

mama."

"Oh, thank you, I never thought you'd appreciate me."

I use a lot of comics in the classroom. I go on the basis of guilt and fear, to a certain extent, in a very humorous way. I make them feel guilty if they ever ask me for second copies. At the same time, I am installing a strong sense of property rights. I would hope that these same students will not go out and deface the walls of the institution, because they realize this is property.

Every time I have to tell the students something very negative, like there are no makeup exams, I explain it with this reference:

"Am I late?"

"You idiot, you missed the fight."

"Will there be a makeup battle?"

"Officer, there can never be a makeup battle."

Why don't I give makeup exams? I used to give makeups and I found that about one-third of the students would be absent, no matter what. One night, while I was up at midnight grading those exams, there came this voice, "No more makeups." I came back to school the next day and it was like healing hands upon my students. There were no more automobile accidents, there were no more deaths in the family. By the way, did you know that miscarriages are contagious? I had a rash of miscarriages one semester; there must have been at least twelve. Not the fellows, but the wives of the male students. I have quite a collection of information on these things.

"My secret files tell me that since 1948 this is your grandmother's seventh funeral."

I have come to believe in reincarnation. One of my students recently said he had changed his mind about this book he was going to write about because his sister had selected it. About a month later I mentioned his sister and he said, "what sister?" So it is still going on, I guess. Or I use this cartoon:

"Your son-in-law is not here this afternoon. He has gone to your funeral."

How did I collect these cartoons? I go through the morning paper. How many of you have read my article, "Who's been reading the morning newspaper?" It appeared in the Los Angeles Times, but also in the Forum about a year and a half ago. I use the newspaper intensively, not only for the cartoons but also for the charts. When I give tests, I introduce each and every test with a cartoon. Again, it is going along with the idea of using humor in the classroom.

"Ma'am, what kind of a test do we have here? Multiple choice? Good, I choose not to to take it."

Here are a couple of others. Peanuts is compulsory reading every morning.

"Yes, ma'am, I'm all ready for the test. I have three pencils, five sheets of clean paper and lots of erasers."

Some of the cartoons are blown up; some are not. I take them to the audio-visual department; they have a process by which they can blow them up. However, when I am anxious to use one, I make a transparency the same size as the cartoon, using the Thermofax machine. On the overhead projector, if you have a relatively small room, the original size of the cartoon is usually no problem. I have the cartoon blown up if I want to use it with a larger audience.

There is a way of telling certain things, whether they are negative things or positive things. You can tell them through humor.

I grade on the curve, and I tell them about this if perhaps they like a fixed scale.

"I hate being the dumbest one in class, I'm going to fail for sure. Ma'am I think you should grade us on the curve. That way, I think the only way I have to pass is if I can find someone who knows less than I. Then I won't be at the bottom of the curve, right?"

The comic strip ends when she finds Woodstock.

I also use humor with a book report assignment. One comic strip series came out with a whole series on book reports. They were fantastic. They fit right into what I was going. I was very pleased. Speaking of assignments that have to come in, I go back to an incentive system:

"Deadlines can be a drag and often result in work that's inferior.

"But if there is no deadline to meet I never get off my posterior."

I use color, I use humor, and again, you would be surprised how many students copy it down, instead of just reading it.

Sometimes I have reproduced blowups and put them on the wall. I find students secretly sitting there and copying them down off the wall. This is fine. So we do not know really where that little nudge is coming from. It comes from all over and I am just happy that it does appear.

#### The Conference Phone

I do want to tell you about another exciting teaching technique that I used and found very exciting. That is the use of the conference phone. It will be written up in Previews magazine in September. I am doing a rather extensive article for them, previewing audio-visual materials available in the classroom and then adding associated teaching techniques.

The one thing that I can say about the conference phone, it is cheap. It is cheaper than paying \$850 to have someone come to campus to speak. Besides, it would be extremely difficult to schedule the speaker to come to the campus. We had Milton Friedman, the Nobel prize winner, right after he had won the prize. We have talked, by conference phone, with Alfred Kahn. I do this mainly in my economics class. Somehow, that tends to be a bit more dreary than a consumer economics class. Using the conference phone for a well known guest lecturer is a treat if you do it

about once a semester. It becomes a rare treat, something they can look forward to. It provides students with direct involvement because they can make up their own questions. The students submit the questions to me and I type them up. As a result, there is no problem with their stuttering or stumbling over the words, and it all goes along very nicely. It certainly motivates the students. They get the biggest thrill of their lives.

I was also impressed that other people were impressed. I am very market oriented in my economics. Someone at the college, who was very much at the other end of the political spectrum and economics spectrum, complimented me on the fact that I had done this for my students. He said, "I'm sure those students, for the rest of their lives, will remember they spoke with a Nobel prize winner in economics."

Using the conference phone certainly motivates the students. It takes a little time to prepare. Any kind of audio-visual setup takes time, making sure everything is working. It takes time to write the letters and to get the permissions. It takes more than the fifty minutes that you would go into the classroom and lecture. I make a copy of the tape and I use it in the Learning Laboratory. The tape can be recycled in subsequent semesters. It does require the technical hookup; that is, a room that has the conference phone hookup and the piece of equipment. Most colleges have it; even high schools sometimes have it.

I asked Milton Friedman if he would want prepared questions or if he would prefer off-the-cuff questions. He said he would take them off-the-cuff, as did Alfred Kahn, Carter's inflation adviser. But they really were not off-the-cuff. They were typed up, having been submitted to me so they were in good English, in proper order, and with "thank you" and "good morning" on them. It takes a lot of planning and it takes time to prepare. Do ask permission to tape the conference phone session. If nothing else, it is a courtesy to ask the person if they would mind.

#### Economic Concepts in the Classroom

I do want to talk about fitting economic concepts into the consumer economics classroom. I would like to spend a little time on inflation--it being the key economic problem--and how I bring it in from various aspects. There are other concepts in money management, such as budgeting, housing, clothing, transportation, consumer health care, and recreation.

There are a lot of ways you can introduce inflation. First, very simply, talking about the definition. Keep it very simple. You say inflation is merely rising prices. You do not get involved, you do not say how fast, you do not mention hyperinflation or galloping inflation. It is nice if the instructor knows the distinctions between these. Galloping inflation is the literal destruction of the currency; the currency no longer has value. Our currency is depreciating. In eleven years prices have doubled; therefore our currency has significantly depreciated. It is important that the educator understand these things, but in a consumer economics class you keep it very simple. Do not try to bring in the theories. You cannot have two masters, the theory and the practical aspect. I do not try to teach theory in consumer classes; I teach enough of it elsewhere. However, you can bring in certain aspects of theory.

If you have a 4 percent inflation rate, it doubles prices every 17-1/2 years, a 6 percent inflation rate doubles prices every 12 years. You can point out that fact in a humorous way with a budget for the year 2000. A family budget in the year 2000, with an average income being \$45,000, and a lower priced car at \$17,160. Kids always get a big bang out of the Big Mac at \$3.22. This budget is based on a 5% inflation rate. Of course, that is very conservative for the year 2,000. You can bring it in a comparison of youngsters' budgets, as in this cartoon:

"The day is gone when you can make yourself sick on a dime's worth of candy."

Even the child can be taught that inflation is here.

I do like to talk about the Consumer Price Index (CPI). I can go through it in a formal fashion telling what CPI is, and what the wholesale price is. However, you can bring it in with humor:

"The cost of living index is up again. What ever you do, don't buy any living indexes."

Here's another one on family budgets:

"It's just a temporary raise, probably until the cost of living goes down."

Some of these things, you will recognize, are out of Changing Times.

What are the areas in the budget that have mushroomed? They are those that you can do something about, in terms of substitution of items, such as food, shelter, housing, and transportation. But this is a key one, the percentage increase on Social Security in 1978. Take a look at what taxes are taking out because we do not have an appropriate tax system in terms of indexation.

I bring in other budget items, such as the automobile. This came right out of Changing Times:

"Higher interest rates bring about longer time periods in a loan."

This brings in inflation, longer time periods. The five-year loan, instead of the typical three-year loan, at one time was only for the big cars, such as Cadillacs. Now the five-year loan is almost standard even for smaller cars. This article was clipped out of Changing Times, but you can put it right on the overhead.

There is no need to get permission on copyrights. We have an authority on copyrights in our audio-visual department; he stands over all of my visuals all the time. Because we are using it in the classroom and because there is no profit to be made, there is no problem with this being done. It is fair use, even with the changes in the law.

This is another item from the Los Angeles Times:

"Human body valued at record high of \$5.60, 98¢ in 1956."

These little things bring out inflation. If you

go over bankruptcy (the new bankruptcy law takes effect in 1980) inflation is no small matter in causing a bankruptcy. We bring that up again in discussing bankruptcy.

Every time you cover interest, students ask: "What is the prime rate?" You can define the prime rate. Now, everybody says the biggest corporation, or the best corporation, but I think what most consumer economists forget is that this is the corporation which provides the least risk and is the most credit-worthy. Then you can go into what the current prime rate is and what it has been. This comes in the Los Angeles Times. At least every couple of months they give a chart on the prime rate, and I use it in my economics class. You can also bring it in when you are covering inflation.

In many spots you can insert cartoons and other clippings. Carter said the other day that inflation has become part of the fabric of our society, we expect inflation. Unfortunately, when we anticipate it, it almost becomes a self-fulfilling prophecy. If business thinks prices are going up, business prices will go up. If the consumer thinks prices will go up, they go out and buy. For example, as I tell my students, I knew the price of raisins would go up, the crop was said to have diminished. I went out and bought 12 boxes of raisins, and to this day I am still eating raisins. I bought them at 98¢ a box; today they are \$2.00 a box. I created inflation, I am part of the inflationary process. But I did it in my own best interest. My action is not a permanent one, I will not continue to behave that way.

This transparency is a favorite of mine. When meat disappeared from the shelves of grocery stores in 1973, this advertisement appeared in the Morning Valley News. There it is, California's gourmet horsemeat shop, friendly, personalized service, etc. As you may know, horsemeat is a delicacy in France. It is commonly eaten in European countries. The bottom half of the ad gives all the aspects. You can bring this in in advertising, or in inflation, or in the substitution of products.

I have favorites. I have some that are blue and red. I get very excited over sharing these. Then the students laugh; they think that is so funny. I tell them, "This is my favorite." They say, "But you say that every week." They do get excited over it, and they enjoy it.

#### FOOTNOTE

<sup>1</sup>For an expanded and up-to-date exploration of the overhead projector and other classroom visual techniques (as well as over 50 citations of consumer economics audio-visual teaching aids), write for a copy of the September, 1979, issue of Previews, c/o Phyllis Mandell, Editor, 1180 Avenue of the Americas, New York, NY 10036).

ETHICS OF BUSINESS AND GOVERNMENT:  
THE CASE OF LIFE INSURANCE CONSUMER EDUCATION

by

Dr. Brenda P. Roberts and Dr. Lee Richardson\*

Consumer leaders and educators need to evaluate their programs in light of the objectives of consumer education. Educators should attempt to teach consumers not only how to buy insurance but should also try to create processes that lead to more informed consumers. The consideration in consumer education of current public policy issues regarding life insurance--such as the issues of state v. federal legislation, marketing and pricing practices of the insurance industry, and public participation in policy decisions--could lead to the creation of an effective way to inform the life insurance industry and government about what consumers want from their life insurance coverage.

