

LET THE IGNORANT CONSUMER BEWARE: CONSUMER INFORMATION AND EFFICIENCY OF CONSUMER DECISION MAKING IN THE USA

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Although many of the institutions which make up the modern economy pour out data which they hope will be used by consumers in their decision on what to consume, consumers still are regarded by some commentators as 'ignorant' when they make those decisions. Two main reasons are postulated, involving the cost of search and requirements for efficient data management. The policy implications are then assessed and the need for leadership in consumer information policy expressed. Finally, the way higher education can help fill the policy gap is briefly explored.

Keywords: consumer, information, higher education, costs of search, data management, USA

INTRODUCTION

While there is broad agreement among commentators on the consumer interest that "the right to be informed is a fundamental economic interest to the consumer",¹ there is not as clear a consensus on how this right is to be exercised, and by whom. In the absence of consensus, a situation has emerged in which the institutions — governmental, business, educational, consumerist, labour — that have an interest (altruistic, personal or both) in the consumer have, at some time or other, attempted to be sources of information to the consumer. The result is that today's consumer has a wealth of data on which to draw when making a consumption decision. In Nermuth's terminology, consumers can potentially observe a multitude of information structures of varying degrees of informativeness, each lying somewhere between the extremes of perfect information and no information.²

Despite the wealth of data available to consumers, it is still considered by many that consumers are inefficient decision makers, and the 'paradigm of the ignorant consumer' persists.³ It will be argued here that the problem facing the consumer is twofold. First, even though data may be in abundant supply, to locate them takes

time and money. In order to economise on these search costs, consumers often base decisions on the most readily available data, which may at best be only partially informative, and at worst, badly distorted.⁴ Second, data themselves are of little use to the consumer unless they can be processed so that they become 'information'.⁵ This implies, among other things, a need for investment in consumer education on behalf of the consumer.

The argument will proceed as follows. In the ensuing section of the paper, the consumer's need for information will be established. Next, the two sides of the consumer information problem, imperfect information and the inability to process data, will be discussed. Following this, the question of what can be done about the problem will be raised. Specific attention will be devoted to the role of higher education institutions in this final section, in view of the unique possibilities these institutions possess as consumer information resources. Because of the author's greater familiarity with the US scene, the argument will be set in the US context.

THE CONSUMER'S NEED FOR INFORMATION

The essence of the need for consumer information is the wide dispersion of price and quality of goods and services for sale in the marketplace. That there is wide dispersion in quality of goods has been established and measured over many years by the Consumers Union of the US, and data have been made available through its monthly publication, *Consumer Reports*. Corresponding data on consumer services are less easy to obtain because of their geographically local nature, but the work of the Center for the Study of Services in Washington DC, published regularly in its *Checkbook* magazine, suggests that, if anything, quality dispersion of services is greater than that of goods.⁶ Degrees of price dispersion of goods and services have been measured systematically by Maynes and co-workers. Again, dispersion tends to be fairly wide (often over 100 per cent for the same goods of the same quality in the same city), with services often showing the greater disparity.⁷

The relation of price dispersion to consumer information was made clear by Stigler in his pioneering work on the economics of information.⁸ Stigler claimed that dispersion of prices was a manifestation of ignorance in the marketplace. While price dispersion also may be due to some degree of heterogeneity of goods, Beales *et al.* have pointed out that if information is poor, price dispersion can occur even for identical products.⁹ Stigler added a reminder that discovery of prices is only one aspect of the information search process and drew attention to the analytically more difficult question of product quality.

Maynes has provided an analytical framework for the integration of the price and quality search problem.¹⁰ This involves the identification of what is termed the 'perfect information frontier': a locus of points connecting least-price offerings for different qualities of available goods or services. Using quality data from the Consumers Union and extensive local price data, Maynes and his co-workers have been able to identify the perfect information frontier for selected goods at selected sites in the US.¹¹

Using Maynes' framework, the consequences of inadequate information to the consumer are easy to establish. Every above-frontier price paid for a good or service reduces the purchasing power and welfare of the consumer. The consumer who is content to purchase from the first seller he meets faces a potentially big loss compared with the consumer who is prepared to conduct an information search. That this welfare loss can run into millions of dollars annually when aggregated across consumers has been demonstrated in partial studies of specific goods and services.¹²

Information search can help reduce consumer welfare losses if it enables consumers to move toward the perfect information frontier. It may even reduce price dispersion.¹³ Search, however, takes time and money, and the situation devolves into a calculation at the margin of the benefits of additional search in terms of the potential for observing lower price or higher quality goods, and the cost of the additional time and money involved in the search.¹⁴

Information, then, is vital to the consumer's welfare and a necessary ingredient to efficient decision making. And consumer information is readily available at costs that are often relatively small as a proportion of the consumer's budget. The question that is then raised is why, in the presence of apparently abundant information, the problem of the ignorant consumer persists. In the next section, an answer will be offered based partly on the cost aspects of search and partly on the consumer's need for information management skills.

