FOOTNOTES

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EVALUATING CONSUMER COMPLAINTS

Robert Bers*

Consumer complaint handling agencies require evaluation to determine their level of effectiveness and to identify areas for improvement. A complete evaluation must look both in and outside the agency. Such studies need not be costly. The results can provide information for agency decision-making on policy matters and can be used to improve the handling of complaints received in the future.

I appreciate this opportunity to discuss my findings on consumer complaint handling by city agencies. The background material for this presentation comes from my experiences as an investigator with two city consumer protection agencies, the New York City Department of Consumer Affairs and, more recently, the District of Columbia Office of Consumer Protection. Working with these agencies has exposed me, first, to the wide range of problems that consumers face and to the need to have complaints resolved by a third party and secondly, the need for the city complaint agency to evaluate the effectiveness of its complaint handling procedures as well as its overall operations in protecting the consumer.

The Need to Evaluate Complaints

Complaint handling by the agency serves two purposes. The first purpose is to remedy consumer losses. Secondly, data obtained from studying complaints should be used by the agency to make policy decisions affecting consumer protection. Consumer complaints provide a bank of data concerning public awareness of the agency and what it can do for consumers of unscrupulous business practices, and of the effectiveness of the agency in dealing with consumer complaints.

In order to assure objectivity, evaluations of city complaint agencies should be done by outside parties if possible. This review of complaints received and how they are handled will also reveal many aspects of the other operations performed by the agency.

A number of questions need to be answered through evaluation of the agency. Are consumers satisfied with their purchases? Are they satisfied with the agency's attempt to help them when they complain to that agency? Which products or services generate the most problems? How frequently does the consumer complain about the problem? Once a complaint is resolved, is the consumer better armed for his next purchase? In other words, has an educational process occurred as well as the resolution of a complaint? Has there been a change in business atmosphere in dealing with its customers?

Methods for Evaluating Complaints

Now that we have established the need to evaluate consumer complaints, let us look at how this can be accomplished. A complete evaluation occurs by looking both in and outside the agency. Inside the agency, we examine efficiency in handling complaints. We try to plug holes in problems that come up, such as the length of time for resolving a complaint or the investigator's inability to effectively resolve the complaint to the consumer's satisfaction. We look at how people found out about the agency and whether our Public Education Program is successful. These internal indicators will guide the agency in its enforcement directions and its consumer education policy. However, these internal factors are only part of the picture.

First, the complaints will tell us about business practices in the community and about areas which are severe problems for consumers. Is automobile repair the biggest problem, or is it credit, or is it door-to-door sales? This is the first step in determining what problems consumers are having in the marketplace.

To date, studies indicate that very few agencies are attempting to assess their effectiveness. Why? Probably it's because they feel such an effort would be time-consuming, tedious, and command much needed resources. This need not be so. Smaller agencies with less resources could easily manage a simple study of their complaints which could reveal important information. For example, a simple random survey of consumers who file complaints with the agency could be done by asking two questions. First, are you satisfied with the agency's efforts and the resolution of your case? Second, if you are not satisfied, what didn't you like about the service? How could it have served you better?

Another simple method for evaluating the agency's complaint handling would be to have a more detailed complaint form, which either the consumer or the investigator could fill in. Determining the section of town or county in which the consumer lives could reveal areas consumer educators are not reaching. Asking the consumer how s/he learned of the agency would be indicative of the results of the Consumer Education Department's efforts. If many consumers hear about the agency as referrals from another agency, then they are not being educated through media and community channels, which the consumer educators should be utilizing to the fullest.

Areas To Be Studied

Larger city complaint agencies with higher budgets can and should study other criteria of greater importance in handling complaints. Let me list some of these areas that could be studied to enhance complaint handling ability.

1. The validity of complaints. Complaints that are rated invalid by an investigator pinpoint consumer education needs, and point to the need for consumer advisors.

2. Type of business. This indicates businesses that require agency attention.

3. Complaint resolution effectiveness indicates effectiveness with particular types of business or, also, could reflect the need for increased

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legislation regarding regulation of a particular business.

4. Consumer satisfaction. Only the client can indicate whether the service was adequate.

5. Monitoring other city services. When an agency refers a complaint to either another agency or to the courts, the agency has an opportunity to monitor how well other areas of government are serving the consumer. Such monitoring can lead to recommendations to the city council or appropriate legislative bodies to improve consumer protection.

Once a city agency has fully evaluated its ability to increase the voicing of complaints, to increase knowledge of consumer rights and how to avoid being "ripped off", to resolve complaints and pinpoint illegal or improper business practices, it will be ready to take steps to improve complaint handling and consumer education.

Techniques for Improving Complaint Handling

Techniques for improving complaint handling often can be discovered through such detailed analysis as I have just discussed. The make-or-break factor in complaint handling effectiveness is the quality and training of the investigative personnel. What steps does the agency take to train investigators to better understand and resolve complaints.

An investigator cannot adequately resolve a complaint if s/he is not familiar with the laws and other aspects of the industry being investigated. Several areas of complaints require either experience or knowledge of that field of business. This would include TV/radio repair, home improvement, household appliances, and automobile repair and maintenance. Some agencies have specialists who act as investigators in these areas. Other agencies choose to consult outside experts. In any case, some specialization or professional training is required in many specialized areas of business, including law, insurance, and credit.

An investigator must have access to an attorney, preferably one who works with that investigator in the same office. An example of the immediate need for a lawyer is to establish whether the agency has jurisdiction in a particular case. Such a decision is often tricky and only a lawyer can determine whether an agency can even handle the case. Without prompt legal advice the investigator might keep a consumer waiting several days, or even weeks, before finding out whether the agency can deal with the complaint or whether a referral can be made to another agency.

Some agencies do not provide training for their investigators. They simply give the investigator complaints and ask that they be handled to the best of the investigator's ability. If the investigator needs help, s/he can ask for it. Training must be an ongoing process. Investigators should receive training in interviewing, in basic areas of consumer transactions, in federal warranty laws, and in local credit laws. They should also receive training in the psychology of complaints.

Complaint handling is not a cut-and-dried objective job. Many emotions are involved, namely those of both the injured consumer and the manager who may feel insulted that a third party has entered the transaction. An investigator must be ready to bargain for the best resolution that can be obtained for the client. This is more easily accomplished when many local consumer protection laws are available to use as possible enforcement measures. However, when the city lacks strong consumer protection laws on which the investigator can rely, much creativity is needed to deal with the respondent. This includes determining exactly what type of strategy to use, depending on the type of business being complained against, and going to top management, if necessary.