Life insurance industry officials, along with government officials, are independently and collectively participating in the process of educating consumers about consumer products and services. That process is not recognized as a deliberate one, and it is useful for educators to consider the ethics of such government and business involvement. Further, it is the responsibility of those in consumer education to take a leadership role in directing and influencing government and business contributions to this educational process. The life insurance industry is a case worthy of examination because the process and issues exemplified within that industry are similar in nature to other industries.

Government agencies, individual businesses, and trade and professional organizations provide education materials for and are involved in a variety of education-related activities dealing with life insurance. These materials and activities have not gone without critical review from interested educators, although there are no comprehensive methods or systems of collection, screening and evaluation in operation. Published materials made available by business and government agencies have been classified as either too general or as duplications of previous publications. Frequently, materials published by private industry have been too costly for educators teaching in public schools. In addition, industry has been accused of providing materials primarily for the purpose of sales and public relations rather than for education. The objective of this presentation, however, is not to dwell on past shortcomings of industry and government-sponsored educational materials and efforts, but rather to analyze the ethics and issues of their possible future contributions to life insurance education.

With the advent of social responsibility concerns in government and business, now more than ever, educators need to objectively evaluate their personal and community resources for educating consumers. Once this evaluation has taken place for an area such as life insurance, the results, in some instances, can

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be generalized to other industry issues. That is, the focus of the evaluation is the fact that generic issues are found in life insurance.

In a recent meeting sponsored by the American Council of Life Insurance, the primary industry association, a discussion was conducted on the inadequacies of those who teach consumer or family financial planning [4]. Unfortunately, it is true that many teachers are not adequately prepared to teach the various areas included in family financial planning courses, of which life insurance is a vital part.

Educators should concern themselves with evaluating whether they have spent too much time maintaining the business and economic status quo. This approach (or non-approach) restricts their ability to find creative ways to educate consumers about life insurance. New methods need to be identified to keep educators and consumers updated on the regulations which have an impact on consumers as well as other changes occurring within the life insurance industry. Educators can use the expertise of individuals from business and government to complement their attempts to educate consumers about life insurance because industry and government persons often have firsthand knowledge of changes which are occurring within the industry. In addition, the experience and personal involvement that industry and government persons can share directly with educators is invaluable for their teaching, research and writing.

A major concern regarding industry involvement in life insurance education is that business has a vested interest and may seek to present a biased viewpoint of an issue or concept. However, well-informed educators should be able to successfully provide a balance through their own research efforts and exposure to other resource persons.

There are a number of public policy and education-related issues which are relevant to the question of life insurance education. A brief summary of those issues are given below.

#### State v. Federal Regulation: Structural Ethics

The first area for discussion is the issue of whether or not industry, within its presently existing political, legal and economic structure, has the ability to meet the needs of consumers. Actually, this discussion on structural aspects of the industry represents a web of issues. Essentially, consumer educators view structure as a given and attempt to assist consumers in short-run problem solving within that structure. While institutional issues have little short-run significance for many educational audiences, there is a logical need to address the longer term issues of system structure that underlie many of the short-term inefficiencies (i.e. consumer

problems) of the industry. It is not unexpected that industry leadership is unwilling to reform itself in areas that are, in turn, the basic building blocks of its success. There is no self-correcting mechanism for structural deficiencies: antitrust authorities have learned this lesson well.

The life insurance industry is being very carefully evaluated by federal agencies and congressional committees. This emerging review is primarily in response to the public's pressure to expose the industry's alleged deceptive marketing practices and the industry's failure to provide adequate information to insurance buyers. As a result, federal regulation is now being considered as an alternative or supplement to the traditional state regulation of the life insurance industry. The insurance industry agencies (state, particularly) are actively involved in negotiating the issue of state v. federal regulation. Some of these persons can serve as a valuable resource in keeping educators informed about these negotiations.

The current focus of structural debate is the December 1978 decision of the National Commission for Review of Antitrust Laws and Procedures, a Presidential advisory group, to repeal the insurance (life and other forms as well) industry's immunity from antitrust laws. The very creation of the immunity in 1945 under the McCarran-Ferguson Act reveals the complex political processes which have been at work in the past. The law was passed within months of a 1944 Supreme Court decision declaring, for the first time, that insurance was interstate commerce and thus subject to federal regulation. Congress moved swiftly to restore state regulation by passing the McCarran-Ferguson Act.

The recent National Commission report did not seek total federal control of all areas, but suggested guidance in a number of complex problems and practices of the industry, including:

1. Joint industry rate bureaus to effectively set rates for certain types of insurance in a number of states.
2. Equity and discrimination in rates.
3. Availability and affordability of policies.
4. Joint underwriting and pooling of large risks by several companies.

Criticism of these reforms is substantial by those who favor state regulations on political, legal and economic grounds. The National Association of Insurance Commissioners (NAIC), an association of state regulators, defends various cooperative practices (rate bureaus, pooling of risks, etc.) as essentially efficient practices for the delivery of insurance services. States argue their closer proximity to consumers, the inefficiency of federal regulation, and the motives of federal bureaucracy as reasons for expanding their authority still further.

The structure and dynamics of political, legal and economic processes are of enormous significance for consumer educators if their objectives include improving the ability of consumers to obtain satisfaction in the use of life insurance policies. Complex institutional forces continue to shape the

industry that delivers life insurance.

#### Marketing and Pricing: Buyer/Seller Ethics

Business persons and government officials are participating in discussions of issues directly affecting the life insurance industry and ultimately the public. These issues include marketing practices of the industry, cost and information disclosure, privacy rights, price comparison methods, discrimination, lack of competition among firms, and the inordinately high cost of credit life insurance. Although the list does not include all the issues, one can quickly surmise that the issues are interrelated, yet are very often complex [7].

The marketing practices of the life insurance industry, and cost and information disclosure, have taken top priority with industry persons, state commissioners, and regulatory and federal officials. This interest is due, in part, to the Federal Trade Commission's (FTC's) investigation of the life insurance industry and the agency's concern for more adequate disclosure of information and cost. In fact, during the past year, the FTC has come under fire for its involvement in the cost disclosure issue since there is some question whether or not the FTC has the authority to investigate practices of the insurance industry.

In a report released in January, 1979 by the House Subcommittee on Oversight and Investigations, the life insurance investigative activities of the FTC were analyzed and evaluated as justified and lawful from a policy standpoint. However, the FTC was subtly criticized for its lack of diplomacy in its methods of handling certain situations [8].

A major finding of the Subcommittee's Report was that consumers do not have access to the type of information needed to make intelligent decisions when buying life insurance. Furthermore, the marketing practices of the life insurance industry are of paramount importance because consumers often rely on the advice of the agent rather than conducting their own research before purchasing the product. Unfortunately, a consumer cannot be assured that the agent is knowledgeable or is selling a quality product at a competitive price. There is no doubt that, at the present time, adequate information is not provided at the point of sale. Some cost comparisons, however, can be fairly easily carried out by consumers. For example, term insurance coverages can be easily compared [1].

Because consumers often become dissatisfied with their purchase, lapsing or eventual replacement of policies have become more commonplace. The end result is that consumers receive very little, if any, value from dollars invested in the life insurance product.

Consumers cannot be totally exonerated from blame, because they do not necessarily purchase a life insurance product on the basis of suitability, quality and cost. That is, the purchase decision is generally made on the advice of the agent. There is hope that consumers will make more informed choices if they are provided with certain types of information before purchasing the product.

An added benefit of consumers using such information is that insurance companies would find it beneficial to become more competitive by offering for sale lower cost, higher quality products. Therefore, the clarity, quality and type of information provided becomes very important.

Efforts are being made to supply consumers with more information -- quality information. The NAIC has drafted a model bill (the NAIC Model Solicitation Regulation) which provides (1) a buyer's guide designed to facilitate selection of a policy appropriate for a specific individual's insurance needs; (2) a summary of the policy intended to improve the potential buyer's understanding of the basic features of the policy under consideration; and (3) cost indices based on interest-adjusted cost which would improve the buyer's abilities to compare costs of similar policies. An expensive annual book, the indices for most policies offered in the U.S. are found in Interest Adjusted Index published by the National Underwriter Company [4].

The Report of the Subcommittee on Oversight Investigations praised the NAIC for outlawing cost comparisons using the net cost method, and for endorsing the use of interest-adjusted cost indices. However, the NAIC's action in mandating the use of interest-adjusted cost indices in a model bill was of some concern to members of the Subcommittee.

Although the Subcommittee Report did not endorse either the purchase of term or ordinary life, their recommendations for information included in a policy summary is more extensive than that of the NAIC model bill. The Summary would contain a comparison of whole life policy benefits with an alternative program consisting of term insurance and a separate savings account. Also included in the Summary is the information on how many years the coverage would be in effect before the policyholder could surrender it without suffering a financial loss. Given the concerns of consumer representatives, these recommendations, if implemented, would result in an improvement over the regulations stipulated in the model bill.

Unfortunately, time does not allow an in-depth discussion of all issues related to life insurance currently of concern to government officials, industry persons, educators and consumer representatives. However, it is apparent that a system needs to be devised which would more effectively communicate the status of the various issues and suggest proposals for change to interested consumers and educators. If consumers and educators were kept more informed about these issues, they would, perhaps, be encouraged to take a more active part in the public policy negotiations and decision-making process.

Of course, a problem inherent in any system designed to communicate information is insuring that the data are relayed accurately from an unbiased perspective. Total assurance is not possible. However, one means of reducing communication distortion is for educators and consumers to become actively involved in the process, thereby receiving the information firsthand [2].

Public Participation: Government/Consumer/  
Business Relations Ethics

The National Association of Insurance Commissioners (NAIC) has been actively involved in writing a number

of model laws intended to regulate various aspects of the life insurance industry. Consideration must be given to the fact that these model laws have been constructed primarily from the viewpoint of State Insurance Commissioners and industry persons, not consumers. However, the NAIC is making an attempt to change this situation.

In 1978, the Executive Committee of NAIC authorized the chairman of EX 4 Consumer Participation Subcommittee (the Commissioner from Virginia) to seek a non-federal source of funding for consumer participation on NAIC advisory committees. To date, at least five private sources of funds or foundations have turned down an application submitted by the Virginia Bureau of Insurance requesting funding for consumer representatives. As a result of the failure to secure private funding, the NAIC subcommittee has recommended that a feasibility study be conducted to determine a method of funding, directly from the NAIC budget, consumer participation on advisory committees. Between now and the time the feasibility study is completed, Committee, Subcommittee, and Task Force Chairpersons have been encouraged to schedule meetings in locations that will minimize the travel expenses of consumer representatives.

Consumer representation in the policy decisions of NAIC should soon be a reality. NAIC's EX 4 Consumer Participation Subcommittee has also recommended to the Executive Committee that the Executive Secretary appoint consumer members to all advisory committees. Persons participating on these advisory committees are involved in drafting model state laws. There is definitely a need for the objective, analytical opinions of both educators and informed consumers to be integrated within this regulatory and legislative process. Furthermore, educators should be concerned with the content of these regulations being drafted, the effects of their eventual passage, and ultimate implications for consumers [6].