INFORMATION AND THE CONSUMER

Even if consumers were to carry out their optimal information search, they might still remain in a state of ignorance. Faced with the prospect of search, it would be rational for a consumer to turn first to those sources of information which can be consulted at least cost. Given that time is a major cost factor,¹⁵ data which are readily at hand, such as media advertisements or point-of-sale fliers, have the best chance of being consulted. Data which require investment of additional time and effort, such as library resources or professional expertise, are less likely to be consulted.

In this situation, the efficiency of consumer decision making is heavily dependent upon the quality of data in the least-cost sources. More significantly, if there is any defect or distortion in such materials, the consumer who relies solely upon them may end up moving away from the efficiency frontier rather than toward it, so that the search adds to the welfare loss from having less than perfect information. Furthermore, a consumer who experiences such losses over a long period may revise downwards the expectations of the marginal benefit of information search, and commute search more quickly than would otherwise be the case. In the final analysis, even though the consumer has obtained information, his/her state of ignorance may not have been reduced.

Obtaining data, moreover, is only one aspect of the consumer's information problem. There is also the consumer's requirement for skills to use data as information in a decision making context. As Beales *et al.* put it:

Consumers may not always protect themselves by gathering and rationally evaluating the optimal amount of product information Consumers' information-processing skills are also important.¹⁶

At any point in time, the consumer will possess an amount of what Lancaster termed 'managerial skills'¹⁷ — abilities to make use of the data and information handling techniques available to the consumer. These skills can be regarded as part and parcel of the consumer's stock of human capital. They can be augmented and they can depreciate. The process of acquiring skills is analogous to the dynamic process of development of stocks of physical capital goods. Following Becker it can be described as follows:

$$C_t = C_{t-1}(1-d) + I_{t-1}$$

where C is the consumer's stock of managerial skills, d is a rate of obsolescence, I is investment in new managerial skills, and $t, t-1$ are successive time periods.¹⁸ The process of investment can be termed 'consumer education', in the sense that term is defined by Schoenfeld and used by Lichtenstein:

Consumer education is neither a science nor a discipline in the traditional sense. Nor is it a list of rational principles which will ensure the wisdom of consumer choices and behaviour. It touches almost all subjects and, when effective, consumer education addresses an individual's needs, goals, concerns and environment. It influences attitudes and behaviour patterns. It is a dynamic, lifelong process of formal and informal learning.¹⁹

Consumer education means more than simply educating consumers in how to stretch their incomes. In fact, consumer education programs can be as broad as business management programs.²⁰

Ideally, consumer education efforts would be integrated with consumer information resources so that education would give consumers the set of tools necessary for the effective utilisation of consumption data in their daily lives. In practice, this would require both a cohesive national information policy which addresses consumers' information requirements, and a comprehensive curriculum for consumer education designed to provide the skills necessary to enable application of the information to consumer decision making. The next section will address the policy aspects of the consumer ignorance problem, and will be followed by a discussion of the role of consumer education.

INFORMATION POLICY AND CONSUMER IGNORANCE

At the national level, the consumer ignorance phenomenon raises the whole question of an information policy. Governments are in a position to foster the development and use of information resources for consumers.²¹ An effective information policy would both shift the cost-benefit locus of the data search process in favour of consumers, and facilitate the acquisition of those skills deemed necessary for efficient consumer decision making.

A number of alternative policies exist for shifting the cost-benefit locus of the information search process in favour of consumers. The most obvious one would be to take the attitude that information is a public good, and therefore should be supplied to the consumer directly by the public sector. Such an attitude led in the US to the development of the Center for Consumer Information in Pueblo, Colorado, a publicly funded institution which distributes information on a number of topics (for example, back yard mechanics, food nutrient content), at very low or even zero cost, on receipt of request for the relevant leaflet or booklet. Official US opinion has moved away from this approach, however, and in recent years the Center has experienced pressure on resources which has forced it to increase the charges for its materials and reduce the scope of its activities.

