutes; as well as lack of recognition of serious community consumer problems because only the "top of the iceberg" was apparent to any one consumer agency. For example, twenty separate complaints involving only one company were spread among fifteen different agencies.

After three years of operation, Consumer Affairs Clearing House currently has the cooperation of twenty-seven (27) agencies serving the consumer in Western New York. Twenty-four (24) of these agencies are government agencies with varying degrees of responsibility for consumer protection including five city agencies, seven county agencies in four counties in Western New York, five New York State agencies and seven federal agencies. The remaining three are private organizations: the Better Business Bureau of Western New York, its subsidiary, Consumer Forum, Inc., and Newspower of the Buffalo Evening News. Figure 3 presents an illustrative classification of the participating agencies.

Goals of CACH

As outlined by Stackhouse, the Consumer Affairs Clearing House was established to meet six goals.

1. To eliminate consumer frustration by providing a single telephone number that a consumer can call to furnish information, make an inquiry or register a complaint.

2. To improve the quality of the results of processing consumer complaints.

3. To relieve the law enforcement activities of much routine administrative work by providing a Clearing House to accomplish the preliminary processing of consumer complaints.

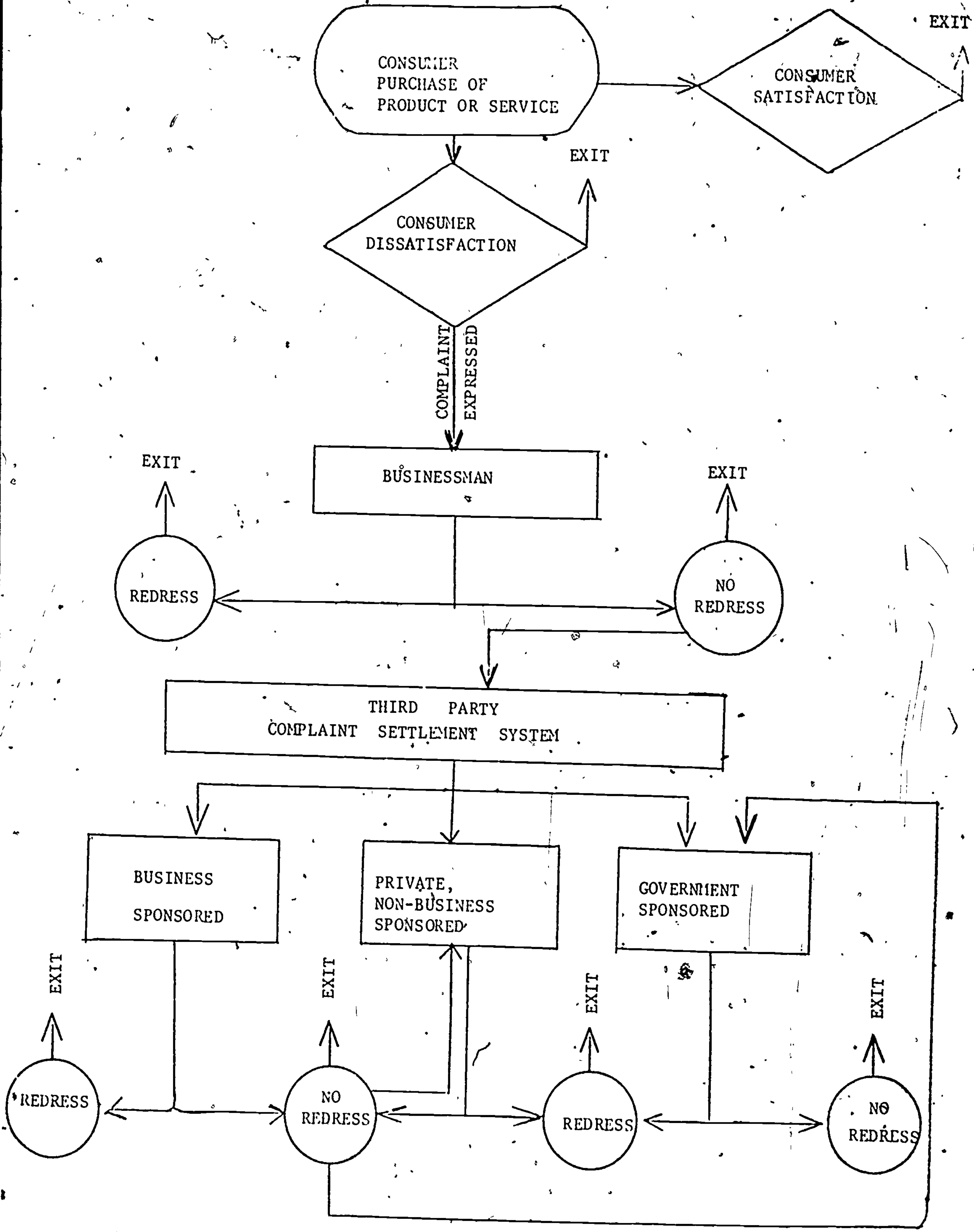

Figure 1. Model of the Traditional Consumer Complaint Settlement System

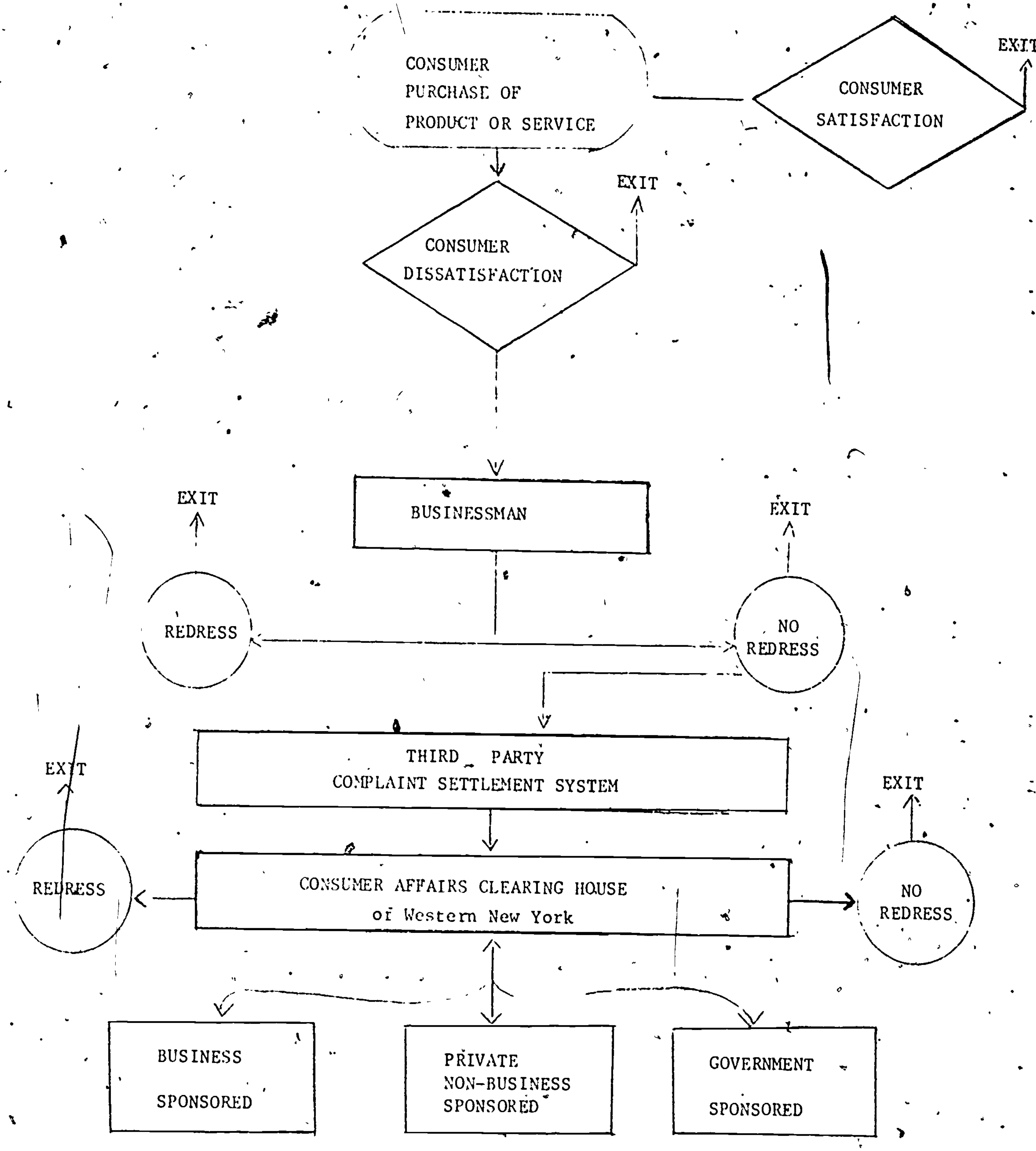

Figure 2. Model of Consumer Affairs Clearing House Complaint Settlement System

4. To afford the legitimate businessman a reasonable means of resolving consumer complaints, where no violation of the law is involved.