Consumer educators and leaders must become more actively involved with industry and government leaders in order to effectively contribute to the ongoing decision-making process concerned with solving life insurance issues. For example, the conference "Consumer and Life Insurance -- An Exchange of Views" sponsored by the U. S. Office of Consumer Affairs and National Consumers League served as a forum for educators, industry and government persons to discuss the issues, thereby providing an opportunity for all participants to broaden their perspective in areas of concern. Moreover, in this past year there have been smaller, less formal meetings which included members of industry, government and consumer groups [3]. During these meetings, the participants attempt to identify common concerns. A goal of those involved is to eventually establish a working relationship in order to develop strategy for solving problems and researching the issues. The property and casualty industry has been more involved in this form of exchange than has the life insurance industry. However, roundtable discussions with the life insurance industry as a means of communicating ideas and concerns appear viable. If such discussions do occur in the future, contributions of consumer educators and leaders would be invaluable.

Consumer Educators in the Public Policy Process: A Summary

The federal government may be able to effectively utilize its resources to set up a network to disseminate consumer information including subject matter related to life insurance. If successful, federal officials and staff members could serve in a liaison capacity between the relatively isolated consumer educators and the life insurance industry. Bridging the communication gap which now exists among consumer educators, consumers, and the life insurance industry is an important facet of making such a network effective. A nationwide consumer education network ultimately could be instrumental in eventually bringing about changes in this industry and its ability to satisfy consumer demands.

Consumer leaders and educators must evaluate their programs in light of the objectives of consumer education. That is, educators should attempt directly to teach consumers how to buy insurance in the context of their needs and wants. Furthermore, they should be interested in trying to create processes that lead to more informed consumers. Hopefully, educators will choose to integrate their approaches with those of consumer leaders, industry and government in an active, not passive manner. Existence of a well-informed public which will desire quality information and products can only improve the public policymaking process and ultimately the structure of institutions. Education can create an effective way to inform the life insurance industry and government about what consumers want from their life insurance coverage as well as educate consumers about the marketplace offerings that currently exist.

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COMPARISON OF CONSUMER ACCEPTANCE  
OF RIGHTS AND RESPONSIBILITIES

Dr. Rose M. Davis\*

A survey was conducted to identify and compare the acceptance of consumer responsibility with the acceptance of consumer rights. In general, the acceptance of consumer rights was higher than the acceptance of consumer responsibilities. These results imply a need for greater emphasis on the acceptance of consumer responsibilities.

In the past ten years much emphasis has been given to the rights of consumers. Consumers have demanded the right to choose, the right to be informed, the right to safety, the right to be heard, the right to fair treatment, and the right to consumer education (1, 2, 3, 6). It is generally agreed that rights include corresponding responsibilities. This study was concerned with the need for more emphasis on consumer responsibility (7, 8, 9, 10).

When consumer problems reported to offices of consumer protection are tallied, a large percentage of these indicate a lack of responsible action on the part of the consumer. Often complaints do not fall into such categories as false, misleading, deceptive, or unfair. More often, consumer problems are the result of misunderstandings, not reading or understanding contracts, lack of following instructions, or becoming overextended in debt (4, 11, 12).

Consumers are beginning to recognize and question the costs and benefits of consumer regulation and protection (5, 13). Increasing numbers are recognizing there is a limit to how much protection can be provided without the cooperation of responsible consumers.

The purpose of this study was to identify and compare acceptance of consumer responsibility with acceptance of consumer rights.

#### Procedures

An instrument was designed and field tested, resulting in a list of ten implied rights and comparable responsibilities. Responses were indicated on a four-point Likert-type scale. A selected sample of 500 adults throughout the state were requested to complete the questionnaire. From this sample, 451 usable responses were obtained. These respondents, 34 percent males and 66 percent females, represented a wide age range with 49 percent under age 25 and 51 percent above age 25. The data were tabulated to provide the percentage accepting the identified rights and responsibilities.

#### Findings

All respondents agreed that manufacturers should provide labels on clothing indicating fiber content and cleaning and laundering instructions, while 12 percent said they would expect to have their money returned on a garment that shrunk even though they

did not read and follow the laundry instructions on the label. This indicates consumers want information but not all are willing to accept the responsibility for using the information provided.

All respondents agreed that if overcharged for an item they would expect the error to be corrected, but 36 percent said that if they received more items in an order than for which they were charged, they would not feel a need to return items for which they had not paid. This implies that not all consumers feel a need to be as fair with business as they expect business to be with them.

Eighty-seven percent of the respondents agreed that the responsible consumer should not have to pay more for items because other people damage and steal. Related to this right, 38 percent indicated that if they observed someone shoplifting they would probably ignore it. Twenty-five percent indicated that if they bought groceries regularly at the same store, they would have no qualms about sampling items like strawberries and grapes. Fourteen percent indicated that if a person, while shopping, dropped fire from a cigarette on a garment and burned a hole or got lipstick on a garment in the dressing room, the person had no responsibility for paying for this damage.

Ninety-eight percent of the respondents agreed that citizens have a right to expect laws to be enforced. However, if they drove a small car that used less gasoline, 15 percent indicated they feel they have a right to break the speed limit if the restriction is for the purpose of reducing the amount of gasoline used. Forty-six percent agreed that if they wanted to use leaded gas in their new car, this was their personal business.

Ninety-seven percent agreed children of today are entitled to necessary natural resources through their lifetime, yet 50 percent said that if a person chooses to drive a big car and ride alone most of the time, this should be of no concern to others as long as this person pays his/her bills. Similarly, 42 percent said if a person has plenty of money to pay his/her bills and wants to keep the thermostat at 75 degrees in the winter and 68 degrees in the summer, this is his/her right. These attitudes could possibly be related to the fact that many consumers are not convinced there is a shortage of these resources or believe alternatives will be developed for use before today's children reach adulthood.

Ninety-nine percent agreed that each individual has a right to breathe healthy air. However, 34 percent indicated that if a person has a car with a muffler and tailpipe that need to be replaced but cannot afford the replacements, no one has the right to prevent the person from driving his car. Perhaps this implies that consumers want to breathe fresh air but do not want to pay the cost.

All respondents agreed that they would expect to be provided a clear set of instructions when purchasing an item to be assembled, but 20 percent indicated

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that if they broke a piece in assembling it without following instructions, they would expect the piece to be replaced without cost.

Ninety-four percent of the respondents indicated only safe toys and tools should be allowed on the market while 7 percent indicated that if their eye was injured from a rock hit by a lawnmower with the safety shield removed, they would sue the manufacturer of the mower. Most consumers want safe toys and tools on the market, but a few still expect to be protected even when they do not use the safety features provided.

Ninety-nine percent of the respondents indicated the consumer has the right to expect any item purchased to perform the function for which it was designed, implying an expectation of business and industry to be honest and fair with the consumer. Yet, respondents indicated lower expectations of consumer responsibility to be honest and fair. Eleven percent did not feel they should notify

the seller if they were not satisfied with a purchase. Twenty-seven percent said a person signing a contract without understanding it should not be held responsible for the agreement. In another response, 7 percent indicated that if a person has so many bills that he cannot make his car payment, it is the finance company's problem because they were too liberal in giving the loan. Fourteen percent also agreed that it is okay to cheat on a test or an income tax return if you can do so without being caught.

The findings of this study are graphically portrayed in Figure 1 showing the percentage accepting the rights as compared to the percentage accepting the related responsibilities. Figure 2 shows the mean acceptance of the rights and responsibilities identified in this study, with 95 percent of the respondents accepting the rights while only 74 percent accepted the responsibilities.

Figure 1. Acceptance of Rights and Related Responsibilities

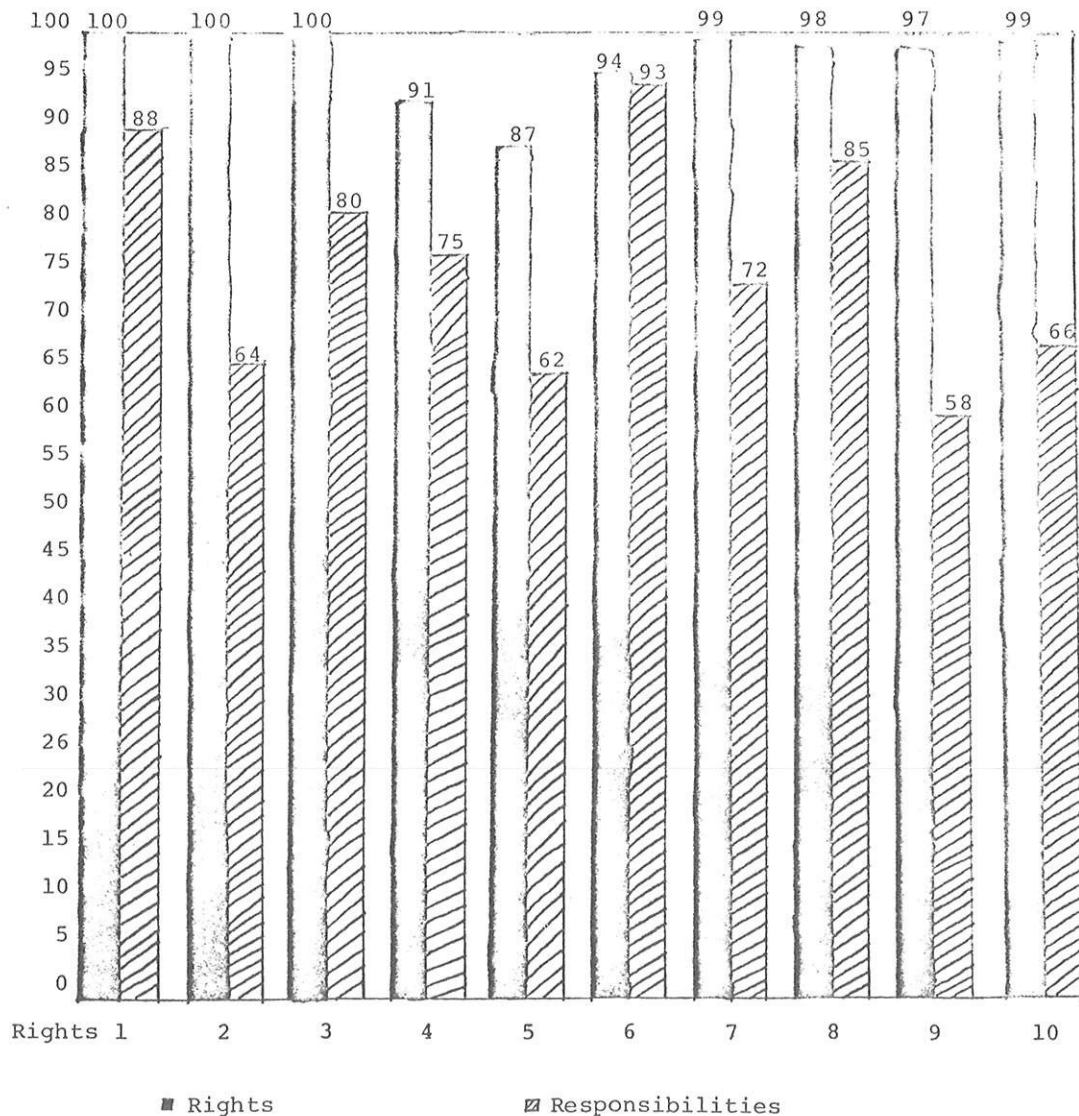
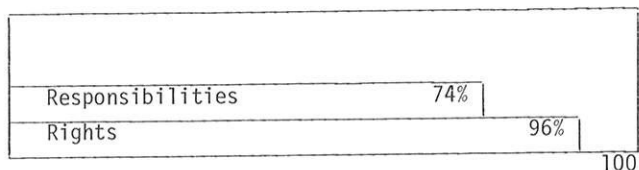


Figure 2. Mean Acceptance of Rights and Responsibilities



### Summary and Implications

Concepts of marketplace ethics and consumer responsibility are vague and difficult to define (2). They are based on moral principles and values which are not easily identified. However, if consumer education is to be more than good buymanship and management, it must address itself to such topics as consumer responsibility which includes ethics and morality.