Consultations with agency supervisors by investigators, and cooperation among the investigators themselves, is also of critical importance to the overall effectiveness of the agency. The senior level of the agency must continuously call upon the investigative section to report major problems with the business community or with consumers in the community in order to better direct agency policies.

Investigators should themselves meet as a group on a regular basis to discuss problem areas they are experiencing. Often, one investigator may see a solution to a problem another investigator failed to see. This is due to the often complex nature of complaints received. If this sharing of complaints and common problems is not encouraged, there is a tendency for investigators to keep cases to themselves. There is a natural tendency to maintain one's credibility with others by dealing with problems without asking for outside help.

Other techniques which could be developed after analysis of data on complaints received include the publicizing of the worst violators of consumer rights in the local business community. This technique was used quite effectively by the New York City Department of Consumer Affairs. For example, a local furniture and appliance chain was virtually shut down due to adverse publicity by the New York City Department of Consumer Affairs. If used sparingly, this technique could warn consumers of potential problem businesses and put the businesses on notice.

In conclusion, I would like to emphasize some of the statements concerning the need for evaluating complaints. First, if an agency evaluates only the complaints it receives, it will get only a partial picture of the problems experienced in the community because only vocal consumers voice complaints. It is the agency's job to reach those who do not voice complaints as well as to investigate complaints received. The main function of evaluating the complaints received is to determine the agency's level of effectiveness and areas which need improvement. If an agency is going to identify consumer problems within the community, it must turn to the community and not limit itself to complaints received. It is hoped that in the future, all city complaint handling agencies will evaluate complaints received as well as unvoiced complaints, so that they can better serve consumers.

NONBUSINESS BANKRUPTCY AND CHAPTER XIII RATES IN THE FIFTY STATES**

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An econometric model is developed and estimated to explain the variation among states' nonbusiness bankruptcy rates. The model's specification is also tested by reestimating in a second time frame. A unit increase in the percent of a state's population which are black, the existence of state laws which prohibit or restrict wage garnishments, and the location of a state in the western part of the country result in suppressing bankruptcies. Unit increases in the percent of black population in certain southern states, in a state's divorce rate, in the debt-income ratio per capita and the existance of Consumer Credit Counseling Services within a state's borders are associated with increases in nonbusiness bankruptcies.

In recent years, the expansion of consumer credit markets and the use of credit have been dramatic. Total consumer credit outstanding reached $246.1 billion at the end of September 1978 [17, p. 3]. This level is a considerable increase, compared to $101.9 billion in 1970, even when controlled for inflationary trends in prices [23, 1977, p. 534]. The growth of consumer credit has both its social and personal costs, one of which is the parallel growth in the incidence of personal or nonbusiness bankruptcies. In fact, nonbusiness bankruptcies have increased dramatically since the 1950's, outstripping even population growth [7].

Simultaneously with this recent growth in nonbusiness bankruptcies, there exists a vast disparity of bankruptcy rates among the fifty states (Table 1). The median nonbusiness bankruptcy rate among the five states with the lowest rates was 31 per 100,000 population while among the five states with the highest rates, the median rate was 156 nonbusiness bankruptcies per 100,000 population. Why do such differences exist? What factors influence this substantial disparity of rates among the fifty states? The purpose of this research paper is to develop a stochastic model which explains the variation among states' nonbusiness bankruptcy rates and to test the specification of such a model.

From a public policy standpoint, the findings of this research are useful to legislators in knowing which aspects of a state's environment are associated with nonbusiness bankruptcies and, in turn, could be manipulated to influence the bankruptcy rate in their state. In addition, the model could be used to predict a state's nonbusiness bankruptcy rate. Finally, empirical answers to the question of interstate disparity of nonbusiness bankruptcy rates are of value to professionals who are interested in the study of family financial problems, credit abuse, and personal bankruptcy. Such research findings are particularly useful to professionals who work with financially insolvent households in identifying which households would be more likely to become bankrupt.

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The Model, Hypotheses, and Data

With the increase in the incidence of nonbusiness bankruptcies since 1950, there has been an abundance of research on: (1) the growth of bankruptcy over time, and (2) the characterization of the "typical bankrupt" individual from the analysis of samples of actual bankrupt petitioners. No models concerning the disparity of nonbusiness bankruptcy rates among states exist in the literature; however, Robert Dolphin, who studied personal bankruptcies in the Flint, Michigan area, concluded from his research that personal bankruptcies occur as a result of a total environmental milieu. Moreover, he suggested that a complete study and analysis of bankruptcy should include three major dimensions of that milieu: social, economic, and legal [5, p.2]. Thus, debt is a necessary but not a sufficient condition for personal bankruptcy. Other variables, even nonfinancial variables, may provide the sufficient conditions to influence already financially insolvent households in choosing bankruptcy

In order for an individual to be considered bankrupt, s/he must petition in the federal courts and be reviewed and awarded bankruptcy by a referee. As a result, the bankrupt individual is relieved of the majority of his/her debts. A financially insolvent individual may also petition to be considered under Chapter XIII of the Federal Bankruptcy Act. Chapter XIII, or the wage earner plan, allows the individual to attempt to pay back debts under the guidance of a trustee and under the protection of the courts. The wage earner plan is estimated to be used in approximately 15 percent of all bankruptcy filings [6, p. 79]. In addition, the success or completion rates are roughly estimated to be 50 percent, with the remaining 50 percent of the Chapter XIII's reverting to personal bankruptcies over time [6, p. 79]. Therefore, the number of personal bankruptcies and the number of Chapter XIII's are combined to represent a measure of the number of individuals within a state's borders who are seeking a legal solution to their financial insolvency. Henceforth, this variable will be simply referred to as a state's nonbusiness bankruptcy rate per 100,000 population and is used as the dependent variable.

The Social Dimension

Borrowing Dolphin's suggested framework, a stochastic model is synthesized from previous research. The social dimension of the model is represented by: percent of a state's population which are black, percent of black population in the "deep south" states, and a state's divorce rate.[1]

Stanley and Girth found an overrepresentation of blacks in their national sample of bankrupts, while few other researchers found conclusive results concerning the ethnic background of their bankrupt samples [21, p. 45]. In view of generally low incomes and high unemployment among blacks, it can be argued that black households might be more likely to experience financial insolvency and, in turn, bankruptcy. The percent of a state's population which are black is included in the model's social dimension in order to test whether or not a positive

Table 1. Number of nonbusiness bankruptcies per 100,000 by state in fiscal year, ending on June 30, 1977.