The new attitude to the government's role in direct supply of information is encapsulated in the principles and recommendations of the National Commission on Libraries and Information Science Task Force on Public/Private Sector Interaction in Providing Information Service.²² The seven principles and twenty-seven recommendations prescribe a role for government which is essentially one of encouraging private industry to provide information services to the public.²³ The public good approach, under the principles of the Task Force, gives way to the view that information is a commodity to be bought and sold.²⁴ The onus is then on the private sector to supply

information, and consumers face the problem of evaluating data that is provided with the object of enabling the private sector somewhere to profit from the transaction.²⁵

By largely abdicating from the role of supplying information services to the public, the government cannot thereby excuse itself from a role in consumer information policy. If the consumer is to rely more and more on the private sector for information, the regulatory function of government may need to be invoked to a greater extent than it has been in the past to monitor the quality of information.²⁶ In the US, the government has the framework for this in its anti-discriminatory and pro-competitive laws, and the instrument to carry it out in the form of regulatory institutions, such as the Federal Trade Commission and the Food and Drug Administration. The current trend in policy, however, is to de-emphasise the regulatory role of government, and instead promote 'self-regulation' — voluntary regulation by the private sector suppliers themselves.

Self-regulation itself is no new departure for sellers. Trade associations have been fulfilling this role for some time, and special institutions, such as the National Advertising Review Board and the Consumer Research Institution, have concentrated on information aspects of self-regulation.²⁷ The 'new wave' of self-regulation is perhaps best represented by the activities of the Society for Consumer Affairs Professionals (SOCAP), the professional association of consumer affairs personnel in business. SOCAP has adopted as a major goal the improvement of consumer-seller relations in the private sector. One way it pursues this goal is by promoting the production of generic (non-promotional) company-related consumer information. Among other things, SOCAP has created guidelines on how to produce such materials, in order to ensure consistency and neutrality of content.²⁸ All such efforts, however, rely largely on peer pressure for success: the inherent defect of self-regulation is that the individual seller can choose to opt out. *Caveat emptor* remains in effect in a self-regulation regime.

THE ROLE OF CONSUMER EDUCATION

If anything, the discussion of the previous section underscores the need for improvement of consumers' information managerial skills. This is tacitly recognised by the NCLIS Task Force. Its recommendation 6 reads as follows:

Encourage and support educational programs that provide the professional skills needed to further the development and use of information as an economic and social resource.²⁹

Difficulties abound in the development of consumer education programs. Perhaps the most basic question is who is to take the leadership role? The US Office of Consumer Affairs has taken the attitude that consumer education is a co-operative enterprise, involving government, educational institutions, business and voluntary groups.³⁰ But how to ensure co-operation? The Office of Consumer Education itself only recently introduced a Division of Consumer Education to provide the necessary leadership and has since run into acute budget problems.

In the absence of leadership, it is inevitable that the parties identified above — government, educational institutions, business, and voluntary groups — will to a large extent go their own ways. For the consumer this means that education takes the form of a series of mixed signals, some of them decidedly noisy, coming forth in an apparently *ad hoc* manner. In the process, neither the need for an information search nor the mechanics of search may be adequately stressed and, once again, the move toward the perfect information frontier will be at best only partial.

In this situation, it is essential that someone among the partners in consumer education take a lead in co-ordinating consumer education with consumer information policy. Education institutions are in a position to play this role in that these institutions already play a major role in all major facets of the consumer information and education process. Researchers and teachers in higher education are particularly important because they have a hand in developing the data and materials used in direct supply of consumer information; they develop teaching materials and train the teachers at other levels of the education hierarchy; they come into contact with future consumer affairs professionals in business; and they are frequently consulted by government and voluntary consumer groups.

In the remainder of this section the kind of role institutes of higher education can play in the consumer information and education process will be explored by reference to the US experience.

Consumer and Higher Education in the US

As Schoenfeld points out, consumer education has never really been considered a legitimate field of study by academia. Systematic study in the area has tended to cease at the high school level, except as an adjunct to home economics.³¹ This is not to say, however, that the kinds of issues raised in the previous sections go ignored. Individual researchers in economics, family science, information science and marketing have maintained an interest in the area, and several on-going projects have been developed which have provided valuable basic information for consumer advocates. The work of Maynes and others has already been mentioned. Other significant work includes

the 'Five Thousand American Families' longitudinal panel study of income dynamics carried out by the Institute for Social Research at the University of Michigan;³² the Milwaukee Dispute Mapping Project, which studied information brokerage networks in the consumer's dispute process;³³ and the work of the Institute for Research on Poverty at the University of Wisconsin, which has studied the economic behaviour of consumers in the lower reaches of income distribution.

