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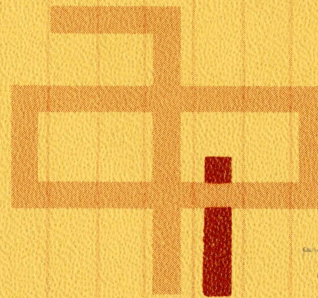
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Consumption

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CONSUMER DECISIONS: PROBLEMS AND POLICIES

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THE ROLE OF THE CONSUMER IN OUR ECONOMY: CONSUMER SOVEREIGNTY REVISITED

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It is well known that personal consumption expenditures are the largest single component of gross national product; they accounted for between 57 and 71 percent of gross national product during the period 1940-1963 (Table 1). The years 1940 and 1945 may be unduly affected by the impact of World War II -- either anticipation of it and the accompanying shortages that it might bring or the actual shortages of consumer durables at its end. During the period since 1950, personal consumption expenditures have been declining slightly as a relative share of GNP. This decline in relative share is largely offset by advances during the same period in government spending (particularly state and local). In spite of some decline in their relative importance as a component share of GNP, personal consumption expenditures in absolute (dollar) terms have been rising rapidly and notably (Table 1). Thus, nearly 60 percent of the increase in GNP between 1960 and 1964 has come from higher consumer spending.¹

Within the consumer sector, spending on services has risen proportionately more than nondurable goods and both of these have increased relatively more than expenditures for durable goods. This raises the interesting question, and one which to my knowledge hasn't been investigated fully, of what is the relative impact on our national income and employment of increases in spending on services vs. non-durables vs. durables?

Other important and interesting aggregate economic questions include the extent to which resistance to lowering our level of

¹Business Bulletin, Cleveland Trust Company, Vol. 46, No. 31, March 1965.

Table 1. Gross national product and components, selected years 1940 to 1960 (current prices)

Item	1940		1945		1950	
	Billion dollars	Percent of GNP	Billion dollars	Percent of GNP	Billion dollars	Percent of GNP
GNP	100.6	100.0	213.6	100.0	284.6	100.0
Personal consumption expenditures	71.9	71.4	121.7	57.0	195.0	68.5
Gross private investment	13.2	13.1	10.4	4.9	50.0	17.6
Government purchases	14.1	14.0	82.9	38.8	39.0	13.7
Net exports	1.5	1.5	-1.4	-0.7	0.6	0.2

Item	1955		1960		1963 (prelim.)	
	Billion dollars	Percent of GNP	Billion dollars	Percent of GNP	Billion dollars	Percent of GNP
GNP	397.5	100.0	502.6	100.0	585.1	100.0
Personal consumption expenditures	256.9	64.6	328.2	65.2	373.1	63.8
Gross private investment	63.8	16.1	71.8	14.3	82.3	14.1
Government purchases	75.6	19.0	99.6	19.8	125.1	21.4
Net exports	1.1	0.3	3.0	0.6	4.5	0.8

Source: U. S. Bureau of the Census, Statistical Abstract of the United States: 1964. (Eighty-fifth edition), Washington, D. C., 1964.

consumption² has a counter-cyclical effect on business cycles. In other words, during recessions since 1956, to what extent was the economy "propped up" by the fact that consumption expenditures sailed along pretty much unruffled in spite of cutbacks in business expenditures? More exact information about the effect of this phenomenon is needed

²As proposed by Duesenberry and others in proposing that consumption processes have a "ratchet" effect -- they increase upward rather easily but resist downward changes.

as well as guidelines about how to influence consumption to keep it at high levels if, in fact, its "propping-up effect" is desired in times of recession. An interesting research study related to this problem is that done by Klein for the National Bureau of Economic Research, as yet not published, in which the findings suggest that unemployment benefits and availability of credit during periods of unemployment may have stabilizing influences on the economy because of their impact in assisting families of the unemployed to maintain their consumption spending at near pre-unemployment levels rather than cutting back as they otherwise would have to. Additionally, liquid assets at the time of unemployment were important in permitting families to maintain spending levels.

Generalized Buying Function of Consumers

At a time when most activities in society have become more specialized, the consumer's buying function has become vastly more generalized. This has resulted because of specialization in production (persons specializing in doing those things which each is relatively better fitted for and buying from others those things which they can produce more cheaply in real terms) which has meant that vastly more household purchase decisions are required today than ten years ago, let alone 25, 50 or 100 years earlier. Thus, persons performing their duties as purchasing agents for the home sometimes become confused because of their lack of technical knowledge about the myriad of products and services they must make decisions about let alone about conditions of the market (including price setting) through which they buy these products and services. This increased generalizing of the buying function on the consumer side of the market when poised against the ever-increasingly specialized selling function on the "other side of the counter" often leads to a less-than-equal pairing. The result: the consumer often is or feels he is at the mercy of persons with superior knowledge and power. And, to the extent that the consumer actually is operating from an inferior position, conditions exist which are ripe for exploitation.

