

## THE INFLUENCE OF THE CONSUMERS UNIONS: THE CONSUMER ECONOMICS VIEWPOINT (SORT OF)

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The consumers unions have clearly been successful in attracting the resources necessary for organizational survival. Moreover, the number of consumers unions continues to grow and the scope of their activities increase. When viewed from the hard-boiled perspective of a consumer economist, however, there is very little documentation of the actual impact of the consumers unions on markets, seller behavior, and, most important, consumer welfare. This paper suggests some means of studying the influence of consumers unions as well as reasons for greater cooperation between consumers unions and other consumer-oriented researchers.

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I take it as a great compliment that the eminent consumer economist E. Scott Maynes asked me, a mere sociologist, to reflect on the influence of the consumers unions of the world from the perspective of a consumer economist. While impersonating a consumer economist poses some challenges, it also frees me to say certain things with which the sociologist in me might disagree or feel uncomfortable. In particular, being a consumer economist for a day allows me to be more empirically demanding than I would normally be (although this won't necessarily put me any closer to the truth).

### SETTING PARAMETERS FOR THE ASSESSMENT OF INFLUENCE

First, as a hard-headed consumer economist, I do not like the word "influence." It connotes interpersonal and political processes, as in the influence of a parent on a child or of a lobbyist on a legislator. I prefer the word "impact" or, even cleaner, the word "effect."

Before one can determine the effect of the world's consumers unions, it is necessary to be specific about the mechanism and object of influence. Put differently, consumers unions engage in a variety of activities. Which of these activities are we interested in evaluating? Similarly, the impact of the consumers unions can be analyzed at several different levels of analysis, from the individual to the entire society. Which of these levels of analysis are we talking about?

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### Types of Activities

The consumers unions are, first and foremost, product testing organizations that disseminate their findings through magazines. The majority of space in these magazines is devoted to comparative tests, but typically there are also articles on consumer problems that are not readily amenable to product testing as well as government and business responses to these problems.

The publication of comparative testing magazines is the most important but not the only information dissemination activity of consumers unions. Some of these organizations publish books and newsletters; produce consumer education films; have regular programs in the electronic media (tv, radio, and videotex) and columns in newspapers; and provide individualized data for the purchase of major durable goods.

Complementing these educational activities are more political ones. Often operating through separate entities so as not to jeopardize favorable tax treatment, a consumers union might organize a conference to raise awareness of a particular issue, lobby for a particular law or regulation, file a lawsuit, and provide financial support for budding consumer organizations.

In short, consumers unions do much more than conduct comparative tests. Since their *raison d'être* is to disseminate impartial information about products, efforts to evaluate the impact of consumers unions should begin with their comparative testing information.

### Types of Impacts

If we focus our attention on the effect of comparative product tests, there are at least five levels at which impacts might occur: (1) individual consumers; (2) individual firms (including manufacturers, wholesalers, and retailers); (3) markets; (4) mass media coverage; and (5) government policy. While the consumers unions might have an impact on societal values and consumer expectations, these concepts are just too squishy for a consumer economist.

As a consumer economist, I want to know how consumer welfare has been affected by the activities of the consumers unions. Accordingly, the first of these five levels is the most important. The other four may be viewed as mechanisms by which consumer welfare is affected.

## RELEVANT LITERATURE

To date, there have been two types of studies that explicitly attempt to gauge the impact of a specific consumers union, but each type has a serious methodological limitation for those of us who like to talk about causes and effects. One type consists of political histories of consumer controversies in which a consumers union played a prominent role. The best example of this approach is Norman Silber's excellent history of Consumers Union of the United States, titled Test and Protest (1983). Silber convincingly argues that Consumers Union played a key role in raising public awareness and stimulating government action in three areas: (1) the risks of cigarette consumption, (2) preventable automobile accidents and injuries, and (3) contamination of milk from man-made radiation.

In each of the case studies, Consumers Union drew on its special expertise in product testing as a means of placing consumer issues on the public, media, and policy agendas. Yet, as with any case study, the question remains of what would have happened in the absence of Consumers Union's actions. Surely, these issues would have eventually been raised by other scientists and activists, so, at best, one can say that the actions of Consumers Union increased the speed, by some undefined amount, with which particular consumer problems were translated into issues requiring government action. Ultimately, one would like to determine how many lives were saved by the early intervention of Consumers Union in the agenda-setting process.

A relevant example concerns Consumers Union's coverage of the safety deficiencies of the Suzuki Samurai. In its July 1988 issue, Consumer Reports claimed that the Suzuki Samurai "had come within a hair of rolling over at a moderate speed in a maneuver that shouldn't put daylight under the tires of any car" (p.425). The article received tremendous coverage in the mass media and stimulated an investigation by the National Highway Traffic Safety Administration. The article may have depressed the new sales of the vehicle in question, but we'll never know since dealers reacted to the bad publicity by offering buyer incentives (including life insurance policies). The article may also have altered the driving behavior of the Samurai's owners, but again we'll never know. Thus, even for Consumer Report's most publicized expose of the 1980s, there is no firm evidence of its positive impact on consumer welfare. (The remote but disturbing possibility exists that the expose forced Samurai dealers to lower their prices, thereby allowing young people to enter the new car market and increasing the number of automobile injuries and fatalities.)

The second type of study that directly addresses the impact of the consumers unions asks consumers (and, in one study, manufacturers and retailers) to report on the impact of comparative testing information on their own

behavior. In a pathbreaking study, Thorelli, Becker, and Engledow (1975) surveyed 1000 randomly selected subscribers of Consumer Reports. The researchers asked questions such as:

Were you aware of the recommendations of CR when you last bought a major product?

