1966

PROCEEDINGS

NEW ENGLAND AGRICULTURAL ECONOMICS COUNCIL

UNIVERSITY
OF
RHODE ISLAND
- KINGSTON -

NEW ENGLAND
AGRICULTURAL ECONOMICS
COUNCIL

PROCEEDINGS
1966 ANNUAL MEETING

UNIVERSITY OF RHODE ISLAND
KINGSTON, RHODE ISLAND

JUNE 27, 28, 29, 1966

WORK SESSIONS

Consumer Economics

Extension Service and Changing Land Grant Colleges

Regional Analysis

Consumer Economics

The following individuals participated in the work session: J. R. Bowring (N.H.), J. H. Bragg (Mass.), O. W. Hofstad (SCS-USDA, Pa.), C. G. Hunnewell (Me.), A. D. Jeffrey (R. I.), E. F. Johnston (Me.), Rosalind C. Liftquist (ERS-MED, USDA), H. B. Metzger (Me.), A. L. Owens (R. I.), W. E. Robinson (Me.), S. Russell (Mass.), I. A. Spaulding (R. I.), H. G. Spindler (Mass.), and F. C. Webster (Vt.).

Dr. Jeffrey, the discussion leader, indicated to the group that he had asked individuals to present comments, reactions or ideas in each of the following general topics.

1. Economic implications of patterns and trends in the consumption of goods and services.

2. Description and analysis of variations in consumption levels.

3. Analysis of decision making by consumers.

4. Dissemination of consumer information.

Following these presentations, the session would be devoted to a general discussion.

Webster expressed concern about the restrictions on the freedom of choice that are being placed on the consumer as a result of industry response to changing technology and the appearance of substitutes. Consumption patterns for a number of agricultural products were used to illustrate the effect on price of successful industry effort to obtain government support and the consequent restriction on consumer choice.

He also felt that food retailing should receive more attention, and suggested that retailers need to get away from stereotype merchandising and pay attention to things consumers want. The failure of certain firms to continue growth (in terms of dollar volume of sales) was taken as suggestive that consumer wants were not being adequately considered.

Russell questioned why we (economists) are interested in consumer economics. He suggested that the assumption of maximizing satisfaction with limited resources within an economic framework was faulty, that it measured only one value while consumers obtained satisfaction in more ways than economic.

He observed that the traditional approach of the economist was to assume the measurement of satisfaction and that changes in products increase satisfaction. Much data are available to describe changes in consumption. We know that we consume a smaller quantity of food and pay more constant-value dollars for it, but we cannot tell how this fits with satisfaction. By using some examples of how decisions of corrupt government have contributed to consumer satisfaction (as well as to economic development), Russell illustrated how presumptuous it is for economists to set consumer standards.

Bowring developed a case against the existence of an adequate body of economic theory that has practical application in the area of decision making by consumer. He pointed out that the marginal utility theorists had introduced their concepts to explain consumer behavior, but that the measurement of utility was the stumbling block to its application. The indifference curve which requires relative rather than absolute measurements was developed to save the concept. From then on, utility relationships were expressed as price relationships. The maximum utility condition existed when the marginal rate of substitution between goods was equal to their relative prices. In other words price is the measure of utility, provided that prices were allowed to move freely in a purely competitive framework to equal the marginal costs of the firms supplying the goods.

Manipulation of prices under imperfect competition upsets the previous marginal utility relationships, however. Market price is determined by equating marginal revenue with marginal costs under less than purely competitive conditions. The consumer has little or no say in the shifts in market prices, and so must be able to change his preferences quickly with price changes. Maximizing satisfaction, then, can be accomplished by changing buying patterns as price changes. In such a situation, there doesn't appear to be time for consumers to develop buying habits. He also noted the efforts of marketing firms to make consumers irrational in their choices by attempts to manipulate the market demand schedule through advertising and other non-price techniques, in addition to their manipulation of price.

Bowring then asks what has happened to utility maximization. Is it still useful now that we must discard our neat point of tangency of the price line with the indifference curve? He suggested that we must go into the jungle with different kind of compass to direct our decisions which will be based on what mother told us, what TV ads say, what newspapers print, what the give-away gimmicks are, because father recently got a wage increase, and <u>only incidentally on price</u>.

In discussing the dissemination of consumer information, Miss Liftquist distinguished sharply between consumer information and economic information. She felt that consumers get too much information, that it is too varied, and that it is seldom presented correctly. She stated her feeling that most of the economic research was not presented in a form that was useful to consumers in decision making, and suggested the great need for special interpreters who know how to write for this group.

Miss Liftquist used examples of consumer use (misuse) of credit and of consumer attitudes toward price levels (1935) and wage levels (1966) to illustrate her contention that little or no economic education over time has impaired the consumer's ability to make good decisions. She expressed the feeling that economic education should begin in the secondary schools. Emphasis should be indirect and stress everyday economics. All mediums and techniques should be used to get wide dissemination. She showed examples of more effective means of communication, and stated that the only limitations were the imagination needed to reach people and the stamina to stay with the job.

In the general discussion that followed, it was recognized that there are limitations surrounding the consumer choice process that impedes attainment of goals. Much work is needed to remove these limitations. There was general recognition that consumer value systems reflect cultural or sociological as well as economic factors. This suggested the need to discover why the consumer behaves as she does before we can recommend how satisfaction can be maximized - expressed as a need to investigate cause rather than effect. The importance of an interdisciplinary approach in the development of a new statement of what constitutes the field of "consumer economics" was noted.

It was voted to request that the program of the 1967 Annual Meeting include an interdisciplinary discussion of consumer behavior involving psychologists, social psychologists, sociologists, anthropologists and economists.