North		South		West	
State	Number per 100,000	State	Number per 100,000	State	Number per 100,000
Indiana	148	Alabama	181	Nevada	202
Kansas	148	Tennessee	173	Idaho	156
Illinois	121	Kentucky	131	Arizona	134
Ohio	113	Georgia	126	Colorado	130
Nebraska	112	Oklahoma	118	California	123
Maine	96	Virginia	117	Oregon	119
Missouri	93	Louisiana	106	Washington	108
Iowa	78	Mississippi	96	Wyoming	105
Wisconsin	76	West Virginia	83	New Mexico	90
Minnesota	68	North Carolina	63	Montana	87
Michigan	58	Arkansas	60	Utah	86
New York	58	Florida	51	Hawaii	51
Connecticut	57	Delaware	46	Alaska	34
North Dakota	50	Maryland	32		
New Hampshire	47	Texas	23		
Vermont	46	South Carolina	12		
Rhode Island	42				
South Dakota	41				
New Jersey	34				
Massachusetts	38				
Pennsylvania	31				

National average- 85

Source: National Consumer Finance Association, "Report on 1977 Nonbusiness Bankruptcies by States."

relationship does exist between the incidence of nonbusiness bankruptcies and ethnic background.

Due to historical events and present tendencies of institutionalized prejudice against blacks, particularly in the south, it is suspected that the availability of consumer credit to blacks might be markedly different in the traditional "deep south" part of our country. Blacks in the "deep south" may be less likely to seek bankruptcy as a solution to their financial problems due to a lack of information or hesitancy to seek legal solutions. Consequently, financial insolvency resulting in bankruptcy would be less likely for the black segments of the population in these states. The "deep south" is intuitively defined to include the states of North Carolina, South Carolina, Georgia, Alabama, Mississippi, and Louisiana. Thus, an interactive term is added to the stochastic model's social dimension which involved both the percent of a state's population which are black and a binary variable which assumed the value of one if a state is in the deep south and a value of zero otherwise. This interaction variable allows the relationship between nonbusiness bankruptcies and the percent of blacks in this particular group of states to be examined. While the variable of the percent of blacks in all states is expected to be positively related to bankruptcies, the percent of blacks in the deep south is expected to have a negative effect on bankuptcies.

Several researchers found the incidence of marital difficulty and divorce to be high in their samples of bankrupts [1,8,9,11,13,19,25]. Both divorce and bankruptcy involve a breakdown in the functioning of the family unit or household. Moreover, it is reasonable to expect that a breakdown in the family unit is often tied to greater financial demands and problems and, in turn, a greater likelihood of financial insolvency and bankruptcy. Consequently, a state's divorce rate is included in the social dimension of the model and is expected to be positively related to a state's non-business bankruptcy rate.

The Economic Dimension

The economic dimension of the model is represented by: the percent of a state's total income which is manufacturing income, a state's unemployment rate, the percent of the state's total credit offices which are finance companies, and a state's debt-income ratio per capita.[2]

Most previous researchers found the typical bankrupt to be a blue collar worker. Moreover, the typical bankrupt often had lower income and educational levels than the general population. The strong correlation between occupation, income, and education has been verified in research concerning the general population as well. In order to avoid the statistical problem of multicollinearity, the effects of occupation, education, and income are represented by one variable. The largest group of blue collar workers in a state are most likely to be found in the manufacturing sector of a state's economy. In addition, the collective effect of associated levels of education and income earned by this group of blue collar workers could be represented in the percent of a state's total personal income which is earned by workers in manufacturing enterprises. Thus, the percent of a state's total personal earned income which is manufacturing income is included in the economic dimension of the model and is expected to be positively related to bankruptcies.

Unemployment and the subsequent fall in income would logically lead to a greater probability of financial insolvency and bankruptcy. Unemployment was frequently mentioned by bankrupts in many small sample studies as causing their bankruptcy. Moreover, unemployment among bankrupts was reported more frequently than it was occurring in the surrounding communities from which the samples were drawn [1,9, 13,14,19,25]. Several research findings seemed to indicate that the incidence of unemployment occurred prior to bankruptcy. Thus, a state's unemployment rate is included in the model as a lagged variable and is expected to be positively associated with the dependent variable.

An analysis of the debt profiles of bankrupt individuals in previous small sample studies indicated that finance companies are often not only the most frequently mentioned creditor but also often hold the largest dollar amount of the bankrupt's debt [3,8,9,10,11,12,13,16,25]. The amount of outstanding consumer debt held by finance companies in a particular state is not used because such data are not available. Instead, the percent of a state's total credit offices which are finance companies is included in the model's economic dimension in order to evaluate the influence of this type of financial institution on a state's nonbusiness bankruptcy rate.[3] This variable is obviously not synonymous with the oustanding consumer debt or delinquency rates for finance companies but it indirectly reflects the relative magnitude and importance of this type of lender in a particular state. It is expected that the higher the percent of consumer finance companies in a state, the higher the state's bankruptcy rate.

Finally, a state's debt-income ratio per capita is included in the economic dimension of the stochastic model. The relation between debt and income would seem obvious. Many researchers found a high debt-income ratio for bankrupt individuals [3,8,10,13,14, 16]. Yeager tested and found a positive relationship between consumer credit outstanding as a percentage of disposable income and the per capita level of nonbusiness bankruptcies in the United States as a whole over the years of 1950 to 1970 [25, p. 48]. Likewise, it is expected that a state's debt-income ratio per capita would be positively related to a state's nonbusiness bankruptcy rate.

The Legal Dimension

The legal dimension of the model is represented by: the existence of one or more Consumer Credit Counseling Offices within a state's borders, the existence of state laws which prohibit or restrict wage garnishments, the existence of state laws which prohibit or restrict wage assignments for finance companies, the existence of state laws which prohibit wage assignments to credit unions, and the regional location of a state within the country.

The existence of consumer credit counseling services within a state's borders should reduce the need for a family to resort to court action to relieve their financial entanglements. Collins found that over time the existence of a Consumer Credit Counseling Service in Missoula, Montana had a negative effect on the incidence of bankruptcy in that city [4, p. 242]. However, Carol Hughes compared the location of these types of services in six Montana cities with their respective bankruptcy rates and found a positive pattern [9]. Thus, the inclusion of this variable in the model is important in order to examine the relationship between a state's nonbusiness bankruptcy rate and the availability of credit counseling. However, since over one third of the states did not have any consumer credit counseling offices and another one fourth of the states had only one office, a binary variable reflecting whether or not a state had one or more offices is included in the model.