There is every sign that higher education institutions will continue their interest in consumer information. Of late, there has been fairly rapid development of a field of study termed 'consumer economics'. Consumer economics is defined as "the use of basic economic tools . . . in the pursuit of consumerism".³⁴ Practitioners in this field tend to locate in the so-called 'land grant' colleges and universities, which were created under the Morrill Act of 1862 to teach agriculture and mechanical arts.³⁵ Consumer economics has emerged as an offering within home economics or family studies programs in the land grant universities.

In addition, consumer economists often work closely with the land grant universities' Co-operative Extension programs, whose object is to initiate activities which will improve the standard of life of families in rural areas. Through these 'outreach' type activities, ideas generated in academia can be transmitted directly to the consuming public. Most major extension programs distribute newsletters on consumer affairs to their agents in the rural counties, and participants often contribute items of consumer information to regional conferences, radio broadcasts and the like.³⁶

In addition to research efforts, some practical experiments have been tried of an interactive education nature, wherein students learn about consumer affairs by being put in the position of becoming information resources for consumers. University of Kentucky consumer economics staff and students have been operating the state Attorney General's consumer hotline for some years.³⁷ In a similar initiative at Ball State University, students studying consumer affairs in the marketing department have set up a branch of the Indiana Better Business Bureau.³⁸ The school of home economics at Louisiana State University has sponsored public forums, known as Consumer Days, on major issues of concern to consumers.³⁹ Purdue University consumer affairs staff and students produce a regular consumer information newspaper column titled *Purdue Consumer* for syndication in the state of Indiana.⁴⁰

In these modest ways, academia in the US has tried to respond to the challenge of the ignorant consumer. That academia has not always been successful has been pointed out by Margolius, who is critical of the perspective of higher education:

I cannot emphasise too strongly that the public's consumer awareness and skepticism are growing, and that people no longer will accept merely generalised or lip-service consumer education and legislation. Often, in truth, the public knows more than its teachers and political leaders about its needs.⁴¹

As yet, it is too early to state whether the recent initiatives will fare better than their predecessors in this respect.⁴²

SUMMARY AND CONCLUSIONS

The objective of this paper was to pursue the paradigm of the ignorant consumer, and to look at what can and is being done about it. That information is vital to consumers' welfare was established at the outset. That consumers' decisions are often made in the absence of adequate information was then attributed in some measure to the fact that information is costly and that consumers must invest in information management skills in order to translate data into useable information.

Given that consumers might use more (and possibly better) information if it were available at lower cost, and given that consumers might accumulate a greater stock of management skills under the same circumstances, the question of a national policy toward information was raised. Recent developments in the US have mitigated against such a policy, however, and the void has been filled on an *ad hoc* basis by the various institutions which have an interest in consumers' decisions.

What is currently lacking in policy toward consumer information in the US is leadership. The potential for leadership among higher education institutions was indicated, and some examples of attempts to take initiative described. In particular, the development of a new field in applied economics called 'consumer economics' was outlined. In many ways, the consumer is still very much at the bottom end of the priority list in government and academia in the US, but at least a structure is there, and if it could incorporate the consumer education movement with the efforts of consumer affairs professionals in business, perhaps much could be achieved. The consumer certainly has the right to such an effort. As Margolius puts it, "The fact is, there are no more important and urgent needs than those of the consumer".⁴³ Information is prime among those needs.

NOTES AND REFERENCES

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Consumer Interests, whose organ, the *Journal of Consumer Affairs*, has become one of the main repositories of written contributions to the discipline. A content analysis of the journal over the last decade shows that 7 per cent of the articles published over that period were on information acquisition, 12 per cent were on decision making, 7.5 per cent on consumer education, and 6 per cent on product quality. Policy analyses and market structure, which incorporate consumer information issues, together made up almost half (45 per cent) of articles published (L.V. Geistfeld and R. Key, 'A decade in perspective 1975-84: focus and trends in the journal of consumer affairs', *Journal of Consumer Affairs*, 20, 1, Summer 1986, pp. 65-76).

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43. Quoted in Aaker and Day, *op. cit.*, p. 48.