

ECONOMIC AND NON-ECONOMIC DIMENSIONS OF THE

CONSUMER INTEREST

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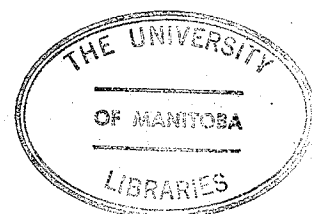
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Alexander John Walter Pursaga

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A dissertation submitted to the Faculty of Graduate Studies of
the University of Manitoba in partial fulfillment of the requirements
of the degree of

MASTER OF SCIENCE

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ABSTRACT

The problems of the consumer have recently come to the forefront of public debate. Although traditional economic theory has been built upon the foundation of consumer sovereignty and policies and programs continue to be developed using this base, it is unclear as to what the fundamental elements of consumer motivation are. Whether the consumer is in fact sovereign or not, recent events indicate that he is no longer satisfied with the operations of the marketplace.

This thesis represents an effort to approach the problem of the consumer by means of the role theory developed by James McNeil. The additivity of attitudes and knowledge was relaxed in this application and a set of components were subjected to a questionnaire sampling.

The survey was submitted to members of a low-income food cooperative known as the Winnipeg Buyers Club, to members of the Consumers Association of Canada, and to members of the Department of Agricultural Economics and Farm Management of the University of Manitoba in August, 1973.

Under the assumption that those who have chosen to mark themselves off from the rest of society as consumers will have developed their attitudes towards consumption to a heightened level, the survey was administered. In addition a further narrowing of scope was achieved by sampling consumer attitudes with respect to food alone. In this way it was hoped that the most crystallized picture of the consumer role could be achieved.

The components which were sampled were:

1. Price Level
2. Meaningful Choice
3. Price Stability
4. Competitive Environment
5. Product Availability
6. Production Efficiency

7. Distribution Efficiency
8. Pricing Efficiency
9. Nutritive Value
10. Physical Safety
11. Information
12. Ability to Voice Grievances
13. Quality
14. Representation

The results of this questionnaire were submitted to a multidimensional scaling analysis.

For each group the scalings were noticeably different. However, within each group's scaling the psychological distances from the "ideal point" were arranged in an identical order. It was therefore concluded that social and economic pressures arising from disparities in disposable income had a direct effect on the location of the consumer's attitudes and not upon the priorities attached to those attitudes. In this sense the components were shown to span the basic consumer role with respect to food.

Given that the sample groups were those individuals who had somehow decided to label themselves as consumers, it was also concluded that a consumer policy which could be enacted would have the following form:

- a policy of supervising the efficiency of the free market,
- enforcement of a strong set of competition guidelines, and
- the generation of a consumer information and education program

However, any success in this area is dependent upon a social policy which is effective in redistributing income in order to modify the social and economic pressures which constrain the free performance of the consumer role.

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CHAPTER I

INTRODUCTION

1. THE PROBLEM AND ITS IMPORTANCE

If the economy is to be metaphorically described as a giant wheel, then the consumer may be assumed to be its hub. Inasmuch as the hub of the wheel directs the centrifugal forces of its own motion outwards along the spokes, so too does the consumer, through the expression of his demands, motivate the utilization of labour, capital and raw materials for the production of goods and services. Equally, inasmuch as the centrifugal forces of circular motion must be balanced by the centripetal forces derived from the strength of the rim and spokes of the wheel; the centripetal economic forces must also be in balance. These centripetal forces must return to the consumer the goods and services which he has demanded at a price which he is willing and able to pay. In economic theory these centrifugal and centripetal forces have been given the status of the Laws of Demand and Supply respectively. In the absence of exogenous shocks and frictions, there is no reason why the gigantic wheel or the economy should ever come to rest once it has been set in motion.

However, this latter rather naive proposition of perpetual motion is not possible either for the wheel or the economy. In fact there are many rough roads along which the economy may travel and it may even be directed into dead-end situations. However, it is possible that the

economy may suffer from problems which are not exogenous but rather emanate from the very hub of its activity. The consumer, unlike the hub of the wheel, may well change the nature of its basic motion. Equally, the consumer may refuse to accept the goods and services which are produced in answer to demands. In either of these cases the hub may no longer wish to share in the continued motion of the entire wheel. For hubs and consumers there are, however, forces which tend to reduce the power of their control over the entire motion. This process is known as inertia. Once set in motion the forces which guide the wheel gain momentum from the mass of the entire wheel; hub, spokes, and rim. In the economic system, the consumer may be forced to go along as well in the interests of continued progress derived from the momentum of increased production, expanded employment opportunities, and other vestiges of economic growth. Thus the consumer, although the central element in all economic activity may be forced into a diminishing realm of importance as the economic system moves along.

