

Over the last decade, the regulatory lag (the popular name for deliberate regulatory process) adversely impacted on utility earnings. As a result, most state commissions began to allow utilities to pass-through fuel costs without prior review by using the fuel adjustment clause. In addition, to keep the utilities competitive in the money markets, most commissions permitted the companies to credit to income an allowance for the use of funds during construction (AFDC). In reality, this is a means of reporting future earnings in the current year. The use of this non-cash item as income has grown dramatically. Consider that in 1965 AFCE represented about 4% of net utility income, but by 1974 it accounted for 31% of earnings (see Table 4).

Table 4  
Earnings for AFDC for  
Investor-Owned Utilities (\$ Millions)

Year	Reported Earnings	AFDC	AFDC as a % of Earnings
1965	\$2,556	\$ 94	4%
1966	2,718	129	5
1967	2,875	189	7
1968	2,960	275	9
1969	3,130	405	13
1970	3,333	594	18
1971	3,774	822	22
1972	4,356	1,095	25
1973	4,851	1,297	27
1974	5,146	1,596	31

Source: Edison Electric Institute. Statistical Yearbook of the Electric Utility Industry, 1974.

The industry increasingly relied on other cosmetic practices as well. Greater use of accelerated depreciation and investment tax credits were used to bolster earnings reports. These practices improved the balance sheet, but did nothing for real earnings or for cash flow. "By 1974, fully 50% of the industry's after-tax income was nothing more than paper profits, compared with a mere 9% in 1965."<sup>5</sup> The industry suffered from a serious cash shortfall, but as long as inflation-expanded construction and operating costs and commissions permitted companies to disguise this problem, reported earnings still looked somewhat favorable. In actuality, utility returns to capital were declining relative to what was required. When those ills could no longer be hidden, investor confidence plummeted. Thus, the industry's plight was further exacerbated; internally generated funds were drying up as well as sources of external financing.

<sup>5</sup>Business Week. January 20, 1975, p. 48.

The Changing Character of  
Utility Financing Sources

In the mid-1960's, external financing accounted for about 50% of the capital expenditures of the electric utility industry; the remainder was provided by internal funds—mainly depreciation of plant and equipment, and earnings retained within the industry (see Table 5).

Table 5

Construction Expenditures and External Financing by  
Investor-Owned Electric Utilities (\$ Millions)

Year	Cash Expenditures for Plant	Net New External Financing			Long-Term Financing as Percent of Construction
		Debt	Preferred	Common	
1965	4,333	1,191	151	103	33.4
1966	5,284	2,318	252	148	51.4
1967	6,517	2,598	453	185	49.7
1968	7,177	2,990	461	326	52.6
1969	8,294	3,727	373	744	58.4
1970	9,987	5,460	1,015	1,411	79.0
1971	11,632	5,234	1,602	2,063	76.5
1972	12,713	4,312	2,104	2,252	68.2
1973	14,038	4,866	1,539	2,548	63.8
1974	15,214	7,772	1,743	1,943	75.3
1975	13,800E	6,494	2,101	3,374	86.7

E=estimated

Source: Federal Energy Administration. National Energy Outlook, p. 277.

Thus far in the 1970's, however, external financing has accounted for approximately 75% of capital expenditures reaching 86.7% in 1975. Remember, the amount of internally generated funds is a relatively fixed proportion of the existing net plant or rate base. The National Economic Research Associates (NERA) has calculated that a utility can internally generate funds equal to about 4-5% of its rate base. When capital expenditures rise to 6-8% of the rate base, a utility can internally produce 50% or more of the necessary funds. However, since about 1969 capital expenditures have risen to 12 or 15% of the existing rate base with no corresponding rise in internal funding. Predictably, this source only accounted for 25 or 35% of capital expenditures, while the rest had to be raised externally.<sup>6</sup> Thus, in only a few years electric utilities have become far more dependent on external funds for financing their

<sup>6</sup>Prepared statement of I. M. Stelzer & H. G. Roseman, National Economic Research Associates, Inc., Before the United States Senate Committee on Interior and Insular Affairs, Washington, D.C., August 7, 1974, p. 22.

capital expenditure programs in both relative and absolute terms. But forces have converged to constrain the utility industry's ability to successfully issue debt (bonds) and sell its equities—both preferred and common stock.

Debt—In order to better understand the industry's bond market-ability problems, it is vital to be familiar with the "coverage ratio" concept. This is a measure of a utility's ability to cover its existing interest obligations with its revenue from electricity sales. Financial rating agencies (Moody's and Standard and Poor's) heavily rely upon this ratio when evaluating the quality of utility bonds.

Thus far, throughout the 1970's, utility coverage ratios have declined to dangerously low levels followed closely by a steady downgrading by the rating agencies of utility bonds. This phenomenon has occurred for at least the following three reasons. First, general interest rates rose rapidly. From 1965 to 1974 the average yield on new utility bonds increased from 4.6% to 9.7%.<sup>7</sup> The resulting interest obligations exceeded the growth of utility revenue from sales. Second, falling bond ratings require higher interest rates to compensate the potential investor to assume the added risk. Third, several billion dollars of 3 and 3½% bonds are maturing and must be refinanced at rates three times higher.

All of the above have conspired to drive the interest rates on new bonds up and the coverage ratios down, and this gets to the very heart of the utility industry's bond marketing problem. Earlier utility bond issues have provisions which prohibited issuing additional bonds when the coverage ratio falls below a given level, usually 2.0. Many utilities are rapidly approaching or have already reached the point where they are legally prohibited from selling new bonds. Many companies do not earn enough revenue to cover their high interest obligations on their new bond issues and have put relatively less reliance on this external funding source.

Preferred Stock—In an effort to overcome the debt coverage problem, many utility companies in 1969-1970 began to move heavily into selling stock (equity) to meet their capital needs. Preferred stock was emphasized because of what at the time seemed to be a relatively poor market for common stock. Traditionally, these new money issues were viewed as the most expensive form of financing because utilities are not permitted to deduct dividend payments from their taxes as they can with common stock dividends. On the other hand, preferred stock offers tax advantages to investing companies.

While the above appears favorable for the use of this external funding source, many utilities are approaching the limit on the quantity of preferred stock they can issue. Preferred stock levels are set

---

<sup>7</sup> Federal Energy Administration. National Energy Outlook, Washington, D.C., February 1976, p. 280.

by the company's articles of incorporation or by the provisions of existing preferred issues. Utilities have become constrained in what they can issue and investors have become wary of what is available.

Common Stock—Thus, the marketing of common stock has become the safety valve in utility financing. Sales of new common stock have increased from \$103 million in 1965 to \$3.4 billion in 1975. However, the market for these external funds has, over the last decade, substantially weakened due to the industry's poor earnings performance and declining rates of return. These forces have converged to produce new lows for utility stock prices.

Potential investors will shy away from stocks that show an erosion of past investor capital. By not providing competitive returns, the future marketability of common stock is in jeopardy.

#### The Utility Industry Response to Financial Difficulties

The electric utility industry is highly capital intensive. On average, for every \$1 of revenue it receives, utilities have \$4 of capital investment. By comparison, the steel industry averages \$1 of revenue for every \$1 of its plant investment. Thus, utilities are highly dependent on internal and external sources of financing and thereby, extremely vulnerable to economic conditions. Clearly, the combination of inflation, high interest rates, a slow-down in real economic growth, and a legitimate electricity conservation ethic all combining with additional capital requirements to satisfy environmental standards and the move toward constructing very expensive nuclear generating capacity have placed electric utility financing into disarray.

While many schemes have been promulgated from both the industry and government, three major sources of relief have been pursued. First, utilities have sought and been granted unprecedented general rate increases intended to improve company earnings and thereby cure a multitude of internal and external financing ills. Companies complained that their rate requests were not fully granted and, in any case, were not decided quickly enough. However, several of the negative economic forces have moderated (inflation, interest rates, general economic activity and electricity sales), and in light of these recent rate increases, utilities could shortly find themselves in a strong financial position. Both consumers and regulators should be alerted to that possibility and begin to plan for rate decreases.

The second industry response has been to cancel or postpone the construction of new generating facilities. A variety of reasons were reported for delays in construction including financial, problems with equipment, labor, licensing, legal challenges, etc. Plant delays bring up the question of future reliability of systems and their ability to adhere to the regulatory mandate to provide necessary power in a defined geographic area.



Lastly, utilities have been in the forefront in the debate to ease environmental standards. It would appear that the industry is concerned about the cost of compliance with more stringent environmental standards during the 1975-1985 period.

### Utility Rate Structures

Despite construction delays and attempts at easing environmental standards, the most effective way of injecting revenue into a utility company is through a general rate increase. While the recent unprecedented rate hikes have affected all customer classes, the most vocal and heavily impacted has been the residential and within that group, the low income and elderly.

The primary reason for this severe impact stems from the way utility rates are structured. Presently, the industry, all levels of government, regulators, the courts, and concerned consumer groups are engaged in a re-examination of how utilities price their power to their customers.

Traditionally, the electric utility industry has structured their rates with declining blocks. Simply, this means that customers are billed an initial service charge followed by a decreasing price per KWH for each additional block of electricity consumed. During the industry's expansionary-decreasing-unit-cost phase, declining block rates were on firm economic ground. The cost of adding capacity (marginal cost) was declining per unit and was below the average cost of the existing capacity; therefore, offering discounts for additional consumption costs made sense. However, when construction costs began to accelerate in the 1960's, the industry lost its return to scale efficiency. Marginal costs turned upward and now surpass average costs by about 20%. Declining block rates have lost much of their economic justification but are still the overwhelming rate structure employed.

Obviously, the relatively smaller user—the residential class—must pay a higher average rate for each KWH consumed.

One rate structure discussed is flat rates. Under this structure, each KWH sold would be priced equally to all customers. Rates, in fact, are flattening. Since fuel costs are passed through equally on all customers, this has had the effect of equalizing the per KWH cost. In addition, commissions have begun to recognize the phenomenon of marginal costs rising above average costs in their deliberations and are granting larger rate increases on larger users.

Inverted rates price electricity at higher rates as consumption increases. Seattle City Light, the second largest municipally-owned electric utility in the United States, implemented an inverted residential rate in November, 1974. While theirs is a mild form of inversion, it does provide a price signal to those wishing to increase consumption.

Lifeline rates have received a good deal of attention at all policy levels. Essentially, a lifeline rate is designed to provide a basic amount of electricity at a low rate per KWH. Thereafter, the rate increases as consumption rises, much as an inverted rate. For example, the first 400 KWH a month could be priced at 2.5¢, or \$10 per month, with the price per KWH rising to, say 4¢, for the next block of power. Such a rate is adaptable and able to reflect unique area situations. A city council decision in Yellow Springs, Ohio; a legislative and regulatory ruling in California; and a limited experiment signed by the Governor of Maine all put into effect a form of lifeline rate. In addition, at least 28 separate lifeline bills were introduced in 17 state legislatures in 1975.

Perhaps the most significant activity presently occurring in the reformation of utility rate structures is in the area of cost based rates, or more popularly known as peak load pricing. Utilities must provide power on demand; however, the demand is not constant, so utilities must build sufficient generating capacity to meet electricity demand when it is greatest. The most widely-used measure of a utility's degree of capacity utilization is its load factor. This simply is the ratio of a system's average hourly demand to its hourly load during its peak demand time. Constant capacity utilization would yield a load factor of 100%; in 1965 the industry's load factor was 65% and has slowly deteriorated to 61% in 1975 (see Table 6). Low load factors indicate that utilities are carrying a large, costly, and inefficient portion of capacity that is being used only a few hours each day.

Table 6

## Historical Load Factor

Year	Load Factor
1965	65.0
1966	64.7
1967	65.3
1968	63.5
1969	64.1
1970	63.9
1971	63.2
1972	62.5
1973	62.0
1974	61.2
1975	61.0E

E = estimated

Source: Edison Electric Institute. Statistical Yearbook of the Electric Utility Industry, 1974.

