CONSUMER PROBLEMS OF THE LOW-INCOME

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The President's "war on poverty" has focused the nation's attention on the plight of the poor in our affluent society. We hear much today about the causes of poverty, and the reasons why substantial numbers of the population are unable to earn a decent living. Much less attention, however, has been given to how the poor spend what little money they do have: Until recently, little attention was given to the poor as consumers, that is, as people making major buying decisions in the marketplace. This neglect followed from the reasonable, even though mistaken assumption that since the poor had little money to spend, they could not possibly be consumers of costly merchandise.

That the poor are consumers of expensive commodities so that it is meaningful to talk about their problems as consumers, is intimately connected with that rapidly expanding American institution, the installment plan. Through the mass media, Americans in all walks of life are bombarded with messages to buy now and pay later. "Easy payments" and "No-money-down" are the slogans luring even the poor into the market place.

Among the first to become aware of the problems encountered by low-income consumers were the social workers. In the course of coping with the traditional problems of their clients, the social workers came to learn about a new kind of problem of the poor: their hopeless entanglement in installment debt.

Three Settlement Houses in New York City became so alarmed by the troubles that their neighbors were having as consumers, that they became convinced that little could be done to improve the lot of these families until something was done about their consumer problems. In 1960 these settlements sponsored a survey of the consumption patterns of their neighbors as a prelude to the development of a program of action. The results of that survey have since been published in a book entitled, The Poor Pay More.

At the risk of boring some of you who may have read this book, I would like to spend the first part of this talk describing the main findings of the study in New York. Following this review of the study, I will consider some of the gaps in our knowledge of low-income consumers--questions left unanswered by the New York study which should be taken into account in further research efforts. Finally, I will try to address myself to the question that is probably foremost in the minds of many of you here today, and that is, what can be done about the problems of low-income consumers? What programs of action seem at this point to be most fruitful?

The Survey of Low-Income Consumers

The research in New York was based primarily on structured interviews with a representative sample of 464 families living in four low-income housing projects near the sponsoring settlements. Two of these projects were located on the Lower East Side of Manhattan, and two in the East Harlem section. Although most of our attention was given to the consumers, we did not ignore the merchants. More informal interviews were conducted with some of the many merchants of furniture and appliances in these neighborhoods in order to learn their views of the marketing situation.

The median income of the families we interviewed was about $3,300 in 1960, the year of the study. Some 15 per cent were receiving welfare assistance. These families exhibited many of the characteristics associated with poverty. Most of the families were members of racial or ethnic minorities: 45 per cent were Puerto Rican, 30 per cent Negro and 25 per cent white, exclusive of Puerto Ricans. Relatively few, only 17 per cent, were natives of the city. The rest were migrants, generally from the South or from Puerto Rico. Their educational level was quite low. Only 17 per cent of the family heads had completed high school and about half did not continue their education beyond grade school. The families had two characteristics which previous studies had shown are closely associated with consumer activity: they were in the early stages of the life cycle and they were relatively large in size. More than half of the family heads were under 40 years of age. And some 40 per cent of the families had five or more members.

Their place of origin, their ethnicity, their low educational level, all suggest that these consumers are products of more traditionalistic cultures, poorly trained in the ways of urban, bureaucratic society. As we shall see, this fact underlies many of their problems as consumers.

In summarizing the main findings of the survey, I will first describe the consumer practices we found to be characteristic of the families. I will then try to give you a picture of the special marketing system that has evolved in the low-income sections of our cities in response to the distinctive needs of these consumers and the merchants who provide them with the goods they want.

Consumer Practices of The Poor

In spite of their poor economic position and poor credit status, most of the families were active as consumers of major durables. For example:

- --Ninety-five per cent owned at least one television set (five per cent owned more than one).
- --More than three in every five owned a phonograph.
- --More than two in every five owned a sewing machine.
- --More than two in every five owned an automatic washing machine.
- --More than a quarter owned a vacuum cleaner.
- --One in every seven families owned an automobile.