However, consumers are human beings and as such retain the power of thought and at least the proposition of self-determination. It is this self-determination that has led to the generation of consumer groups which have tended to move outside the economic system: to create lobbies through which to interact with the political process, to create their own co-operative distribution systems, or in some cases to enter the social realm and boycott stores or establish pickets.

It is this phenomenon of consumer disaffection which has led to the recent debate over the consumer interest or consumerism. Whatever it may be called, it remains a modern phenomenon which has not been previously investigated.

It is the purpose of this thesis is to examine the nature of this phenomenon and to uncover some of the basic components of this interest. It is also intended to investigate the relationships which exist amongst the components of this phenomena, in the hope that they may lead to a better understanding and accommodation of consumer desires within the economic system. The danger of neglecting this task is purely hypothetical but may well lead to a drastic weakening of the economic system and expose it to even greater dangers from exogenous shocks. It is the scope of this analysis to concentrate on food as food is perhaps the most basic of all consumer goods.

The very existence of consumer disaffection implies that the factors involved in the illumination of the components of the consumer interest are not purely economic in nature. If they were, the resolution of consumer disaffection within the economic system would be a simple case of changing the types of goods and services which are being supplied. These changes would be part of the general process of economic activity and there would be natural neglect of the products which were produced but not demanded. This is the time honored concept of consumer sovereignty, which basically states that business will only produce what it can sell and if it cannot sell the product it will cease to produce it. Hence the natural tendency

would be that the consumer would have choices only among those products which he really wanted.

The basic assumption of this approach, however, is that the consumer actually knows what he desires, that the market is organized so as to permit these desires, and that they can be succinctly expressed in the marketplace. In a situation in which consumer goods are well-known in terms of their specifications for potential use and performance expectations, this assumption may well be upheld. However, in the modern market we have experienced a retail "revolution" in which the products among which we must choose have become more and more sophisticated, more and more numerous, and have come through the hands of many individuals. The sophisticated nature of the products requires a greater degree of expertise with which to judge them. The increasing number of products requires that this expertise be developed in an increasing number of areas. The expansion in the number of distributors has created a situation in which even if the consumer possesses the knowledge to judge a product to be deficient after purchase, he may not be able to find out to whom he should complain.

This retail "revolution" has not been detrimental in all of its aspects. No doubt the modern consumer is able to purchase products which serve his or her every need. Never before has such a great choice been available to the consumer. Similarly the consumer may consume products which were produced in areas of which the consumer has only a vague knowledge, and which may appeal to exotic tastes which could not otherwise be

satisfied. Consumer confusion and consumer oppulence may well cancel each other out in terms of their effects on consumer interest. However, the basic direction of this development has been the lessening of consumer knowledge and a concomitant reduction if not elimination of consumer sovereignty.

In the absence of consumer sovereignty, the basic economic factors affecting the consumer interest must be substituted by, or appended to, various non-economic factors which are necessarily normative. These non-economic dimensions may include elements of a basic faith that in the absence of knowledge possessed by the consumer someone else will act as his vanguard and ensure that he is not "wronged" in the marketplace. Therefore, price level and stability will remain necessary conditions for an understanding of the processes of consumer behavior, but we may no longer assume that they are sufficient conditions. Other concepts must be developed and explored before an understanding of consumer motivation can be uncovered.

In the remaining sections of this introduction the nature of the consumer interest will be developed and an approach to the problem formulated. The literature, although sparse, will be reviewed and a basic model proposed. The components will then be developed and a set of basic hypotheses stated. Finally the methodology for testing these hypotheses will be explained.

2. THE APPROACH TO THE PROBLEM

THE PARADOXICAL NATURE OF THE CONSUMER INTEREST

Before an attempt is made to specify the components of the consumer

interest it is necessary to develop a definition or description of the phenomenon. This is not an easy step to be taken, however, due to the fact that the consumer interest is plagued by two basic paradoxes. The first relates to the fact that while everyone is a consumer, no single individual is only a consumer. The second paradox occurs at a more aggregate level and relates to the fact that the political process will most often pay greater heed to another interest, for example, that of a producer than to a consumer interest on a contentious issue, although the consumers of any given product will almost certainly outnumber its producers.