Consumers have the responsibility to offer intelligent and worthwhile suggestions and complaints when necessary to business, industry and government. Consumers have the responsibility to use information that is available in instruction booklets, owners' manuals, and use and care tags. They have a responsibility to pay their bills and to read and understand contracts before signing them. The consumer should be honest and fair in all dealings and call attention to errors that are to his disadvantage as well as those that are to his advantage. Responsible consumers should also be aware of their role and function in the economy. They should abhor waste and avoid exploitation of those who supply goods and services.

Along with continued recognition of consumer rights, an implication of this study is that more emphasis should be given to the acceptance of consumer responsibility. The results of this study challenge educational institutions, media, advertising, and consumer agencies to help consumers be more responsible as purchasers, recipients, and citizens.

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MISINFORMATION IN THE USED-CAR MARKET: PROBLEMS WITH  
CONSUMER REPORTS' "FREQUENCY-OF-REPAIR RECORDS"

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Each year used-car consumers seek reliable information on potential problem cars to avoid purchasing. One important annual source of such information is Consumer Reports' "Frequency-of-Repair Records." Unfortunately, these records may be inaccurate and provide misinformation. This misinformation may also cause significant economic losses for consumers. This paper examines statistical problems associated with used-car records in Consumer Reports. In addition, the economic impact on buyers and sellers of used cars, who rely on this data, is studied. Finally, ethical considerations concerning the publication of possibly inaccurate information by a consumer information organization are discussed.

Information on the quality of used-car models is important to consumers. A look at the size of the used-car market should provide an indication of why this information is in demand. Over 80 percent of the 18.2 million new and used, domestic and imported passenger cars sold each year for personal use are second-hand. In fact, an average of 14.7 million used cars have been retailed annually for the past ten years, in comparison to the average of 3.5 million new cars sold annually to consumers for private use (11). Most consumers, then, are more likely to purchase a used car than a new car. While good consumer information is available for making new-car purchases, only limited information is available for selecting used cars.

One important annual source of information on good and bad used-car models is Consumer Reports' "Frequency-of-Repair Records" (3). These records are based on results of an annual mail survey of the magazine's subscribers. Using information from these records, consumers can reduce the extent of their search for a used car by eliminating a possible "lemon" model and selecting a "good bet" used-car model in an appropriate price range (4). Unfortunately, these records may be inaccurate and may provide misinformation to consumers about the quality of used-car models. This misinformation may also cause significant economic losses for consumers.

This paper examines the problems associated with used-car records in Consumer Reports. Among the survey factors considered are: (1) the randomness of the survey sample; (2) the response rate and bias of the questionnaire; (3) the reliability and statistical treatment of the data; and (4) nonsampling, technical problems with the questionnaire instrument. In addition, the potential economic impact on buyers and sellers of used cars, who rely on this data, is examined. Finally, ethical considerations are discussed in light of the publication of possibly inaccurate information by a major consumer information organization.

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Statistical Problems

Surveys are frequently conducted for the purpose of making descriptive assertions about some population. In the Consumer Reports' survey an attempt is being made to describe the experiences of the used-car owner population.<sup>1</sup> The first question to be asked about the data concerns the representativeness of the sample to characterize the population. One can generalize with certainty, so long as the sample is representative of the population. If only certain parts of the used-car owner population are given a chance to be sampled, then the sample may be biased. By simply mailing a questionnaire to its readers, Consumer Reports has violated sampling standards for acceptable survey research (1, 2, 8).<sup>2</sup> Any description of experiences of the used-car owner population based on this biased sample may be inaccurate.

The sampling problem with Consumer Reports' data can be placed in a different perspective by looking at the use of the sampling frame. For the Consumer Reports' "Records", the sampling frame was the approximately two million subscribers. From this sampling frame, a sample has been selected and used to make assertions about a population similar to, but not identical to, the survey population defined by the sampling frame. One survey researcher has suggested that this type of survey bias is "akin to studying a small Lutheran church in North Dakota for purposes of describing religion in America" (1, p. 89).

Even if the list of subscribers in Consumer Reports is accepted as being representative of the used-car owner population, other problems exist with the rate of response to the questionnaire. In 1977 approximately 226,000 readers out of a survey population of two million subscribers, responded to the mail questionnaire (3, p. 231), making the response rate about 11.3 percent. Certainly, not all subscribers received the questionnaire or are even used-car owners. If the survey population was reduced to 1.25 million subscribers, the response rate would still be about 20 percent.<sup>3</sup> This response rate is below the minimum 50 to 60 percent response rate considered necessary for analysis and reporting in survey research (1, pp. 165-6; 2).

The response rate, however, may not be as important as the possibility of response bias among people who answer self-report mail questionnaires. As one authority on surveys noted, "most mail questionnaires bring forth so few returns from such a highly selected population that the findings of such surveys are almost invariably open to question" (8, p. 400). The people who answer mail surveys generally have a strongly favorable or unfavorable opinion to register. Therefore, the response sample may not even be characteristic of all subscribers to Consumer Reports, much less the general used-car owner population.

The researcher simply does not know how much the respondents differ from non-respondents with this survey population.

Other response biases may also be present. For example, some drivers do a good job of maintaining their cars according to a prescribed maintenance schedule for that car. These drivers change the oil when necessary, check various components of the car, or at least have a competent mechanic monitor the car's performance. Other drivers fail to perform the necessary maintenance on a car and their neglect can contribute to a car's rapid demise. Are these "good" and "bad" car owners randomly distributed across the used-car models analyzed in the Consumer Reports' data? The highly selective nature of the data makes this bias a possible factor accounting for some of the car component ratings.

Similarly, the fact that some car owners use garages may mean that the exterior of the car will be subject to less damage from weather conditions. Are the garage habits of used-car owners randomly distributed across the used-car models studied in the report? If this characteristic is not randomly distributed, lower ratings on body exterior of certain models may be due to this sampling bias and not to the characteristic of a particular model.

Other questions of this type could be asked about the data. Are the types of driving styles randomly distributed across makes and models? Is there a response bias for models by age or socio-economic status of owners? Have certain used-car models changed hands more often than others to account for the rating difference? Is there a bias due to the geographic location and type of terrain where the car was driven? With a random sampling procedure, these possibilities could be eliminated with some degree of certainty. The possibility of sampling bias makes the reported data suspect (6, pp. 117-130).

In addition to problems with the representativeness of the sample, the response rate, and response biases, there are also problems with the reliability of the data. Use of a random selection process offers the survey researcher access to the body of probability theory. This theory provides a basis for estimation of population parameters and calculation of the degree of error. The Consumer Reports' data fail to meet assumptions necessary for the use of probability theory to determine the reliability of the estimates (1, pp. 307-8).

An example should help to illustrate the problem. A survey researcher does not know the population parameter, but conducts a sample survey in order to estimate the value. Using the Consumer Reports' data, let's say that 50 percent of the respondents to the survey who own a 1977 model car A reported no mechanical difficulty with that model. The minimum sample size is 100 respondents for that car.<sup>4</sup> Using a standard sampling error formula for this percentage estimate, the standard error equals 0.5 or 5 percent.<sup>5</sup>

Now a confidence level can be selected and a confidence interval determined. Based on the sample survey results, the researcher would say that

the best estimate of the population parameter is 50 percent reporting no mechanical problems. However, the researcher would be confident at the 95 percent level that the true population response would be between 40 and 60 percent (plus or minus two standard errors from the 50 percent estimate) reporting no mechanical problems with car model A. Unfortunately, this form of statistical analysis is applicable to randomly selected data and cannot be used with the possibly biased Consumer Reports' sample.

Also, the overall statistical treatment of the data is weak. The categories for each component analyzed, and the overall rating of each car model, are ranked in five ways: (1) much worse than average; (2) worse than average; (3) average; (4) better than average; (5) much better than average. It appears that arbitrary percentage cutoff points are used to determine the difference between rating categories. However, no statistical significance testing of the difference from average is conducted. While a car may have a worse than average overall rating, the difference from average may not be statistically significant. Again, the non-probability sampling procedures would make these statistical tests inappropriate. The reader does not know how much reliance can be placed in the reported differences between car models.

Finally, there may be some non-sampling and non-statistical problems with the questionnaire instrument. The major question asked of used-car owners reads, "If you ever had any problems with your car that you consider serious (because of cost, safety, or inconvenience), check when they occurred, include warranty repairs but do not include repairs for accidental damage." A list of seventeen components is given that ranges from air-conditioning to transmission. This question and the words "serious," "cost," and "safety," and "inconvenience" can be interpreted in many ways by respondents. What is a serious problem for one car owner may be only a minor repair to another car owner. Interpretations of the question may cause a response bias which may influence data results. Also, some of the respondents, who are unfamiliar with components of a car, may not be competent to answer the question. The problems of question interpretation and competency to answer are common problems in self-report mail questionnaires (1, pp. 140-145).

#### Economic Implications

Information from the Consumer Reports' article may change the market demand for certain models of used cars. Basically, this information will tend to shift the demand curve outward for used-car models which are considered a "good bet." Conversely, the demand curve will be shifted inwards for used-car models that receive a "lemon" rating. These demand shifts may have an economic impact on buyers and sellers of used cars.<sup>6</sup>

One important characteristic of the used-car market should be highlighted before a discussion of the economic effects is undertaken. In 1976, sales of used cars totalled \$21.3 billion. In that year, over 20 percent of the sales, accounting for \$3.9 billion, were privately conducted. Franchised new-car dealers handled 51 percent of the

transactions and sales of \$14.1 billion. Finally, used-car dealers without new-car franchises conducted 28 percent of the retail sales for a total of \$3.3 billion (11). As these figures indicate, individuals operate both as buyers, and to a certain extent as sellers, in the used-car market. Consumer information that can shift the demand for used-car models will influence the total expenditures of buyers and the total revenues of individual sellers of used cars.

The economic impact of biased consumer information can be illustrated with an example. Assume there are two similar used-car models for which the market demand and supply conditions are identical before the publication of the Consumer Reports' information. This situation is shown in Figure 1 (a) for used-car model A and Figure 1 (b) for used-car model B. The original equilibrium market price for used-car model A is at point A, where the demand curve  $D_{a1}D_{a1}$  intersects the supply curve  $S_{a1}S_{a1}$ . At this \$2,000 price ( $P_{a1}$ ), there are 10,000 quantity ( $Q_{a1}$ ) of used-car model A's sold in the market, for a total revenue of \$20 million, as shown by the area  $O.P_{a1}.A.Q_{a1}$ .

Similarly, the original equilibrium market price for used-car model B would be at point D in Figure 1 (b), where demand curve  $D_{b1}D_{b1}$  intersects supply curve  $S_{b1}S_{b1}$ . Again, the equilibrium price ( $P_{b1}$ ) would be \$2,000 and the quantity of used cars exchanged would be 10,000 ( $Q_{b1}$ ). The total revenue of \$20 million is shown by the area  $O.P_{b1}.D.Q_{b1}$ .