Wage garnishment is a legal, sanctioned procedure of withholding of a percentage or dollar amount of an employee's wages by an employer for payment directly to a creditor. A wage garnishment exemption is the portion of the employee's wages which by federal and state laws cannot be garnished by an employer for a creditor. Wage assignment is a contractual agreement giving a creditor the right to collect a portion of a debtor's wages if a default occurs without resorting to court procedures. Before the federal Consumer Credit Protection Act of 1968, which established a 75 percent national minimum for wage garnishment exemptions, there was extreme variation among the exemptions of the various states. Stanley and Girth, in their Brookings Institute study, performed a rank correlation analysis of wage garnishment exemption levels and bankruptcy rates of the various states and found that a significant negative relationship existed [21, p. 30]. In the period after the above mentioned legislation, Shuchman and Janster, by using a rank sums test, also found a significant inverse relationship between a state's wage garnishment exemption level and its bankruptcy rate [20]. The legal dimension of the model includes a set of five binary variables developed by a panel of lawyers as part of a data base for studies performed for the National Commission of Consumer Finance. Each respective binary variable assumes the value of one if a state has laws which either prohibit or restrict wage garnishments or which either prohibit or restrict wage assignments for finance companies or which prohibit wage assignments for credit unions. It is expected that all legal impediments to wage garnishments or wage assignments will have a negative effect on a state's nonbusiness bankruptcy rate.

Finally, three binary variables are included in the model so that differences between the incidence of bankruptcies in various regions of the country can be examined.[4] The general legal environment, including the effects of both lawyers and federal district court judges, can be reflected by these regional variables. If the legal environment is organized to enhance the ease of processing bankruptcy or Chapter XIII cases, such as in Alabama, the bankruptcy rates in those areas will be higher [22, Chapter 7]. Regional dissimilarities might also occur due to cultural differences or due to differences in attitudes and values concerning debt obligations. The fifty states are divided into the North, South, and West regions (Table 1), and assumed values of one if in a particular region and zero otherwise. It is hypothesized that the West and South regions will have the highest bankruptcy rates.

The Data

Two individual samples of the years 1971 and 1972 were studied. These studies were chosen because they reflected a recent time frame and they were considered to be fairly representative of normal economic conditions. Within these years, 49 observations from the 50 states were used. Nevada was excluded because of its extremely high divorce rate. For example, in 1970, Nevada's divorce rate was 18.7 per 1,000 population while the next highest divorce rate was 7.0, held by Arizona [23, 1977, p. 77]. Moreover, Nevada also had one of the highest nonbusiness bankruptcy rates. Considering these two facts, the probability of violating the ordinary least squares assumption of homoscedasticity was increased.

The fiscal years ending in 1971 and 1972 were used to obtain observations for the dependent variable including both bankruptcies and Chapter XIII's. Observations for all independent variables except a state's unemployment rate were taken from the nearest preceding calendar or fiscal year. Inherently, this procedure lags all independent variables of the calendar time period by six months and the remaining independent variables of a fiscal time period by one year. The observations for the unemployment rate were lagged one time period by explicit design. This combination of the various time period was considered valid due to the probable time lag between the incidence of financial problems in a household and the act of filing bankruptcy if necessary. The two time frames of the samples will be referred to as 1971 and 1972.

Various data bases were utilized in obtaining observations for the research variables (Table 2). The dependent variable was obtained from the National Consumer Finance Association's published data

Table 2. Sources of data bases for research variables.

Variable	Source
Nonbusiness bankruptcy rate and Chapter XIII rate	National Consumer Finance Association, "Report on Nonbusiness Bankruptcies by States."
Percent of population which are black	Word, David L., "Population Estimates by Race Derived from Merging Administrative Records," U.S. Census Bureau, unpublished speech, 1977.
Divorce rate	National Center for Health Statistics, Monthly Vital Statistics Report: Advance Report, Final Divorce Statistics.
Unemployment rate	U.S. Department of Labor, Manpower Report of the President.
Percent of manufacturing income	U.S. Department of Commerce, Bureau of Census, Census of Manufacturers.
Percent of finance companies	National Consumer Finance Association, "Number of Loan Offices Operated by Consumer Finance Companies by States," Special release table.
Debt-income ratio per capita	Federal Deposit Insurance Corporation, Assets and Liabilities--Commerical and Mutual Savings Banks.
	Federal Home Loan Bank Board, FSLIC--Insured S & LA's; Combined Financial Statements.
	National Credit Union Administration, Annual Report of National Credit Union Administration and Annual Report of State-Chartered Credit Unions.
Existence of one or more Consumer Credit Counseling Offices	National Foundation for Consumer Credit, "Consumer Credit Counseling Services--Directory."
Existence of state laws concerning wage garnishments and wage assignments	Greer, Douglas F., Creditors' Remedies and Contract Provisions: An Economic and Legal Analysis of Consumer Credit Collection. National Commission of Consumer Finance, Technical Studies, Vol. V., 1971.

series which is tabulated from the official court reports [18]. Brunner and Matthews have concluded that these official bankruptcy statistics overcount actual bankruptcies because they include business related personal bankruptcies and companion cases [1, 13]. Since the main objective of this research was to explain the disparity among states within a cross-sectional time frame, the overcounting problems were assumed to occur in all states equally. It was felt that a recounting and adjustment process for all states such as the one developed by Brunner, involving verification of actual court records, would have been impossible if not prohibitive.

Results, Discussion, and Implications

Using ordinary least squares, the model was estimated in 1971 and then estimated in 1972 in order to test its specification.[5] The equality of these two regression estimations was tested with an F statistic. The resulting value for the F statistic ($F_{(16,96)} = .3999$ not significant at .01 alpha level) was not great enough to reject the null hypothesis that the two regressions are equal. Thus, only the estimation results of the 1972 sample will be discussed and are presented in Table 3.