Most of the families had moved into public housing during the five-year period preceding the study, and most of them had bought a good deal of furniture in that period. The typical family bought sets of furniture for at least two rooms when it moved into the project and had spent approximately $500. Some 16 per cent had paid more than $1,000 for furniture bought at the time of the move. The overwhelming majority of these families purchased new rather than used durable goods. Eighty per cent, for example, bought only new furniture; another eight per cent bought mainly new furniture, leaving only 12 per cent who bought wholly or primarily used furniture.

The prices they paid for appliances were quite high. Forty per cent paid more than $300 for their TV set and 13 per cent paid more than $400. A number of families owned expensive combination television and phonograph sets and one family reported paying $900 for such an appliance.

It is not surprising that these relatively large families with incomes averaging only $3,300 relied heavily on installment credit when making such expensive purchases. Approximately two-thirds of the appliances owned by the families were bought on credit and 80 per cent had used credit to buy at least some of their major durables.

This dependence on credit accounts, in part, for another fact about their consumer habits, their narrow scope of shopping. Hardly any shopped for major durables in the downtown department stores and discount houses. They went instead to the local stores and to appliance chain stores that advertise "easy credit" plans.

Symbolic of their narrow shopping scope is a consumer practice that we found to be quite frequent in the sample, buying from door-to-door peddlers, the men with the traditional slogan of "a dollar down, a dollar a week." These "customer peddlers," as they are called, were prevalent several generations ago when large numbers of European immigrants were arriving in this country and they are again thriving today, finding customers among the more recent migrants from the rural South and Puerto Rico.

Fully half the families we interviewed had made at least one credit purchase from these door-to-door salesmen, and more than a third had made repeated purchases. Most families regretted buying this way when they discovered they were paying exorbitant prices. But some, approximately 20 per cent, have had rather continuous relationships with peddlers, whom they have come to regard as almost a friend. The peddler serves as a purchasing agent for these families, getting them practically anything they need. Unlike most of the local merchants and the more bureaucratic stores that offer credit, most of the peddlers do not use installment contracts. The exceptions are outdoor salesmen for large firms specializing in a particular commodity such as encyclopedias or pots and pans. These men are not interested in building up a clientele. Once the contract is signed, this kind of salesman gives the customer a coupon book with instructions for mailing monthly payments, and then he disappears. But the more usual peddler is the man in business for himself, hoping to establish permanent relationships with his customers. His credit is of a more traditional kind.

When payments are late or less than the specified amount, he does not add on service charges. This flexibility is appreciated by the customers and explains why some continue to buy from peddlers even though they know they pay much more than they would at a store.

In view of the large amount of credit buying in this group, it comes as no surprise that the majority, more than 60 per cent, had outstanding debts. Their precarious financial position is indicated by the fact that most had no savings at all to back up their debts. Only 27 per cent had at least $100 in savings.

Consumer Problems

Their lack of shopping sophistication and their vulnerability to "easy credit" would suggest that many low-income families encounter serious difficulties as consumers. The study found this to be true. One in every five had experienced legal pressures because of missed payments. Their goods were repossessed, their salaries were garnisheed or they were threatened with garnishments. Many of the families in this position had heavy credit obligations that reached crisis proportions when their income was suddenly reduced through illness or unemployment. The following account given by a 27-year-old Negro husband is typical:

"I first bought a bedroom set. I still owed money on it when I wanted a living room set. I went back to the store and bought the living room set on credit. <u>At that time I was working and making good money.</u> <u>That was two years ago.</u> <u>Six months ago I got sick and stopped working.</u> <u>And so I couldn't pay any more.</u> When I got sick, I still owed $288. Last week they sent a summons saying I have to pay $440 not $288. We have to pay, but what I'm going to do is pay the $288, not the $440."

Like many of these consumers, this young man did not understand that he is liable for the interest on his debt as well as court costs and legal fees.