5. To provide for an effective, coordinated effort by law enforcement activities where a violation of law appears to be involved.

6. To provide elected officials with an additional management tool which can assist them in resolving problems for consumers of their constituencies. (6)

Structure of CACH

Consumer Affairs Clearing House is loosely organized and functions through mission-oriented committees under the leadership of the chairman. Figure 4 is the CACH organizational chart.

The Chairman of CACH appoints both the steering committee and the advisory committee. It appears that the chairman is arrived at through a consensus of the participating agencies. The first chairman was the director of the regional FTC office and the current chairman is Assistant Attorney General in Charge of the Consumer Frauds Bureau of Western New York. The Advisory Committee was formed as a citizen's committee designed to oversee CACH operations and verify that complaints are being properly referred to the appropriate law enforcement agency. The Steering Committee which is composed of the chairman of each of the five sub-committees:

1. Law Enforcement - consists of a representative of each participating agency who meet monthly for the purpose of information exchange and investigation evaluation as well as recommending legislation and needed education programs.

2. Consumer Policy Committee - membership includes citizen, academic and legal representation designed to review CACH data for the purpose of proposing and supporting legislative action.

3. Education Committee - membership includes both CACH members and educators, and community organizations; designed to develop and promote consumer education programs that complement CACH activities and involve the participating agencies.

4. Training Committee - membership consists of representatives of participating agencies whose responsibility is to plan training sessions for BBB personnel in order to facilitate efficient and accurate referrals from the BBB to the law enforcement agencies.

5. Operations and Administration Committee - membership includes BBB personnel who are responsible for the day-to-day consumer complaint handling and CACH referrals.

Figure 3. An Illustrative Classification of CACH Agencies by Economic Sector and Level of Jurisdiction or Operation

Level of Jurisdiction/Operation	Economic Sector: Public	Economic Sector: Private
National/ Federal	Consumer Product Safety Commission Federal Communications Commission Food and Drug Administration Internal Revenue Service U.S. Customs Service U.S. Department of Justice U.S. Postal Service	
State/ New York State	Agriculture and Markets Bureau of Weights and Measures Department of Law (A.G.) Department of Transportation Health Department	
Regional/ Western New York		Better Business Bureau of W.N.Y. Consumer Forum, Inc.
County Allegheny Erie Niagara Wyoming	 Bureau of Weights and Measures Bureau of Weights and Measures-District Att'y.-County Att'y., Dept. Health District Att'y. Bureau of Weights and Measures	Newspower of Buffalo Evening News
City Buffalo Jamestown Lackawanna Niagara Falls	 Bureau of Weights and Measures-Inspection and Licenses Dept. Police Department Bureau of Weights and Measures Bureau of Weights and Measures	

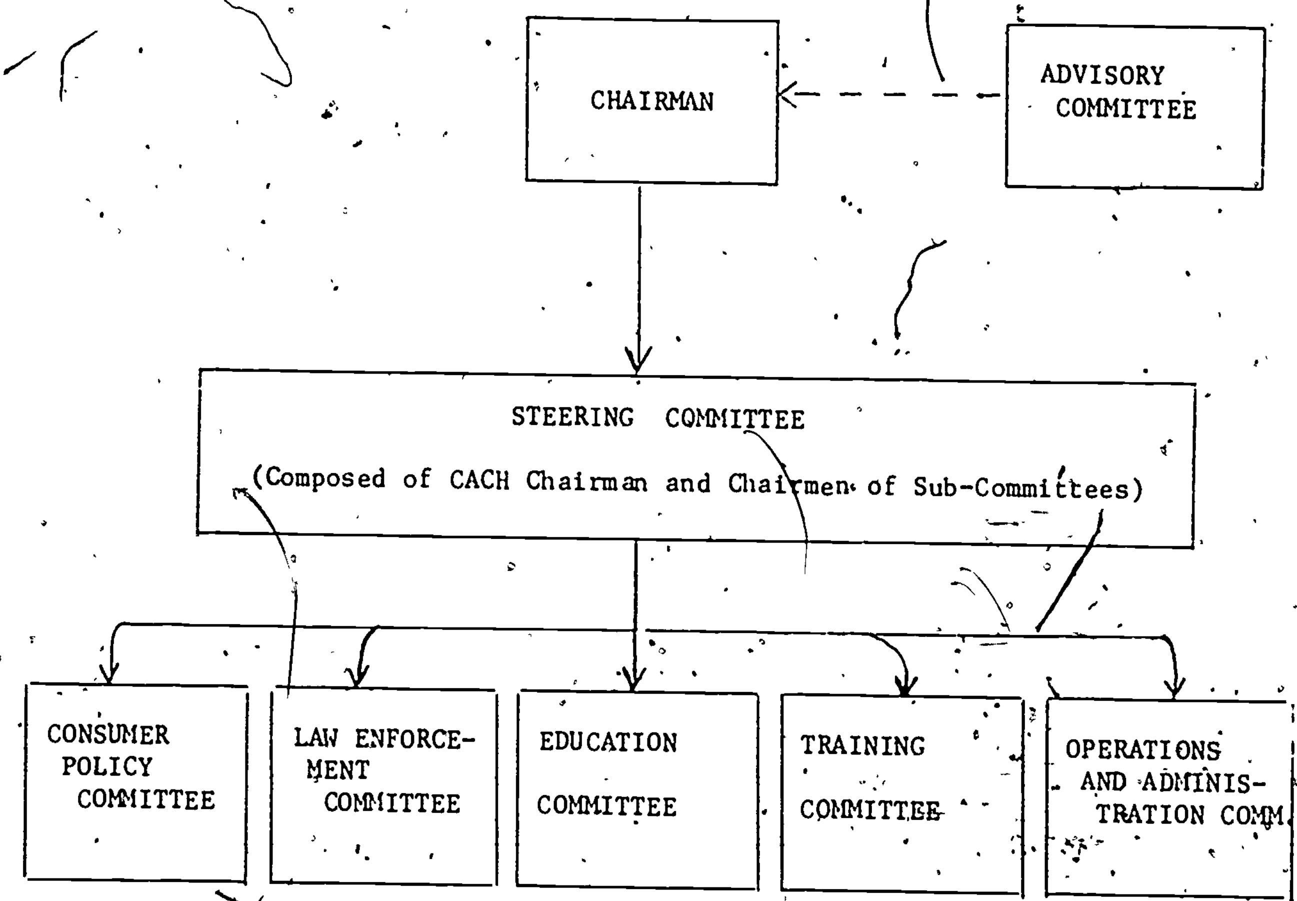

Figure 4.

Organizational Chart of Consumer Affair Clearing House of Western New York

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Operation of CACH

Consumer Affairs Clearing House operates through the use of a central phone number (856-7180) which ties into the Inquiry/Complaint System of the Better Business Bureau of Western New York. The BBB provides most of the financial support for CACH operations as well as the physical plant and personnel without expecting to dictate policy. When a consumer calls in a complaint it is handled routinely as a Better Business Bureau complaint which means that the consumer is sent a "Customer Experience Record" which must be filled out and returned before further action is taken. However, if the consumer complaint involves food, health or safety, the Better Business Bureau refers them immediately to the government agency with proper jurisdiction for immediate handling. Further, if private legal action is pending on the complaint or if such action is being contemplated by the consumer, CACH will not handle the complaint. Figure 5 presents the complaint handling procedure of Consumer Affairs Clearing House.

