Encyclopedia of the

Consumer Movement

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Eastern European Consumer Movement

See Central and Eastern Europe, Consumer Movements in.

Economic Criticisms of the Consumer Movement

The U.S. consumer movement reached national prominence in the 1970s. Although there has been an apparent waning of the influence of this movement since the 1980s, it remains a well-established feature of the political landscape. Unfortunately, the consumer movement has not achieved its full potential because of a narrow interpretation of its advocacy role and a failure to understand fully the mechanisms by which the economy operates.

The starting point for this assessment will be to specify the criteria used to evaluate the consumer movement. The appropriate yardstick of success is not the amount of financial support the consumer movement has raised, the membership in consumer organizations, the prominence of the consumer movement in the national media, or even the number of pieces of legislation it has helped pass. Rather, the overall test should be how well the movement has succeeded in enhancing the welfare of American consumers. This task of enhancement is different from that facing society as a whole. The consumer movement need not be held responsible for advancing other societal objectives, such as the profitability of businesses, even though the shareholders of these businesses are individuals and also consumers. Rather, since the consumer movement is an advocacy group, the appropriate test of its efforts is whether they have advanced the well-being of consumers.

The consumer movement is not without successes. The existence of consumer representatives as a lobbying force is in and of itself an important role. Groups such as the Consumer Federation of America, Public Citizen, and Consumers Union, as well as individuals such as Ralph Nader, have put political issues pertaining to consumers on the national agenda.

Consumer advocates have called our attention to the fact that there is a legitimate inadequacy in the way in which the economy often treats consumers. These transgressions range from bumping policies that result from overbooked airlines to safety hazards in children's toys that are not apparent to prospective users.

These types of difficulties arise from a failure in the way in which markets operate. One reason that consumer interests might not be well protected is that a company may have no competitors who can offer consumers a choice of better or less expensive products. Another reason may be a lack of consumer information about the quality or riskiness of products. But these problems reflect market failures, not the profit motive. All companies, whether operating in imperfect markets or dealing with informed consumers in competitive markets, seek to make as much profit as possible.

The more radical consumer movement critiques of corporate decision-making that blame the failures on corporate greed may be effective means for arousing public support and personalizing transgressions against consumers. Yet, these radical views overlook the fact that, as a general rule, corporations are greedy in the sense that they do what is best for corporate interests. In adequately functioning markets, this greed is disciplined through competition and the expression of informed consumer preferences. Companies do not provide sound and desirable products because of altruism, but rather because they make more money by doing so. When markets function imperfectly, society should take appropriate action, which may take the form of regulating monopolies, controlling quality, or informing consumers of potential risks.

A primary mechanism the consumer movement has used to attempt to influence the economy is government regulations. Throughout this century, consumer protection efforts have led to a wide variety of governmental interventions ranging from the Food, Drug and Cosmetic Act in 1906 to numerous consumer protection statutes in the 1960s. By bringing national attention to issues such as occupational safety and nuclear safety, consumer advocates were also instrumental in the creation, in the early 1970s, of federal regulatory agencies to address these hazards.

Although putting these issues on the national agenda and creating government agencies to address them should be regarded as a success, the particular policy approaches selected did not recognize the important radeoffs involved. High levels of safety and other improvements in consumer products come at a price. Ultimately, any changes in product attributes that raise the costs of producing products will generate higher prices for consumers. Installing seatbelts or antilock brakes in cars will make these vehicles more expensive. Similarly, more extensive testing requirements for new pharmaceutical products will raise the cost of drugs and deprive consumers of potentially beneficial products while they are being tested.

The U.S. Department of Transportation estimates that each year more than 1,000 people are killed in car crashes because of the switch to smaller, more fuel-efficient vehicles, which have the offsetting disadvantage of being less crashworthy. Clearly, consumers could be made safer if cars were made to resemble tanks. Yet, doing so would not be in consumers' interests since the cost of the added safety would be higher purchase prices and operating costs. The test for whether we should convert all cars into tanks is whether, on balance, consumers will be made better off by these changes, taking into account the fact that changes in the characteristics of cars that affect purchase price or operating cost will be shifted to consumers.

Ultimately, consumers will pay most costs of the changes brought about by the consumer movement. The existence of such costs does not imply that all safety and other consumer-related efforts are misguided. There are competing effects. We should continue to pursue these efforts as long as the additional benefits to consumers outweigh the costs they must pay.

Unfortunately, consumer protection efforts often do not recognize the existence of these tradeoffs. Legislation enacted with the support of consumer advocates generally stipulates, as in the case of the safety and efficacy requirements for pharmaceuticals, that the product must be made safe. However, these laws do not formally recognize the legitimate tradeoffs that exist. The Food and Drug Administration places greater weight on risks created by new drugs than on risks averted by new drugs. No one wants to be held responsible for approving the next Thalidomide, but the thousands of patients who may die because a new heart medicine is not approved are not easily identifiable and do not comprise an effective lobbying group. Well-identified constituencies, such as AIDS victims, have commanded greater advocacy attention since their interests are better defined than other similarly situated groups at risk. Since consumer movements tend to respond to their funding and to well-identified groups, there is a tendency to place a greater weight on the interests of such constituencies rather than on broader groups who may face a very small statistical risk to their lives.