Peak load pricing, therefore, would charge a lower rate for electricity off-peak and a higher rate on-peak. The important point about peak load pricing is that it would create incentives to use available capacity more efficiently (improve load factors), eliminate a system of pricing that encourages greater consumption, limit the growth of peak demand, reduce the need for building, and moderate the need for general rate increases.

Great interest in peak load pricing abounds both within and outside the industry. The FEA has, in the last year, participated in regulatory proceedings before utility commissions in 10 states to advocate the phased implementation of this pricing form. Also, the Office of Energy Conservation and Environment in the FEA is funding a series of electric utility rate reform and load management demonstration projects. These projects are testing consumer reaction to, and utility benefits from, different peak load rate formulas. In addition, the Electric Power Research Institute (EPRI) and the Edison Electric Institute (EEI) have jointly undertaken a comprehensive rate design study at the request of the National Association of Regulatory Utility Commissioners (NARUC). This study emphasizes the control and management of peaks. This effort, as well as the FEA activities, will provide much needed data and analysis on the way power is to be priced in the future.

Utility Rate Reform vs.  
Consumer Rate Relief

The electric utility industry is slowly moving away from its traditional pricing practices as it recognizes new economic realities. While there is much evidence to suggest that rate reform is necessary, the industry will move cautiously, embracing reform as a long-run solution to its financial well-being. Although peak-load pricing or other innovative rate structures may be beneficial to the residential ratepayer, many in this customer class, particularly the poor and elderly on fixed incomes, simply cannot wait for the long-run. Their problems are immediate and related to the erosion of income by general and energy inflation. It appears that like rate reform for the industry, broadly implemented consumer rate relief will not occur in the short-run.

The bottom line for us all is economic stability. This is certainly true for the utility industry when it considers its access to internal and external funds, and equally true for the consumer in terms of income and employment. We, as a nation, should be confident that the electric utility industry will survive their recent financial difficulties but at the same time we should strive to insure timely and equitable rate relief for the millions of residential consumers who have been so desperately impacted.

## SYSTEMS APPROACH TO FAMILY MONEY MANAGEMENT COUNSELING

Charlotte V. Churaman, Ed.D.  
Assistant Professor  
Family and Community Development  
College of Human Ecology  
University of Maryland  
College Park, MD 20742

### Specialized Systems vs. General Systems Approach

The idea of using "a system" has always been at the heart of money management. Accounting, an information system that reveals the stock or flow of money has been used realistically by some families, but counselors have found that many families in deep financial trouble face their first attempt to "get it all together" when they schedule an intake interview (Pease, 1975).

A growing number of scientists from widely varying fields of study have turned to general systems approach as a means of unifying what at first seems to be widely differing concerns. System analysis is both a body of knowledge and a particular way to organize knowledge (Kuhn, 1975, 10).

The discussion which follows summarizes the rationale developed through preparation for leadership in two summer workshops sponsored by the Department of Family and Community Development, College of Human Ecology, at the University of Maryland. It is part of the ongoing program development in a Department seeking a holistic way to view and work with families, and a way to maximize the talents of an inter-disciplinary staff. Part of the rationale has been put together inductively from literature of family financial and consumer behavior and money management.

In order to examine the generality and the application of systems thinking to counseling, certain key concepts from the theory of natural systems will be traced to show how they related to design of new behavior patterns. A series of questions will be dealt with: (1) What is general about systems? (2) What is the potential contribution of systems thinking? (3) How can we focus on action systems? (4) How can we conceptualize family handling of money? (5) What makes a system manageable? (6) How do we get a dynamic view? (7) Where does the counselor come into the picture? (8) Can the systems approach provide a view of the world of counseling?

### What is General About Systems?

Laszlo (1975, 13) has suggested that "general system theory" might more accurately be termed a "general theory of systems"; there is

no such thing as a "general system"; however, systems of diverse kinds have some recognizable properties that may suggest relationships and provide a guide as to the right questions to ask.

In applying general theory of systems to real life, we assume that:

1. The whole is more than the sum of its parts. It has some properties of its own.
2. The parts of a system are interrelated, so that a change in one part produces a change in other parts.
3. An understanding of a system can be enhanced by viewing its supra-system and its subsystems.
4. The science of natural evolving systems provides the basis for man-made artificial systems.
5. The person applying a systems approach makes arbitrary choices concerning boundaries and depth of detail which will serve his purposes. He does not begin with "this is the system."

Kuhn (1975, 10) classifies the systems of interest to the social scientists as (1) action or human, and (2) pattern. The ecologist would include chemical, biological, and physical. Money management would be concerned with action or behavior such as searching for information, paying bills, discussing priorities. Some relevant pattern systems might include the language and mathematics involved, or the theories and models of acting systems. Kuhn would consider value systems, beliefs, as pattern systems. While work with a particular material good or energy might require understanding of chemical or physical systems, we will not consider such within the scope of this paper.

Kuhn also makes another distinction which may be important—the difference between real and abstract systems or images. Elements of real systems consist of matter/energy. These can be linked by information, but cannot consist of it. A pattern system has elements consisting of signs or concepts (Kuhn, 1975, 24).

Where do we draw the line? What is the basis upon which the investigator establishes the boundary which separates system from environment? According to Kuhn, it may be: (1) Spatial—e.g., include all the people that live in one house. (2) Functional—e.g., where the father and grown daughter in a given family may hold jobs and earn money while the mother and two younger sons do not, only father and daughter would be included in an "income-earning system." All five, however, are presumably in the "income-using system." (3) Analytical—e.g., this includes all those components of interactions that can be analyzed and understood by using a particular kind of science or a given kind of analysis such as economics or law. Functional and analytical boundaries sometimes merge or overlap.

To bound a system, it may be necessary to identify its level in relation to other systems. You are a system of your own; you are also a part of a family, profession, or city. At the same time, you have subsystems within you. The hierarchical nature is important.

The options available rightly suggest the question: What is the most useful system of interest? Is it the household? The extended family? The members who share resources? Or might a particular problem situation be clarified by recognizing two overlapping systems? The question is not one to which we can provide one immediate clear answer.

Boundary issues then include: identification of (1) an appropriate criteria for establishing a boundary, (2) level in relation to other systems. Answers to these two questions make clear the system of interest and place it in a hierarchy.

The issue of openness-closedness of a boundary is relative. Real systems require fresh input from the environment. Analytical systems are oversimplified; the inputs and outputs are specified, and those which are irrelevant are excluded.

Sociologists or psychologists look at family subsystems of individual family members, roles or dyad relationships. Family or consumer economists, on the other hand, find it useful to draw functional boundaries for areas of concern such as feeding the family, housing, family transportation or for task areas such as decision making, shopping, bill paying, etc. Change agents and managers draw boundaries to identify processes. These examples serve to illustrate the arbitrary nature of drawing the line of the boundary, and re-emphasize that there is no general system, only a general approach.

#### What are Potential Contributions of Systems Thinking?

Harries (1975, 9), a systems and information processing consultant, discussed the following contributions of systems thinking in his presentation for a Money Management Counseling Workshop:

- overcomes compartmentalization of knowledge
- provides a basis for understanding matter/energy transfers
- provides a basis for comprehending what is going on between the organism and its environment
- provides a general framework applicable at many levels:
  - one person, family, organization, etc.
- provides a tool for thinking in terms of: process, relativity, all-at-onceness
- helps one to see one's self as the active agent
- helps one to generate questions relative to a task
- forces one to clarify assumptions
- serves as a framework for analysis, whether or not it is presented in a visible way



### How Can we Focus on Action Systems?

Kuhn (1974, 47) presents his conceptualization of the basic information processing which occurs as human interaction with environment (see Figure 1).

- A. Detector provides information about the state of the environment. This corresponds to knowing.
- B. Selector compares the state with the goals of the system and selects an appropriate response. This corresponds to wanting.
- C. Effector receives instruction from the selector and carries out the instructions. This corresponds to doing.

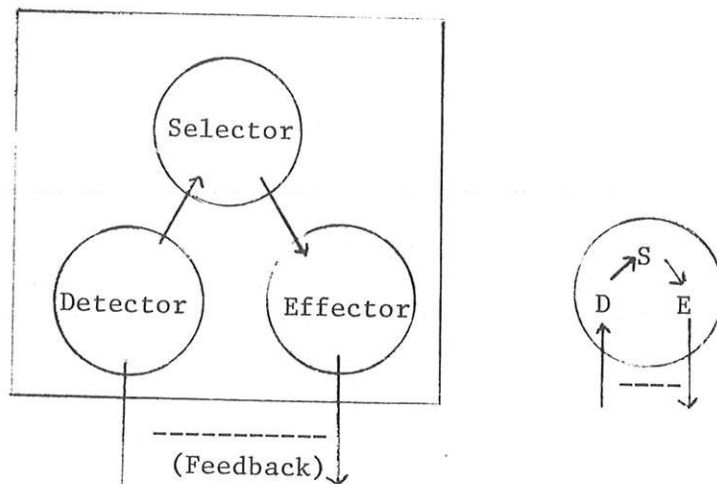


Fig. 1. Human System or Other Controlled System Interacting with Environment

In a continuing system capable of learning (D) the Detector may provide feedback information about the state of the environment following the previous action. (E) The Selector compares the new state with the system's goals and selects an appropriate, possibly corrective response (F), the Effector receives new instructions from the Selector and carries them out.

Unless the outcome of this step leaves everything as it was at Step A, this sequence produces a developmental change in the system, the environment, or the relation between the two (Kuhn, 1974, 47). In an ongoing system, the cycle may be repeated indefinitely, the steps merge indistinguishably. This might be visualized as a spiral effect, if developmental. While we may experience a "vicious circle" if things remain at some unproductive constant level, we should not overlook the extent to which we rely on good habits.

Negative feedback refers back to the Selector and accounts for self regulation by helping to correct for deviations. We might experience this as being "in the groove" when a satisfactory stability is experienced or "in the rut" if it is not viewed favorably.

Positive feedback is the contrasting term applied to information which amplifies deviation and which is associated with an actual change or refocusing of goal or direction.

Kuhn suggests that "to analyze complex behavior in complex systems, certainly including humans, it may be necessary to move to the second level DSE's to deal adequately with the main state of the main level DSE's. In that case, the same six steps would be analyzed within each of the first level DSE's" (Kuhn, 1974, 47). Kuhn represents the different levels of DSE by showing that the Detector itself can be considered as having a detector, selector and effector function. Likewise, so can the Selector and Effector stages be more clearly conceptualized by recognizing a detector, selector and effector function within.

#### How Can We Conceptualize Family Handling of Money?

There is some hesitancy in applying the term "money management" until further clarification is made. "Handling of money" might be more descriptive of "what is" while "management" has normative implications.

A family or group might be established on the basis of personal attraction, the sharing of goals and resources in carrying out tasks, or both. The failure to cultivate both and maintain them at a satisfactory level may cause disruption and breakdown of the system.

Deacon and Firebaugh in the 1975 textbook, Home Management: Context and Concepts, modified an earlier model in order to make the interrelationship between personal and managerial activities of the family more visible and the deductions from general theory more explicit (see Figure 2). The personal subsystem is concerned with psycho/social

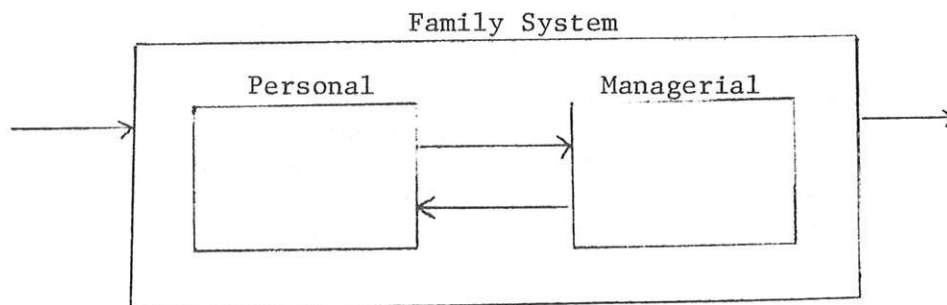


Fig. 2. The Interaction Between Personal and Managerial Sub-systems of Family System

needs and the managerial subsystem with goods, services and environmental conditions of the home. (I am tempted to call them peoplemaking and homemaking.)