Consumer Affairs Clearing House Data Bank.

The BBB of Western New York handles an average of 12,000 formal complaints a year under this system described above. Data on each of these complaints is coded and stored for use in a special computer program designed and operated by Service Bureau Corporation of Washington, D.C., for the National Council of Better Business Bureaus. At the present time, all computer work is done in Washington.

The CACH data collected includes the following variables on each firm:

1) Company I.D. number
2) Company name
3) Current number of complaints (monthly)
4) Number of complaints against company as a percent of all complaints against all companies (monthly)
5) Total number of complaints for previous 12 months
6) Resolution of consumer complaint
   a) Settled
   b) Unsettled
7) Year to date (YTD) inquiries about the firm
8) Type of Business
9) Report Code
10) Complaint type

The Consumer Affairs Clearing House of Western New York has decided that it should collect more specific data than is currently utilized by the National BBB program and it has therefore been attempting to refine its data classification in some areas. For example, a new set of complaint resolution codes expands the former two category code to 14 categories. William Marx, President of the BBB of Western New York, is hopeful that these more specific classifications will be more useful in evaluating the CACH operation.

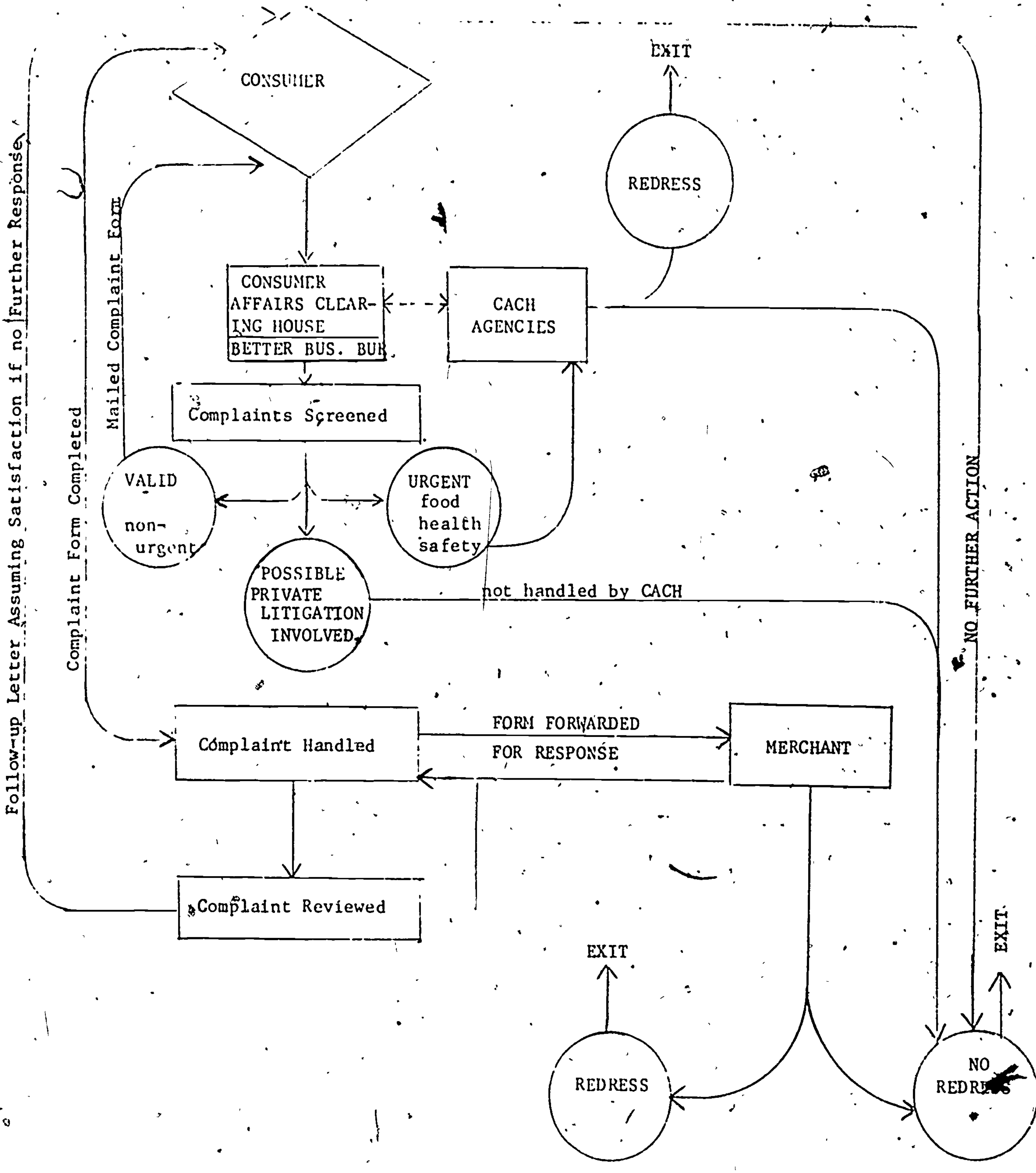

Figure 5. Model of Consumer Affairs Clearing House Complaint Handling Procedure

Evaluation

Consumer Affairs Clearing House appears to have had good success in meeting many of the six goals outlined above. A central phone line has been established and law enforcement agencies have been relieved of the routine administrative duties involved in handling complaints. In addition CACH has served as an effective forum for coordinating efforts by law enforcement activities. For example, when CACH became aware of consumer concern about the false advertising of meat products the CACH law enforcement officials called a meeting of retail grocers and presented an educational review of the existing laws along with a warning that meat advertising practices were under surveillance. This effort was supported by wide spread media coverage.

Two studies are now in the final stages of evaluating Consumer Affairs Clearing House and after they are completed more concrete evaluative information should be available. One study is being done by the newly formed Erie County Consumer Protection Committee, a county government organization created initially for the purpose of evaluating the effectiveness of all consumer agencies serving residents of the county. Some of their preliminary conclusions will be discussed below. The second study is a formal research study being conducted by the author under a grant from the Office of Consumer Affairs, DHEW, "Evaluating the Effectiveness of Consumer Redress Mechanisms in Erie County, New York" to be completed by July 1, 1975.

Some areas of Consumer Affairs Clearing House do seem to need strengthening including both procedural issues and philosophical issues. However, most of the procedural issues hinge on the philosophical issues. It has been recommended that "consideration should be given to the possibility of taking over the functions of the Consumer Affairs Clearing House by a public agency such as the Erie County Consumer Protection Committee" (1). Others have recommended that such an operation be housed in the Office of the Attorney Genera .

The major issue that has arisen in this regard is the lack of formal <u>accountability</u> of CACH to the consumer citizenry. CACH is not formally responsible to any citizenry for its action. Further since the activities are primarily handled by the Better Business Bureau, many citizens who have negative feelings about the BBB sponsorship and resultant pro-business bias or previous bad experiences with the Bureau refuse to use CACH once they find out.* Less than one in ten complaints are actually referred by BBB to CACH. As pointed out by Brinson, "the fact that CACH refers only one or two complaints per day to its affiliates tends to indicate that CACH is not living up to its full potential" (1). Accountability also has implications for funding. Since the BBB of Western New York provides the major funding, they justifiably have a veto over CACH activities that cost money unless outside fuding is available. Further, the Bureau has ultimate control over CACH data and has been known to

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*All written forms sent to the Consumer by CACH are the traditional BBB forms and are so labeled.

request a formal supeona from the Chairman of the Clearing House (who as mentioned above, is an attorney general) before releasing information. Not only does the local BBB control the data but since the data is processed in Washington, D.C. in cooperation with the National Council of Better Business Bureaus, the Council is in a position to veto local decisions, for example, releasing data on company names and locations to university researchers evaluating the program.

The second concern is whether or not CACH should have an advocacy role especially in the complaint handling procedure. Currently, since the BBB format for handling consumer complaints has been adopted, CACH through the BBB does not take sides and thus does not attempt to represent the consumer's viewpoint. However; complaints referred to CACH participants are handled in view of the agency's philosophy about advocacy. Consumers who go so far as to formally express a complaint are usually seeking at least guidance or advice if not advocacy. If not, they would have handled the matter privately. Currently CACH is not interested in that role although it does have potential in the advocacy area.