Inability to maintain payments was not the only problem these consumers encountered. The merchant's failure to live up to his obligations created difficulties for a much larger proportion, some 40 per cent. This group includes families who were seduced by "bait advertising" and high-pressure salesmen into buying much more expensive merchandise than they had intended, families who were given erroneous information about the costs of their purchases, and families who were sold as new, merchandise that had been reconditioned.

These two kinds of problems, legal difficulties resulting from missed payments and exploitation by merchants, are not always independent of each other. Some families capable of maintaining payments stopped paying when they discovered that they had been cheated. But instead of gaining retribution, they were more often than not subjected to legal sanctions brought upon them by the merchant. This process can be seen in the experience of a 28-year-old Puerto Rican man:

"I bought a set of pots and pans from a door-to-door salesman. They were of very poor quality and I wanted to give them back but they wouldn't take them. I stopped paying and told them to change them or take them back. I refused to pay. They started bothering me at every job I had. Then they wrote to my current job and my boss is taking $6 weekly from my pay and sending it to pay this."

It is not clear from his account whether he had lost some of his previous jobs because of the efforts to garnishee his salary; this does happen with some frequency. Many employers simply will not be bothered with garnishments and do not hesitate to fire workers whose salaries are attached.

As the previous incident suggests, the laws regulating installment sales unwittingly act in favor of the merchants simply because these traditionalistic consumers have little understanding of their legal rights and how to exercise them. By taking matters into their own hands and stopping payments on faulty merchandise, they only bring additional troubles upon themselves.

There is another aspect to this unwitting result of the legal structure. The merchants who offer "easy credit" have the legal right to sell their contracts at a discount to a finance company. Many low-income consumers do not understand this procedure. They mistakenly believe that the merchant has gone out of business and assume that nothing can be done about their problem. The practice of selling contracts to credit agencies thus, often has the consequence of absolving the merchant of his responsibilities to the consumer, not because the law gives him this right, but because the consumer does not understand what has happened.

In keeping with their inadequacies as consumers in a bureaucratic society, most of these families had no idea what they could do about their consumer problems. When asked directly where they would go for help if they found themselves being cheated by a merchant, some 64 per cent said they did not know. They could not name any of the community agencies equipped to deal with these problems, such as the Legal Aid Society, the State Banking and Finance Department, the Small Claims Court, or the Better Business Bureau. The Better Business Bureau was the agency most often cited by the minority who had some idea where they could go for professional help.

In presenting this picture of buying patterns among low-income families, I have said nothing about variations within this group. These consumers are by no means of a piece. Their shopping practices are affected by various social characteristics apart from income. For example, the most active consumers, those who rely most on credit, and those who experience the most consumer problems tend to be the Puerto Ricans and Negroes rather than the whites, the relatively large families in each ethnic group and the young families. The education of the household head is closely associated with scope of shopping and knowledge of community agencies. In contrast to the majority who did not finish high school, the minority who did complete high school were much more likely to shop in the large downtown stores and were much more aware of sources of professional help for consumer problems.

The Low-Income Marketing System

Looking at the marketing relationship from the side of the merchant, we can ask: how is it possible for the many furniture and appliance stores located in lower class neighborhoods to extend credit to these relatively poor risks?

One way in which the merchants protect themselves is to have unusually high markups on their merchandise. In this special system of sales-and-credit, cheap goods are sold at prices that in the larger market place are commanded by high quality merchandise. In East Harlem, one of the areas studied, the merchants use a number system to price their goods, referring to "one number," "two number" and "three number" items. Each number stands for a 100 per cent markup over the wholesale price. For example, a TV set that costs the merchant $100 and is sold for $300 is a "two number" item. According to a former bookkeeper in such a store, the merchandise in East Harlem is never sold for less than one number and often for more. Another sign of an unusual pricing system in these stores is the absence of price tags, signifying that prices are not standardized; there are hardly any "one price" stores in low-income neighborhoods.