The first paradox relates to the fact that everyone must be involved in activities which operate so as to reduce the time and effort which he may be able to spend on consumption. Usually a person must work in order to earn an income in order to have the funds necessary to finance consumption. Even after working an individual cannot hope to perform only as a consumer. Most individuals will be involved in social groups or other avenues of personal entertainment which also detract from the potential time and effort he is willing to spend on consuming.^{1/} This paradox has been assessed by Mitchell [49:279], who argues that the consumer is plagued with the "backwards art of spending money." This "backwardness" he identifies as the propensity of individuals to confront budgetary problems by means of attempting to increase their incomes, rather than to achieve better value from their expenditures by means of more careful scrutiny of the goods which they select.

The second paradox, while it may very well be an extension of the first paradox, was developed independently by Anthony Downs [22:149]. He

^{1/} It is argued here that even the so-called "welfare bums" will have activities competing for their time even if that activity is merely the avoidance of work.

presents this observation but does not interpolate or extrapolate this statement with respect to consumers alone. Some illumination may be cast upon this paradox if we recognize that one of its corollaries is that the common assertion that the consumer interest and the public interest are one in the same thing is false. This arises from the fact that the public interest is composed not only of consumers, but also of producers, distributors, retailers, and other economic actors. Although the same person may operate in several of these functions, all interests with the exception of the consumer's can be monitored in terms of flows of products which can be measured directly. Moreover, if it is the public interest to increase the welfare of its citizens, then it is essential that the nature of economic activity be expanded. This cannot be done if momentary intrusions are made on behalf of the consumer which could well slow down the entire system.^{1/} Moreover, the increased activity may generate increased incomes and hence operate in the same fashion as the Mitchell argument outlined above, although on a larger scale.

The implications of this second paradox in the political process have resulted in the preparation of a large number of pieces of legislation which have been designed to protect consumers in certain basic product areas. These pieces of legislation are very technical and relate to specific practices. In view of the fact that the British North America Act (1867) effectively placed consumer protection in the hands of both the federal and provincial governments, the product approach has led to a veritable maze of regulations which requires a battery of trained legal

^{1/} This logic is no doubt also used in order to eliminate the objections of environmentalists who dare to oppose certain industrial projects.

personnel to interpret. Inasmuch as the average consumer complaint rarely deals with a large dollar value of goods, it is unlikely that consumers would be willing to or able to pay for this legal interpretation.

[Neilson, (52:4-5)] Although we have established departments of consumer affairs at the federal level and in most of the ten provinces, the fact remains that these consumer representatives in the civil service must still deal with the same product approach to consumer problems. It is probably the case that even these public advocates are overly burdened with seemingly small considerations.

The dual paradoxes of the consumer interest tend to operate so as to continually relegate the consumers' economic function to a less than paramount status both at the individual level and in the political cum public domain.

DESCRIPTION OF THE CONSUMER INTEREST

The dual paradoxes of the consumer interest indicate that while consumption is necessary for survival it is often neglected in favour of other activities. This paradox is not uncommon for a broad class of activities which are known as social roles. Examples of similar important but often neglected activities include citizenship, the family roles of motherhood and fatherhood, and the basic roles of religious belief. Each of these bears the common element that many people neglect their performance of these roles until a pertinent crisis situation develops. The citizen who only attends a town-hall meeting when he discovers that his house is about to be expropriated; the mother or father who only return to spend time with their families when the children have been discovered using drugs,

and the individual who only returns to his church, synagogue, or other place of religious devotion for baptisms, bar mitzvahs, weddings and funerals all bear a great deal of resemblance to the consumer who only accentuates his role when he cannot get warranty service for his new car. It is not argued that we should all overreact to these roles and live them to the exclusion of all other considerations. However, it is argued that these very important roles lead to a natural neglect when the choices are made between them and other less taxing but more enjoyable or rewarding activities.