Overall Consumer Affairs Clearing House has great potential and has made great strides in providing an effective, centralized method of handling and documenting consumer complaints. If CACH data collection procedures were more widely emulated decision makers at all levels of government and in business would be in a much more enlightened position from which to make decisions about consumer and business policy.

Footnotes

1. Hearings were held jointly by the Subcommittee on Consumers of the Committee on Commerce and the Subcommittee on the Representation of Citizen Interests of the Committee on the Judiciary on S.2928, a bill to establish national goals for the effective, fair, inexpensive, and expeditious reolution of controversies involving consumers, and for other purposes.

Appendix A

Members of Consumer Affairs Clearing House of

Western New York

Alleghany County Bureau of Weights and Measures
Better Business Bureau of Western New York
Buffalo Bureau of Weights and Measures
Buffalo Inspection and License Division
Consumer Forum, Inc.
Consumer Product Safety Commission
Erie County Attorney's Office
Erie County Bureau of Weights and Measures
Erie County Department of Health
Erie County District Attorney's Office
Federal Communications Commission
Food and Drug Administration
Internal Revenue Service
Jamestown Police Department
Lackawanna Bureau of Weights and Measures
New York State Agriculture and Markets
New York State Attorney General's Office
New York State Bureau of Weights and Measures
New York State Department of Transportation
New York State Health Department
"NEWSpower" of the Buffalo Evening News
Niagara County District Attorney's Office
Niagara Falls Bureau of Weights and Measures
United States Customs Service
United States Department of Justice
United States Post Office
Wyoming County Bureau of Weights and Measures

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5. Kazanjian, Joh. "Consumer Protection by State Attorney's General: A Time for Renewal, Notre Dame Lawyer, 49:410-27, December 1973.

6. Stackhouse, Earl. "The Plan." Private papers.

REMARKS BEFORE THE

AMERICAN COUNCIL ON CONSUMER INTERESTS

Paula Heichel
Neighborhood Legal Service Program
Washington, D. C.

Legal Services Programs came into being in 1964 through the passage of the Economic Opportunity Act. These Programs were founded under the concept of providing equal access to this country's system of justice to all citizens. In particular, the Programs were to provide high quality legal assistance to those who otherwise would be unable to afford adequate legal counsel.

With the impending termination of OEO last year, Congress was forced into action to find a transfer vehicle which would allow for the continuation of free legal services to the poor. As a result, the Legal Services Corporation Act (H. R. 7824) was passed by both the House and Senate in January of 1974. The Act "established a private, non-membership, non-profit corporation for the purpose of providing financial support for legal assistance in non-criminal proceedings and matters to persons financially unable to afford legal assistance."

Currently, there are Legal Services Programs located in Metropolitan and rural areas in every state as well as all the U. S. territories, including Puerto Rico, U. S. Virgin Islands, American Samoa and Guam.

All of these Legal Services Programs provide free legal services, in civil proceedings, to all eligible clients. To qualify as eligible, a client is permitted to earn, if single, $72.00 take home pay weekly, if married, $92.00 plus $20.00 per dependent.

Even at this low income figure, the Neighborhood Legal Services Program of the District of Columbia serves 300,000 indigent residents. NLSP operates on an annual budget of one million dollars. The staff is comprised of 31 attorneys, 12 Paralegals, 16 secretaries, 12 Administrative personnel and 10 investigators. There are 6 Neighborhood or storefront law offices spread throughout the city in five law sections, namely, Administrative Institutions Law, Consumer Law, Family Law, and finally Housing Law.

During Neighborhood Legal Services ten years of existence, we have found that providing legal services to our clients is simply not enough. Many cases we handle on a day to day basis do no more than treat the symptoms of problems rather than the underlying causes.

We are able to ward off a collection agency, a landlord, or retrieve a lost SSI Check, only to have clients back on our doorsteps within a month or two with similar problems plaguing he or she. In the attempts to rectify the situation, too often we overlook the most obvious of reasons -- why a person seeks legal assistance at all -- because he or she does not know how to avoid such problems from the beginning and because he or she lacks the knowledge needed to make an adequate decision when confronted with a legal problem.

We believe there exist in a necessity to impart legal advice not only at the point of office contact, after the trouble has occurred, but also in the street and in the home where such knowledge can do the most good before the problems come into being.

Because NLSP is aware of the special problems of low income consumers, we have become increasingly involved in the educational process of D. C. residents. For the past year and a half, in addition to litigation, negotiation and arbitration, community legal education has become an integral part of this Program's activities. From November of 1973, until November of 1974, educational programs were coordinated and administered by the Program's VISTA Volunteers, of which I was one.

VISTA's were used for this purpose to allow staff attorneys the time required to prepare court documents and litigate the inordinately large number of cases our attorneys assume.

With the recent reorganization of the Program and the addition of Paralegals to the staff, I have been able to assume the responsibility of community legal education as part of my duties as the Paralegal for the Consumer Law Section.

The objective of our "Street Law" course, as it is called, is to expose students to all aspects of the law. In so doing, we present the topics in such a manner that the materials covered are easily comprehended by participants.. In other words, we attempt to provide a basic understanding of the law that will facilitate the students' knowing how to use the law to protect their rights while making them aware of their legal responsibilities. "Street Law" is composed of the following topics:

1. Housing-Tenant Rights
2. Advertising and deceptive pricing
3. Frauds, games and gimmicks
4. Guarantees and warranties
5. Truth in Lending and Regulation Z
6. Contracts
7. Individual and Criminal Rights
8. Domestic Relations
9. Administrative Law

The operation of such a street law program is relevatively simple. Initial contacts have been in the past and are presently directed to me. I present the course outline to the prospective group at which time topics are either added or deleted. From there I enlist the help of our staff attorneys and Paralegals.

When topics are chosen beyond our staff's field of expertise, I turn to outside sources for assistance. For example, the topic of insurance, understanding your policy -- we have agents from area insurance firms come to the session and explain to the students what coverage they are entitled to under their individual policies or, when the topic is vocational schools, we rely upon the community liason officer of the Federal Trade Commission.

In essence the Program is designed specifically for the group to whom it will be offered and set up in such a way that no one person is responsible for teaching more than one topic.

The first street law course offered by NLSP was taught for Washington Saturday College, a free adult education program. The students ranged in age from 18 to 54. Classes were held on twelve consecutive Saturdays following the general course outline. Certificates were awarded upon completion of the course.

The second street law program was conducted for the Internal Revenue Service - Summer Intern Program. Every summer, 100 inner-city high school students, junior and senior grade level, are employed by the IRS. In conjunction with their employment, interns are required to attend two courses, then are offered two elective courses -- street law was one of these two electives. We had 26 students participating, ages 16 to 19. To meet the needs of our audience, the course outline was altered to include buying clothing, furniture and appliances, shopping for autos and auto repossession, and vocational schools. Along with classroom sessions, students visited criminal court where they witnessed arraignments as well as a juvenile trial for assault and battery.

Our current program is being offered for the parents of children at the Rosedale Day Care Center. The parents meet once monthly at which time we provide a speaker. In this six-month program, the topics discussed were chosen by the parents themselves.

The newest and probably most ambitious program will start this month. In cooperation with twelve attorneys from the Consumer Section of the D.C. Bar Association, the Consumer Section of Neighborhood Legal Services will conduct a 12-session program for the Model Cities Senior Citizen Center. The Center services 65 senior citizens on a daily basis. As in previous programs, topics are tailored for the audience. Therefore, this particular program will also delve into the needs for a Will and Probate Court, tax relief for the elderly, institutional rights, private pensions, with special emphasis to be placed on administrative law, SSI, Social Security, veterans benefits, Medicaid and Medicare, and Food Stamps will be discussed at great length.

A number of these sessions will be videotaped by Federal City College's Insitute of Gerontology. It is hoped that these tapes will then be used to train Department of Human Resources Homemakers who work with elderly shut-ins. The Homemakers will be trained to identify potential legal problems, then act as go-betweens for the shut-ins and the program.

Another project in progress is our preparation for Law Day (May 1). This year, the Unified Bar of D.C. will hold legal education seminars at all nutrition sites for the elderly and in nursing homes, both public and private. I am working with the National Senior Citizens Council in developing course materials to be used by the lecturing attorneys.