But the high markup does not in itself insure that the business will be profitable. No matter what he charges, the merchant can stay in business only if he receives payments from his customers. The assumptions of any credit system--the customer's intentions and ability to pay--cannot be taken for granted in this market.

To some extent the merchant can count on legal controls over his customers. But these often prove inadequate since many of the customers are employed only irregularly and others depend on welfare. Furthermore, the merchant who frequently resorts to legal controls is likely to lose good will in the neighborhood. For this reason, the merchants interviewed were reluctant to make extensive use of their right to sue defaulting customers.

Thus, in addition to formal controls, the merchants depend heavily on informal, personal controls over their customers. The merchants reported that they operate their credit business on a "fifteen-month year," anticipating that their customers will miss about one in every four payments. This is considered a normal part of the business and the merchants take it into account when they compute the markup.

Many merchants adopt the methods of the customer peddlers, employing their own canvassers who visit the families in their homes, both to collect payments and to sell additional merchandise. As part of the informal system of control, the merchants encourage weekly payment plans with the customer bringing the payment to the store. This continuous contact enables the merchant to get to know his customer. He learns when the customer receives his pay check; when his rent is due; when job layoffs, illnesses, and other emergencies occur; in short, he gathers all kinds of information that allows him to interpret the reasons for a missed payment. Since the customer comes to the store with his payments, the merchant is ready to make another sale when the first is almost paid for. As a result, many customers are continuously in debt to the merchant in a pattern reminiscent of the relationship between the sharecropper and the company store. We might almost call these traditionalistic consumers in our cities "urban sharecroppers."

Various devices are employed in this marketing system for sifting and sorting the consumers according to their risk and matching them with merchants willing to extend them credit. For example, when a merchant finds himself with a customer he considers to be too great a risk for him, he does not send the customer away. Instead he directs him to a merchant with a less conservative credit policy. The peddlers also steer their customers to local merchants. When their customers request major appliances that they do not handle themselves, the peddlers will refer them to an appropriate merchant who is ready to extend them credit. The referring merchants and peddlers receive a commission for their service, another factor affecting the final sales price.

It should be noted that the marketing system that I have described is not only different from the more formal, bureaucratic market; it is in many respects a deviant system in which unethical practices, such as bait advertising, and illegal practices, such as the sale of used merchandise as new, are commonplace. And yet this system, with its obvious exploitative practices, is able to persist, I suspect, because it performs important social functions. In a society in which consumption is not only a matter of obtaining material conveniences, but also a means of gaining self-respect and winning the respect of others, this marketing system makes consumers of people who fail to meet the requirements of the more legitimate economy. Even the welfare family is able to consume in much the same manner as its social peers who happen not to be on welfare.

Satisfying the wants of poor credit risks is not the only function of this marketing system. Another is to make the traditional consumer, who is apt to be intimidated by the impersonality that pervades the large downtown stores, feel more at home. The local merchants are expert at personalizing their services. Many quickly establish a first-name relationship with their customers. Also, the local merchants now employ Puerto Rican salesmen in order to better serve the many Spanish speaking migrants in these areas.

Areas for Further Research

Having told you about some of the things that we learned in the New York study, let me now tell you about some of the things that we did not learn--at least, to my satisfaction--gaps which I hope will be filled by subsequent research in this area.

The New York study, as reported in *The Poor Pay More*, does a pretty good job of documenting the *behavior* of low-income consumers, the *what*, *where* and *how* of their patterns of consumption. But it does a much less adequate job of documenting the *why* of their patterns of consumption, that is, the motivations, attitudes and beliefs of low-income consumers.

A basic hypothesis, that is by no means proven in The Poor Pay More, is captured by the notion of "compensatory consumption." By this phrase I mean that the poor turn to consumption not simply for utilitarian reasons but also for symbolic reasons--to compensate for their low social status. With little opportunity to improve their social standing through educational and occupational achievement, the poor turn to the arena of consumption as one of the few spheres in which they can make some progress toward the American dream of success. In keeping with the notion of compensatory consumption is the fact that the people we interviewed preferred new rather than used durable goods and the expensive rather than the inexpensive models of appliances.