Ballast for correcting the imbalance in market power or influence between consumer-buyers and sellers must come from one or both of two sources: (1) improved performance in the market on the part of the consumer-buyer, and/or (2) protection of the consumer-buyer's rights through legislation and regulation of the market.

Improved market performance of the consumer-buyer seems to me to have at least two dimensions: (1) improvement of the allocative processes (i. e., the overall decisions about how much to allocate to various categories of spending in light of the consuming unit's goals

and values), and (2) improved implementation of the spending plan which results from the allocative decisions, or improved buymanship. The latter calls for market information -- information not only about the technical attributes of products but also about market conditions (e. g., degrees of competition, price setting conditions, promotional gimmicks, credit conditions, etc.).

Related to all this, is the fact that the markets in which consumers buy goods and services are becoming increasingly depersonalized. This may create an added subjective uncertainty for consumers since they may feel less confident of the recourse they have with a retail outlet in which they know no one with decision-making authority, with their only contact being clerks. This contrasts with an earlier time when it was common for customer and retailer-proprietor to know one another with a degree of mutual trust and understanding flowing from this personal dimension of their relationship. Measuring depersonalization by size of establishment in terms of the percent of employees and sales by type of retailer (e. g. those who own only one outlet and those having several), it is clear from Table 2 that between 1948 and 1958 that single-unit retailers increased less than retailers as a whole. Contrasting with this, multiple-unit retailers (chain stores) increased relatively more than retailers overall, especially those with many units (26-100 outlets). As a result of this trend, consumers are dealing increasingly with an institution rather than an individual proprietor in their market transactions. Thus, their information-gathering function at the point of sale is more difficult, since often the sales person is less informed than a proprietor or other person with a decision-making function. Other factors may offset this so far as consumer welfare is concerned -- for example, the cost advantages of larger retail outlets, if shared equitably with consumers, may more than compensate for whatever discomfiture is experienced because of market depersonalization -- but depersonalization is a factor to be reckoned with.

Philosophical Overtones in Relation to Consumer Behavior

Increased uncertainty -- even uncertainty about life as we know it -- seems to me to be a factor affecting consumer spending today. This year's new households are in the main being established by young men and women who were born at about the time of the atom bomb on Hiroshima. They have grown up and developed their life philosophy in the "shadow of the bomb" with all the attendant uncertainties of its effect on life or, in fact, how long life would continue in light of the spread of nuclear power among major powers of the world holding widely differing points of view. This, I believe, has contributed to a growth of existentialism having as one of its manifestations heightened preference for things now rather than waiting for them. Along with this is a questioning of the transcendence of

Table 2. Percent increases in store numbers, employees, and sales for single- and multiple-store retailers, 1948 to 1958

Business type	Percent increases 1948 to 1958		
	Store numbers	Employees	Sales
Total	1.1	14.4	53.0
Single units, total	-0.1	8.5	44.2
Multiple units, total	12.3	25.9	73.7
2-3 units	19.1	22.5	53.7
4-5	14.1	12.2	55.1
6-10	-0.9	30.0	71.8
11-25	-2.3	-9.3	34.5
26-50	14.9	116.7	183.2
51-100	3.0	50.2	117.2
101 or more	13.6	21.7	76.8

Source: U. S., Congress, House, Select Committee on Small Business, Staff Report, Status of Small Business in Retail Trade (1948-1958). 86th Cong., 2nd Sess., December 16, 1960, pp. 11-12.

anything beyond ourselves or this day. Many persons seem to find themselves confronted by the "abyss of nothingness"; some seek to overcome the despair resulting from this by seeking power over things, or over people. For many, this "will to power," to use Nietzsche's term, manifests itself in the desire for power over material things -- consumption items now. That is, people put a high priority on consumption in the present, possibly because of doubts about whether the goods and services will be needed by them in the future since, to many, the future is so uncertain as to be discounted at a high rate. This, I believe, may be a strong contributing factor leading to the increased use of consumer credit to modify the time in the life cycle at which certain things may be acquired. The headlong rush toward consumption in the present may have contributed not only to the overall increase in the amount of consumer credit outstanding, but it may also help to account for some of the indiscretions on the buying side of the credit market which have crept in -- consumers may have been so anxious for the goods on the one hand and so uncertain about the future as to doubt the need to repay their debt that they have been less than judicious in their shopping for credit terms. If this is valid, it

may help to account for the fact that finance rates vary so much, an indication of an imperfect market. In any event, much of the transfer from future to present consumption has been by the technique of borrowing money and paying it off with anticipated future income if, in fact, life exists and income is available.

It is at this very point, however, that those working in the interests of consumers have an opportunity to use consumer sovereignty to advantage. That is, there is some evidence that when people know more about finance rates they obtain borrowed funds at lower rates -- they are, it seems, shrewder. For example, data in Table 3 clearly indicate that those who "knew" the finance rate they were paying were actually paying substantially less than those who "didn't know." Thus, if educators were to be more successful on a wider scale in teaching how to compute rates, it would seem there would be a leveling of rates compared with the wild rate situation which prevails presently. In the meanwhile, protective actions such as truth-in-lending probably are desirable, or possibly even additional regulation of rates.