Because of our limited budget, it is essential for the Legal Services Program to use only those resources that are available to us at no expense. To date, we have been very successful in coordinating and conducting our educational programs without incurring expenses. Resources such as those that are at our command exist throughout the country. In closing, I would urge all of you who may be interested in developing legal education programs in your community to contact the nearest legal services program for your locale or your local bar association.

I have with me the nationwide list of legal services programs.

LEADERSHIP TRAINING PROGRAM FOR

VOLUNTEER CONSUMER LEADERS

Dr. Ruth D. Harris
Program Leader
Home Economics Education

A Consumer Leadership Conference was held at the Ramada Inn of Alexandria, Virginia, on October 11-14, 1974, in cooperation with Virginia Polytechnic Institute and State University, the Virginia Citizens Consumer Council, Inc., the Office of Consumer Affairs and the Consumer Information Center, General Services Administration. The purpose of this conference was to provide leadership training for potential volunteer consumer leaders from throughout the State of Virginia. An advisory committee composed of members from the Office of Consumer Affairs, the Virginia Citizens Consumer Council, Virginia Polytechnic Institute and State University, and the State Supervisory Staff of Vocational Home Economics Education provided guidance in planning and conducting the Consumer Leadership Conference.

Emphasis was placed during the conference on (1) the development of consumer leadership skills, (2) understanding consumer policy making, (3) understanding the legislative process, (4) developing volunteer consumer programs, (5) conducting consumer projects, and (6) developing communication skills. Speakers were selected for the conference because of their expertise in various aspects of the consumer field. The culmination of the workshop included each individual's development of a plan for conducting a consumer leadership activity.

This report provides a summary of background information, program participants, conference objectives, program agenda, evaluation, project summaries, and recommendations.

Program Participants

Sixty six individuals attended the conference - 50 participants and 16 observers. The program participants came from a variety of backgrounds. Most of the participants had limited experience in consumerism, and had expressed an interest in becoming a volunteer consumer leader in their own community. Eighteen hours of instruction were given on consumer concepts and skills. The participants in the conference received 1.8 continuing education credits from Virginia Polytechnic Institute and State University.

The participants conducted a follow-up activity after the conference. A list of their project topics is the section on project summaries.

Purposes and Objectives

The purpose of the project was to develop and implement a model consumer leadership training program for potential volunteer consumer leaders. Throughout the nation, consumers at the grassroots level are expressing a need for more expertise in handling consumer problems. Although the need has been acknowledged for some time, it has been intensified by current economic conditions and inflation in the nation. Consumer organizations have recognized this fact and begun to assist at the grassroots level in the community. However, the members of the organizations in many cases themselves need training in leadership skills as well as consumer problem-solving techniques in order to effectively help consumers solve their problems.

The major objective of this project was to develop and implement a model consumer leadership training program for potential volunteer leaders. Specific objectives were as follows:

1. To provide leadership training in:

   (a) understanding the background and history of the consumer movement

   (b) developing techniques and skills in:

      (1) becoming a leader in the community

      (2) helping individuals solve their consumer problems

      (3) becoming a consumer leader

      (4) principles of organizing a consumer action group

      (5) vehicles for organizing a consumer group

      (6) Conducting consumer surveys

      (7) handling consumer complaints

      (8) conducting consumer education classes

   (c) understanding the economic interaction of government, business and consumers

      (1) governmental operations at the federal, state and local level

(2) the operation of regulatory, legislative, executive and judicial agencies

(d) developing an understanding of business, education and consumer groups

(1) credit and financial institutions

(2) consumer education programs in schools

(3) inflation - causes and ways of diminishing

(4) food and marketing

(e) developing communication skills

(1) television spots and programs

(2) news articles and publications

(f) developing fund-raising techniques and skills for consumer organizations

(g) conducting individual consumer projects at the local level

Background and Procedures

A request was made by the president of the Virginia Citizens Consumer Council, Inc., Ms. Lynn Jordan, for a Leadership Training Conference for Potential Volunteer Leaders. Members of other consumer organizations also expressed a need for training to assist them with consumer leadership skills.

An advisory committee was formed in order to plan the conference around the needs of the individuals who would be attending.

The committee was composed of members from the Office of Consumer Affairs, Virginia Polytechnic Institute and State University, the State Department of Vocational Home Economics, and the Virginia Citizens Consumer Council. The committee provided guidance in planning and implementing the training program including determination of the following criteria for participant selection:

(1) interest and capabilities in conducting a follow-up project

(2) attendance at entire conference

(3) geographic representation

(4) leadership potential

The Consumer Leadership Conference was publicized nationally as well as in the state of Virginia through the news media. Individuals interested in attending the conference filled out an application form indicating their background and interest in completing a follow-up project after attending the conference.

The advisory committee worked cooperatively to determine the needs of potential volunteer leaders. Through a review of applications, and expertise on the part of the advisory committee members, concepts and skills -- i.e. competencies -- needed by potential volunteer leaders were identified.

These competencies which volunteer consumer leaders need were further studied. Based upon these competencies, the advisory committee developed an agenda for the Consumer Leadership Training Program. They worked together to identify and secure for the program speakers who were nationally recognized for their expertise in consumerism and would provide for the needs of the participants.

Evaluation

The participants' evaluation of the conference revealed that they generally found it a worthwhile, helpful experience. The speakers and the specific ideas on projects, including how to inspire people, were considered the best features on the program. The participants felt that the opportunity to meet people with common consumer interests was helpful. The major weaknesses in the conference were a shortage of time for in-depth discussion and the hotel facilities, particularly the food service.

The following are the questions asked in the evaluation and answers as given by the participants:

1. What did you consider to be the best feature in the program presented here?

Arenas for action; economic interaction of government (5) Judicial; Economic Interaction of Government, Business and Consumer; (3) Economic Interaction of Government, Business and Consumer, (2) Qualities of Consumer Leaders; (4) How Government Operates - Federal; (2) Governmental Agencies - Regulatory, Executive, Legislative, Judicial; (2) Realm of the Consumer; workshops; sharing thoughts and problems with consumers; (2) all (4) specific ideas on projects and how to inspire people; topics of immediate concern (2) informed and interesting speakers (13) section on press and regulatory and legislative areas; inflation (2) P.R. panel session; practical discussion Handling Consumer Complaints; variety of speakers; meeting people with common interests (2) selected audience; Sunday agenda superior; pre-planning; consumer education; what makes a leader (3) realm of the consumer; materials distributed; explanation of how government operates; business and consumer; education in the economy.

2. What did you consider to be the weakest feature in the program?

Coping with cost of living; speakers too long; discussion of federal programs; not enough time for questions and answers (10); lack of full participation and direct feedback (2); time wasted on introductions (4); lot of information but not so much specific "what do I do first" answers; foods and marketing workshop (2) Education (2); Antagonistic Approach, i.e. Principles of Organizing a Consumer Action Group; not enough participation from business and government to provide opposing view; some speakers not prepared; Sunday agenda too rushed; consumer education in schools; agencies that can help and need help; continue to encourage more involvement; more activist types and fewer home economist types; definitions - consumer, leaders, consumer leaders; too many speakers; business, education, community.

3. Check your general evaluation of program content:

Valuable 35 Interesting 4 Fair 0 of Little Value 0
Other: Fantstic; Frustrated because more than one discussion group going at same time.

4. What suggestions do you have for improvement of the program?

Stick to time scheduled; better explanation of projects; "how-to" panels to develop consumer leaders; chance to attend more than one workshop; more workshops (2); more time (3); whole conference on each topic; more small seminar sessions (3); divide into groups to discuss subject with speaker after summary; more discussion, less question time (6); cheap meal or two as part of conference (3); cut introductions and concentrate on specific problems and solutions (3); more time for topics or fewer topics (3); more facts in general areas; less workshops; shorten to two days; more time for questions, less for speeches (5); have Esther Peterson speak; concentrate on how to activate people into education in consumer awareness; send more basic reading materials in advance (2); more detailed handouts by resource people; more informal seating arrangement; include minority person on program; people from activist persuasion; how to lobby; consumer laws; picketing.