Although the sign for the variable of the percent of a state's population which are black are expected to be positive, the actual sign of the coefficient for this variable is negative. In the country as a whole, a unit increase in the percent of blacks in a state's population, with other variables being held constant, would result in a decrease in the level of nonbusiness bankruptcy rate by 1.68. The inconsistency between this finding and those of the Brookings Institution study, involving a national sample may be due to differences which have occurred between the 1964 sample of the Brookings study and the 1971 and 1972 sample data used in this research. The negative sign for this coefficient might also be interpreted as meaning that either credit availability is more limited for blacks than other ethnic groups or that blacks face more stringent criteria in applying for credit. Moreover, insolvent black households may be less likely to seek bankruptcy as a solution to their financial overextension. The t value of the coefficient of this variable is significant at the .20 alpha level, meaning that there is an 80 percent chance that the coefficient is significantly different from zero.

For cultural reasons, a more specific regressor of the percent of population which are black in the deep south states was estimated. The coefficient of this variable was 1.65 while the hypothesized sign was negative. The negative sign was expected because it was felt that credit markets available to the black credit consumer in the deep south states would be more limited than credit markets available to blacks in other states. It was assumed, with limited credit markets, the presence of a high percent of blacks in the deep south states would have a suppressing effect on the nonbusiness bankruptcy rates in this region. The fact that a positive coefficient was obtained for this variable indicates that this hypothesis is not true. Moreover, a higher percent of blacks in these states within the deep south had a positive effect on the total incidence of personal bankruptcies and Chapter XIII's. These results may indicate that insolvent black households in the deep south states are either counseled or influenced to seek a nonbusiness bankruptcy or the Chapter XIII process. The t value of the coefficient of this variable was significant at the .20 alpha level.

The sign of the coefficient for the divorce rate variable was positive as was expected. A unit increase in a state's divorce rate, with other variables being held constant, would result in an increase in the level of a state's nonbusiness bankruptcy rate by 17.23. The magnitude of the coefficient is higher than approximately one half of the other coefficients. Moreover, the t value of this coefficient was highly significant at the .01 alpha level. The importance of a state's divorce rate in influencing its nonbusiness bankruptcy rate demonstrates the important link between a state's social environment and its effect on the financial insolvency of families within that state. Moreover, it might be surmised that a breakdown in the family unit is often associated with the greater likelihood of insolvency and bankruptcy. Thus, public endorsement of the solidarity of the family unit and marital relationship in our highly industrialized society would result in benefits which would partially offset its costs. One example of such public advocacy for the family unit could be implemented through various tax policies.

Because the divorce rate is closely associated with the bankruptcy rate, perhaps consideration should be given to investigating the financial disruption of households as a consequence of divorce. This cognizance might take the form of increased financial counseling services during the divorce process, changes in tax laws, or promotion of equitable distribution of assets, including human capital, and debts.

The positive sign of the coefficient for the unemployment rate variable was expected. A unit increase in a state's unemployment rate, with other variables being held constant, would be associated with a 1.81 increase in a state's nonbusiness bankruptcy rate. The t value of the coefficient for this variable did not prove to be significant even at the .20 alpha level meaning that the coefficient was not significantly different from zero.

The expected sign of the coefficient for the percent of manufacturing income variable was positive while the estimated sign was negative. A possible explanation of the inconsistency is that this proxy variable was actually measuring the effect of more than just the occupation, education and income characteristics of a state's population. Or, the incidence of nonbusiness bankruptcies, in recent years, may be occurring more in all occupation, education, and income levels. This variable may be measuring the more positive aspects of increased human capital or the greater stability created by fringe benefits such as group life and health insurance, unemployment insurance, and pension plans. The t value of the coefficient of this variable was not significant even at the .20 alpha level.

The sign of the coefficient for the percent of finance companies variable was positive as expected with a magnitude of .47. An increase of one percent in the number of finance company offices as a percent of the total credit offices in a state, all other variables held constant, will be associated with a .47 increase in the number of nonbusiness

Table 3. The revised model for 1972 nonbusiness bankruptcy rates: regression coefficients, standard deviations or regression coefficients, t values, and other statistics.

Variable	Regression coefficient	Standard deviation	t value
Percent of population which are black	-1.68	1.93	-.87*
Percent of population which are black in "deep south" states	1.65	1.53	1.08*
Divorce rate	17.23	6.56	2.63****
Unemployment rate (lagged)	1.81	6.01	.30
Percent of manufacturing income	-.73	1.29	-.57
Percent of finance companies	.47	1.01	.46
Debt-income ratio per capita	5.30	3.89	1.36**
Existence of one or more Consumer Credit Counseling Offices	25.78	16.91	1.52**
Existence of prohibitive wage garnishment laws	-85.29	31.91	-2.67****
Existence of restrictive wage garnishment laws	-38.42	22.30	-1.72***
Existence of prohibitive wage assignment laws for finance companies	-.22	23.16	-.01
Existence of prohbitive wage assignment laws for credit unions	7.22	25.19	.29
Existence of restrictive wage assignment for finance companies	.51	16.50	.03
North	-39.12	63.36	-.57
South	-48.55	79.17	-.62
West	-73.78	75.06	-.98*

adjusted R^2 = .832 overall F = 15.767 significant at .01 alpha level

*critical t value at .20 alpha level and 33df = $\pm$0.853
**critical t value at .10 alpha level and 33df = $\pm$1.309
***critical t value at .05 alpha level and 33df = $\pm$1.694
****critical t value at .01 alpha level and 33df = $\pm$2.450

bankruptcies per 100,000 of the state's population. Even though the t value of this coefficient was not significant at the .20 alpha level, there appeared to be a trade-off or cost/benefit relationship between the number of consumer finance offices and bankruptcies. This group of financial institutions provides credit markets for high risk borrowers. However, the societal cost of a higher incidence of nonbusiness bankruptcies most probably reaches a level, particularly in states with high bankruptcy rates, where the benefits of a large number of consumer finance companies are diminished. If the public policy makers of a state with an extremely high nonbusiness bankruptcy rate establish a goal of decreasing their rate, it would seem justifiable to examine, along with other aspects of the state's environment, the consumer finance companies and their relation to other parts of the state's economy. Alternatives available to public policy makers include: 1) minor regulation of consumer finance companies in terms of their numbers or types and sizes of loans made, 2) programs which cause finance companies to assume some of the societal costs of bankruptcies, or 3) education of the public in the use of this type of consumer credit.

The sign of the coefficient for the debt-income variable was positive as expected. This result is consistent with the regression model used by Yeager in studying the relationship between consumer debt and nonbusiness bankruptcies over time. With all other independent variables being held constant, a unit increase in the ratio of consumer debt outstanding to personal income per capita was associated with a 5.30 increase in the number of nonbusiness bankruptcies per 100,000. The t value of this coefficient was significant at the .10 alpha level.