How important were the recommendations in helping you to make this decision?

In cases where you have checked Consumer Reports or their annual buying guide, how often have you bought a brand which was highly recommended by them?

Do you agree or disagree that negative comments in Consumer Reports have at least occasionally kept you from buying a particular brand?

Not surprising, the majority of respondents indicate that they were aware of and used the information published in Consumer Reports. The sociologist in me is willing to take what respondents say at face value, but the consumer economist in me is highly skeptical of self-report data. In particular, I worry about social desirability, in this case, the tendency to answer questions according to what respondents think they should do rather than what they actually do.

Raffee and Fritz (1984) took the innovative step of asking, not consumers, but retailers and manufacturers about their perceptions of the impact of the product testing reports of West Germany's Stiftung Warentest. For instance, manufacturers were asked about the impact of the product ratings on their sales, pricing policies, and promotion efforts. Product test results are probably more important to sellers than to consumers, and so might be more accurate. Nevertheless, there is good reason not to take the responses of sellers too literally. Manufacturers, in particular, have an incentive to overstate any negative impact of product testing on sales. If sales are below expectation, what better scapegoat is there than a negative rating from Stiftung Warentest? Similarly, retailers probably overstate the extent to which they adjust their inventory in response to product test results. Retailers are more than willing to carry products that receive high test scores--so long as these products also carry a high profit margin. If profits are greater on products with low ratings, retailers will think twice before canceling their orders.

In sum, studies based on self-reported behavior are useful but only up to a point. If one wants to convince a consumer economist like me that the consumers unions have had an impact, I would like to see the following types of studies:

(1) comparisons of market share before and after testing reports (holding other factors constant, of course);

(2) comparisons of prices before and after testing reports;

(3) comparisons of the speed of post-rating product changes between manufacturers receiving positive and negative ratings; and

(4) comparisons of stock market prices before and after testing reports.

I suspect that the first two types of studies have been conducted for a few individual products, if for no other reason than as part of lawsuits against consumers unions. But I am not aware of any comprehensive studies that examine changes in market share and/or prices across different types of products.

Product tests are intended to affect market share, prices, and product features. Any effects on stock prices would be more direct. If a positive rating lifts stock prices, this suggests that financial experts believe that product testing affects market share and prices. Stock prices are, in this sense, a surrogate measure.

There is ample precedent in the economics literature for using stock prices to study the impact of product-related information in the mass media. Researchers have examined the impact on stock prices when the FTC brings false advertising cases (Peltzman 1981) and when automobiles or drugs are subject to government recalls (Jarrell and Peltzman 1986). According to these studies, capital markets strongly penalize producers for deceptive advertising or faulty products. The common author in these two studies, Sam Peltzman, suggests that capital markets realize that, in addition to the costs imposed by government sanctions, firms lose "goodwill" when they break the rules of the marketplace. In short, these studies suggest that stock prices might provide a useful summary indicator of the impact of product testing reports.

#### CONSUMER ECONOMISTS AND PRODUCT TESTERS

Although the best studies evaluating the impact of the world's consumers unions remain to be done, consumer economists have been quite inventive in using comparative testing data to advance knowledge about the operation of markets and the dynamics of consumer behavior. Comparative testing provides consumer economists with a defensible measure of a highly illusive concept--product quality. Curry and Faulds (1986), in addition to their own research on correlations among product characteristics, identified more than 30 studies that use objective quality ratings to investigate topics related to markets and consumer decision making.

Citing some specific examples, Loren Geistfeld has studied the relationship between price and quality (1988), E. Scott Maynes and his colleagues have charted the perfect information frontier (1984), and Brenda Cude has calculated the returns to aggressive consumer search behavior (1987). George Sproles and Loren Geistfeld (1980) have used product test data to study the efficiency of consumer decision-making, while Richard Olshavsky and Dennis Rosen (1984) have used it to understand choice-simplifying strategies of consumers.

In addition to providing data for studies by consumer economists, the consumers unions have contributed to consumer-oriented researchers in a number of other ways. Thinking of the specific relationship between Consumers Union and the American Council on Consumer Interests, CU provided financial support to ACCI in its early years, and CU representatives frequently appear on the program of ACCI conferences. The activities of consumers unions also provide a shield of legitimacy for consumer economists and other consumer-oriented social scientists. In response to the suspicious question of whether we are associated with Ralph Nader and the one-sided activist approach he represents, we can answer that we are more like the impartial and scientific testers at Consumers Union.

The relationship between consumer economists and consumers unions has been, to use a favorite word of consumer economists, rather asymmetric. Consumer economists like E. Scott Maynes, Richard Morse, Gordon Bivens, Robert Herrmann, Stewart Lee, and Jean Bowers have served on the CU Board of Directors. Still, the many benefits consumer economists have derived from the consumers unions have not been fully repaid. The time seems right for deeper collaboration between these two segments of the consumer movement. In addition to measuring the impacts of the consumers unions, consumer economists are adept at evaluating the full range of consumer protection policies. Although consumer advocates sometimes resist evaluation studies, these studies often provide ammunition for more and better policies, a goal that is shared with the consumers unions. Moreover, consumer economists have a long record of studying one of the relatively recent foci of consumers unions--the consumer problems of low-income, elderly, third-world, or otherwise vulnerable consumers.

In sum, the consumers unions of the world have no doubt been highly influential, but consumer economists can help to document this fact. More broadly, consumer economists represent a relatively untapped resource for the product testing organizations, especially as the latter expand their purview. In the process of bringing product testers and consumer economists into greater contact, hopefully there will be some space for a few consumer sociologists.

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