5. What topics would you like to have presented at a future program related to these topics?

How to set up an effective consumer-oriented neighborhood forum (4); small claims courts (2); specific issues - how to approach and get experts; impact on legislative policies of major companies; none; professionals to speak on specific subjects - real estate, lending institutions, food additives (3), menu stretchers, insurance, more economics (2); reaction of big business to consumer movement; have Roy Farmer and Atty. Gen. Miller speak on consumer concerns; same topics, broader view; consumer issues; more opportunity to attend different workshops; well-rounded library of consumer information; low-income consumer; Federal Government consumer agencies should be identified and discussed; economic interaction of government; business consumer; credit and financial institutions; working on consumer project for low-income persons; producer side of question should be brought in; sharing successful projects from other regions; economic and consumer education in schools; discussion of pending laws relevant to consumers.

SUMMARY OF EVALUATION

In regard to this conference I feel that:	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
1. The objectives of this program were realistic.	16	21	0	0	0
2. I learned more than I could have on my own through reading or etc.	29	5	1	0	1
3. The material was presented at the proper level of difficulty.	13	19	1	2	0
4. The resource people were well prepared.	19	15	3	1	0
5. I was stimulated to think objectively about the topics presented.	13	21	1	3	0
6. The conference followed a logical pattern.	12	19	3	2	0
7. The conference rooms were clean and attractive.	5	25	4	3	0
8. The food service was good.	1	4	6	3	16
9. The lodging facilities were good.	2	7	8	5	4
10. The staff was courteous and helpful.	9	10	10	5*	1*

*Hotel staff specified.

Project Summaries

The participants planned follow-up projects on consumer education, consumer surveys, credit, combating inflation, food purchasing and other areas of consumerism. Activities completed in the project included: (1) writing news articles, (2) teaching consumer classes, (3) organizing consumer groups, (4) promoting consumer awareness, (5) conducting consumer programs, (6) setting up consumer information and protecting agencies, (7) developing meaningful consumer organization programs, (9) making speeches on consumerism, (10) initiating a program for low-income consumers within community action agencies, (11) drafting a consumer education course for grades 5-6 in public schools, (12) consumer education projects through the extension service, (13) developing consumer awareness programs, (14) co-sponsoring a consumer conference in Southeastern Tidewater Area, (15) conducting consumer education program for parents, (16) preparing a publication on credit, (17) conducting consumer programs for older citizens, and (18) promoting consumer education and awareness in the marketplace.

Funding

Consumer Leadership Training for Volunteer Consumer Leaders can be successfully provided at a minimum cost. This project, funded by Consumer Information Center, General Services Administration was funded for $2,117.00. Motel accomodations and partial travel expenses for the participants were paid. Other expenses included printing, telephone, and postal services.

Summary

Consumer Leadership Training Programs for Volunteer Leaders can provide a multiplying effect in meeting the needs of consumers and assisting them to solve consumer problems at the grass-root level in a community. Leaders can be successfully trained to go back into the community to teach other consumers. If consumers are expected to have a voice in consumer issues, they need to acquire knowledge, techniques, and skills in order to have a greater impact on the consumer policy making of the state and nation.

CONSUMER ACTION PROGRAMS

Frederick E. Waddell
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I would like to talk about the consumer education program that we have been working on for quite some time at NRTA/AARP, which we call COPE, which stands for "Consumer Options Program for the Elderly." Now without going into a long dissertation on my particular attitudes and opinions about consumer education, let me just say, as a consumer educator and as one who really believes in consumer education, I feel that consumer education has generally been a relative failure in this country. It's been a failure in terms of reaching the masses. It's particularly been a failure in reaching the disadvantaged and it's been perhaps an even worse failure yet in terms of adopting sophisticated learning techniques that can change attitudes and behavior. You see, we lose track of the purpose of consumer education is not to disseminate information, but to produce wiser consumers in the marketplace to lead consumers to act more wisely in the marketplace as a result of that education. So what we are concerned with, or should be concerned with in consumer education is trying to get people to reexamine and hopefully change attitudes and behavior that will lead them to become, that is, to act, more wisely in the marketplace. Unfortunately, I feel that what has held consumer education back in this country, is a pedogogical anachronism known as the pre-test, post-test. You give a pre-test and then a post-test and unless your group is totally catatonic, naturally they are going to know a littler bit more when they are through than when you began and then congratulate ourselves for another successful program.

Let me show you, if I may, what went into the development of the COPE program that we have so much hope for. First of all we examined what successful consumer education and other educational programs appeared to exist for the elderly throughout the country. What we found was a consensus on several points. We found that most persons who had conducted successful, effective educational programs, consumer or other type programs for the elderly, agree that most educational programs for the elderly have been primarily concerned with filling up leisure time rather than being directed at matters they need to help them cope. We also found a consensus that they don't like a formal classroom atmosphere. Our research has shown us that small group efforts are far more effective than large group efforts and this is very difficult to reconcile with trying to reach large numbers of persons. There is also a consensus that courses should be practical and immediately useful and that techniques and materials that are produced also must be those that relate, that are germane, to the practical needs of older persons. We have found that older persons want, indeed need, to be active participants in the learning process, and I don't know if this differs that much from any other group of students, but older persons particularly need to be participants in the learning process. Our research has shown us that older persons are well aware of what their consumer needs are and resent being told what their needs are. There is also some evidence that older persons have a shorter attention span and this must be taken into consideration.

We also were concerned in the development of COPE with how to build in a continuing education concept. What we do now is merely dispense information and hope that this is enough. When you consider that with older persons you are trying to counteract a lifetime of attitudes and behavior, most of us have an extremely limited amount of time to get our message across, and it has to be effective enough to counteract the incessant bombarding of advertising as well as a lifetime of attitudes and behavior. Perhaps, one way that we can do this as consumer educators, is begin to incorporate some of the techniques that have been successful in advertising for years. Specifically, successful consumer education programs must appeal to the emotions as well as to the intellect. Ideally, a consumer education program would appeal to sight, sound, smell, taste; in short, to every sense that individual has and to the emotions of that person, and that way it would have a much more hard-hitting residual impact on changing their attitudes and behavior. We also know that in terms of consumer education you are going to be far more effective if you can incorporate a learning-by-doing approach, and as we know in consumer education, this is much easier said than done. How to build in marketability, how to make the education program have appeal is also a very important consideration. Also, how can any consumer education program be adapted to other delivery systems, such as home study? And we also found in our research that one of the most prevailing fears is that any consumer education program for the elderly must take into consideration that prevailing uncertainty results from current inflation. In summary, this is what any successful education program must deal with in some manner.

1. Informal setting
2. Learning by doing approach
3. Small group conversation
4. A practical and useful approach
5. A sort of built in continuing education method

It must be marketable, adaptable, somewhat flexible, enriching and fulfilling, I mean, psychologically enriching and fulfilling as well as intellectually fulfilling.

Rather, in dealing with the prevailing uncertainty and insecurity from a new lifestyle and retirement, we are saying in the COPE program that rather than be afraid of inflation, on the contrary, older consumers have already demonstrated an ability to cope with financial crises in the past, have lived through a depression, through at least one world war, through other financial crises, and have therefore already demonstrated the ability to live through and cope with our current inflation. All we have to do is somehow provide a learning environment whereby older consumers can reawaken such skills and can learn from each other. The cumulative demonstrated ability of any group of older persons is going to be far greater than any one "expert" which as Mark Twain said, "Is any damn fool from out of town." So that what we are trying to do is not teach older consumers anything, we are trying to create an educational environment for older persons where they can learn from each other.

So how do we go about this? What we came up with was a method pioneered in 1941 by Dr. Rachael Davis DuBois called the "Group Conversation Method." This is the first time to our knowledge that consumer education in this country has tried to incorporate a group conversation-consciousness raising approach. We know that before anybody will listen, they must first be listened to. So that rather than beginning with the usual sterile lecture or film format (whether the film is applicable or not) what we are doing is beginning this way. The chariperson gives a rather brief introduction, the persons in the program are broken up into small groups of ten or twelve with a group conversation leader and co-leader who have been briefed for a couple of hours by the person trained in group conversation. They begin by simply reminiscing about experiences around that theme. This totally non-threatening approach encourages spontaneity and raises their consciousness of feeling level to such a point that after twenty minutes of this -- by the time your resource person makes his presentation, they are far more receptive to what that resource person has to say than if he had begun the session. After sharing sensory experiences from the past, bringing them into the present around that topic, then the resource person gives some specific facts and ideas for another twenty or thirty minutes. Then the groups go back into group discussion. Group discussion being differentiated from group conversation in that group conversation is a sharing of feelings and experiences, whereas group discussion, following the resource person, is a discussion of specific facts and ideas. This way we hope to reach the emotions as well as the intellect and this will produce a long-term learning effect so that the one-hour program is not going to be the end of their consumer education or discussion on that topic but the beginning.