In terms of public policy and economic implications, the significance and the sign for the coefficient of the debt-income variable indicates that this variable is an important aspect of the state's economic environment which influences the incidence of nonbusiness bankruptcies. If it is the aim of public policy makers to influence or change the level of the nonbusiness bankruptcy rate in a state, this research implies that a serious examination of a state's credit markets should be made. A higher incidence of nonbusiness bankruptcies is one of the costs which parallels the benefits of plentiful and easily assessible consumer credit.

The availability of Consumer Credit Counseling Service would intuitively seem to abate the incidence of nonbusiness bankruptcies. For this reason, the expected sign for the coefficient of the variable indicating the existence of one or more offices within a state's borders was negative. As a result of the estimation procedures, a positive coefficient of 25.78 was obtained. The t value of this coefficient was 1.52 which was significant at the .10 alpha level. The existence of one or more Consumer Credit Counseling Offices in a state was associated with a 25.78 increase in a state's nonbusiness bankruptcy rate. Thus, it would seem reasonable to conclude that the dispersion of these services is according to their need. However, since over one half of the states who have these services have only one office or no offices at all, it could also be argued that there are simply not enough offices or services provided to cause a decrease in a state's nonbusiness bankruptcy rate. Indeed one of the recommendations of the 1971 Brookings Institute study was to incorporate financial counseling into the actual bankruptcy process.

The findings concerning the sign, magnitude, and significance of the coefficient for this counseling variable should be considered in any attempt to change or influence a state environment in terms of the incidence of nonbusiness bankruptcy growth. The current proposed changes in federal bankruptcy laws have omitted any provision for the availability of financial counseling to the petitioning bankrupt. The magnitude of the coefficient of this variable indicates that the cost of providing more financial counseling services, either through public programs or encouraging private enterprise, could be overridden by the benefits of the reduction in the number of nonbusiness bankruptcies and the personal and societal costs involved in these bankruptcies.

The signs of the coefficients for both wage garnishment binary variables indicating respectively the existence of state laws which prohibit and restrict wage garnishments were negative as expected. The magnitudes of the coefficients for these variables were-85.29 and -38.42, respectively. Thus, if a state has laws which prohibit wage garnishments, the nonbusiness bankruptcy rate is reduced by 85.29. Likewise, the existence of state laws which restrict wage garnishments was associated with a 38.42 decrease in the number of nonbusiness bankruptcies per 100,000 population. The t value for the coefficient of the prohibitive wage garnishment variable, -2.67, was highly significant at the .01 alpha level. Therefore, the null hypothesis that this coefficient is equal to zero was rejected. The t value of the coefficient for the restrictive wage garnishment variable was significant at the .05 alpha level.

The main implication of these statistical results concerning the wage garnishments law is that even though a federal minimum of 75 percent exemption is in existence, wage garnishment still explains a large amount of the variation among states' nonbusiness bankruptcy rates. These findings coincide with the earlier findings and conclusion of Stanley, Girth, Shuchman, and Jantscher. However, wage garnishment variables have never before been included in a regression equation in combination with other independent variables. Even when other independent variables are tested along with wage garnishment variables, the magnitude of these variables are quite large and their t values highly significant. The possibility or threat of wage garnishments seem to push financially insolvent individuals or households into bankruptcy.

These findings suggest that a very direct way in which federal public policy makers could reduce the incidence of nonbusiness bankruptcy and the disparity among states would be to enact wage garnishment laws which would prohibit or at least restrict this creditor's remedy more severely than the current federal minimum of 75 percent exemption of wages. One of the recently proposed changes in the federal Bankruptcy Act is to eliminate the diversity among state wage garnishment laws. This research lends support to the enactment of this change in order to reduce the high incidence of nonbusiness bankruptcies in some states.

The signs of the coefficients for all three wage assignment binary variables were expected to be negative; however, only the sign of the coefficient of the variable indicating the existence of prohibitive wage assignment laws for finance companies was negative. If a state's laws prohibit wage assignments by finance companies, the state's nonbusiness bankruptcy rate is reduced by .22. Moreover, if a state has laws which prohibit wage assignments to credit unions and restricts wage assignments to finance companies, the nonbusiness bankruptcy rate is increased by 7.22 and .51, respectively. The t values of the coefficients of all three wage assignment variables were not significant even at the .20 alpha levels. Thus, it would seem wage assignments by finance companies tended to push financially insolvent households into bankruptcy. The positive signs on the other wage assignment variables contradict previous research and no reason could be estimated for these results.

Finally, the estimated coefficients of all three regional variables were negative, with the West being the most negative and only significant coefficient, even at the .20 alpha level. The incidence of nonbusiness bankruptcies would seem to be lower in the West versus the other regions of the country. From a federal public policy standpoint, the relative magnitudes of coefficients of these regional intercepts indicate the need to direct more programs, funding and efforts toward reducing bankruptcy rates of states in the South and North.

The coefficient of determination of R^2 for the regression equation was .882. Thus, approximately 88 percent of the variation in the dependent variable of the state's nonbusiness bankruptcy rates was explained by the 16 independent variables included in the model. The adjusted R^2, which takes into account the number of independent variables, was .832. The overall F statistic was 15.767 which is highly significant at the .01 alpha level. Thus, the combination of independent variables included in this model produced a significant relationship with the dependent variable.

Conclusions

This research study has been successful in specifying and testing an econometric model which explained a high percentage of the variation among state nonbusiness bankruptcy rates. If public policy makers have established the directional change desired in influencing its bankruptcy rates, the model developed in this research study is helpful in indicating the factors of a state's environment which encourage and reduce the incidence of bankruptcy. However, it should be recognized that in applying these research findings there are both positive and negative aspects of either a high or a low bankruptcy rate on a state's economy and environment.

A high state bankruptcy rate could be considered desirable despite the obvious societal and personal costs involved in bankruptcy. The process of nonbusiness bankruptcy may be the only viable alternative for a family or individual. If individuals are allowed to start over, this may have a positive affect on demand in the state's economy. Moreover, a higher bankruptcy states may be providing more credit markets to high risk borrowers such as low income individuals, many of whom do not become bankrupt. By providing more legitimate credit markets, illegal credit markets may be reduced. In contrast, the negative effects of a high bankruptcy rate would be the societal costs such as court costs to the tax payer. Also, the bankrupt individuals would tend to be subsidized by the credit borrowers who paid their debts. In addition, a high bankruptcy rate could be viewed as the result of a high stress situation for the insolvent households involved. The personal costs of this type of household stress might include: the emotional drain on family members, the breakdown of the family unit, and loss of confidence in the area of money matters.