If, as a result of the publication of the Consumer Reports' information, the demand for car A decreased so the demand curve shifted inward from  $D_{a1}D_{a1}$  to  $D_{a2}D_{a2}$  by an equal amount at each given price, then the new equilibrium price would be established at point C in Figure 1 (a). In this case, the average selling price would have dropped by \$250 to  $P_{a2}$ , and only 7,500 cars ( $Q_{a2}$ ) would be sold. Consumers of used car A would benefit since their total expenditure would have been reduced from \$20 million to \$13.125 million. On the other hand, if it is assumed that 20 percent of the sellers of used-car A are individuals, then these individuals would be hit with a reduction in total revenues of \$1.375 million. The combined loss of revenue to all sellers would be \$6.875 million. This loss is measured by the difference between areas  $O.P_{a1}.A.Q_{a1}$  and area  $O.P_{a2}.C.Q_{a2}$ .

For the consumers of used-car B, the economic impact is the opposite of that for consumers of used-car A. As shown in Figure 1 (b), the demand curve has shifted outward by an equal amount at each given price, so that  $D_{b1}D_{b1}$  moves to  $D_{b2}D_{b2}$ . The equilibrium price has increased by \$250, as shown by the move from D to F. In this example, consumers of used-car A have increased their total expenditures from \$20 million to \$28.125 million to the benefit of sellers. The individual sellers of used-car B would benefit from additional revenues of approximately \$1.625 million (20 percent of \$8.125 million.) These consumers are paying \$250 more and buying 2,500 more cars ( $Q_{b1}$  to  $Q_{b2}$ ) than they would have without the publication of Consumer Reports' information. Unfortunately, used car B may be no more reliable than used car A as a car model to purchase. The publication of the Consumer Reports' information has caused an unjustified

reallocation of expenditures and revenues among buyers and sellers of used car A and used car B.

Even if there was no price increase or decrease due to the publication of the Consumer Reports' data, but the demand curves shifted as expected, there would still be an unjustified transfer in revenues between buyers and sellers. As shown in Figure 1 (a), consumers of used car A would have to pay \$10 million less in total expenditures since they are buying 5,000 fewer cars ( $A_{a3}$ ). The equilibrium price would be set at  $P_{a1}$ , but the equilibrium quantity has moved from  $Q_{a1}$  to  $Q_{a3}$ . The total revenues going to sellers would only be \$10 million, as shown by the area  $O.P_{a1}.B.Q_{a3}$ .

On the other hand, total revenues for used car B would have increased by \$10 million if the price was held constant at  $P_{b1}$ . The equilibrium quantity has increased by 5,000 cars, from  $Q_{b1}$  to  $Q_{b3}$ . The area of total revenue has grown from  $O.P_{b1}.D.Q_{b1}$  to  $O.P_{b1}.E.Q_{b2}$ . A reallocation of revenues has occurred based on the reporting of possible misinformation about used cars.

Besides the possible economic burdens on buyers and sellers from the misinformation about used-car models, there is also a burden experienced by subscribers to Consumer Reports. The reporting and analysis of "Frequency-of-Repair Records" is not a cost-free operation. To obtain a rough approximation of the costs, consider the following: (1) the bulk rate mail costs for sending out 2 million questionnaires would cost \$54,000 (each bulk mail piece cost \$.027); (2) a business reply envelope normally costs \$.18. For the 1977 survey, the reply mail costs would have been about \$40,680 (226,000 times \$.18). Thus, the total postage costs alone would be approximately \$94,680; (3) there would be the direct cost of analysis and printing of the report; and, (4) subscribers would have borne an indirect cost for the time to read and possibly fill out the report. Whatever the total bill would be, resources devoted to the publication of the "Frequency-of-Repair Records" could better be spent on an improved used-car survey or analysis of other consumer information problems. From this action, subscribers and the general public would benefit by receiving a more reliable consumer information product.

#### The Consumers' Interest

All data made available for consumer decision-making should be reliable. At present, it appears that possible misinformation about the quality of used-car models is being reported in Consumer Reports. If the accuracy and representativeness of consumer information cannot be determined, then consumer organizations need to adopt new standards of data collection and statistical analysis: otherwise, the reporting should cease. These standards are especially important for a magazine with such a large national reputation as Consumer Reports and a readership that reaches far beyond the subscription list.

An argument can be made that some limited information for used-car purchases is better than no information. However, in this situation the consumer of that information faces a problem of  caveat emptor -- "let the reader beware." Most readers do not have

the statistical knowledge to assess the data for its weaknesses. In fact, publication of the information is a form of validation of the data reported. As has been shown, this information may have potentially damaging economic effects for both individual buyers and sellers of used-car models.

By not publishing the records, the consumer will be forced to seek other sources of information. Maybe the best advice to be given to consumers is for them to conduct an individual evaluation of each used-car model considered, or have a competent mechanic do it. Until proposed used-car disclosure regulations are adopted (4, p. 241), a close inspection of each car by a competent mechanic is probably the "best bet."<sup>7</sup> The list of "good bets" and "records" published in Consumer Reports may not be in the consumers' interest.

#### Footnotes

<sup>1</sup>The Consumer Reports' study does not survey the total used car population. Data is reported on only 596 models from 1972 to 1977. The Consumer Reports study is making assertions about an estimated used-car population of over 50 million, based on car production figures by vehicle type for those years (7, 9). The total used-car population may be over 106 million (9, p. 141).

<sup>2</sup>Simple random sampling may not always be possible for surveys. For a discussion of appropriate survey sampling procedures, see (1, pp. 78-110; 2; 8, pp. 219-245).

<sup>3</sup>In previous years, the reader response to the mail questionnaire has ranged from 165,000 in 1976 to 405,000 in 1972. The response rate for the questionnaire has not been over 35 percent during the 1972 to 1977 period.

<sup>4</sup>Repair records are reported only for those models with sufficient data. The minimum sample size accepted by Consumer Reports for analysis and reporting is 100 cases, as established in a letter from the organization to the author. Although sample sizes may vary from 100 to several thousand for a car model, the average sample size appears to be around 379 cases. This estimate was made by dividing the number of respondents (226,000) by the number of models analyzed (596). As has been noted, however, large sample sizes may not be as important as the biased sampling procedures in assessing the accuracy of survey estimates (8, pp. 240-5).

<sup>5</sup>In the case of a percentage, the quantity  $\frac{\sqrt{p \cdot q}}{n}$  where  $p$  is a percentage and  $q$  equals  $1-p$ , and where  $n$  is the sample size, is called the standard error. For this example,  $p$  equals 50 percent,  $q$  equals 50 percent, and  $n$  equals 100, so the standard error is .05 or 5 percent (1, pp. 86-87).

<sup>6</sup>It is assumed that the shifts in the demand curve are due to the published information from the Consumer Reports' article holding all other factors constant.

<sup>7</sup>As recommended by the U.S. Department of Transportation's Office of Public and Consumer Affairs, "THE FIRST RULE in buying a good used car ... is to inspect it as thoroughly as you would a house. When possible, have the vehicle run through a diagnostic center or inspected by a competent mechanic to determine its overall general condition." (10, p. 4).

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## A MEASUREMENT SCHEME TO DETERMINE PRODUCTS LIABILITY

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An alternative to the traditional "basis of the bargain" model in dealing with products liability problems is presented. The traditional model is predicated on two assumptions: 1) the consumer's inherent disadvantage in marketplace transactions, 2) the "ordinary man" standard as the basis for many products liability decisions. These assumptions are at the very least inaccurate. The alternative model is a behaviorally oriented model referred to as the Consumer Expectation-Product Performance-Consumer Frustration (EPF) Model. Operationalization problems and benefits of the EPF Model are discussed. This paper concludes by re-emphasizing the need for empirically based legal and public policy decisions.

### Introduction

While the history of recovery for product caused losses (products liability) is a very recent one (6), no area of the law is presently more important nor has grown more quickly. In the last decade products liability claims have increased twenty times and are expected to double again, reaching two million in total by 1980. It is estimated that the average size of court settled products liability claims has increased seven times in the past decade, and that a typical firm has had its product liability insurance doubled in the last two to three years (1, 2).

The meteoric growth and impact of products liability in the economic and legal marketplaces has its moorings in the recent and dramatic shift in the law of products liability from *caveat emptor* to *caveat venditor* (5). A direct consequence of this shift has been a judicial system which has justified *caveat venditor* and consequently consumer recovery on the "basis of the bargain" model. This model 1) assumes that consumers are always seriously disadvantaged prey in their marketplace "bargaining" and then 2) generally permits recovery where consumers simply demonstrate that they did not *actually* receive the *perceived* basis of *their* bargain (product or service).

Interestingly, the same law which uniformly assumes the disadvantaged consumer predicates that assumption on the "ordinary man" standard. According to present legal guideposts, the ordinary man has "ordinary knowledge common to the community" (16) and uses goods for the "ordinary purpose" for which goods are used (18). While this widely accepted standard strongly implies empirical underpinnings which determine the ordinary man, it is a standard whose attributes, meaning, and effects are presumed rather than queried and discovered. The point is that a measurable (but not presently measured) standard, the ordinary

or average man, is used to justify a non-measurable standard, the basis of the bargain model.

Specifically, the problems with the basis of the bargain model are that:

1. the relative bargaining positions between suppliers and consumers have never been clearly determined nor operationally defined; and
2. the notion of the "ordinary man" has been an accepted fiction rather than a behaviorally based average.

In essence, recovery has been predicated on assumptions rather than behavioral reality. Surprisingly little judicial attention has focused on the research of behavioral scientists regarding consumer formulation of purchase decisions as well as post purchase evaluations.

The objective of this paper is to present a conceptual model and to initiate an operational model considering products liability from a behaviorally data based perspective. The proposed model, which will be called the E-P-F model (Consumer Expectation-Product Performance-Consumer Frustration Model) requires that courts put aside their traditional abhorrence of the behavioral sciences and learn to integrate empirical data into the factual pattern under adjudication. Initially, this altered scope of inquiry may increase the cost of judicial process. Any countervailing detriment to manufacturers and consumers should eventually be offset in the form of fairer and more predictable judgments, lower insurance costs and, hopefully as a consequence, lower prices.

### The Consumer Expectation-Product Performance Consumer Frustration (EPF) Model

At the outset, one must not be misled by the economists' and legalists' error of either assuming adequate knowledge about or discounting the importance of consumer expectations, perceptions, information and decision making. The real danger lies not in accepting assumptions *per se*, but rather in basing decisions *ceteris paribus* on them. Courts, must therefore, thoroughly investigate these facets of consumer behavior and attempt to base decisions on the present state of information. Decisions, legal as well as economic, must be empirically based whenever feasible.

The expectation-performance-frustration model (EPF model) is an alternative to the traditional basis of the bargain concept. This model, which contains three major components, offers that consumer frustration results when ordinary consumer expectations are unfulfilled or significantly less than expected product performance. In a conceptual shorthand form:

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$$CF = f(CE > PP)$$

where

CF = consumer frustration

CE = consumer expectation of product performance

PP = actual product performance which is measured by using *objective criteria*.