But compensatory consumption--consuming in order to achieve social status--is only one of several reasons offered in the book for the buying patterns of the poor. A second is the simple factor of need. Large families need more furniture and can make good use of such labor saving appliances as washing machines. Still a third factor underlying the heavy consumption and subsequent credit problems of many of these families is their vulnerability to unscrupulous salesmen. According to this view, the poor often end up buying goods that they have no intention of buying; they are tricked or pressured into buying even though they do not want the goods and cannot afford them. We certainly found a number of examples of such undesired purchases but it remains for future studies to determine, in a systematic way, their frequency.

I am convinced that all three reasons play a part in the buying patterns of the poor, the utilitarian motive, their desire for status, and their vulnerability to exploitation. But from the viewpoint of planning programs of action it is important to find out how much weight should be given to each of these reasons.

Just as we need to learn more about why the poor buy the things they do, so we need to know more about why they shop where they do. A basic thesis of the New York study is that the poor deal with peddlers and neighborhood merchants rather than downtown stores not simply because they are ignorant of the downtown stores, but also because they are afraid of them. The large, impersonal stores, I suspect, are apt to make these traditionalistic consumers feel uncomfortable. Again, I only offer this as a hypothesis without proving it. What we need is research on the images that the poor consumers have of the downtown stores, and perhaps, equally important, we should find out more about the images that the different kinds of merchants have of the poor. It is readily apparent why such knowledge would be important for planning an action program. If there is any merit to the intimidation hypothesis, then merely pointing out to the poor that they can get better bargains in the downtown stores, may not have much effect on their shopping habits (assuming that they could get credit in the more bureaucratic stores).

Apart from the need for more data on the subjective aspects of the consumption of the poor--the values, attitudes and beliefs underlying their behavior as consumers--I would like to see more attention paid to the consequences of the problems they encounter as consumers. For example, we encountered some families in which the wage-earner had lost his job because his boss would not be bothered with garnishments. How many low-income families have had this experience? Since credit problems can lead to the loss of jobs, to what extent do such problems lead to poverty rather than result from poverty? I think it would be extremely valuable to do a survey of people who have been subjected to garnishments. It would be important to know the processes leading up to the garnishment, for example, the proportion that result from unintended purchases, from the consumer stopping payments on faulty merchandise, and from the consumer's simply overextending himself. Equally important would be tracing out of the consequences of the garnishment, for example, the loss of jobs, and further reduction of income.

The consequences of the consumer problems of the poor might also be fruitfully studied in the area of family life. Such research might well consider whether debt entanglements contribute to marital tensions, separations and divorces.

The Possibilities for Action

Were the answers to the research questions that I have raised available now, I would feel much more secure in approaching the third and final theme of this paper, the possibilities for action in dealing with the consumer problems of the poor. I should caution you that my thoughts on this important theme are at best provisional and that I do not have any quick solutions to offer.

I suspect that alleviating the consumer problems of the poor will require action on many fronts, not only consumer education, but also the creation of new institutional arrangements which provide the poor with meaningful alternatives to their present practices and also the modification of the marketing system through better legislation in the field of consumer credit and better enforcement of the present laws.

Since the Council on Consumer Information is committed to the idea of consumer education, let me begin with a consideration of the possibilities for an educational program directed at low-income consumers. The first question that might be raised is what aspects of the consumer practices of the poor might be modified through educational campaigns.

If the motive to buy that I refer to as "compensatory consumption" is as strong as I suspect, then I do not think that much progress can be made in trying to persuade the poor not to buy; that is, to postpone their gratifications. Similarly, I do not think that it will be easy to persuade the poor to forego the use of credit when buying durables, for without credit most of these families would not be able to get the goods they want. The idea of saving and buying only for cash is increasingly difficult for middle class people who are more familiar with the principles of budgeting and although I could be wrong, I don't think the "buy for cash" idea will make much headway in the low-income group.