Low bankruptcy rates would be considered desirable for the same reasons high bankruptcy rates would be undesirable. The same reasoning would be true for the negative aspects of low bankruptcy rates.

It is not the purpose of this research to decide whether a high or low bankruptcy rate should be the goal of a particular group of public policy makers. However, these issues have been raised for the scrutiny of the public policy makers in formulating policy decisions concerning nonbusiness bankruptcies.

In summary, a unit increase in the percent of a state's population which are black, the existence of state laws which prohibit or restrict wage garnishments, and the location of a state in the western part of the country result in suppressing bankruptcies. Unit increases in the percent of black population in certain southern states, in a state's divorce rate, in the debt-income ratio per capita, and the existence of Consumer Credit Counseling Services within a state's borders are associated with increases in nonbusiness bankruptcies.

FOOTNOTES

[1]The initial estimation of the model in 1971 also included the variable of a state's population which are between the ages of 25 to 34 [5,8,13,14,25]. Because of suspected multicollinearity (the martix of correlation coefficients was inspected for simple R's higher than .95) this variable is eliminated from the model.

[2]The initial estimation of the model in 1971 also included the variable of a state's total credit offices per 100,000 population [2,9,15,19,24,25,26]. Because of suspected multicollinearity (the matrix of correlation coefficients was inspected for simple R's higher than .95) this variable is eliminated from the model.

[3]A credit office is defined to be an autonomous physical arrangement or location of a financial institution which lends money to individuals. A state's total credit offices include the sum of all commercial bnaks, insured federal savings and loan associations, insured federal credit unions, and consumer finance companies.

[4]The three binary variables account for all fifty states. Thus, the main intercept in the model is suppressed in order to avoid perfect multicollinearity. In general, the major Census regions are used with the North region consisting of both the north central and northeast Census regions.

[5]In order to assure that the assumptions of the regression model were not violated, the matrix of correlation coefficients was inspected; multicollinearity and Goldfeld-Quandt tests were completed to check for heteroscedasticity.

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COMMENTS ON PAPERS/ABSTRACTS SUBMITTED TO ACCI EDITORS AND COMMITTEE CHAIRPERSONS

IMPROVING THE RESEARCH SKILLS OF ACCI MEMBERS: AN EDITOR'S PERSPECTIVE

by

Dr. Robert O. Herrmann*

Since its founding, ACCI has focused its efforts on improving the content of consumer education and increasing the effectiveness of consumer protection. Unlike other professional organizations, it has paid little attention to the professional development of its members. It is, however, becoming increasingly clear that for all of us in consumer education and consumer affairs to do our various jobs well, we will need to sharpen our understanding of the research process.

The Need for Research Skills

An understanding of research is important for almost everyone in our field:

1. Teachers and program directors must interpret research results and make judgments about their relevance and validity in deciding whether to incorporate them in their programs;

2. Teachers must direct the research efforts of their students, even though they have little opportunity to do research on their own;

3. Program directors and review panel members must evaluate proposals for the funding of new action, education, and research programs.

Our skills do not, unfortunately, come up to these responsibilities.

We have observed a variety of problems in running the *Journal*. The problems do not fall into any one category. We see problems of (1) basic conceptualization, (2) execution and analysis, and (3) exposition. The problems of exposition are most easily remediable. Problems of execution and analysis are often difficult to detect -- but usually, with some effort can be remedied, also. Problems in the basic conceptualization can, however, be disabling.

We pride ourselves on the fact that our area is interdisciplinary and applied, and that it deals with real-world problems. This, too often, has been used as an excuse to neglect the development of a theoretical-conceptual framework for our research. The result, too often, is a flawed study whose results have questionable validity and reliability. A related problem which we see is the failure to identify and utilize closely related work in parent disciplines. Researchers, in such cases, end up wasting their time reinventing the wheel. And even when they succeed, they run the risk of coming up with an eight-sided wheel -- a workable result, but not the most efficient one.

Elaborate statistical analyses cannot make up for these deficiencies in conceptualization, although they may partly conceal them. Many studies could, I feel, get along with far simpler statistical techniques if they had been better planned in the first place.

The Journal's Potential Contributions

The effort to improve our research skills should involve all aspects of our association: the annual conference, the newsletters, and the *Journal*.

The *Journal* can, we believe, make some useful contributions:

1. We will continue to try to publish articles which are models of good research techniques;

2. We will continue to provide guidance to contributors in improving their submissions;

3. We will undertake to publish selected articles dealing with the research *process* along with those reporting research *results*.

One contribution to this effort will be a two-part article by Lynn Phillips of Stanford University and Bobby Calder of Northwestern University. It is a comprehensive examination of validity problems in evaluation research studies of consumer protection programs. They have focused, in particular, on studies which have evaluated the impact of informational programs -- truth-in-lending, nutritional labeling, and so on. The first portion of this article will appear in our Winter 1979 issue.

We welcome your suggestions. We also would like to invite the submission of critical reviews and methodological discussions which can contribute to improving the research skills of our members. We have not had many pieces of this type in the *Journal* in the past. This is a result of the lack of such submissions, not our lack of interest in them.

COMMENTS ON ABSTRACTS SUBMITTED FOR THE ACCI CONFERENCE PROGRAM

by

Dr. Kay Edwards**

The conference program reviewers and I tended to find the same kinds of problems with some of the abstracts submitted for this conference program as those the previous speakers have noted. Those of you who submitted abstracts, when I returned them to you with the indication that they had been favorably or unfavorably reviewed, also received a general statement of certain kinds of problems the reviewers had identified. This statement was an attempt to communicate information that should be helpful in preparing future abstracts for submission.

Many of the abstracts submitted were excellent; there were no problems or negative reactions at all. But some did have problems. Incomplete information was one problem. For instance, people did not say what population they were studying or what their sample was. Those, and similar types of basic information, are necessary for a reviewer to

*Editor, *Journal of Consumer Affairs*

**Program Chairperson, 1979 ACCI Conference evaluate one piece of research vis-a-vis another one they are considering.

Another problem was that many abstracts dealt with incomplete research. They were incomplete to the point that they were an idea one had in mind and then submitted for review. The idea was not developed enough and had not been carried far enough for a reviewer to be able to evaluate it.

We have had excellent reviewers. They are very particular, they want the program to be excellent and to improve in quality each year.