R. S. Downie [21:133] has defined a social role as a "cluster of rights and duties." If the above examples describe the concept of social roles accurately, then the implication is that for this particular set of roles it is the case that the duties are effectively discounted by the individual. This discounting of duties is contingent upon the ability of the individual to establish a set of priorities with which he will adjudicate potential role performance. It is argued that the priorities are a function of the attitudes which the individual possesses with respect to the perceived satisfaction which he may receive. As the attitudes of the individual become more entrenched they will establish the patterns of behavior which typify the individual.

For the purposes of this thesis the consumer interest will be interpreted as the consumer role and the role will be assumed to be primarily conditioned by the attitudes of the individual. This is not to say that the

attitudes will mark the limits of all things that may be included in the consumer role. Rather it states that the attitudes which an individual holds allow or force him to act to achieve his objectives within this domain by using behaviour. For example it is often argued that economic forces will constrain or free the individual to consume as much as he wants. However this approach describes only the boundaries of his activity. He may not know of the existence of these economic forces. He may not even care. However, when he does perceive a situation to exist, even if he is mistaken, he may very well pursue his desires anyway. It is the attitude, rather than the environment or boundary which forces activity to take place.^{1/} The precise relationship will be presented in terms of the specification of the model. The literature will now be reviewed in order to assess the assumptions and qualifications which are incumbent upon the interpretation developed above.

REVIEW OF THE LITERATURE

OBJECTIVES

Traditional economic approaches to consumption behavior have dealt with the proposition that the consumer is actively participating in the market with the intention of maximizing his pleasure. This premise automatically casts a great deal of importance on the success of his venture measured in terms of the physical goods which he has accumulated after his consumption activity. Consequently, in the traditional micro-economic and macroeconomic analyses, quantifiable variables such as income,

^{1/} Strong demand for housing came through mortgage rates have risen to historically high levels is an indication that the motivating factor in this case is not the feasibility of owing a house (economic boundary) but the desirability of owning a house (consumer attitude).

price level, and units of consumption goods have stood as sufficient indicators of the consumption activity. However, as George Katona, Burkhard Strumpel and Ernst Zahn [40:9] have concluded, these assumptions are not readily transferable across national boundaries and may in fact be suspect with respect to certain groups of people even within the mass consumption society of North America.

Moreover the concentration of efforts on measurable features of consumption leads to the concentration on the equilibrium values of these measurable factors. In essence, if the purpose of economic analysis is to monitor consumption in order to establish the nature of demands and supplies, which are always described in terms of dollars and units of product, then the science is a complete body in itself. However, if the purpose of economic analysis is to achieve an understanding of the consumer decision process, it would appear to have been side-tracked. Fleming Hansen [34:8] has argued that economic modelling always eliminates the intervening variables which may act as catalysts in the formation of consumption decisions. These variables are excluded simply because of the fact that in quantifiable terms they will cancel each other out. In terms of the qualitative judgments of the consumer they may well achieve varying degrees of importance that may in fact alter the entire decision process.

It has been a long standing feature of consumer analysis that the nature of the decision process can be readily manipulated through latent appeals to consumer emotions. Pleasantly decorated supermarkets which are air conditioned and surround the customer with soft recorded music are the rule rather than the exception. Pleasantly decorated packages covered

with suggestions as to what the purchaser may win, purchase at a reduced price, or even obtain "free" are common in all stores. The entire entertainment industry is supported by dollars spent by firms with the expressed intention of altering consumer purchase decisions.

The purpose of these illustrations is to indicate that the practice of economic activity has recognized the power of the non-economic nature of consumer behaviour. This recognition has been muted in the theoretical examination of the consumer. If it is in fact true that consumers only purchase products because of economic necessity, then these appeals should not work. However, they do work and in so doing reveal that there is a great need for an investigation of which values consumers place upon these non-economic variables. Indeed we may no longer assume that the "laws" of economics can operate with impunity in the modern market. Inasmuch as appeals to non-economic factors may spur the consumption processes it is equally likely that they may hinder them as well. If such hindrance is accumulated then the crises of faith in the market may well lead to socially disruptive phenomena.

This argument does not support the contention that consumers need to be cajoled and guided through the marketplace by a paternalistic public policy. On the other hand it does not support the contention that consumers must be continually exposed to arbitrary processes. Between these polar positions it is argued that the consumer should be protected from dangers which may arise but should not be constrained. In essence the "great wheel" of the economy, to return to the opening metaphor, must be kept on track. Before protection programs are initiated it is essential that we know what it is which is to be protected.