The prospects for education are perhaps greater when it comes to modifying the typical shopping patterns of the poor. It may well be that more of the poor would patronize the bargain centers if only they knew about them and perhaps even more would shop in the downtown stores if they knew that they would be welcome there.

An extremely useful educational campaign would be one that seeks to inform the poor of what they can do when they encounter a consumer problem. I find it particularly pathetic that the great majority of the families we interviewed had no idea where they could turn for help when they encountered a consumer problem.

Apart from the question of the kinds of messages that should be directed at the poor in an educational campaign, is the question of how the messages can be most effectively communicated. I suspect that impersonal media of communication, particularly written messages, are not apt to have much impact. Much more effective would be interpersonal channels of communication--informal, face-to-face contacts between these consumers and the people trying to help them. As I suggest in my book, it might not be a bad idea for the people trying to help these consumers to emulate the customer peddlers to the extent of visiting these families in their homes.

My hunch is that educational campaigns will be most effective if they are carried out in the framework of agencies of help readily available to the poor. There is a need for neighborhood consumer clinics, where the poor can come for advice about their problems. These consumer clinics should provide the services of legal experts as well as consumer experts. In at least one city that I know of, a program of action directed at the problems of the inner city residents has developed the idea of the "neighborhood lawyer." Teams comprised of social workers and lawyers have been established in the low-income neighborhoods of this city, to render free services to the residents.*

The neighborhood is not the only place where agencies of help might be located. Another is the place of work, particularly the large corporation employing many working class people. In virtually every large company today, a substantial number of wage earners are having deductions made from their pay checks to pay off their installment debts. These garnishments are costly for both the worker and the company alike. Before a garnishment is honored by a company, it must first have its legal staff check up on its validity. The cost of this legal service and the cost of the paper work involved in the garnishment add up to substantial sums in the course of a year. It is clearly in the interest of the corporation to educate its workers as consumers and protect their legal rights, and yet to my knowledge the only corporation in America that has made some effort in this direction is Inland Steel of Chicago. Several years ago, Inland Steel established the post of Garnishment Administrator, a position occupied by a woman who is probably known to many of you, Mrs. Dorothy Lascoe. Mrs. Lascoe has

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*I am referring to the Neighborhood Social-Legal Program established by Community Progress Inc. of New Haven, Connecticut.

saved Inland Steel and its employees vast sums of money through the simple expedient of keeping tabs on the garnishments and halting payments when the debts were paid. In the past it had been the practice of the creditors to claim more than was legally owed to them and deductions would continue to be made long after the debt had been paid. Not only did Mrs. Lascoe save Inland's workers considerable money by preventing them from being cheated, but she provided many of them with advice and help when they encountered difficulties as consumers. Many workers came to view her as their consumer counselor and lawyer.

I think the plight of many low-income consumers would be helped immeasurably if the large corporations could be persuaded to undertake programs of consumer education and protection for their workers, rather than firing the workers who are garnisheed as many companies now do.

In closing, let me share with you what is no doubt a Utopian solution to the consumer problems of the poor; one that I present somewhat facetiously. This is simply <u>to give</u> the poor the consumer goods they want. The day may never come when certain durable goods will be considered rights of man, in the same way that man in our society now has the <u>right</u> to an education, to security in his old age, to decent housing and hopefully, soon, to medical care. Furniture, phonographs and television sets appear to be poorly qualified for such lofty status. But it must be remembered that not long ago the American citizen did not have the rights he now enjoys. It was only when society recognized the severe social, psychological and economic costs of not meeting these needs of its citizens that these became established as rights of men. The day may yet come then, when society discovers that the costs of the present system of obtaining certain durables are too great and that it is in its interest to make some of these also rights of man.