We did pilot the first COPE unit, "Coping With Food Costs" in February in the Arlington area. We made every mistake imaginable, and still four out of five of the participants rated the program as excellent or good. We are trying to arrange now for a piloting outside of the Washington area and if this is as successful as we hope it will be, this should be available sometime in the fall. There are a few more subtleties involved here, I wish I had the time to go into them, if time permitted.

ABSTRACT

DISSATISFIED CONSUMERS: WHO GETS UPSET AND WHAT DO THEY DO ABOUT IT?

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Past studies of dissatisfied consumers have either examined what kinds of people get upset about business practices or what kinds of people complain about the way they have been treated in the marketplace. This article develops a new profile of the dissatisfied consumer by considering not only who gets upset about business practices, but also what do they do about it. This profile appears more complete than profiles presented in earlier studies. Several important conclusions are offered concerning the nature of consumer dissatisfaction and consumer policy.

NEW DIRECTIONS FOR CONSUMER

ACTION TO COMBAT THE PRICE

SPIRAL

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I. INTRODUCTION

The American economy has experienced a steady increase in the cost of living, over its history, as measured by the consumer price index, thus causing an erosion of the purchasing power of a given dollar.

The economy has experienced such an increase in prices over the years. Between 1940 and the present, for example, the consumer price index has increased about 250 per cent; this means that it would take over $3.00 today to buy what $1.00 would have purchased in 1940. The compounded rate of advance in prices over this period amounts to approximately 3.5 per cent annually.

The pace of inflation has not been even in our economy. It took only a span of 17 years between 1940 and 1957 for prices to double. This doubling in 17 years meant that the annual growth rate in inflation of consumer prices was about 4.2 per cent. The rate from 1957-59 to 1970 was slower (2.7 per cent), but during the last few years it accelerated again, reaching 6.2 in 1973 and 11 per cent in 1974.

All of this increase in prices means an erosion of the dollar and the need for increased earnings to keep abreast of price level changes. There is nothing in the nation's experience to suggest an interruption in the upward trend of prices and costs, nor hint of reversal of trend to one of deflation. A dollar of 1933 is worth less than 35 cents today. A 1946 dollar is worth less than 40 cents currently. Even a 1955 dollar is worth only a little over 50 cents today.

At the beginning of the 1970's it took more than $13 to buy what $10 bought a decade earlier, and inflation became a major public issue. The impact of rising prices was noticeable throughout the economy, affecting public policies. To offset mounting costs, unions sought higher wages to preserve the purchasing power of workers' take-home pay; consumers altered their buying habits; the Federal Government sought to use its spending, taxing, and monetary powers to combat the inflation.

Many economists would agree that the inflationary pressures of the last four decades have been generated largely by government expenditures and concomitant increases in money supply and that the prospect for their continuation in the future seems assured. The major inflations in U.S. history have occurred during or around periods of government spending and increased demand for goods and services.

When fighting broke out in Europe in 1939, defense needs resulted in increased prices. For the 3 years, 1939 through 1941, prices increased by about 6 per cent. During the war years, even when prices were controlled, they rose about 12 per cent. When controls were lifted, however, the pent up demand for goods not available during the war years drove prices up an additional 31 per cent during the next 26 months.

During the Korean War prices spurted again. From the beginning of 1950 to the middle of 1953, the rise amounted to about 14 per cent, an average rise of about 5 per cent a year. Prices leveled off for the next 3 years and then began to move up.

In late 1965, when the United States began to increase its military commitment in Viet Nam, the consumer price index began to rise more rapidly. Average prices rose 2.9 per cent in 1966, 2.8 per cent in 1967, 4.2 per cent in 1968, 5.4 per cent in 1969, and about 6.0 per cent in 1970.

As 1975 nears completion of its first quarter, the problem of inflation has been pushed aside to some degree by the one of recession and unemployment. The question remains, and the answer seems clear, namely that demand pressures tend to work their way through the price system over extended periods of time, reflecting the cumulative effects of labor and other cost pressures. This explains why inflationary pressures have continued in spite of slackening aggregate effective demand. Further, this process makes it clear that past policies of reducing aggregate effective demand will not eliminate inflationary pressures.

Indeed, one may even question the degree to which demand pressures have caused the inflation of the 1970's. Were it not for the extremely stimulative effects of highly inflationary fiscal policies during the past decade, notably substantial Federal deficits during most of the period, coupled with expansionary monetary policy, geared to helping finance the increasing deficits, it is highly unlikely that demand pressures alone would have resulted in the double digit inflationary rates.

Since World War II a major change in price behavior has become apparent. The economy has developed an increasing resistance to downward pressures on prices. Consumer prices did not decline after World War II or after the Korean conflict as they had after earlier wartime periods. Instead they rose almost every year after 1946.

The problem for investigation then is to examine the causes of the inflationary spiral. If consumers are more aware of the causes of the inflationary spiral, consumer action groups can exercise their influence to bring about a change to alleviate that spiral.

II. THE STRUCTURAL BARRIERS ARGUMENT

During the last decade, consumers have become fully aware of such causes as "demand pull" and "cost push" as explanations for inflation. Public familiarity now also exists about the major policies to combat inflation, namely fiscal and monetary policies. Consumers also know about price and wage controls or income policies. General interest manifests itself, too in what can be done about inflation and why experience in applying anti-inflationary policies since the late 1960's has not ended or even lessened inflation; indeed, prices continued to grow more rapidly than prior to the use of such policies.

One of the probable explanations why inflation has continued to persist in the United States for the last decade in spite of a condition of less than full employment is the existence of a variety of structural forces that generate built-in inflationary tendencies.

Failure to recognize the importance of such structural forces has contributed much to the inadequate understanding of today's inflation. As Abba Lerner states: /3, p. 197/

> The understanding of the nature of inflation and of its appropriate treatment, cure, and prevention has been badly served by the concentration of economic theory on the analysis of perfect competition. Economists have had good reason for this concentration, primarily because the study of perfect competition has brought out ways in which the competitive capitalist or profit-and-loss system can bring about the most efficient production and distribution of what the consumer wants. But perfect competition has been useful more as a norm by which the efficiency of the economy can be gauged than as an accurate description of its actual operation.

It is proposed thusly that these structural forces are among the most significant causes why pure competition is not the actual case in the real world.

Structural forces have the effect of placing limitations on voluntary exchange by reducing the market alternatives available to buyers. These forces then generate maladjustments which generate visible power to those who hold it, with the inherent danger that such power will be used to further special interests, not necessarily social ends.

In economic theory's perfectly competitive world, nobody would be in position to exert price jurisdiction power. Artificial forces that keep supply from rising in response to favorable prices would not exist. Excess demand then would be the only factor giving rise to inflationary tendencies. To achieve a diminution in price under these circumstances, Lerner's political action -- increased taxes, reduced government spending, and tighter monetary policy -- would be in order. Without structural intervention, sellers would lose their capability to exert oligopolistic price control and administered pricing would become impossible.

The American economy provides numerous examples of these structural controls. Among the more important ones are lobbies that induce public favors and concessions, industry-wide collective labor agreements that virtually have the mutual agreements of unions not to resist price increases so long as wages are raised, and markup practices by industry that institutionalize price advances. The solution to combat these practices are self-evident, but some action against administered prices appears as paramount.

Another way to approach the problem of structural impediments causing inflationary tendencies is to work towards policies designed to restore a greater degree of efficiency in the market place. Two areas in which these problems appear acutely keen, and in which prices have risen especially sharply in the last two years, are agriculture and energy-related industries.