This model in its conceptual form does not lend itself to specific determinative criteria for products liability primarily because consumer frustration is in and of itself strictly subjective and relative. It is subjective because it is based on the difference between consumer expectations and product performance, and therefore, even varies widely among those who have seen the same advertisements and who need and have bought the same product. Some consumers may be perfectly satisfied with the product while others are not.

What is needed, therefore, is an "ordinary" and reasonable (man) benchmark against which individual consumer frustration can be measured. The benchmark in this context should be an aggregate average of individualized EPF models. In other words:

$$CF_A = f(CE_A > PP)$$

where

$CF_A$  = Consumer Frustration at an aggregate consumer frustration level.

$CE_A$  = Consumer Expectation at an aggregate consumer expectation level which is a market average assuming consumer expectations are measured along some type of an interval scale. This aggregate expectation level is product constrained. That is, it is for the same or very similar products.

PP = Product Performance is actual product performance.

Whether a specific consumer's frustration and expectation are "reasonable" is determined by measuring the distance the consumer is from the aggregate level of frustration and expectation for the entire market. Therefore, for behavioral modeling of products liability to be applied requires that the EPF model be considered as an aggregative benchmark model against which "models" will be compared.

#### Operationalization of the EPF model

The value of an EPF model depends on the extent to which the aggregate EPF model can be operationalized. Because of the cost of data collection, a realistic way of operationalizing the aggregate EPF model would be: collect only data for a specific products liability case, given that comprehensive sets of aggregate EPF data were available through the courts and/or some governmental agencies.

The procedures in operationalizing the aggregate model, thus, would involve:

1. Evaluative criteria common to consumer expectations and actual product performance determination: First, consumer expectations must be broken into their components. Generally, expectations are based on exposure to market

information (9) about a product with respect to various attributes or evaluative criteria of the product. Initially, a decision must be made as to which and how many evaluative criteria would be included for analysis since they vary significantly from product to product. These criteria will be used to compare brands (7, 8, 9) and then to assess actual product performance.<sup>1</sup> Given neither published nor court compiled data, a pilot test would have to be conducted to make these determinations.

2. Measurement instruments development: The authors strongly suggest that scales be developed to measure consumer expectations, product performance, and consumer frustration. Differing approaches to these scales are possible. The one chosen views consumer frustration as a derivative scale calculated by subtracting product performance from consumer expectations. Consumer expectations and product performance, however, are original in nature, and could conceivably consist of a variety of components or evaluative criteria on their own accord. That is, consumer expectations and product performance may require a number of component scales or evaluative criteria from which single consumer expectation and product performance indices would be developed. For ease of interviewee<sup>2</sup> understanding and statistical analysis, an interval type scale shown as a Stapel scale (12) was selected.

Below, the suggested scheme is exemplified using an automobile with a consumer expectation index developed from driveability, fuel economy, and durability expectations. Product performance is then evaluated for each expectation dimension, which are reflected in the aggregate product performance index. Finally, as described, consumer frustration will be determined by subtracting product performance from consumer expectations on a dimension by dimension basis which will be aggregated in a consumer frustration index.<sup>3</sup>

#### A. Consumer Expectation Scale

Low	Slightly	Slightly	High
Expectation	Low	High	Expectation
-3	-2	-1	0
-2	-1	0	+1
-1	0	+1	+2
0	+1	+2	+3

##### 1. Driveability Expectations

Low	High
-3	+3
-2	+2
-1	+1
0	0

##### a. Driver Handling Expectations

Low	High
-3	+3
-2	+2
-1	+1
0	0

##### b. Riding Smoothness Expectations

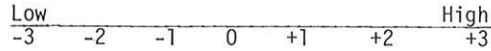
Low	High
-3	+3
-2	+2
-1	+1
0	0

##### 2. Fuel Economy Expectations

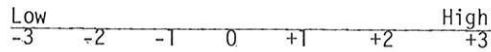
Low	High
-3	+3
-2	+2
-1	+1
0	0



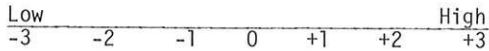
## a. Open Road Driving Expectations



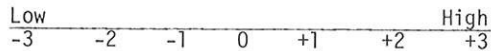
## b. City Road Driving Expectations



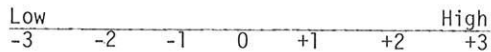
## 3. Durability Expectation



## a. Repair Incidence Expectations



## b. Repair Cost Expectations

B. Product Performance Scale

					Extremely	
Excellent	Good	Fair	Poor		Poor	
+3	+2	+1	0	-1	-2	-3

(For fully developed scale format see the scaling technique for each item used in A. Consumer Expectation Scale, above.)

C. Consumer Frustration

Extremely	Slightly	Slightly	Extremely
Dissatisfied	Dissatisfied	Satisfied	Satisfied
-3	-2	-1	0
			+1
			+2
			+3

(For fully developed scale format see the scaling technique for each item used in A. Consumer Expectation Scale, above.)

3. Target population and sample size determination

Target population and sample size determinations are key factors. The population must be defined either in terms of all buyers or all primary and/or secondary consumers of the product under investigation. The selection of the population to be sampled must not be taken lightly since different populations would definitely yield different results. Perhaps this determination should be made based upon the importance of that population to the sale of the product in question. Next, sample size must be determined considering sampling cost and reliability which are determined by the degree of risk in products liability litigations.

4. Data collection and EPF value determination

While data collection would likely be paid by some form of government agency, an independent non-"producer" and non-"consumer" oriented organization should be chosen. Given the expertise required for data collection it is unlikely that data collection could come from any other source than

a professional marketing research firm. This firm must collect the data and, therefore, be held accountable for the reliability and validity of the data submitted to courts (3).

5. Individual and aggregate EPF model comparisons

Finally, the determined values from the individual and aggregate EPF models will be compared by testing mean value differences. A statistically significant deviation means that an individual consumer's complaint is justifiable while statistical non-significance means the opposite. It must be noted that the comparison of values between the individual and aggregate EPF models must be made for *all* three indices. The mere comparison of frustration index values alone between the individual and aggregate scores, for instance, would be grossly incorrect, since those who filed a complaint concerning a "defective" product obviously tended to possess extremely high frustration, yet their expectation index score may be close to that in the aggregate EPF model. In fact, a direct comparison of individual and aggregate consumer expectation indices should indicate the outcome of products liability litigations. This is because consumer frustration indices are subjective in nature while consumer expectation indices, as operationalized in this paper, are objective.

Problems in Operationalizing the EPF Model

There are a number of likely problems in operationalizing the EPF model. In part, they stem from the diversity of situations under which products liability litigations take place and because there are no case data accumulated. Some of the anticipated problems and their possible remedies are discussed below:

1. Identifying salient evaluative criteria may be difficult, if not impossible, for certain products and especially for service industries. For example, quality of service at first blush appears not to be measurable for consumer expectation and actual product performance indices. Upon further exploration, however, a variable such as "quality of service" in a restaurant setting could be operationalized by measuring a restaurant's 1) atmosphere, 2) cleanliness, 3) the taste and 4) visual appeal of its food, and 5) the quickness 6) courtesy and 7) ambience of its service.

Also, evaluative criteria may differ significantly among various consumers. The values or weights may be different from others assigned to the same criteria. This problem is resolved by a judicious use of the Fishbein model, which would yield a composite attitudinal score for consumer expectations and actual product performances (15, 17).

2. The transferability of data across brands, stores, similar and substitutable products is unknown and only after a substantial amount of data are compiled, can transferability be determined.

3. Timing of data collection is also of concern since consumer expectation data must be collected before product purchase while consumer frustration and actual product performance data must be gathered after purchase. Since general buyer intention surveys are notoriously poor in predicting future consumer behavior (13, 14) primary data would have to be collected. However, the time and costs involved in identifying those who are planning to purchase the product in question are enormous. A few compromising solutions are offered. For example, consumer expectation data may be collected either at the same time as the data on the other two variables, or it may be possible to establish a collection network for expectation data at point of purchase (retail establishments).

#### Summary and Implications

Given the devastating growth of product liability claims, the EPF model has been advanced to replace the basis of the bargain theory of recovery. The EPF meshes behavioral science with legal analysis in the law of products liability.

The EPF model demands increased use of empirical data derived from behavioral research in spite of traditional opposition to subjecting legal and public policy decisions to empirical validation. This opposition exists to a large extent because policymakers generally are not well-informed on either the existence or importance of the scientific method (11, 19). Products failure legislation and policy should standardize the consumer class to be protected and the level of frustration to be tolerated. Accomplishing these goals requires application of behavioral research rather than conventional wisdom. This approach would result in more predictable and realistic assessments of the rights and duties arising between sellers and buyers.

With marketplace rights and duties more accurately and realistically defined, sellers and buyers would mutually seek the best solution for consumer frustration. This solution is only possible, however, when sellers make only reasonable and responsible claims, and buyers form only reasonable and responsible expectations (4). Implementation of the EPF model would compel both sellers and buyers to devote the same degree of attention to their marketplace duties as they presently devote to asserting their rights. In sum, a generally accepted EPF model would mean that neither sellers nor consumers could rely on assumed legal tenets, such as *caveat emptor* or *caveat venditor* (5) for recovery. Rather, they must now *equally* rely and demonstrate the "ordinary man reasonableness" of their expectations, product performances, and consequent frustrations.

Finally, while the EPF model would be costly to implement in the short run, its adoption is strongly recommended due to the potential benefit of "fairer" and more predictable settlements of product liability suits, judicial consistency, and longer run cost savings for both buyers and sellers.

#### Footnotes

<sup>1</sup>The number of attributes a consumer uses for comparing different brands prior to purchase may be smaller than the number of attributes he employs to evaluate the actual product performance because he may not be able to anticipate the entire spectrum of the attributes before purchase.

<sup>2</sup>Recognizing that interval v. ordinal scale measurement for these variables is a controversial area, universal scale measurement is assumed here, hence levels of consumer expectation and frustration should be measured using an interval scale.

<sup>3</sup>Safety expectations, while obviously a part of any auto expectation scheme and/or any reasonable products liability scheme, have not been included here simply to demonstrate the workability of the scheme even in their absence.

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## AN UPDATE EVALUATION OF FEDERAL AGENCY CONSUMER COMPLAINT-HANDLING PRACTICES

Marc Grainer, John Goodman, and Elizabeth Hanson\*

This paper describes an evaluation methodology that has been developed for assessing the performance of agencies which respond to consumer complaints. Complaint-handling practices are defined in functional terms: operations and support functions. The input, response, and output of complaint handling constitute the operations functions. The support functions are control, management, and creation of public awareness. Functionally defined complaint-handling practices are first evaluated from the standpoint of effectiveness assessed from a process and an outcome perspective. Then, costs are considered. The proper balance between cost and effectiveness is determined by cost-effectiveness analysis.

The paper reports the results of a longitudinal evaluation of Federal agency complaint-handling practices that has utilized this evaluation methodology. Twenty-two Federal agencies were evaluated in 1975-76 and re-assessed in 1978. Highlights of the reassessment are presented.

The purposes of this paper are two-fold. First, an evaluation methodology that has been developed for assessing the performance of agencies which respond to consumer complaints is described. Second, the results of a longitudinal evaluation of federal agency complaint-handling practices that utilized this methodology is reported.