A more important shortcoming of consumer protection efforts is their stringent character. Consumers do not want absolute safety. Making products risk-free is not feasible. Nor is eliminating all hazards desirable, since almost all activities in life are inherently risky. Each time we fly in a plane, especially at high altitudes, we expose ourselves to hazardous radiation, and all forms of transportation pose hazards of various kinds. Our task is not to make life risk-free but to strike a sensible balance between the risks we choose to face and the costs of preventing these risks.

In their daily lives, consumers make such tradeoffs between risk and money. On average, workers in blue-collar jobs, for example, face an annual risk of death from work-related causes of 1 in 10,000 per year. Economists have estimated that workers receive an average amount of $500 per year in compensation for the risks they face. Consequently, for 10,000 workers facing an average risk of 1 in 10,000 of death, there will be one expected death and $5 million in compensation. These types of estimates have led economists to estimate that the implicit value of a statistical life is in the range of $5 million. Similar estimates have been made for product choices, such as the choice of safer cars. Although there is legitimate debate over whether the appropriate value that consumers place on a statistical life is $3 million, $5 million, $7 million, or some other figure, it is clear that we place a finite price on statistical lives.

If our objective is to reflect the interests of consumers who ultimately will pay for safety improvements, we should attempt to promote only those efforts that are commensurate with their valuations of safety. Unfortunately, government agencies pursue risk reduction objectives that fail to grapple with such tradeoffs. Policies often involve wildly extravagant expenditures of funds for little benefit. Regulations from the Environmental Protection Agency and Occupational Safety and Health Administration, for example, frequently impose costs from $50 million to $100 million per statistical life saved. By reallocating priorities, more lives could be saved for less money.

In some cases, the failure of consumer advocates to recognize tradeoffs or to make appropriate tradeoffs leads to policies that are not sufficiently ambitious. The U.S. Department of Transportation, for example, never pursues programs when the cost per life saved exceeds $3 million. If advocates could persuade the department to address safety hazards where lives lost cost $5 million or $7 million each, more ambitious consumer protection efforts would result. But for most other federal agencies, focusing on tradeoffs would result in less stringent policies. This reduced stringency, however, could allow these agencies to undertake more frequent initiatives if, as expected, more sensible policies reduced business resistance and the number of court challenges.

Another persistent failure of the consumer movement is its surprisingly strong reliance on engineering solutions. Many critiques by consumer groups emphasize the ways in which our technologies have failed us. They have called attention, for example, to defective consumer products and to risks from genetically engineered produce. Ironically, many policies espoused by consumer advocates also contain a technology-forcing bias. If cars are unsafe, we need only equip them with appropriate safety devices.

In contrast, consumer advocates devote relatively little attention to making consumers more responsible. They seldom view public education campaigns to alter safety-related behavior as the first policy option. Instead, their primary effort is to shift responsibility to the producing firm, thus allowing consumers to remain passive. Yet, safety is jointly produced through individual effort in conjunction with product characteristics. Properly engaging the consumer in the safety process, along with improving the safety of technologies, will promote safety more effectively than an exclusive focus on technologies.

The important role of individual precautions is emphasized by the disappointing performance of many consumer protections. When the automobile safety effort of the 1960s emerged, safety advocates confidently predicted that there would be dramatic and immediate declines in the automobile fatality rate. These bold predictions failed to materialize because safety advocates neglected the role of individual driver behavior, such as drunken driving. There is also the possibility that, if drivers feel better protected by seatbelts and other safety devices, they may drive less carefully.

An added dimension to individual safety behavior is present in the case of government-mandated safety caps for sealing products. Many officials suggested that these caps now made the products "childproof." But some research shows that the safety caps for products such as aspirin and prescription drugs produced no statistically significant effect on the protected products. Many parents left the caps off, and many other individuals were lulled into a false sense of security. After the introduction of safety caps, parents became less careful about allowing their children access to such products. The existence of this lulling effect, as well as other dampening of consumer precautions in response to safety regulations, tend to mute the beneficial effects of these interventions.

These limitations do not imply that consumer protection efforts have no benefits. Information provision policies, for example, have no doubt improved consumer decisions, and safety regulations have produced notable safety gains. This progress has been much less, however, than what could have been achieved had the role of consumer behavior been better recognized.

The remaining task for consumer advocates is to recognize that consumers should get what they pay for from new regulations. Safer, better products come at a price. Consumer advocates should promote sensible tradeoffs rather than focusing exclusively on only one component of a product. Moreover, advocates should stress that consumers have a major responsibility in making informed and safe choices. Imposing the entire burden on manufacturers, rather than dividing the burden between manufacturers and consumers, has produced fewer gains for consumers than could have been realized had consumers been more actively engaged in this effort.

Unless the mission of the consumer movement is broadened in this manner, its role is essentially over. We have now institutionalized most of the major consumer protection functions. No new consumer agencies or sweeping areas of safety reform are on the horizon. Absolute levels of safety and product quality are unachievable. The new policies that are needed to promote consumers' interests best must incorporate recognition of tradeoffs between the benefits consumers derive and the price that they ultimately pay.

— W. Kip Viscusi

See also

Consumer Interest.

Readings

Mayer, Robert N. (1989). *The Consumer Movement: Guardians of the Marketplace.* Boston: Twayne Publishers.

Viscusi, W. Kip (1992). *Fatal Tradeoffs: Public and Private Responsibilities for Risk.* New York: Oxford University Press.

Economics, Consumer

See Consumer Economics/Studies.

Education, Consumer

See Consumer Education.

Elderly as Consumers

See Older Consumers.