Some Public vs. Private Issues

Not only are consumers affected by the extent to which they do or do not enjoy market sovereignty, but decisions they make which are usually classified as consumption are often production-related and the judiciousness with which these decisions are made affects the quality of human resources available in society in the future. For instance, private expenditures for education are considered a consumption expenditure; some portion of the benefits flowing from educational expenditure -- cultural growth and increased capacity to enjoy the "fine things in life" -- are genuinely of the nature of consumption, but other aspects or results of these expenditures are more nearly production expenditures or investments, for example, vocationally-related skills and training. And, while the individual or family unit's welfare is affected by the results of such decisions, society is also affected. Thus, society has a real stake in creating a breadth of choice in the educational market place, in the wide dissemination of information about different types of education and their costs and of educational institutions, and related matters.

This comes close to the whole matter of the blending of private and public decisions affecting consumption. While few probably would claim that vast areas of decision-making should be transferred to society, there may be reasons for having a larger portion of consumer goods and services provided by public means rather than through usual market channels. The economic reasons:

Table 3. Finance rates paid by extent of knowledge about rates

Size of loan	Rates paid, by knowledge group		
	Those who knew rate ^a	Those who knew something about rate they were paying ^b	Those who didn't know rate
Under \$500	12.1	17.1	37.0
\$ 500 - 999	8.3	14.8	24.8
\$1,000 - 1,999	8.1	10.9	19.7
\$2,000 and over	7.2	11.0	13.7

^aThose who reported rates roughly equal to the established effective annual finance rate.

^bThose who reported rates roughly equal to one-half the effective annual rate (i. e., add-on or discount rates).

Source: Consumer Sensitivity to Finance Rates: An Empirical and Analytical Investigation. NBRE Occ. Paper 88. 1964.

- (1) They may be made available at lower cost (in terms of resource costs) than is possible through private channels, and
- (2) because of differences in the planning horizons of individuals and the larger society, it may be desirable to have certain decisions made by deliberative bodies, taking into account the good of all people.

Examples of where such action has taken place include the national parks, public roads, postal system, police protection, etc. Now, however, it may be necessary in light of changing conditions -- e. g., patterns of living, distribution of population, etc. -- to think of having still other expenditures, especially education and possibly health, affected even more than heretofore by public policy. Such policies may move toward increased or better regulation on the one hand, or to public provision of the service on the other. It seems strange to me that those who suggest this often are immediately accused of proposing socialism and are thrown into the out-cast barrel, but the very persons who would cast them there frequently are the ones who would be happy to see public policy regulate their competitors or grant them more market control through patent privileges or are pleased to receive boosts in subsidies their industry may be receiving.

Some Needs and Future Possibilities

Observations made thus far point toward some of the needs in the field of consumer education, consumer protection, and action for consumer welfare in general. These can be grouped into three categories: educational and informational needs of people in their role as consumers, the changing and proper role of government, and research. We need to push our thinking and, yes, our actions to the outer limit in finding and evaluating programs of education, policy, and research to enhance the welfare of persons as consumers. Only insofar as we succeed in this -- the judicious use of our generous national resource endowment to fulfill people's real needs -- can our society hope to hold up its head and withstand the judgement of history.

With respect to educational needs, it seems to me we need more precision in education for people in their role as consumers. For example, at what levels should consumer educational material be introduced into formal school curricula -- how is this influenced by the fact that a segment of the population does not complete high school? What does this say about the "proper level" at which to include consumer education? Further, what content at what levels? In what courses and in what manner should material useful to people in their consumer role be introduced into school curricula -- what combinations of units in social studies, home economics, business education, mathematics, etc. are best? In what ways other than formal courses can consumer material be presented effectively? How may different agencies' efforts best be coordinated? All of these and other questions deserve intense study by the best minds in the field.

So far as the role of government is concerned, it would appear to me that we need to know more about the relative merits of regulations, direct provision by government, with regard to specific goods and services. Further, we need to know more about the relative effectiveness of alternative ways of affecting consumer spending; e.g., what is the relative effectiveness of various taxation measures, subsidies, etc. in achieving agreed-upon goals? Also, we need to think through the appropriate level of governmental activity, local, state, federal, and ways in which these can be orchestrated more effectively where necessary and feasible. Related to this, it seems to me we need careful study of the most appropriate organizational structure -- should separate consumer bureaus or agencies be sought, or are consumer departments which "overlay" already-existing agencies more desirable?

Research is sorely needed on many fronts. We need more understanding of the particular distortion effects on consumer spending of certain market practices and conditions -- i.e., what conditions serve as obstacles to rational consumer decision-making, and what are their

relative importances? A specific example might be the need to know how and to what extent certain packaging practices actually distort consumers' spending; and how important is this in relation to other market practices? On the overall scene, we need more information about the effects of consumer spending on business cycle activity and its potential role as a counter-cyclical factor. Another kind of research which I deem important is how to communicate consumer concepts and information more effectively -- what media, what styles in given media, word meanings, etc.

Fortunately other papers to be presented in this conference will be dealing specifically and in much more detail with educational information, research, and policy needs.