The model shown in Figure 3 elaborates the process components of management: planning and implementing and integrates some of the concepts from Kuhn's model.

Planning is the process which involves bringing together and/or generating enough information to create a pattern or image that may be used as a basis for action. It follows the detection of a situation requiring attention. The values of the personal subsystem are brought to bear in selection of a course of action.

Components of planning listed by Firebaugh and Deacon are: (1) standard setting, and (2) sequencing. I will add (3) assigning resources (Steidl 1971, 99) and (4) detecting facilitators.

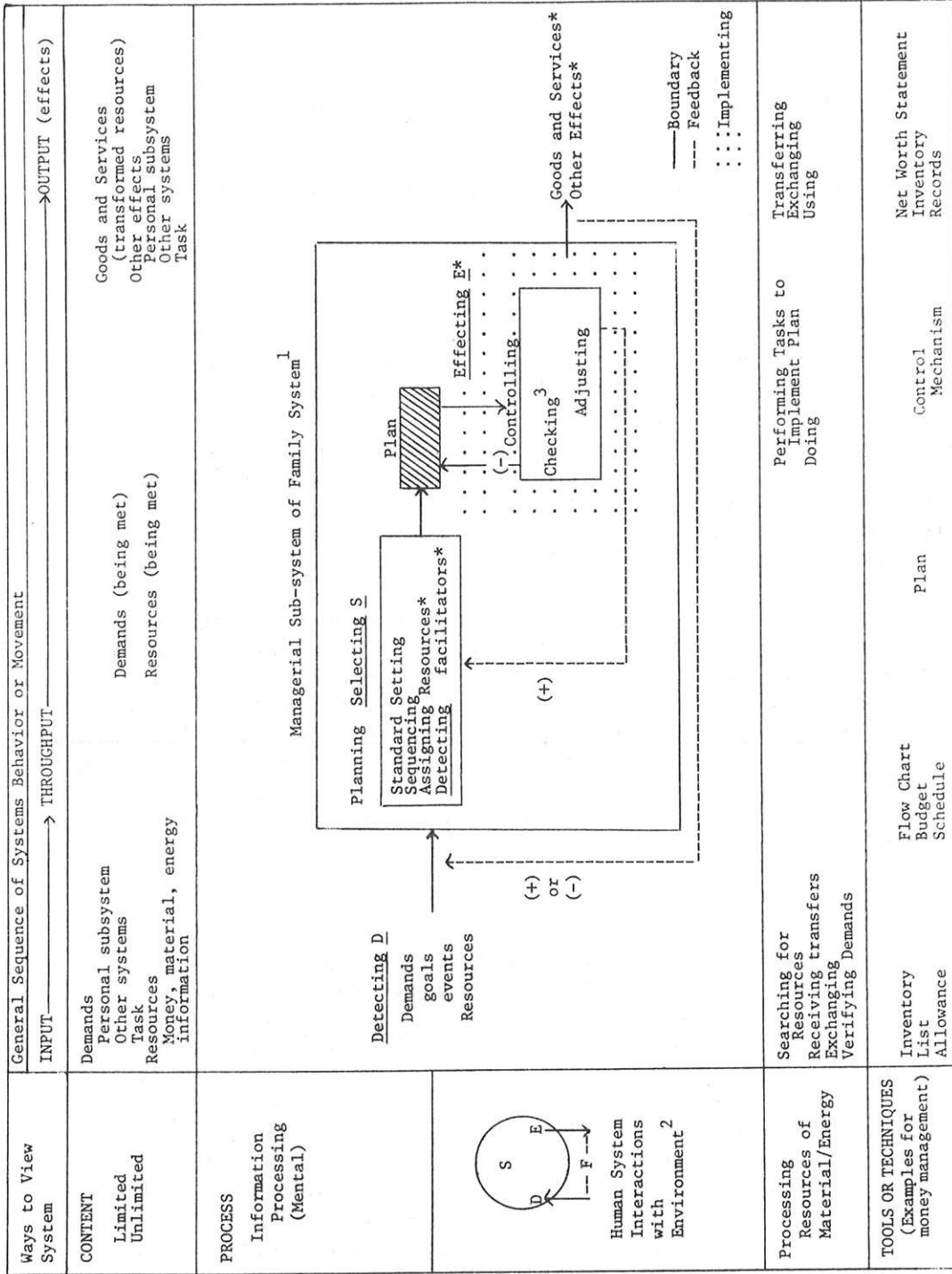
Implementing, the second subsystem, is largely action or effectuation, as Kuhn would call it, but information processing continues and provides the means of controlling the plan through feedback. Checking to see that things are proceeding according to plan is accomplished through "negative feedback." When new information is detected (as in recognizing an opportunity or in becoming more sensitive to one's own selector system) the course may be modified through so-called "positive feedback." This would, by implication, mean that changes will be sought in standards, sequencing or assignment of resources.

The basis Detector-Selector-Effector pattern in human behavior is reflected in the design of a management system. While each of the DSE elements is predominant in a particular component of management, all can be recognized and developed throughout.

#### What Makes a System Manageable?

An examination of the model might lead us to recognition of some essential properties of a manageable system.

1. A pragmatic boundary delimits a system of interest which has a purpose to be served.
2. Inputs are designated on basis of whether they serve as Resources or Demands. By implication: There must be resources recognizable as related to the purpose, or at least seed money to invest in exploration and development. Irrelevant input is disregarded. Too much conflict in demands may lead to paralysis of system or to working at cross purposes.
3. There must be control. A controlled system can maintain at least one variable within some specified range.  
(Kuhn, 1975, 14)



<sup>1</sup>Firebaugh and Deacon model with modifications noted at \*.  
<sup>2</sup>Kuhn model: D = detector, S = selector, E = effector.  
<sup>3</sup>Checking uses negative feedback to correct for deviations. Adjusting uses positive feedback to revise plan.

Fig. Model for Selecting or Integrating Approaches to Managerial Counseling

4. There is a time dimension and most usually a space dimension.

When is a person a manager?

1. There is desire for control and/or a willingness to devote some attention and energy to it over a period of time.
2. There is processing of relevant information.
3. Information must be communicated to persons performing the tasks (self or others).

How Do We Get a Dynamic View?

Webster defines Process as "any phenomenon which shows a continuous change in time" or as "a series of operations definitely conducting to an end." Content is defined as "the sum and substance."

A dynamic approach to family money management calls for something more than net worth statements and certain demographic information about the family. How does the family pay the bills? How often? Do they discuss money matters? Is their current situation part or a regular pattern, or is it exceptional?

The managerial action model identifies process components which must be accounted for. The content to be processed (money, materials, human energy, other energy and information) would be viewed dynamically as throughput. The manager may need to monitor the rate at which resources are being depleted when a process is carried out. Such money management techniques as periodically checking cash flow, assessing the amount of money being drained off in service charges and making provision to accumulate funds to meet unusual demands, are activities dealing with these dynamics.

Boulding raises an issue relevant to output:

There are some very tricky and unsolved problems involved in the question as to whether human welfare or well being is to be regarded as a stock or a flow. Something of both these elements seems actually to be involved in it, and as far as I know there have been practically no studies directed toward identifying these two dimensions of human satisfaction. Is it, for instance, eating that is a good thing, or is it being well fed? Does economic welfare involve having nice clothes, fine houses, good equipment and so on, or is it to be measured by the depreciation and wearing out of these things? I am inclined myself to regard the stock concept as most fundamental, that is, to think of being well fed as more important than eating and to think of so called services as essentially involved in the restoration of a depleted psychic capital. (Boulding 1966, p. 13)

Though the personal and the managerial sub-systems are separated so that each may be considered separately for clarity, in real life they are complexly and dynamically interrelated throughout. An individual who is a human resource by providing energy and information for task accomplishment is no less a friend or lover; money that is a resource still has symbolic meaning for most people. The model allows for the recognition and analysis of such practical and theoretical issues, and through its cyclical nature makes it possible to predict the long range effects of continuing particular behaviors. (Ex., wife spending money to get even with husband, or one family member feeling "used" if he feels that there is too much demand for his resources of time and energy.)

Where Does the Counselor  
Come into the Picture?

Figure 3 summarizes this discussion. As such, it might provide a model for selecting and integrating approaches to managerial counseling.

The counselor immediately becomes a processor of information. He may begin to sort out what family members tell him, and what he observes, in order to get a dynamic view of the family system so that he can identify possible leverage for change.

When I have talked with students or counselors in training, after presenting the systems model, they frequently ask "Isn't the counselor a 'facilitator'?" This function would allow family members to maintain the responsibilities and choices which are their's. I would broaden the concept of facilitator a bit beyond that employed by Firebaugh and Deacon to suggest that the counselor could be a facilitator for family processes at any point of the management cycle, raising consciousness in detecting, selecting, effecting and using feedback.

Figure 3 makes distinctions between content, process, and tools or techniques, and shows how each is viewed in relationship to the sequence of input, throughput, and output.

In our Maryland workshop, resource speakers who were counselors or counselor trainers, represented approaches which differed in priorities, philosophies, methods of outreach, procedures and depth of involvement with the total family system. An area Pastoral Counseling program and a County Extension Program for low income families could be clearly identified as general money management counseling. The Consumer Credit Counseling Service program which has a national identity for debt counseling is seeking to broaden its effectiveness in preventive education. A Family Service and a County Social Service program representative identified their involvement with money management problems of clients, one in general counseling and one in helping families secure housing. A bank manager likewise identified some counseling being done as people seek bank services or as they run into difficulties.

When a family comes to the Financial Crisis Clinic conducted by Dr. William Buckner of Long Beach, California, students explain the



program, and help family members sort out and list: Income, Essential Living Expenses, Assets and Obligations. The summary is put on a large flip chart for later use. Dr. Buckner takes the lead in actual counseling, occasionally incorporating ideas from the student who has worked with the family. On the wall are two posters used in helping the family view alternatives in meeting their obligations so that they can make a final choice themselves. One poster says: "Four Things Can Happen. (1) harassment (2) cut in services (3) repossession (4) legal action." As these are discussed, it is possible to identify debts that will present the most serious and unwanted consequences and to get a progress report as to what has happened to date. A second poster reads: "What You Can Do About Your Debt. (1) do nothing (2) negotiate with creditors (3) CCCS (Consumer Credit Counseling Service) (4) Chapter XIII (5) Bankruptcy."

Two programs of money management counseling were observed recently by the investigator. Consumer Credit Counseling Service in Los Angeles and Phoenix have developed techniques for sequencing of repayment of debts.

Families who come to Phoenix Debt Counselors have completed an application and a worksheet of information. The first part of a counseling interview is for a brief introduction. The attention then moves to review and discussion of sources, amount and timing of income. The counselor reviews the family estimates of living expenses, assesses how realistic they are and notes types of reductions that have been considered or that might be examined. A total is calculated and the money left over is then examined in terms of how it might be prorated among the creditors. (I was told that rarely if ever can adjustments be made with mortgage and car payments). The counselor uses a calculator to compute tentative amounts that might be acceptable to each creditor. I noted the following criteria for the sequencing of payments: pay off high interest debts first, or negotiate for a reduction or waiver of some of the charges; pay some small bills early to reduce the number of different creditors and to help the client feel some progress; check with creditors who had taken procedures for collection before consulting less pressing ones; check early with creditors whose cooperation has not been established.

The counselor and client come to a tentative agreement on amount that must be set aside regularly for debt repayments if it is not possible to verify all of the information or get complete information during the interview and work session. Some clients elect to carry out payments themselves after they have done this planning with CCCS counselors. A date for the first payment is established and the client fully acquainted with the procedures which will be carried out.

The management of the program is facilitated through computerized writing of checks, detailed monthly statements, and notification of creditors concerning the details of the transaction as reported to the counselor and the proposed repayment plan. The counselor still holds the responsibility for designating the amounts to be paid to each

creditor and for regular monitoring of payments. There are decision points along the line. As one bill is paid off, the amount that had been prorated for this bill is usually used to reduce another account.