The Federal Government must bear much of the blame for many of these impediments through its policies such as price supports and subsidies; tarfffs, quotas, and other import restrictuions; antitrust and other regulatory policies that are enforced currently but were instituted in a very different economic environment years and decades ago; and loose policies in government procurement that demand scarce resources at non-market oriented prices. Practices in the private sector that stem from market control and anti-competitive behavior are equally as contributory. Though most wholesale prices have risen sharply in the last two years, those in highly concentrated industries have been among the leaders. Barriers of any sort that interfere with the operation of demand and supply as forces to set prices should be minimized and eliminated. This includes structural barriers in the labor market as well.

A recent interim report of the Joint Economic Committee /1/ lists a series of structural areas that should be examined, as follows:

- Federal subsidies.
- Production quotas and marketing orders.
- Price supports.
- Excessive stockpiles.
- Prevailing wage determinations.
- Excessive or inept regulation of transportation and communication.
- Import quotas and voluntary agreements to curtail imports.
- Review of divestiture and reorganization regulations.
- Improved antitrust laws and administration.
- Removal of artificial barriers to employment.

- Improved economic management of the public sector.
- A program to institute a better system of information management.
- Reduction and minimization of impediments to improving productivity.

The emphasis on structural causes for the current inflation has increased recently. The various summit and pre-summit conferences late in September paid much attention to these factors. A comprehensive list of 22 measures was suggested by Thomas G. Moore of the Hoover Institution of Stanford University /5/. His list includes the following, among other suggestions:

- Repeal of ceiling on interest rates on long-term government loans.
- Amend agricultural marketing orders.
- Remove postal service monopoly on first-class mail.
- End embargo on imports of uranium.
- End state prorationing of oil and gas production.
- Repeal exemptions to railroad and truck rate bureaus.
- Repeal meat import quota measure on meats, dairy products, and other agricultural items.
- Repeal all Interstate Commerce Commission restrictions on routes and commodities.
- Reduce or eliminate barriers to entry on trucking and freight forwarding.
- Give wide approval to discount rates in transportation, including more latitude to charter carriers.
- Allow financial institutions to pay competitive rates for deposits.
- Terminate all voluntary quotas, especially in steel and textiles.
- Prohibit resale price maintenance practices.

Professor Houthakker describes the attack on these structural impediments to the operation of the market forces necessary to help lessen inflation as a "positive way to fight inflation" /2/. He surveys efforts to cut inflation via incomes, monetary, and fiscal policies, but points out their deficiencies. He is especially critical of incomes policies for having aggravated the situation and of monetary policies as being inadequate alone. He does emphasize, however, that if any policies are to be effective, the many institutional barriers to price declines as aforementioned must be lessened if not removed entirely. Furthermore, barriers to price movements seem to be biased toward increasing rather than reducing prices. Economists have long recognized that oligopolistic industries are in better position to react to a possible diminution in demand and a lower price by cutting output, thereby sustaining or increasing prices. In this process, inefficiencies are compounded in the economy.

A different focus toward increasing competition and efficiency has been suggested by Carl Madden, economist for the United States Chamber of Commerce /4/. The measures advocated by the Chamber of Commerce include:

- Eliminate compulsory unionism.
- Permit special youth minimum wages.
- Repeal the Walsh-Healey Act.
- Reform the National Labor Relations Act to constitute a labor court to replace the quasi-judicial powers of the National Labor Relations Board.

. Ban the providing of food stamps to strikers.
. Outlaw secondary boycotts, featherbedding, and union members' refusal to handle goods on which non-union labor has worked.

In addition, the Chamber recommends changing the federal tax structure to stimulate growth of equity capital.

In sum, the common theme of the proposals to reduce structural rigidities and permit a more competitive economic system is that special interest legislation and rules at all levels of government should be reconsidered. Business, labor, and professional groups have been successful in getting governmental units to insulate their respective interests from the rigor of competition. The cumulative consequences of this myriad of government promulgated interferences with the operation of a competitive system has been to build an inflationary bias into the American economic system.

Other specific interferences sponsored or permitted by governmental action or inaction might also be considered in the quest for a more competitive system. The following practices which are anticompetitive and/or which build in a higher cost base should be examined:

. The Robinson-Patman Act which reduces price competition between large and small firms.
. The Capper-Volstead Act which exempts agricultural organizations from antitrust.
. Restrictions on entry to many industries, e.g., banking, bars, and taxis.
. The Wagner Act and other governmental interferences in collective bargaining.
. State-wide minimum fee schedules for professional groups such as lawyers, doctors and dentists.
. Housing and zoning ordinances which increase the cost of housing.
. Health and occupation safety laws.
. Federal underwriting of private debt.
. Environmental related controls which do not show a favorable cost-benefit result.
. The paper avalanche-costs of reporting to the government.
. Restrictions on price advertising of goods and services such as prescription medicines.
. Virtual cost plus pricing for hospitals under the Medicare and Medicade programs.
. The tenure system which protects some unproductive teachers, kindergarten through graduate education.

Obviously, a listing of practices which cause upward pressure on prices of goods and services could be extended ad <u>infinitum</u>. The point is that macroeconomic monetary and fiscal policies will be less effective in containing inflation as these microeconomic rigidities increasingly permeate the economic system. However, one must not confuse the current price level with a rate of inflation. Restrictive practices in a given industry causes prices to be higher than a more competitive structure would permit, but restrictive practices do not necessarily create the inflationary spiral. Elimination of structural rigidities would create pressures for more competitive prices in given industries, however, prices in general might be rising because of aggregate demand forces or increase in the money supply. Demand-pull type of inflation increases the costs of providing goods and services. Therefore, the higher than competitive prices in sectors of the economy which are characterized by structural rigidities have a tendency to increase. When demand abates, the built-in structural barriers prevent reduction in prices. The effect is similar to the workings of a rachet; prices move upward from the previous high base.

Consumer action groups have a role to play in alleviating these structural barriers. Many have become institutionalized and have been accepted almost as a way of economic behavior. They are found all over the market place -- in manufacturing, banking, labor, agriculture, finance and government. The hope, both immediate and short run, of attacking these structural barriers is to make the economy more flexible, lessen anticompetitive practices, and once more have unfettered forces of demand and supply -- price competition -- influence price behavior so that when buying diminishes or output increases price declines will follow and not be thwarted in this direction by administrative powers or practices.

III. SUMMARY AND CONCLUSION

During the last decade consumers have been bewildered and frustrated by spiraling prices on most products and services. In an effort to combat the inflationary trend, the Federal Government has attempted traditional fiscal and monetary policies and also imposed a system of price and wage controls. Though predicted by many economists, but contrary to public belief, prices continued to increase more rapidly than prior to the use of such policies. Some professionals now think we should admit defeat in the battle to contain inflation and institute a program of "indexation," or allowing prices of all commodities and services to accelerate by some price index -- such as the Consumer Price Index.

The contention of this paper is that in both the domestic and foreign economies, increasing aggregate demand and increasing money supply are driving prices upward at ever increasing inflationary rates, and that supply is not able to keep up with the "galloping" demand. When governments attempt restrictive macroeconomic fiscal and monetary policies to reduce the rate of price increase, microeconomic rigidities create unemployment at a level which is politically and socially unacceptable. Because of structural rigidities, the price spiral does not abate. In order to expand a sluggish economy, governments create the money supply and aggregate demand conditions which perpetuate the inflationary spiral. Thus governmental actions are the catalyst of inflation, but structural rigidities cement in the high price base for more future demand pull type of inflation.

Pressure groups at all levels of government -- federal, state, and local -- have been successful in getting legislation and administrative rules which insulate their interests from competitive economic forces. These artificial restraints that keep supply from rising in response to favorable prices create a world inflationary environment. If fiscal and monetary policies are unable to sustain both a politically acceptable inflationary rate and unemployment rate, it is conceivable that people in the United States will opt for another seeming panacea -- indexation. However, consumers have at least one other alternative: lobby for changes at all levels of government for reductions in protection for special interest groups from the forces of competition.

Consumer groups should examine the institutionalized structural barriers which permeate the economic system. These barriers can be found in all sectors of the economy including manufacturing, banking, labor, agriculture, education, finance, government, and the foreign sector. This paper has enumerated specific practices in all sectors of the economy that consumer action groups ought to investigate. The hope is to make the economic system more flexible and reduce anticompetitive practices which underpin the reinforce ever increasing prices.

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