#### Background

This federal agency evaluation is only one component of a comprehensive review of American, public and private sector complaint-handling practices. The study was initiated in 1974 under the sponsorship of the White House Office of Consumer Affairs. Technical Assistance Research Programs (TARP) supervised the conduct of the research. The study has been fielded in four distinct phases. Phase 1 consisted of a national probability survey of over 2,500 households [2,6]. The respondents' consumer problems were identified, and their complaining behavior was catalogued. Phase 2 was the evaluation of federal agency complaint-handling practices [4, 5,7]. Twenty-two federal agencies were evaluated in 1975-76 and re-evaluated in 1978. It is the results of this phase of the research that are reported in this paper.

Phase 3 of the study consists of a review of the complaint-handling practices used by state/local government and private voluntary organizations. Phase 4 covers complaint handling by industry. In these last two phases, more than 400 public agencies and 300 businesses have been sent mailed questionnaires. Additionally, more than 100 public agencies and private companies have been site visited. Phases 3 and 4 of the research will be completed by the summer of 1979.

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Although this research has been sponsored by the White House Office of Consumer Affairs (OCA), the opinions expressed in this paper are those of TARP and not those of OCA. However, under the leadership of Esther Peterson, President Carter's Advisor for Consumer Affairs, many of TARP's recommendations are being adopted. OCA is making a conscious effort to upgrade federal agency complaint-handling capabilities.

#### Cost-Effectiveness Evaluation Methodology

Table 1 lists the twenty-two federal agencies evaluated. Three types of agencies were selected for study: (1) regulatory, (2) provider, and (3) clearinghouse. The regulatory agencies (the Interstate Commerce Commission, Federal Trade Commission, Consumer Product Safety Commission, etc.) receive complaints from consumers about goods and services purchased in the private marketplace. The provider agencies (the United States Postal Service, Social Security Administration, Veterans Administration, etc.) handle complaints about the services and benefits they offer. OCA has functioned as a clearinghouse, forwarding complaints to the appropriate regulatory or provider agencies, and to business. While regional and field office complaint-handling practices were reviewed, due to space constraints, the findings reported in this paper are limited to TARP's evaluation of Central Office operations.

Figure 1 presents an illustration of the cost-effectiveness evaluation methodology that was developed to assess Federal agency performance. Complaint-handling practices are defined in functional terms: operations and support functions. The "nuts and bolts" of complaint handling--input, response, and output--constitute the operations functions. The support functions of control, management, and creation of public awareness insure that complaints are handled according to established procedures and that consumers know where to send their complaints.

In brief, input consists of screening, classifying, and logging incoming complaints. Response formulation, production, and signing are performed next. Output is completed when the response to the complaint is distributed and filed away (storage and retrieval).

Two types of control are executed. Internal follow-up consists of monitoring to insure that agency standards for response time and quality are being met. Referral follow-up is determining the disposition of those complaints referred outside the agency.

Management begins with the preparation of statistical reports describing the nature of the complaint load. To insure a continued high level of performance, the agency's complaint-handling practices must be evaluated on an ongoing basis. It is most desirable for such auditing to be done by an outside organization. Policy analysis consists of identifying problems in the marketplace that may become the subject of regulatory action. For federal provider agencies, policy analysis uncovers

Figure 1. The Cost/Effectiveness Evaluation Methodology

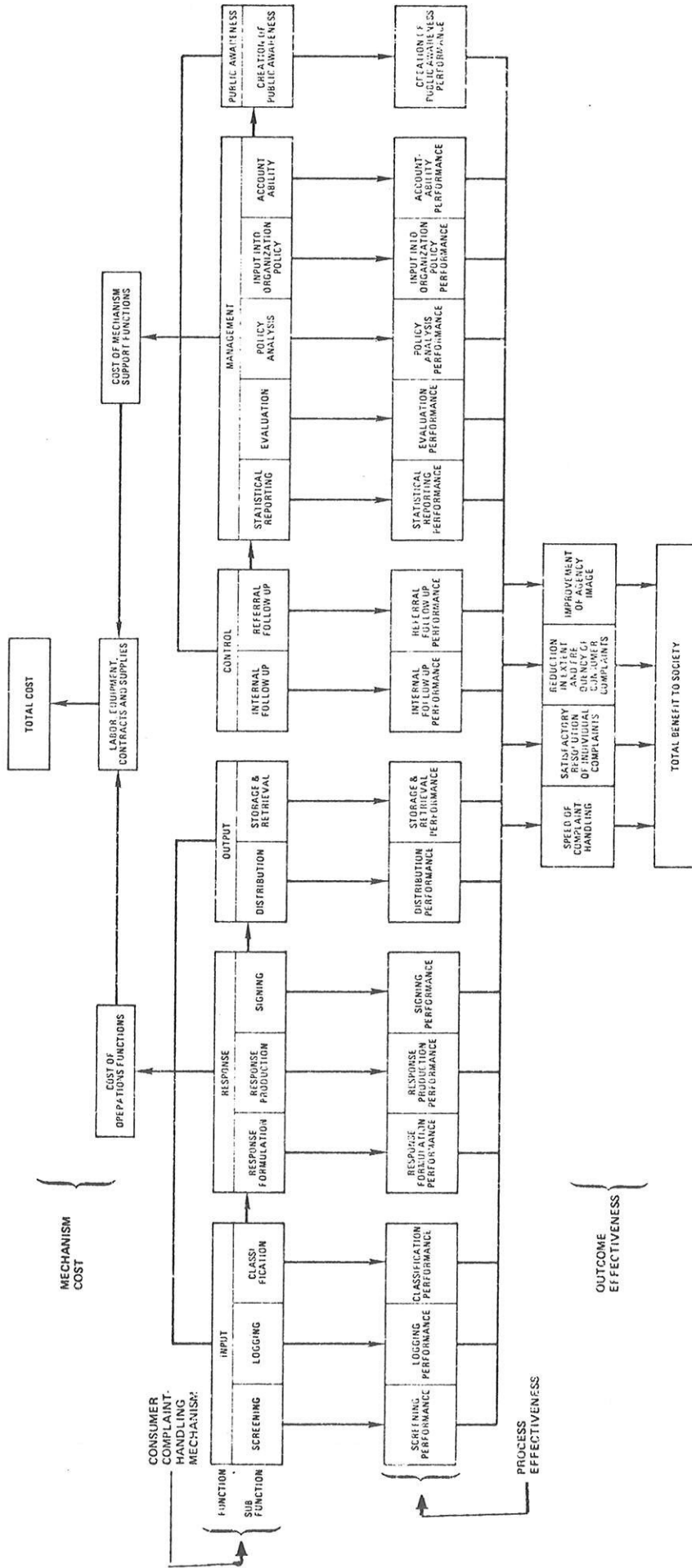


Table 1. Federal Agencies Evaluated

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USDA	- United States Department of Agriculture
CAB	- Civil Aeronautics Board
CPSC	- Consumer Product Safety Commission
ETA	- Employment and Training Administration
DOE	- Department of Energy
EPA	- Environmental Protection Agency
FCC	- Federal Communications Commission
	Cable - Cable Bureau
	Common - Common Carrier Bureau
	Broad - Broadcast Bureau
FERC	- Federal Energy Regulation Commission
FTC	- Federal Trade Commission
HEW	- Department of Health, Education and Welfare
	HCFA - Health Care Financing Administration
	OCA - Office of Consumer Affairs
	OE - Office of Education
	PHS - Public Health Service
	ADAMHA - Alcohol, Drug Abuse, and Mental Health Administration
	ES - Office of the Executive Secretariat (PHS)
	FDA - Food and Drug Administration
	CIS - Consumers Inquiries Staff
	OLS - Office of Legislative Services
	HSA - Health Services Administration
	NIMH - National Institute of Mental Health
	RSA - Rehabilitation Services Administration
HUD	- Department of Housing and Urban Development
	OILSR - Office of Interstate Land Sales
	HPMC - Housing Production Mortgage Credit
	ONCA - Office of Neighborhood and Consumer Affairs
ICC	- Interstate Commerce Commission
NHTSA	- National Highway Traffic Safety Administration
NPS	- National Park Service
	CL - Congressional Liaison
	OC - Office of Communications
USPS	- United States Postal Service
SEC	- Securities and Exchange Commission
VA	- Veterans Administration
	DVB - Department of Veterans Benefits
	DM&S - Department of Medicine and Surgery

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problems in the delivery of services and benefits. For the results of policy analysis to influence agency action, such analysis must be transmitted to the appropriate federal decision makers--input to agency policy. Accountability refers to assigning responsibility for complaint handling to specific managers and agency offices.

Even more important than the input functions is the creation of public awareness. Before consumers can submit their problems to federal agencies, they must know where to complain. Much time and energy is lost when consumers send complaints to the wrong agency.

These operations and support functions are performed on an interdependent basis. For example, if complaints are not properly screened during input, some undoubtedly will receive inadequate responses during output. If statistical reporting is not executed, then rigorous, systematic policy analysis is prevented. If classification is not performed during input, it is difficult to execute such management subfunctions as statistical reporting, evaluation, and policy analysis later on. While there may be a variety of approaches to each function or subfunction, each must be performed in order for consumer problems to be resolved most

effectively.

These functionally defined complaint-handling practices are first evaluated from the standpoint of effectiveness. The effectiveness of complaint-handling practices is assessed from a process and an outcome perspective.

Process-effectiveness evaluation measures the performance of each complaint-handling function. For example, the manner in which a federal agency creates public awareness is rated as either satisfactory or unsatisfactory. If 25 percent or less of an agency's incoming complaints have been referred from other agencies, public awareness practices are rated satisfactory. The percentage of incoming referrals is used as a surrogate measure for public awareness. In a similar manner, sets of evaluation criteria have been developed to assess each of the complaint-handling functions.

Outcome effectiveness is measured in terms of how well overall complaint-handling objectives are met. TARP has used four basic sets of evaluation criteria: (1) timeliness of response, (2) percentage of "successfully" resolved complaints, (3) degree to which the root causes of consumer problems are identified and corrected, and (4) impact of response on federal

agency image. In this formulation, "successful" resolution can be viewed from three standpoints, that of the complaining consumer, the provider, or the neutral observer. In the TARP research, satis-

factory resolution has been operationalized from the complaining consumer's point of view. Table 2 presents satisfactory resolution rates (1976) for the seven provider agencies studied.

Table 2. Federal Agency Central Office Complaint-Handling Mechanism's Role in Satisfactory Resolution of Consumer Problems (% By Mechanism Responsibility)<sup>1</sup>

MECHANISM RESPONSIBILITY	NAT BASE <sup>2</sup>	VA	NPS	SSA	SRS	OE	MA	PHS
% of Consumers Who Obtained Satisfactory Resolution as Result of Complaint-Handling Mechanism Action	24.2	29.3	26.1	23.3	36.4	32.0	22.0	27.3
% of Consumers Who Obtained Satisfactory Resolution by Means Other than Complaint-Handling Mechanism Action	13.9	7.3	11.9	6.7	0.0	12.0	8.8	24.4
Total % of Consumers Who Obtained Satisfactory Resolution	38.1	36.6	38.0	30.0	36.4	44.0	30.8	51.7

<sup>1</sup>Based on telephone follow-up survey data.

<sup>2</sup>National baseline based on results of national probability survey of complaint-handling procedures consumers use.

Because we live in a world of limited resources, effectiveness cannot be viewed in a vacuum. Cost must also be considered. The proper balance between cost and effectiveness must be attained. This balancing calculation is cost-effectiveness analysis. In its crudest form, cost-effectiveness is defined in terms of dollars per complaint handled. A more sophisticated formulation relates cost to the four outcome measures, e.g., cost per "successfully" resolved complaint. Those federal agencies with the lowest cost to effectiveness ratios are given the highest ratings.