The basic procedures at Los Angeles are the same. This city has several outreach centers, but all record keeping and business is done through the main office.

The three programs all concentrate primarily on crisis resolution that may have resulted from poor management. All try to get an overview of assets and liabilities. They concentrate much of their efforts on helping the family understand transactions with business, financial institutions and other community resources. The CCCS's provides the direct service of controlling and implementing repayment of debt for those families who elect the pro-rate program, because they do not feel they have the will power to do it, because they are so frustrated at the mess that they need responsibility simplified for a time, or because arrangements would not be approved by creditors were they not handled through the CCCS.

In both types of counseling programs, the procedures had been carefully formulated, tested, modified and standardized so that working papers could be produced, the method could be taught, and all persons working in the program would know the procedures and the philosophy. There is some discontinuity between the handling of immediate crisis and helping these same families improve long range management. This gap is recognized. At Long Beach, the student interns with an academic background in home management and family economics do some individual follow-up, counseling and consumer education. One experienced counselor at Phoenix has recently been assigned to the development of the education program. Plans are being made in Los Angeles to open up a new education center for classes and interest meetings for clients or others who seek preventive measures.

Schiller has raised an issue concerning the effects of having families who are making application for counseling collect information and list all debts before they make their first personal contact with the counselors. It is likely that a view of the whole picture does make some people who need help conclude that their situation is hopeless. An examination of the larger community network of service systems might provide some clues as to how appropriate help can be sought before self-screening occurs.

There are different philosophies as to whether to raise the discussion of goals as well as problems in the shorter counseling programs, though some counselors feel that this discussion is a natural way to understand basic motivation.

With the introduction of electronic funds transfer systems (EFTS) preauthorization for payment of utility bills, automatic deposit of Social Security checks, insurance payments and wages, families will become more and more involved with new processes and direct services for

handling money. Money is becoming more and more invisible; the concrete experience of relating a quantity of money with a quantity of goods or services is becoming remote. The essential responsibility and opportunity remaining for families is that of making key decisions and building coordinated plans so that they can keep track of where their money is going and of the cost they incur in the process. In Santa Barbara, California, I observed people using terminals in grocery stores and I talked with bankers about the new services which are made possible when automatic clearing houses are set up. I would hypothesize that awareness of managerial decision points and use of information in management will be the important intervening variable that distinguishes consumer satisfaction and dissatisfaction with these services.

Computer services of another type are in use by some counselors of low income extension programs in the Expanded Food and Nutrition Program as well as in general use. Routine calculations and information can be programmed so that the questions and problems of families can be answered. This can expand the service load of counselors, and allow them to be more concerned with the personal and managerial process during counseling.

The counselor who understands family dynamics, can focus on a part, and not lose perspective of the whole.

#### Can a System Approach Provide a View of the World of Counseling?

By looking at family money management as a system, it is possible to develop a typology of counseling approaches, based upon identifying information in systems terms and then following through to ways to cause a desired change. Some examples are given in Figure 4. For example, Debt, one of the frequent reasons for seeking financial counseling, would represent undesirable outcome of past management. The suggested approach, if the problem is critical, is to move forward considering debt as a demand and proceeding to develop a plan for debt management. In due time, the counselor might help the family identify patterns of behavior, not to place blame, but to gain information concerning processes that should be changed.

The long range development of money management counseling will be affected by the tremendous philosophical differences concerning the basic way we should go about helping people change. One extreme view of man would lead us to think of family problem solving and actions as growing out of the psycho-social subsystem and that if people are emotionally healthy, they will be able to cope with their everyday affairs. The opposite extreme would be the view that if people learn to be effective in their life skills, they will be healthier and happier. The ecological model would put a premium on dealing with problems in a holistic way, taking into consideration both of the aforementioned possibilities since the psycho-social and managerial subsystems continually interact.

Problem or Goal Information Presented	System Focus	Suggested Approaches and Emphases	General Type
<p>Examples:</p> <p>Debt of \$3,500 12 creditors revealed from gathering all bills</p>	<p>Demand on Planning and Controlling</p>	<p>Establish standard for necessary living expenses Sequence payment of debt Assign resources Look for facilitators Design Control Mechanisms</p>	<p>Remedial or Crisis</p>
<p>"We don't know where our money is going."</p>	<p>Inadequate information for feedback</p>	<p>Keep records awhile Design data system Clarify goals as basis for planning</p>	<p>Management Information</p>
<p>Family Arguments About Money</p>	<p>Interaction between personal and managerial subsystems</p>	<p>Work through some specific incidents to get data on. behaviors, outcomes and resulting feedback</p>	<p>Family System</p>
<p>How do I use the new automatic terminal for handling funds? Will it help me?</p>	<p>Potential information for implementing funds trans- fer</p>	<p>Clarify how Planning and Con- trolling can be facilitated Provide information about the service, its costs and bene- fits as basis of decision making</p>	<p>Consumer Education Consumer Decision Making</p>
<p>Family gets food stamps; Children look poorly nourished</p>	<p>Entire management cycle Verify standards</p>	<p>Look at food expenditures as a subsystem of family management, defining each element</p>	<p>Ecological System</p>
<p>"We're planning to be married; we'd like to start off right."</p>	<p>Goals</p>	<p>Look at overall management of money with emphasis on clari- fying processes and developing information system</p>	<p>Management System</p>

Fig. 4. Developing a Typology of Money Management  
Counseling Approaches

The management process model may find general use by the counselor who employs it both to view the family and to view his way of working with them. He may or may not use the model as a teaching device in a way obvious to the client. Systems terminology is becoming very much a part of our everyday language, however, as more people have experience with computers in schools, jobs and personal transactions with businesses and financial institutions. This should facilitate family understanding of their own information processing and management and should facilitate communicating with them concerning it.

### Summary

The managerial system model provides a framework for a money management counselor as an information processor to begin to organize data relevant to a client family, starting from the problem or goal information presented. He defines the boundaries of a system of interest, or in some instances two or more overlapping systems. The nature of the problem or goal may initially determine the time frame to be considered.

Detector-Selector-Effector is a general natural mechanism, characterizing human interaction with both social and physical environments thus providing a basis for describing and designing changes in interpersonal and managerial behavior of a family.

In managerial counseling, the strengthening of the client's detector mechanism might be likened to "sensitivity training;" the client and counselor are becoming sensitive to family motivation and response patterns, resource content in the environment, and to the demands of the money management tasks.

Counselors are concerned with content, processes and tools of the family members they are trying to help. In addition, they are concerned with their information processing styles.

A family system framework makes it possible to see how parts are related to the whole context of on-going family behavior and family welfare. The counselor, as facilitator, may come into the picture at any stage of the money management process; in some instances he may provide a direct service. Pro-rating of payments and computerized information services were cited as examples of direct services.

In conclusion, the model presented assumes: (1) the task of the counselor is to facilitate the family's own active control of factors influencing economic welfare; (2) it is more important that there be management that works, than that there be any particular type of management system, or that family members play particular roles in planning and implementing; (3) direct focus on the family money management system, in itself, will be one means of creating a shared experience for family members to help them to gain new insights into how they work and get along together and how they deal with the reality of the economic world.



## REFERENCES

- Boulding, Kenneth. The Economics of Coming Spaceship Earth: Environmental Quality in a Growing Economy in Essays from the Sixth Resources for the Future Forum. Henry Jarrett (Ed.), Baltimore, Md. The Johns Hopkins Press, 3-14 (1966).
- Bratton, Esther C. Home Management Is . . . Boston, Mass.: Ginn and Company, 1971.
- Buckner, William. From observations at Counseling session, Long Beach, California, February 12, 1976. Description of program, see Buckner, William. Family Counseling in Financial Crisis. Talk given at Western Regional College Teachers of Home Management Meeting, November 15, 1974, Reno, Nevada.
- Churaman, Charlotte V. and Martha L. Garrison. Family Money Management Counseling: A Systems Approach. Proceedings of a workshop, Department of Family and Community Development, College of Human Ecology, University of Maryland, June 2-13 and July 7-11, 1975.
- Deacon, Ruth and Firebaugh, Francille. Home Management: Context and Concepts. Boston, Mass.: Houghton-Mifflin, Co., 1975.
- Harries, Thomas E. From notes from a presentation on General Systems and Human information Processing, reported in Churaman above.
- Kuhn, Alfred. The Logic of Social Systems. San Francisco: Jossey-Bass Publishers, 1974.
- Kuhn, Alfred. Unified Social Science: A System Based Introduction. Glenwood, Ill.: The Dorsey Press, 1975.
- Laszlo, Ervin. The Meaning and Significance of General Systems Theory, Behavioral Science, 20:9-15, 1975.
- National Foundation of Consumer Credit. Plans and Working Suggestions for Organizing Non-Profit Consumer Credit Counseling Services (1967) (being revised), pp. 40-41.
- Pease, Harold. From panel discussion reported in Churaman above.
- Schiller, Marjorie Kabot. The Development of Selected Consumer Credit Counseling Services and Their Impact on Family Units from 1967 to the Present. Unpublished master's thesis, University of Connecticut, 1975.



## CONSUMER EDUCATION: THE UNKNOWN LIMITS

Herbert M. Jelley  
Oklahoma State University

Charles Dickens began A Tale of Two Cities by describing the period as follows:

It was the best of times, it was the worst of times,  
it was the age of wisdom, it was the age of foolishness,  
it was the epoch of belief, it was the epoch of incredulity,  
it was the season of Light, it was the season of Darkness,  
it was the spring of hope, it was the winter of despair, we  
had everything before us, we had nothing before us.

I suppose consumer education in the 1970s might be described by borrowing Dickens' words. In many ways these are the best of times for consumer education. Hasn't President Ford recently added a fifth right to the consumer's bill of rights—the right to consumer education? Isn't this the age of wisdom? Or are we in some ways struggling through an age of foolishness?

I certainly want to believe that in this time of change we can look to the future of consumer education with optimism. We face some challenges—challenges that offer genuine opportunities. I have five of them in mind.

First, I see a difference in society. I see a clearer recognition of the need for consumer education. Second, I see a difference in our young people. They are more knowledgeable about certain things. They've had opportunities to learn from the media. They are more open—perhaps more honest. Third, I see a difference in teachers who teach consumer courses. They are better prepared and more committed. Fourth, I see a difference in the content of consumer courses. Our needs for this sort of education are not only more urgent, but also much broader now. Fifth, I see a difference in teaching-learning materials and in teaching methods. I will say some things about each of these five points.

### A Difference in Society

We have recognized in the United States the need to include in our education for the masses, the skills, the understandings, and the knowledge to enable one to be an effective producer in our society. But we have neglected the need to train one to be a consumer. Not long ago, a lady who identified herself as a member of the Virginia Citizen's Consumer Council wrote to Ann Landers. The letter is worth reading:

Dear Ann Landers: I read with interest your comments on the deficiencies of American education. May I go further. One of the most vital deficiencies is in consumer education. No one teaches students how to shop in a supermarket, how to buy beef, fresh fruits and vegetables, how to buy insurance, how to establish credit, how to grade a car—what to watch for. No instruction whatever on what to do if appliances don't work or where to take any number of complaints that consumers have in regard to faulty merchandise. No instruction on when to sue, or when to notify the Better Business Bureau.

We are a nation of overfed and undernourished. We fall for every trick in the book because we are not informed. When we try to get consumer education into the schools, we encounter a brick wall of opposition. The schools are against it! Yet teachers contact us by the dozens and ask what to teach their students—and how.

Will you please say a good word for consumer education, Ann? People listen to you. —Mrs. D.R.J.

Dear Mrs. D.R.J.: I received dozens of letters from readers urging me to get behind consumer education. You said it best. Here's your letter and my thanks for writing it.

The climate for consumer education has never been better. Government agencies responsible for consumer protection report that they are deluged with letters and phone calls from citizens who are fed up with meaningless guarantees, misleading advertising, unscrupulous sales schemes, dangerous products, and a host of other problems.

Then, too, so many adults have learned to be reasonably competent consumers in the school of experience. They've learned the value of goal setting and budget preparation after going through some stormy years. They've learned how to bargain with car dealers after spending more hard-earned dollars than they had to. They've learned what kind of life insurance to buy, and from whom to buy it, after entering a long-term contract that wasn't the best for them. And they don't want their children to have to learn these things through costly trial and error.

Most children simply are not going to learn enough of these things at home. Too many parents don't know enough to do an adequate job of teaching these skills. Besides, times are changing so fast. New products, new services, new laws, new ways for merchants to circumvent laws—all this makes training to be a consumer mighty difficult.

#### A Difference in Youth

The second point is the obvious difference in youth today. How are they different? Perhaps there is both good news and bad news. First, some bad news.

How about reading, writing, speaking? Are students losing these basic language skills? Back in 1963, the average score of high school

seniors on the verbal section of the Scholastic Aptitude Test (SAT) was 478. By 1975 that average had dropped to 434. Actually the scores have been dropping for a dozen years. But the decline from 1974 to 1975 was the largest ever recorded by the College Entrance Examination Board—10 points on the verbal section and 8 points on the mathematical section. A similar pattern of decline has been reported by the American College Testing Program (ACT).

More bad news? The National Education Association reported that in 1974 about 244,000 teachers experienced malicious damage to their personal property by students, a 56% increase over the previous year. During the first half of the school year, 64,000 teachers were attacked by students. A recent estimate put the annual cost of school vandalism nationwide as high as \$500 million.

An English study completed recently reminds us that we now have the first generation which has experienced television from birth to adulthood. It also reports that the average American child between 5 and 14 sees the violent destruction of no less than 18,000 human beings, and suggests that this TV fare has produced a markedly more violent generation.

Now certainly this is not the first generation to see violence depicted through movies and newspapers. Dr. Malcolm Moos, former president of the University of Minnesota, in a commencement speech said, ". . . the quantitative change is so great that it may become qualitative—seeing an occasional western at a Saturday matinee is profoundly different in psychological impact from seeing violence every day for many hours. And there is another important difference: This is the first generation to have grown up and seen real, not imaginary, violence as it happened with TV cameras capturing the assassination of no less than a half dozen significant American leaders, the burning of major cities, and the seemingly endless violence in such places as Vietnam."

James A. Harris, president of the NEA, cites as a key factor that may be responsible for the alarming increase in school violence and vandalism, "Alienation of students by inflexible and outmoded disciplinary and educational practices, inadequate and unrealistic learning materials and practices, and institutional inflexibility in meeting individual student needs."

Of all the teachers who should not be guilty of inflexible and outmoded educational practices, or inadequate and unrealistic learning materials and practices, consumer teachers stand at the head of the line. What we have to offer is real-life stuff—it's relevant, it's important, it's interesting, it's exciting, it's vital. What a chance to turn students on!

That's part of the good news. I don't really believe students are all that much different from the days when you and I were students. If anything, I think they are better informed about many, many things.

Being a bit old-fashioned, I think at times they have the advantage of learning certain things too fast. I sit with my 15-year-old son, a sophomore in high school, and watch TV programs that present ideas that embarrass me (because he is there with me). But I notice he takes it quite in stride—as though either (1) he is quite knowledgeable about these things, or (2) he didn't know that, but it's high time he found out.

Back when I was a sophomore in high school, the air was clean and sex was dirty. Now that is reversed, isn't it?

Maybe our principal chore is to turn students on with things that are relevant, important, exciting. We have that opportunity, you know, as consumer teachers.

But what about the lack of communication skills, as evidenced by the poor test scores? I know college teachers bemoan the fact that students cannot write—they can't even talk! Well, I like the statement made by Richard Horberg, Professor of Rhetoric at the University of Minnesota. Professor Horberg doesn't think students are the worst writers on campus. Then, who are the worst writers on campus? Surprise! Professors are. "The worst writing you find today in the real world is in the formal reports that professionals write," said Horberg.

Pompous, wordy prose is "turned out by department heads and deans, and certainly you find it in the professional journals. Our freshmen don't write like that," he said. "If their writing is bad, it's because it's sloppy, not because it's pretentious and swollen."

Not only is scholarly writing often pretentious, Horberg said, but "often it's ungrammatical, too, and incomprehensible. . . . Our freshmen haven't learned that kind of writing. I hope they never do, but some of them will."

#### A Difference in Teachers

How do teachers of consumer courses differ now from those who taught the courses previously? Consumer courses are becoming more prevalent throughout the nation, and with this increase in popularity has come (and in some cases, will come) an increase in the effort to prepare consumer teachers. One of the issues facing us today is whether consumer education should be taught as separate courses or integrated in already existing courses.

Making it a part of existing courses might sound good, but how much will be accomplished? Will the teachers be committed to consumer education? Are they properly trained and sufficiently motivated to work on a program of consumer education that will really make a difference? Even though most schools attempt to prepare young people for real-life problems in existing courses, the evidence is overwhelming that the typical student, when he finishes school, does not even know what is an adequate diet, much less how to get it on a low income. He knows little,

if anything, about the requirements for adequate housing. If asked the most elementary questions about city and regional planning in relation to housing, most of them would give no answers at all.

Separate courses in consumer education will at least insure that the opportunity exists to devote full time in the courses to consumer issues and problems. Where the teacher has elected to be a consumer teacher, and has been trained accordingly, the students have the advantage of being taught by someone committed to consumer education, and knowledgeable about the field.

The important thing, of course, is to have a consumer education program. A school obviously can have a good program or a mediocre program when it incorporates consumer education in already existing courses. Similarly, it can have either a good or a mediocre program when it offers consumer education as a separate course.

Warren Bennis, the social psychologist, says that it is doubtful if even the greatest geniuses were ever using at any one time more than, say, 80% of their total potential. Few of us are using even 50%. That there is a deep hunger for things we cannot find is evident in the findings of the Senate's own survey that 53% of Americans feel there is something "deeply wrong in America" today. What is missing?

One thing missing is dedication. Dedication is finding something to believe in with passionate conviction and intensity. John Gardner has said, "The best kept secret in America today is that people would rather work hard for something they believe in than enjoy a pampered idleness." Psychologists tell us that with all the mobility and unconnectedness around us, it becomes more and more important to develop some permanent and abiding commitments.

What should these commitments be? A person? An idea? An institution? Each of must find it for himself. But, I submit to you that one of our commitments should be to teaching. In consumer education there are so many needs begging for commitment, for caring—

- caring about the fact that the poor pay more and then using your power to help remedy the situation.
- caring about the extent of consumer fraud, and finding out how to put a stop to at least some of it.
- caring about the fact that perhaps millions of teenagers who get married are not in the least bit prepared to handle money matters, and thus many of them end up so far behind financially that their bitter lesson hurts them for much of their lives—some end up in divorce.
- caring about the fact that most high school and college graduates are really quite ignorant about life insurance (and thus buy the wrong policies resulting in their being underinsured while at the same time they are overburdened with premium payments).



—caring about our economic system and finding out about abuses that must be corrected if the system is to continue to work.

And that is just a beginning of the things we can care about. When we do care, we will be committed. When we are committed, we can expect to motivate students, but not before.

#### A Difference in Content

My fourth point is that we have a difference in need. For this reason the content of our consumer courses must be different.

I believe that consumer education involves various levels of instruction. I have divided these levels into four major groupings.

1. The cornerstone of any program of consumer education is, I think, instruction in buymanship and money management. At this first level, we are dealing with tactics, with developing practical competence. Students need to learn how to keep financial records. Many of them need some instruction in wise buymanship—and we usually zero in on buying food, clothes, housing, appliances and other big-ticket items for the home, buying cars, and even buying vacations.

2. A higher level of consumer education is providing experiences that will encourage students to develop a personal philosophy consistent with their goals in life. We deal with choice making and with the ideas of opportunity costs or alternative costs. In actual life, many things compete for our dollars. What we spend those dollars on determines what we get out of life.

At that first level, the concern is for clever buying and shrewd bargaining. At a higher level, the concern is choice-making. What place a product is going to have in one's life is really much more important than choosing among various brands.

3. A third level involves making certain consumers are aware of the broad consequences of their acts as consumers. Here we focus in on the moral climate of the marketplace. Consumers have rights; they also have responsibilities. When we buy goods and services, we cast dollar votes, or economic votes, as you know. Do we really determine the products that are to be available in the market? If we have products that really do nothing to promote our welfare as consumers, is it because we have signaled the fact we want them by our purchases? How about honesty on the part of the consumers?

4. Then, a fourth level of consumer education consists of shaping social thought in our nation. Enlightened consumers should be aware of the protection afforded them by government agencies.

Then, too, consumers should be aware of consumer organizations, such as the Consumer Federation of America, the American Council on Consumer Interests, Consumers Union, and the like.



An important part of consumer education is giving students instructions in how to organize as consumers. Why not organize? Ralph Nader claims businessmen say, "No, act individually." Act as individuals?—that's safe for businessmen. But business firms organize. They form cartels, trade associations, and so on. Unions organize—they organize workers. But consumers organize? That's subversive! Training in consumer organization should be a part of consumer education.

So, there are four levels of consumer education. I think the level we are on depends chiefly on the skill and maturity of our students, a distinction valuable for planning teaching strategies.

#### A Difference in Materials and Methods

The fifth thing I see on the horizon is materials and teaching methods available for use in consumer classes.

One of my favorite authors, Isaac Asimov, wrote about "change" in the July, 1975, issue of American Way. He mentions that by the use of laser beams and holography, we can produce three-dimensional images more detailed than anything that can be done by ordinary photography on a flat surface. By modern taping procedures we can produce TV cassettes on any subject, so that the individual can play what he wants on his own set at a time that suits his convenience.

We keep improving our means of presenting information and entertainment to people. What will be the ultimate? Dr. Asimov said that he watched a demonstration of TV cassettes once and couldn't help but notice the bulky and expensive auxiliary equipment required to decode the tape, put sound through a speaker and images on a screen. The direction for improvement, he thought, will be that of miniaturization and sophistication, the same process that in recent decades has given us smaller and more compact radios, cameras, computers, and satellites.

We can expect the auxiliary equipment to shrink and, eventually, to disappear. The cassette will become self-contained and will not only hold the tape but all the mechanism for producing sound and images as well.

Other improvements? The cassette should become more and more nearly portable, until eventually it can be carried under one's arm. It should also require less and less energy to operate, reaching an ideal where it would require no energy. The ideal cassette would be visible and audible only to the person using it. Eventually, there will be a single knob to control the cassette—or perhaps none at all!

What a fantastic teaching device such a cassette would be! A cassette that may deal with any of an infinite number of subjects, that is self-contained, portable, non-energy-consuming, perfectly private, and largely under the control of the will.

Is this just a dream? Then, Isaac Asimov, in his article, shocks the reader. This is not a dream, he says. We will not only have such a cassette some day, we have it now! And we not only have it now, we have had it for centuries. The ideal he described is simply the printed word—the book, the magazine, the newspaper.

You cannot read without hearing the words in your mind and seeing the images to which they give rise. Actually, they are your sounds and images, not those invented by others for you—so they are better.

We all appreciate TV, movies, film strips, slides, transparencies, simulations, and games. But isn't it good to have someone remind us that the printed word is really quite wonderful? And we have words in abundance that help us teach consumers.

One of our students works as a meat cutter in a local supermarket in Stillwater, Oklahoma. He said bad conditions do not exist in the market in which he works (thank goodness!), but that he had seen poor meat vending elsewhere. This semester a student who works at a rest home resented the implication that rest homes buy unfit meat. They simply cannot buy food unfit in any way for human consumption, because of strict state regulations, he maintained. So we are currently finding out how our government looks after rest homes. Life is never dull for a consumer education teacher—we can't possibly know about everything. But we have scores of students who can help us find out!

Help us find out! What we are teaching is relevant, and it is current. We "find out" by reading our daily papers, weekly news magazines, government reports and releases, and consumer magazines. We have Dr. Asimov's fantastic cassettes—the written word.