Cost-effectiveness analysis is a useful tool for the manager who must choose between adopting alternative complaint-handling practices. For example, a change in response production from manual to automated typing of responses is likely to affect both process and outcome effectiveness as well as cost. The merits of such a change are determined by comparing the cost and resultant effectiveness of each typing method.

In 1975-76, TARP evaluated the twenty-two federal agencies utilizing this methodology. Data for the evaluation were collected by interviewing complaint-handling personnel, reviewing agency complaint files, and interviewing, via telephone, a random sample of complainants in each agency.

With minor alterations, this evaluation methodology has been utilized in the later stages of the study for the review of state-local government, private voluntary organization, and business complaint-handling practices. (When applied to business, an additional outcome measure, the impact of response

to complaints on future purchasing decisions, is considered.) The methodology has proven a relatively inexpensive, yet comprehensive, approach to evaluation.

The purpose in describing this evaluation methodology goes beyond the researcher's obligatory statement of procedures. The one consistent finding that runs throughout TARP's research is the dearth of evaluation of complaint-handling practices. The issue is not framed in terms of outside versus in-house audit. The problem is more basic. Put most simply, public and private sector complaint handlers rarely make a serious effort to assess their performance. If the complaining consumer is to be most effectively served, this deficiency must be corrected.

The evaluation methodology described in this paper is not the only way to approach this problem [1,3]. It is only offered as an example of one methodology that has been successfully field tested. Other evaluation techniques must also be tested and made available to the consumer affairs community.

### Findings

This paper presents highlights of TARP's 1978 update evaluation of federal agency complaint-handling practices. In 1975, TARP revisited the twenty-two federal agencies that had been evaluated two years earlier, for the purpose of determining whether there had been any improvement in complaint-handling practices. The results of this update evaluation are reported in Table 3. Neither time nor funds permitted the collection of cost or outcome data during the 1978 review. Instead, each agency was



Table 3 (Continued)

KEY COMPLAINT-HANDLING POLICIES	AGENCY YEAR	HUD			ICC		NHTSA		NPS		USPS		SEC		VA			
		OILSR	HPMC	ONCA	75	78	75	78	76	78	75	78	75	78	76	78	78	
		75	75	78					CL	OC					DVB	DM&S		
Logging - Executive Mail		E	E	E	E	E	Uo	E	E	E	NA	E	E	E	E	E	E	
Logging - General Mail		E	Uo	E	E	E	Uo	S	E	NA	E	E	E	E	Uo	U	S	
Logging - Telephone		Uo	Uo	E	E	E	Uo	S	Uo	E	S	E	E	Uo	E	U	S	
Classification - Executive Mail		E	Uo	E	E	E	E	E	U	S	NA	S	E	E	E	U	E	
Classification - General Mail		E	Uo	E	E	E	E	E	U	NA	Uo	S	E	E	E	U	S	
Classification - Telephone		Uo	Uo	E	E	E	Uo	E	U	S	Uo	S	E	Uo	E	U	U	
Internal Follow-up - Executive Mail		E	E	E	E	E	E	E	E	E	NA	E	E	E	E	S	S	E
Internal Follow-up - General Mail		U	Uo	E	E	S	S	Uo	S	NA	S	E	E	U	E	Uo	S	S
Statistical Reporting		S	U	E	S	E	S	E	Uo	S	Uo	S	E	E	E	U	U	U
Evaluation		S	U	E	S	U	S	Uo	Uo	Uo	S	E	E	S	E	S	U	U
Policy Analysis		S	U	E	S	U	E	E	U	U	Uo	S	E	S	E	U	S	S
Input into Agency Policy		S	U	E	S	U	E	E	S	S	S	S	E	S	E	U	U	S
Accountability*		S	U	S	S	S	S	S	U	U	S	S	S	S	S	S	S	S
Creation of Public Awareness* Input Referral		S	U	S	S	S	U	S	Uo	S	S	S	S	ND	S	U	S	S
Creation of Public Awareness* Output Referral		U	U	S	U	S	U	S	S	S	U	S	S	ND	S	S	S	S

E - Excellent  
o - Not Performed

S - Satisfactory  
NA - Evaluation Criterion Not  
Applicable

U - Unsatisfactory  
ND - No Data Available

\*Performance of these subfunctions has been rated on a two-point (U/S) instead of a three-point (U/S/E) scale.

re-evaluated on the selected set of complaint-handling practices listed in Table 3. These practices are critical to successful agency performance.

When the twenty-two agencies were visited in 1975 and 1976, it was discovered that the majority treated complaints as general public correspondence. Complaint data were not analyzed in any systematic fashion for their policy implications. In 1978, when the follow-up site visits were conducted, almost two-thirds of the federal agencies were found to be performing most of the complaint-handling functions satisfactorily. Several agencies, including the Federal Communications Commission, the Food and Drug Administration, the Federal Trade Commission, and the Department of Housing and Urban Development, made dramatic improvements in almost every area.

While the initial TARP evaluations were factors in bringing about these improvements, other factors have also played a major role, including a much higher level of interest on the part of the White House Correspondence Office and an increased awareness among certain senior administrators of the need for responsiveness to consumers.

Whereas a substantial number of agencies have improved their responses to individual complaints, over one-third still do not systematically analyze consumer complaint data for their policy implications. As of the date of TARP's follow-up visits, three agencies, the Employment and Training Administration, the Office of Education, and the Rehabilitation Services Administration, had yet to install the basic structure to effectively handle most individual complaints. Also, the Department of Energy did not have a coordinated policy for responding to consumer complaints.

The federal agencies in general exhibited weaknesses

on a number of the complaint-handling functions. Some of these weaknesses are due to government-wide standard operating procedures and civil service regulations. Others are due to management's failure to understand the importance of performing these functions effectively. This lack of awareness has resulted in the allocation of insufficient resources for the performance of many complaint-handling functions.

Next, basic weaknesses identified in complaint-handling practices are reviewed.

First, the federal government generally considers the screening of consumer mail a relatively simple, unimportant task. Reinforcing this attitude is the fact that mail screening jobs in most agencies are assigned extremely low-grade classifications by the Civil Service Commission. In many agencies, low-graded clerks with limited knowledge of agency jurisdiction and internal operations are assigned the task of reviewing the mail and referring it to other units for response. The use of inadequately trained personnel can result in the failure to identify and respond to serious consumer problems in a timely fashion. While the overall percentage of improperly screened complaints may be low, the effects can be disastrous for those consumers whose complaints are not properly screened.

A major problem raised by many agencies is the fact that they cannot possibly provide the resources necessary to adequately log the tremendous volume of consumer mail they receive. TARP's suggestion is not that all consumer mail be logged, but that only consumer complaints be logged. In addition, if the mail has been adequately screened, it is likely that only those complaints which appear to be serious would have to be logged. Consequently, the decision to some agencies not to log consumer mail because of



inadequate resources reflects an overly simplistic approach to the problem.

The major purpose of complaint classification is to provide statistical data for policy analysis. Since the beginning of TARP's study, a number of agencies have established classification systems and then discontinued them because they believed that classification either consumed too many resources, or that the statistical data were not used once produced. Both of these problems are the results of inadequately designed classification systems. The purpose of a classification system is to provide information sufficiently detailed to allow agencies to make effective enforcement, regulatory, or management decisions concerning a specific provider, industry, or manager. Therefore, classification schemes should be problem-oriented. Because complaints cannot provide the entire data base for regulatory or management actions, the classification system only requires sufficient detail to flag problems.

Regarding internal follow-up, a number of agencies do not have the resources to control all consumer complaint mail. Consequently, they have made no provision to identify and control even serious complaints. Therefore, many complaints are processed in an ad hoc, uncontrolled manner.

Many agencies now spend substantial resources to generate form letters which appear individually typed but which provide very little specific information about the consumer's problem. TARP studies indicate that consumers do not place a high value on the fact that the agency response was individually typed. Consumers care more about the substance of the responses they receive.

In many agencies, the statistical reports provided to senior management consist only of the number of complaints received, or the number of complaints received by general category. In most cases, this does not provide a decision maker with enough information to know which regional or field office, grantee, industry, etc. may be causing the specific problems requiring attention from senior management. Statistical reports must contain adequate detail to be of use to a manager.

A major problem in almost half the agencies' complaint-handling mechanisms was that policy analysis and input to policy were performed on an ad hoc, oral, as-needed basis. This practice assumes that if something really important occurs, the problem will be recognized by complaint-handling personnel and immediately reported to top management. Because consumer complaint mail has a relatively low priority in most agencies, this problem recognition may not necessarily take place.

Most federal agencies conduct evaluation of their complaint-handling mechanisms through an ongoing review of responses to consumers by supervisory personnel. Very few agencies directly measure performance by interviewing consumers to determine if the responses they received were helpful or understandable. Also, very few agencies evaluate correspondence using non-complaint-handling personnel. Management often views complaint handling from the standpoint of the federal agency and cannot view the correspondence in the same light as the consumer, or with the objective reasoning of an outside

evaluator. More use of outside evaluators would be desirable.

While the situation has certainly improved since 1975-76, a number of agencies still do not prepare written policy statements which explicitly fix responsibility for accomplishing the numerous tasks involved in complaint handling. Also, few agencies give a senior agency official overall responsibility for complaint handling. The result is that complaint handling often assumes the status of an activity to be performed when time permits.

Finally, a substantial percentage of consumer complaints is sent to agencies without authority or appropriate jurisdiction to handle complaints. Many Congressional offices do not know where to refer the consumer complaints they receive. Many resources are wasted because between 10 to 20 percent of the complaints received by a number of agencies must be referred to another agency, either at the federal or state level.

While space does not permit a listing of all the policy recommendations proposed on the basis of this study, one of TARP's principal recommendations merits special attention. TARP recommended that a single agency be assigned responsibility for coordinating federal government complaint handling. Coordination doesn't mean one agency should answer all complaints. However, a single point of contact should be designated for the purposes of setting standards, providing technical assistance, disseminating technology, collecting summary statistics, etc.

At the present time, confusion exists within the federal establishment about who, if anyone, is coordinating federal government complaint handling. The Department of Housing and Urban Development has organized an informal coordination group to share complaint-handling technology. The White House Correspondence Unit has been assisting many complaint/correspondence units in evaluating and improving their procedures. Many federal complaint-handling officials are unaware that the Federal Information Centers are initiating a major experiment related to complaint handling in Florida. The Federal Inter-agency Council on Education is currently deciding whether to establish an interagency clearinghouse or review board for complaint handling.

TARP has recommended that OCA fill this vacuum. We believe that Executive Order 11583 and President Carter's April 27, 1978, Memorandum for the Heads of Departments and Agencies on the White House Office of Consumer Affairs, provide an adequate basis for OCA to assume this role. To this end, Mrs. Peterson has recommended to President Carter that OCA take this lead assignment.

### Conclusion

In this brief paper, it is possible only to present the highlights of TARP's update evaluation of federal agency complaint-handling practices. In the body of the update report, detailed agency-by-agency evaluations are presented. Further, function-by-function findings and regional and field office data are reported. For those interested in the full text of the evaluation, copies of that report may be obtained from TARP or OCA.