On some days, we start our consumer issues class with what would be called "Show and Tell" in elementary classrooms. As part of their course work, students are expected to do some related, consumer oriented reading each week in current newspapers or magazines. Hearing aloud their reactions to their reading is interesting indeed.

We need information. Our news media could go much further than they have in providing information about services, products, frauds, and the many other bits of news that would really help us.

Newspapers do a fine job of criticizing plays, movies, politicians, and even sports teams. No one seems to be unduly concerned that a bad review of a play may have some effect on the lives of the actors in the play or the producers of the play. After all, we say, the public has a right to know whether a play is excellent, fair, or lousy. But when a newspaper and TV station in Minneapolis investigates rotten meat sold as hamburger, many become concerned about hurting business people.

We might also benefit from a shopper's guide that rates insurance commissioners, banking regulators, attorneys general, legislators, and other government officials. How ironic that we get better evaluations,

rankings, and statistics of football and basketball teams than we do of government officials.

Readers of newspapers have always been interested in how-to-buy stories or how-to-fix stories. Now, the media is noticing that those same readers also are interested in the moral climate of the marketplace—in "is it right?"

Is it right for huge supermarket chains to promise bargains they don't deliver?

Is it right for bankers to sit on the board of trustees of a voluntary hospital while the hospital's money sits without interest in the trustee's bank?

Is it right to pay through the nose for car insurance because someone thinks you must find who's at fault after the accident?

The way business deals with its customers is news. It's a lot bigger news than whether General Motor's profit was up or down last quarter. Or whether a regional sales manager won a trip to Bermuda for the sales of his region. Or whether a district sales convention is scheduled for January or February.

Many excellent teaching devices and ideas are now available for consumer teachers. New films, new film strips, new simulations—all of these things plus the enthusiasm and dedication of the teacher—are what will make the difference.

I believe we will make more and better use of the community in our teaching. We'll interview consumers, merchants, government officials. We'll ask questions and listen to answers. We'll write letters to editors. We'll publish our facts. We'll involve parents.

What are the limits to consumer education? We should look for opportunities rather than limits. I believe we should examine five differences: differences in society, differences in youth, differences in teachers, differences in the content of consumer courses, and differences in materials and methods.

AN EXPERIMENTAL INVESTIGATION OF THE CONSUMER  
USE OF EXPLICIT PRODUCT INFORMATION

Bruce Seaton  
Florida International University

The study was designed to investigate the effect of objective information on consumer brand choice. Objective information was defined as the output of a competent and disinterested party. Information of this type is not readily available in the marketplace. Two marketplace modifications in which such information might be made available were distinguished. The first involved mandatory provision of such information by legal requirement; the second, the provision of objective information at the discretion of the individual firm. Bills to impose modifications of this nature have been introduced into the United States Congress. Consumer reaction to such information provision is of great importance to public policy formulation.

Background

The "consumerism" movement has spawned many calls for more and better information in the marketplace. The increasing desire of consumers for better information to assist them in making their purchase decisions has resulted in political action to increase the availability of such information. "Truth in Packaging" represented congressional action to provide more complete information on the labels of packaged consumer goods. The likelihood of further legislation to require that more information be provided consumers is sufficiently high to make the study of consumer reaction to such information a worthwhile topic.

There has been little published research into consumer information needs, as contrasted to consumer utilization of available sources of information. However, there has been extensive research into consumer perceptions of price, in many purchase situations the only objective information available to the consumer. While much of the research into the informational dimension of price has proved contradictory, evidence shows that consumers use price as an indicator of product quality. The adage, "You get what you pay for" carries significant weight with consumers even though the relationship between price and objectively determined quality is tenuous.

Research on the effects of explicit objective information has had mixed results. One study which investigated the effect of Consumer Reports' evaluation of a fashion item on student perceptions of quality and value was inconclusive. Another investigator found that information of the type provided by Consumer Reports significantly altered perceptions of razors and automobiles.

### Statement of Hypotheses

The research postulated two modified marketplaces, the first concerned itself with the mandatory provision of objective brand information, and the second with the discretionary, and in this study partial, provision of such information. The hypotheses were stated as follows:

1. The provision of objective information at the point of purchase on all available brands in a product class will result in a shift in brand preferences.
2. The provision of objective information at the point of purchase on some of the available brands within a product class will result in a shift in preference toward the "objectively evaluated" brands.

### Research Design

Objective information, as conceived in this research, is not available in the current marketplace and thus the use of a simulated environment was necessary. The two ways of achieving this environment were in-store and laboratory experimentation. The latter was chosen for reasons of convenience and control. The laboratory experiment provides maximum internal validity and measurement precision. The experimental procedure required the determination of brand preferences and perceptions under differing conditions of objective information availability.

The experimental design utilized was a posttest only control group, specifically a randomized block. The blocks were distinguished by the presence or absence of objective information on the brands within a product class. The design has been outlined below:

<u>Hypothesis</u>	<u>Situation Number</u>	<u>Experimental Situation</u>
1	1	A <sup>1</sup> B <sup>1</sup> C <sup>1</sup> D <sup>1</sup>
	2	A <sup>2</sup> B <sup>2</sup> C <sup>2</sup> D <sup>2</sup>
2	3	A <sup>1</sup> B <sup>1</sup> C <sup>2</sup> D <sup>2</sup>
	4	A <sup>1</sup> B <sup>2</sup> C <sup>1</sup> D <sup>2</sup>
	5	A <sup>1</sup> B <sup>2</sup> C <sup>2</sup> D <sup>1</sup>
	6	A <sup>2</sup> B <sup>2</sup> C <sup>1</sup> D <sup>1</sup>
	7	A <sup>2</sup> B <sup>1</sup> C <sup>2</sup> D <sup>1</sup>
	8	A <sup>2</sup> B <sup>1</sup> C <sup>1</sup> D <sup>2</sup>

A, B, C, D, represent the four brands within each product class and the superscripts 1 and 2 represent the absence and presence of objective information, respectively. Each subject (excluding students used in a

pretest) was assigned to one of the above experimental situations. For example, a subject assigned to situation (4) provided brand preferences when brands B and D were provided with objective information, A and C without. For a given subject the experimental situation was the same for all three product classes used in the research. It is readily seen that Hypothesis 1 involved either complete provision of objective information or no such provision, whereas Hypothesis 2 involved partial provision only.

A variety of potential sources of objective information were considered. Consumer Reports, the major consumer publication emphasizing product evaluations by brand, was chosen. To maximize comparability between product classes, the objective evaluations provided the same dimensions of information for each of the three product classes. These dimensions were:

- a. Price (effectively "unit price" as all brands within a product class were the same physical size);
- b. a measure of output per unit of product (as output was defined by the information source, in this research Consumer Reports); and
- c. "true" unit price which represented a combination of the above two items of information.

The primary dependent variable used in the research was brand preference. The brand preferences obtained in the study were transformed using the Fisher-Yates transformation to normalize them so that they could be used in the analysis of variance (ANOVA). The results of these analyses have been summarized in the next section. In addition to the brand rankings, subjects were requested to indicate their brand perceptions on a set of bipolar scales which were specific to each product class. These scales were designed to:

- a. determine the overall evaluation of each brand on a 7-point scale;
- b. determine subject brand evaluations on a dimension which was expected to be independent of any objective information provided. An example common to all three product classes was concerned with subjects' assessment of how "well known" a brand was; and
- c. determine subject evaluations on an attribute which might be expected to depend on the brand objective evaluations. For each product class there was a scale asking for subjects to assess the capacity of a brand to deliver output—this capacity was stated on the objective evaluation of the brand.

The choice of product classes and brands within a product class was based on a number of criteria. For the product classes the following criteria were applied to the selection:



- a. that the product be typically available on supermarket shelves;
- b. that there be available a recent comprehensive survey of the product class by Consumer Reports;
- c. product class prices be low enough to make feasible the reward system incorporated into the experimental procedure; and
- d. that the product class be one in which products had a standardized package and were branded.

Based on these criteria, the product classes selected were bacon, hand dishwashing detergent and D-cell batteries. Brands within each product class were chosen on the following bases:

- a. it was essential that the brand had been included in the Consumer Reports' survey of the product class;
- b. that the chosen brands be available in as wide a selection of supermarket outlets in St. Louis as possible;
- c. that the objective evaluations alone (with brand names disguised and no physical product) generate a specific set of preferences. This requirement was necessary for the analysis of the experimental data.

The brands used have been tabulated below:

<u>Product Class</u>	<u>Brand</u>
Bacon	Armour Star, Oscar Mayer, Surrey Farm, Swift's Premium
Hand Dishwashing Detergent	Lux, Palmolive, Thrill, Trend
D-cell Batteries	Eveready 950, Eveready Super, Mallory, Ray-O-Vac

### Implementation

The data collection phase of the research fell into two stages. The first stage involved a pretest of the brand preference generated by the objective information alone (brand names disguised and in the absence of the physical product). This collection of data utilized business students from St. Louis and Washington Universities. The pretest confirmed the expectation that the objective information alone would generate a specific set of brand preferences within each product class. For this pretest, subjects were exposed to three clusters of four-typed sheets. Each typed sheet was comprised of an objective evaluation of a given brand in a standard format and each product class was presented in a cluster. They were required to indicate their brand preferences within each product class and also to assess each brand on the set of bipolar scales.

The second major stage of data collection utilized adult women as subjects. These subjects were recruited through a Protestant church in suburban St. Louis. Participation was obtained through a dual financial appeal. The researcher paid the church \$2 per subject and also paid each subject the sum of \$2.50 in merchandise and cash. Different subjects informally indicated that they participated for different reasons but the reward system appeared to be effective in obtaining cooperation of a group of women who were not experienced subjects in consumer research. Ages ranged from 20 to 70 years.

The data collection was performed in facilities provided by the cooperating church. Products were displayed on a large table. The physical layout is briefly described below:

- a. The left-to-right sequence of product classes was identical across all information conditions. Similarly, the left-to-right sequence of brands within a product class was common to all information conditions. Thus any situational bias was common to all information conditions.
- b. for the hand dishwashing detergent and D-cell batteries, the same physical product was used throughout the investigation. The perishability of bacon rendered this approach inappropriate and so bacon samples were switched frequently.

The experimental sequence was as follows: Prior to eliciting responses, the subjects were briefed. The format was not standardized, as a major aim of these introductory comments was to create a rapport with the participants, most of whom were inexperienced in consumer research.

The formal phase of the data collection required participants to follow a written set of procedures. These instructions asked subjects to assume that they were in a self-service store and wished to purchase bacon, hand dishwashing detergent and D-cell batteries. In those information sets where objective information was provided, subjects were told that in addition to the conventional product displays, additional brand information had been provided. They were informed that this objective information ". . . has been provided by an independent, reputable testing organization, and has not been influenced by the manufacturers other than through his product." Further, they were told that they would be required to buy their first choice in each product class with their \$2.50 allowance and allowed to keep these brands and their change.

Subjects then in turn ranked the brands within each product class and evaluated each brand on the appropriate array of bipolar scales. To complete the data collection, subjects were asked how frequently they purchased each product class, their familiarity with the brands used on a 4-point scale from "not aware of" to "presently using" and whether they were familiar with any publications providing consumer product information. In addition, those subjects who evaluated the brands in the presence of complete or partial objective information were asked whether

or not they used the information and were then probed to discover why they reacted to the objective information as they did.

### Results

The data were examined using ANOVA. The hypotheses were tested using the primary dependent variable of brand preference and the secondary dependent variables, the product class specific bipolar scales. The results are summarized below:

<u>Hypothesis 1</u>		<u>Hypothesis 2</u>	
<u>Product Class</u>	<u>Hypothesis Test</u>	<u>Product Class</u>	<u>Hypothesis Test</u>
Bacon	Strong Confirmation	Bacon	Strong lack of support
Hand Dishwashing Detergent	Weak Confirmation	Hand Dishwashing Detergent	Weak Contradiction
D-cell Batteries	Strong Confirmation	D-cell Batteries	Strong lack of Support
Combined Product Class	Confirmation	Combined Product Class	Lack of Support

Note: "Strong confirmation" used when primary and secondary dependent variables supported the hypothesis.  
 "Weak confirmation" used when secondary dependent variables only supported the hypothesis.  
 "Strong lack of support" used when neither primary nor secondary dependent variables supported the hypothesis.  
 "Weak contradiction" used when the primary dependent variables did not support the hypothesis but the secondary dependent variables showed significant perceptual differences between "objectively evaluated" and "non-evaluated" brands. However, the direction of the perceptual shifts was opposite to that hypothesized.

Hence, the data supported the first hypothesis but not the second.

In addition to the quantitative data, approximately 50% of the subjects provided some written comments in response to the questions posed.

To the extent that the open-ended responses could be summarized, the following generalizations seem appropriate:

- a. those participants who did not use the objective information in making their decisions tended to respond that they preferred those brands they were familiar with and had tested for themselves;
- b. those participants who reacted affirmatively to the objective information provided on some of the available brands, tended to ask for similar information on brands not objectively evaluated;

- c. those participants who received objective information on all of the available brands were difficult to categorize. They commented favorably on the various "cost per unit of output" informational materials provided. Their requests for additional information were diverse, including suggestions for indicating the number of slices of bacon per pound, the kindness to the hands of the various brands of hand dishwashing detergent and the resistance to leaking of the batteries; and
- d. participants' reaction to the high "true" unit price of bacon suggested that objective information of the type used in this research might not only affect brand preferences but also channel consumer purchases to more economical product classes.

### Conclusions

This research involved two potential marketplace modifications. The first, involving the mandatory provision of objective information concerning all available brands, provided the scenario for Hypothesis 1. It was of significance as an input for public policy decisions. The confirmation of Hypothesis 1 indicated that willingness and desire of consumers to avail themselves of such information when it might be available in a convenient form and location. The research would appear to indicate that consumer demands for better information in the marketplace are justified in that the information enables consumers to make more rational decisions. Inspection suggested that "cost per unit of output" was the major dimension of objective information utilized in the research.

The second modification, involving the discretionary provision of objective information, was examined in Hypothesis 2. The lack of support for this hypothesis, in that subjects showed no significant preference for the evaluated brands, suggest that little or no advantage would accrue to the firm which adopted a policy of providing objective information on its products even if competitors did not do likewise.

Further research could take several forms. One would be a longitudinal study of brand preferences when objective information is provided on an on-going basis. The use of a wider range of product classes and a more diverse group of subjects would provide further insight into the impact of objective information on brand preferences. Other modifications could include different measurement techniques from those used in this study and different modes of presentation of the objective information.

COST BENEFIT ANALYSIS OF  
CONSUMER PRODUCT SAFETY PROGRAMS

Rachel Dardis, Professor  
Department of Textiles and Consumer Economics  
College of Human Ecology  
University of Maryland  
College Park, MD 20742

ABSTRACT\*

There has been increased interest in consumer protection in recent years particularly in the area of product safety. While the necessity for consumer protection is apparent, the cost of such protection should also be considered. Cost is important in the case of mandatory safety standards since decisions are made outside the marketplace. Cost benefit analysis may be used to compare the gains and losses from consumer protection programs and to assist in determining whether such programs are in the public interest. The objectives of this paper were to investigate the role of cost benefit analysis in evaluating consumer product safety standards, and to apply such analysis to an evaluation of flammability standards for children's sleepwear.

The cost of safety standards includes the cost of resources employed in developing and monitoring the standards, and costs incurred by the consumer due to product regulation. Consumer costs include a reduction in product choice, higher price, reduced wear life, and safety maintenance costs. In most instances the safety standard has the same impact as a tax and its burden depends on demand and supply conditions in the marketplace.

The benefits from consumer product safety standards are the reduction in the direct and indirect costs of accidents due to safety standards. The two major factors influencing the accident reduction rate are the degree of protection afforded by the safety standards and the market share of the "safety regulated" product. The direct costs of accidents include property damage, medical costs, legal and administrative costs, and accident investigation costs. The indirect costs are the output losses resulting from accidents and the pain and suffering incurred by the victim and his family. Measurement of output loss takes into consideration valuation of output including services of housewives, treatment of consumption costs and labor force participation and employment rates. In the case of death or permanent disability, output is

---

\* Full text in The Journal of Consumer Affairs

measured by the present value of future earnings in order to permit a comparison of costs and benefits for the same period of time.

Cost benefit analysis is applied to flammability standards for children's sleepwear. The cost of flammability standards is based on the change in consumer surplus due to the introduction of mandatory flammability standards. The benefits of flammability standards are based on the number of burn injuries and deaths due to sleepwear ignition. The results indicate the degree of protection required to equate costs and benefits in the case of flammability standards. The methodology discussed in this paper may be applied to a variety of consumer product safety programs and should assist in the development of the most cost effective consumer protection programs.



CONSUMER PARTICIPATION IN HEALTH PLANNING:  
A SELECTIVE REVIEW

Kathleen Browne Ittig  
Staff Associate for Consumer Affairs  
National Center for Health Services Research

There has recently been a resurgence of interest in consumer participation in health planning precipitated by what is being called a landmark piece of health legislation, The National Health Planning and Resources Development Act (P.L. 93-641). The major purpose of the law, enacted in January, 1975, is to consolidate effective predecessor programs and eliminate ineffective programs which had been developed to manage health resources. These are replaced with a new network of Health Systems Agencies at the local level and health planning agencies at the state level. A major emphasis of the new law is on participation of consumers along with the other segments of the health care system. The intent of the legislation is that consumers hold the balance of power on the new agencies at both the state and local level.

While consumer participation is not a new emphasis in health planning, it has been newly strengthened by P.L. 93-641. A good deal of research has been done to both document and evaluate consumer participation as it has developed since the early 1960's. This paper selectively reviews this research in the context of the new Health Systems Agencies and Health Planning Agencies.

Definitional Issues

Before addressing specific research on consumer participation in health planning, two major definitional questions need to be addressed. First, what is meant in this context by "consumer?" and "provider?" and secondly, what is meant by "consumer participation?" An obvious first reaction to the question, "who is a health care consumer?" is "everyone!" One can simplistically define a health care consumer as a person who receives health care treatment thus covering anyone that visits a physician or other health professional in a clinic, hospital or other health care facility. Similarly, one can define as a provider any person or organization providing health care services.

The essence of the definitional boundaries between consumers and providers are not clear-cut if they are developed in terms of consumption patterns. Rather, a more manageable framework that is in keeping with the intent of recent federal legislation is to distinguish between health consumers and health providers in terms of interest group representation.

While it is true that all citizens are consumers, it does not therefore follow that all consumers represent the "consumer interest." The consumer interest is frequently difficult to identify because consumers are generally more involved in their roles as earners than in their role as consumers (6, 18). According to Nadel, the essence of this dilemma is that "influence requires costs, particularly information costs." In his view, "people will only invest those costs when the return is likely to offset the investment." Since most individuals consume in many different economic sectors but produce only in one, "They will concentrate their influence in the area of their production . . . rather than in their many areas as consumers." Nadel concludes that because of the existence of this dynamic, "producers will have more influence than consumers" (18:240). Applied to the health planning arena, this theory offers an explanation for the continuing provider dominance over consumers on health planning agency boards.

This situation was further aggravated in the early days of federal mandates for citizen participation because little thought was given to specifying eligibility and as a result there were many cases of conflict of interest. Examples are Neighborhood Health Center employees serving as consumer representatives; Neighborhood Health Center board members who had resigned to take jobs they had previously created for themselves; Comprehensive Health Planning boards who had physician's spouses and relatives as members; retired health professionals who had been assigned to consumer slots on the board. Because of this checkered history, it became necessary to define the term consumer in the health care field in terms of what it is not. While it is possible to develop simple definitions for both consumer and provider, it is necessary to be scrupulously specific when defining such terms legislatively in order to rule out by mandate as much potential conflict of interest as possible. Some of the newest legislation mandating consumer participation such as P.L. 93-641, the National Health Planning Resources and Development Act of 1975, and P.L. 93-63, The Special Health Revenue Sharing Act of 1975 have done this. P.L. 93-641, for example, specifies that the composition of the membership of the governing body of the Health Systems Agency (HSA) and any executive committee should meet a number of very detailed requirements including the following:

A majority (but not more than 60 per centum of the members) shall be residents of the health service area served by the entity who are consumers of health care and who are not (nor within the twelve months preceding appointment been) providers of health care and who are broadly representative of the social, economic, linguistic, and racial populations, geographic areas of the health service area and the major purchasers of health care. (25:10)

The other requirements are designed to insure that a broader spectrum of providers are included on the provider side as well as public officials. The Health Systems Agency's board membership must "include (either through consumer or provider members) public elected officials and other representatives of governmental authorities in the agency's

health service area and representatives of public and private agencies in the area concerned with health." (25:10) The law also details the composition of HSA sub-committees and advisory groups.

A number of assumptions underlie the concept of consumer participation, The Model Cities Program has spelled out these assumptions for the citizen participation component of that program and they are quite generalizable to consumer participation efforts in health.

- It acknowledges the right of people affected by public program to have access to and influence on the process by which decisions about their lives are made.
- It accepts that many of the best intentioned officials and technicians are often, by their training, experiences, and life-styles, unfamiliar with or even insensitive to the problems and aspirations of model neighborhood residents; therefore, resident ideas and priorities can result in more relevant, sensitive, and effective plans and programs.
- It recognizes that the process of participation makes it possible for those citizens formerly outside the system to learn how it functions and how to make it function in their interest—and that the process makes it possible for residents to strengthen existing skills and to develop the kind of new skills needed for effective citizenship beyond as well as within the Model Cities program. (29)

To more accurately define consumer or citizen participation as a matter of degree, typologies have been developed. The most widely used was developed by Arnstein and includes eight types of citizen participation including manipulation, therapy, informing, consultation, placation, partnership, delegated power and citizen control. (2)

Another typology by the Organization for Social and Technical Innovation for board members goes beyond the simple "provider"—"consumer" dichotomy. OSTI's proposed categories are: planning consumers; community consumers; determiners; minority group consumers; and professional consumers. These help in understanding the problems of accountability, representation and control of health planning agency boards. (21)

#### Why Have Consumers Been Involved In Health Planning?

Traditionally, the planning professions have been subservient to the dominant economic and political interests and health planning has not been an exception. Both the planning and implementation of health programs have been dominated by the providers of health services, particularly health care professionals and health administrators. More recently, however, there has been a move toward a new planning orientation characterized by a more participatory planning process. The reasons for consumer participation are not new. Some remarks by Thomas Jefferson provide a philosophical basis for consumer participation:

I know of no safe depository of the ultimate powers of the society but the people themselves, and if we think them not enlightened enough to exercise their control with wholesome discretion, the remedy is not to take it from them but to inform them in their discretion.

The federal programs of the Great Society were designed with citizen participation as an important element. Representative of the view at that time, Spiegel wrote:

Probably no other issue is as vital to the success of solving America's urban crisis than the viable participation of urban residents in planning the neighborhoods and cities in which they live and the social programs which directly affect them. (28)

While as Piven has alerted us, "the widespread advocacy of participation by residents of local communities in public programs by no means reflects agreement regarding the goal of such participation, the forms it should take, or the means for its effectuation," (28:113) there seems to be some consensus on the rationale for the existence of consumer participation. Most of the literature discussing these rationales, however, relates to the earlier social programs of HUD and OEO.

Rationales for consumer participation have included: facilitation of program acceptance, mitigation of active opposition to a program, changing attitudes or behavior of target groups, citizens or consumers, providing a vehicle for citizen/consumer control over agencies that affect their lives; and promoting an alliance of the program with consumer/citizens to secure official acceptance of the program. (28)

As the Cahns have realistically discussed, "citizen participation is a nuisance. It is costly, it is time consuming, it is frustrating; but we cannot dispense with it. . ." Citizen participation in and of itself is valued because it "constitutes an affirmative activity"; it is a "means of mobilizing the resources and energies of the poor"; and it "constitutes a source of special insight of information, of knowledge and experience"—an alternative to the consensus viewpoint. (28)

Silver has outlined the areas of health planning for which "community participation can offer better and more meaningful contributions in the decision making on plans for health services." These include:

- location and size of the medical care center, or whether there is to be a center at all;
- whether solo or group practice is desired and which is more feasible;
- the number and types of physicians needed, or new types of substitute health workers if there are to be such;
- recruitment procedures for health workers within and without the community;
- the share of representation in admission policies in training institutions;

- the duration and content of curriculum of various health professional education institutions;
- the employment practices and personnel policies in the service units; and
- the nature of financing and resource allocation. (27)

While most of the rationales for consumer participation in health planning are very pragmatic, couched in terms of improving efficiency and effectiveness, some planners argue for consumer participation as an end in itself as a democratic procedure.

One study of consumer participation in health planning in different settings concluded that the primary objective of most consumers on the board and sub-boards of the health planning agency (an agency that by law lacked any final authority of its own) was to contribute to decisions that would help produce a more "rational," "responsible," "equitable" health care system within the planning body's jurisdiction. (11)

A study done for the Bureau of Community Health Services has synthesized the Bureau's purpose and objectives of having consumer planners: (1) to identify and assess the needs of consumers who receive services from (federally funded)<sup>1</sup> health programs; (2) to incorporate the views of beneficiary consumers into planning responsibilities of the areawide health planning agencies; (3) to recommend programs, establish priorities and assist in coordination of services based on expressed needs of beneficiary population of federally funded health programs. (15)

Thus, consumer planners are needed as the intermediary between the federally funded health programs and the new Health Systems Agencies to assure that required plan development<sup>2</sup> recognizes local needs.

Consumer planners are also necessary links between the planning agency and local consumers, especially organized consumer groups. Two major studies done in the early 1970's have examined the internal and external dynamics of consumer participation. One by the Pennsylvania Department of Health examined the identity, attitudes, motivation and quality of participation of a random sample of health consumers and providers involved in three local health planning agencies in the state. (22) The other study was done by the Organization for Social and Technical Innovation for the Department of Health, Education, and

---

<sup>1</sup> Parentheses are added by the author to indicate that the Lasziter objectives can be generalized to programs funded by other than federal sources.

<sup>2</sup> P.L. 93-641 requires that each Health Systems Agency publish both a health systems plan (HSP) and an annual implementation plan (AIP) for its area.



Welfare as a part of a larger national study surveying 31 Comprehensive Health Planning Agencies. (21)

Both studies determined that most citizen planners were from the "traditionally influential" higher socioeconomic classes—middle class, middle aged and rich. Pennsylvania found the political affiliation was evenly mixed, and OSTI determined the boards were dominated by the voluntary health planning organizations. Further, CHP (b) boards were further found to have been ineffective in providing representation from the "previously unheard" groups, minorities and the poor.

Consumers involved in health planning see it as a way of "doing something for the community" and are "in the habit of accepting community involvement." Providers, on the other hand, are generally involved because of an interest in "improvement of health and welfare conditions" and because of the "educational background and general background." (22)

The majority of both consumers and providers had "favorable feelings" about the involvement in health planning of their respective counterparts. Further, consumers and providers were usually in agreement on the goals of their health planning efforts and the process of their efforts. (22)

Attitudinal differences between "consumers" and "providers" were identified by OSTI. Providers see themselves as "technical experts" and consumers as serving to "furnish information on health needs." Consumers see themselves as "representatives of particular constituencies" and see providers as "protecting the status quo." (21)

Actual involvement in comprehensive health planning activities was examined by Pennsylvania. Most of the CHP work, done through committees, involved "reviewing and commenting on proposals, participating in discussions and organizational activities." A large majority attend meetings regularly and spend at least several hours or less a month on health planning work. Despite the few hours involved, the time requirement was reported as the "greatest personal handicap" for both providers and consumers. A second handicap for consumers was "lack of knowledge about health." After examining internal relations in the planning agency between the consumers and providers, the investigators found that consumers and providers were seldom polarized over the issues and that the two areas generating the most discussion were proposal review and internal agency structural problems. Disagreements, most frequently related to specific health issues and the programs necessitated by these issues, were settled in the main by "extensive discussion and majority vote." (22)

The Pennsylvania Study found that voluntary involvement in CHP was better explained by the respondents' value system than by socioeconomic characteristics. Further, while there are few differences between the "general attitudes" of consumers and providers, "providers tend to become increasingly more involved than consumers." The study characterized the highly involved respondents, particularly highly involved consumers in the following manner:



They feel they know more about the CHP law than the less involved; they are more committed to specific CHP goals, they feel they have more to say in committee decisions; they feel that their presence in committee meetings is important to their committee; they feel they understand local issues to a great or very great extent; they take part in discussions more; and they feel that participation of both consumers and providers is worthwhile. More of them feel that they represent outside groups or agencies, and they are more inclined than the less involved respondents to get together between meetings. (22)

As might be expected, the highly involved in terms of committee assignment are more concerned than the less involved "that change in the organization of health services is urgent" and this includes change nationally, regionally and locally.

#### How Have Consumers Been Involved in Health Planning?

In the early part of this century the major opportunity for consumer participation in health planning was to serve on the hospital board because at that time the hospital made all the decisions now considered to be in the health planning realm. There was no umbrella planning of any sort. The consumers who served on the board were usually drawn from the community leadership and at that time the major interest of the board was the day-to-day management of the hospital. Recall that at that time most care was paid for by the patient directly and that additional operating funds were raised through philanthropy in "the hospital drive."

In the late 1930's, however, some metropolitan hospitals recognized the dangers of duplication and excess as well as the value of joint efforts, e.g., laundry. In response, a number of voluntary bodies were formed called Hospital Review and Planning Councils. Many were very successful in developing and implementing health plans in the area for which they were designed. However, success in this sphere was directly related to the Councils' control over philanthropic funds. Their financial base was their source of power and authority. This type of planning has been criticized as being elitist—big hospitals and big money plan for and not with the community. In the early '60's some cities including New York City and Pittsburgh brought these Councils under government sponsorship with the focus still institutional planning and citizen involvement still elitist. This coincided with the first Federal involvement to support local health planning efforts. In 1961, a program was initiated under Section 318 of the Public Health Service Act to provide financial assistance to hospital facilities planning agencies which worked closely with the state Hill Burton planning agencies.

In 1966 because of the success of the regional planning approach, Congress passed the Partnership for Health Act (P.L. 89-749) which

created a new Section 314(b) of the Public Health Service Act authorizing federal assistance for areawide comprehensive health planning. By 1974 over 200 "b" agencies were established and most of these were non-profit corporations. They were designed to bring a local area's provider and consumer interests together in order to plan for the organization and development of health programs.

However, these agencies lacked the "clout" to implement their plans. While they had "review and comment" responsibilities on some uses of federal funds, they had no power to institutionalize their plans under Comprehensive Health Planning (CHP). The emphasis was on the process of planning and not on plan implementation.

CHP "b" agencies were mandated to have a consumer majority board, at least 51%, and it was the function of the board to formulate policy. One study of CHP agencies examined the issue of consumer representation, and found that "there is much less difference between (b) agency usage of the terms 'consumers' and 'providers' than is frequently assumed." The study points out examples of the confusing terminology:

". . . 'Consumer' lists often include professionals such as retired physicians, administrators of homes for the aged and directors of social service departments. 'Provider' lists occasionally include occupations such as engineers and poverty program workers. The latter, categorized in one agency as a provider might well have been listed as a 'consumer' elsewhere. Our interviews frequently yielded statements to the effect that 'there is no difference between consumers and providers.'" (21)

Consumer participation in health planning is only one avenue for involving consumers in shaping the health system. Channels for relating the consumer planners to other consumer health activities is necessary so that they truly represent a constituency of consumers, and are not simply planning on the basis of their own individual ideas. Many health delivery agencies are now required to have consumer participation by law including the PHS funded community health centers and the similarly funded community mental health centers, family planning services projects and PHS certified health maintenance organizations. Other health agencies that have had no requirement for consumer participation but that have moved to involve consumers in at least a limited manner have been the Regional Medical Programs and the National Health Service Corps. At the other end of the spectrum, however, are the professional Standards Review Organizations (PSRO's), entities established under Federal law in over 200 locations across the country for the purpose of monitoring and controlling patient utilization of government funded medical services, have no requirement for and no inclination toward consumer participation. (8)

What Has Been the Effect of Consumer Participation on Health Planning?

The increased role for consumers in health planning has had a number of effects. One of the effects feared most in the developmental stages was increased conflict and disruption between planning board consumer and provider factions. As has been discussed by Hunt, "the decision to involve citizens in health decision-making has the potential for creating conflict, confusion and chaos for already overburdened health professionals and an already overtaxed health-delivery system." (12)

In 1969, the National Center for Health Services Research initiated a contract to study the relations among health care providers and consumer representatives associated with neighborhood comprehensive health care centers. While the study is not on health planning agencies, the findings relative to board dynamics are the best currently available. (5) Two of the most interesting findings are: First, actual conflict among center participants was in centers where a consumer group had "partial power through advisory roles and informal channels". In the view of the investigators, this was due to the fact that "the uncertainty or insecurity in their power position apparently led to increased demands by consumer representatives and greater confusion in the definition of issues and claims." Centers with clear-cut dominance of either providers or consumers appear to have less conflict. Thus, it would seem that the major precipitator of conflict is not which faction is dominant but whether one faction is dominant. (5)

Second, the health center issues of concern to participants have several characteristics which argue against the development of a structured set of issues descriptive of conflict in centers: (1) The issues that are manifested tend to "attract" conflict based on other disagreements; (2) A given issue or position on it does not have the same implication in all centers; (3) Although many issues do reflect basic issues, these concerns are not universally present or equally forceful across all centers.

On the role of center issues, jurisdiction, objectives and authority structures on conflict, the study found:

1. Group relations may be more important contributors "to conflict than the content of the specific issue itself."
2. The party responsible for the earliest activity preparatory to acquiring funds for a health center will probably achieve predominance in the authority structure of the center.
3. Dispute over authority may not be a negative factor and may, in fact, be desirable in strengthening the organization; the absence of dispute over authority is not

necessarily a desirable situation.

4. Demands for an increased consumer voice in decision-making are more likely to be in the form of a stepwise progression, as from one rung, than to be demands for massive and sudden change from the structure currently employed. (5)

In addressing implications for policy, the researchers focused on the goal of achieving citizen participation and suggested three critical measures of citizen participation that should be the most useful to both funding agencies and participants:

First, to what extent do consumer representatives agree in their perception of their present status and their desires for taking one or more steps upward?

Second, to what extent is there consensus among all participants on the present and desired roles of consumer representatives?

Third, to what extent is consumer representation and power formally established, and to what extent does it depend on informal and therefore less secure or permanent arrangements, such as a key provider personality who advocates a consumer role greater than formal arrangements imply? (5)

Other potential effects of consumer participation in health planning are in the areas of accountability and citizen control. Two recent studies funded under HEW contracts had addressed these issues. As part of a larger study surveying Comprehensive Health Planning Agencies, The Organization for Social and Technical Innovation also addressed these issues in the context of the Comprehensive Health Planning agency boards. (21)

The two phase study first detailed the operations and historical developments of agencies and secondly addressed policy issues. The specific policy issues addressed included: (1) How may CHP agencies extend and improve the kinds of activities they now carry out? (2) How can all (b) agencies acquire the best characteristics of "multiple activity agencies"? (c) If (b) agencies were to become regulatory agents, what policies would support and facilitate their regulatory role? To study the specific issues of accountability and control they focused on CHP boards, the policy making bodies of the agencies.

The OSTI study found that the consumer majority on CHP boards range from 52% to 66% but they also determined that the consumer majority was "more illusory than real." OSTI has identified some of the reasons: a faction among "consumers" siding with "providers"; failure of "consumers" to attend meetings, inexperience on the part of a small subgroup of consumers; those who enter (b) agency boards as "providers" tend to enter as formal representatives of an organization and tend to be seen as "voluntary" or "avocational" in their roles in CHP.