As you and your students begin to prepare research for submission next year, do look extra carefully at the kinds of things Gayle Royer, Bob Herrmann and I have mentioned here. As I said, many of you are doing very well, but, unless you have reached perfection, maybe you can still improve a little bit.

I would suggest, to all of us, as we work with students, that we consider how to write abstracts. How to write an appropriate research abstract is something we should learn in our educational processes. Do take a second look at how much time you spend with your students, teaching them to write an appropriate abstract of their research, which they can submit for consideration for particular programs.

The problems I mentioned seem to be ongoing problems; the reports of program chairmen in previous years have mentioned the same kinds of things. We felt it was time to stop talking to each other, and to start talking with you. We hope, by talking about it, that you will become more aware and more sensitive to these problems, as you work with students and, perhaps, as you are doing your own work. In that way we can improve the quality of the submissions to ACCI and can improve the conference program.

THE ACCI RESEARCH AWARDS COMPETITION: EVALUATION CRITERIA AND CURRENT PROBLEM AREAS

by

Dr. Gayle Royer*

My comments today are based on my participation on the Research Committee Awards for two years, and on the recorded comments from previous years. Please keep in mind that there were some excellent contributions to the field, and some very important topics written about. However, the papers that tended to do well on these points tended to fall down in other respects. So I am hoping to offer suggestions today--to you researchers, research reporters and directors of research-- on how to insure that future papers receive higher evaluations.

The list of the criteria used to evaluate the papers is found in Table 1. The first criteria the committee used was to look at the importance of the topic. Did the topic contribute to the theory or thrust of a major consumer problem, or did it introduce a new methodology? The committee is trying to see that a paper which is deserving of an award is outstanding in this area. A number of the very excellent papers were provincial in their impact. In other words, it was a very good piece of research, it was good training for the student, it would have impact in the little community where it was done, but there was nothing really significant about it. In that sense, it was a good piece of research that did not get an award.

*Chairperson, ACCI Research Awards Committee

Table 1. Criteria for ACCI Research Awards Competition

1. IMPORTANCE OF THE TOPIC

    1.1 The importance of the issue addressed, or the increased understanding of a problem relating to consumers, or the usefulness of the methods developed, or some combination of these.

2. QUALITY OF RESEARCH

    2.1 Command of existing theory, or quality of theory developed, or quality and development of research questions.

    2.2 Knowledge of literature and appropriateness of references given.

    2.3 Appropriateness of methods chosen or developed.

    2.4 Appropriateness of the data and ingenuity shown in this respect.

    2.5 Validity of inferences drawn from the data and analysis.

    2.6 Originality.

3. EFFECTIVENESS OF REPORTING

    3.1 Completeness of explanation of what was done, including any deficiences.

    3.2 Statement of problem. Is it clear and concise?

    3.3 Statement of conclusions.

A second group of criteria dealt with the quality of the research. One of the first categories that evaluators addressed was the command of existing theory. In most cases, the paper stood up well in this criterion. The second criterion was the reference to previous work in the field. Did the paper reflect how the research built on previous research, and did it recognize other research in the field? This year, more than ever before, the papers seemed to lack reference to previous research, and that was very difficult for the evaluation committee. We did not know if the person had considered the previous research or if they had not looked for it. That is a problem people should address in the future.

Another criterion we looked at was the appropriateness of the methodology used to research the topic. In some cases the methodology seemed a bit superficial. One got the feeling, perhaps because of the reporting style and not because of the research itself, that more thought could have gone into the methodology of data collection.

Another criterion was the validity of the inferences drawn. Based on small sample size, and an unknown orientation to the literature, papers seemed to have no difficulty in inferring all sorts of things. That is the major problem in research reporting in general; I am not telling you anything new.

Originality was another criterion. The committee felt the wheel was being reinvented in some cases. I do not think that can be the fault of the graduate student alone; it is the fault of the field. We do not have the kind of renowned research, or have not given completed research the kind of publicity it needs. All of us tend to produce research we publish one month, and someone else publishes it the next month; we do not even know they are working on it.

The third major category of criteria was the effectiveness of the reporting procedure itself. We checked whether, in the reporting process, the researcher set forth the deficiencies or limitations of the research. Ten papers were submitted for award this year; nine made no reference to any deficiencies or limitations of their research. Again, the committee could not tell whether they did know, or whether they did not want to talk about them. But we felt that a quality research report would warn readers of limitations or deficiencies.

The statement of the problem was another category that we looked at. In general people did fine on that. The last thing we looked at was the statement of conclusions. They usually did a grand job of concluding--even in cases where there was not always a lot of relationship between the problem statement and the statement of conclusion. However, in general, they did okay.

I make these comments in hope that all of us as researchers will address ourselves as to how we should be reporting research.

TRIBUTE TO COLSTON E. WARNE

COLSTON WARNE LECTURE

Dr. Barbara Warne Newell*

The daughter of Colston E. Warne reviews the social history of the consumer movement and her father's role in that movement. She speaks of her father's college days, his role as President of Consumers Union (CU) in the pre- and post-war years, CU's role in the beginning of ACCI, and the development of an international consumer movement.

Thank you so much for inviting me to give the Colston E. Warne Lecture at this, the 25th anniversary of the American Council on Consumer Interests (ACCI). I accepted with alacrity and then debated long and hard on what to say.

In some ways I suppose one could claim I attend this conference as a representative of America's largest industry - education. I could spend my time talking about educational "best buys", certainly an appropirate topic for a consumer conference and one that educational administrators are just beginning to recognize as students clamor as consumers and as competition between institutions for students grows more intense. There is less research and more controversy in education as a consumer product than in any other field I can think of. Despite this opportunity to describe Wellesley College as a best buy, let me finesse that subject.

If you had really wanted a speech on the exciting current issues of the consumer movement, you should have asked my brother, Clinton Warne of Cleveland State University. Without a doubt, it is he who is following the family direction and has something of worth to contribute.

Obviously, I conclude that I am here as Colston E. Warne's daughter. Therefore let me combine a review of the social history of a movement and an exposure of my roots, all mixed with a daughter's myopia. I suppose that I have absorbed an interest in the consumer movement through the genes and my environment. My credentials for such a speech are that I found myself in Ray Price's rumpus room at the celebration of the founding of this organization in Minneapolis. Although I am not listed as an official charter member, I can claim to have toasted the future of ACCI with Milwaukee beer. I hope you will find that I cannot only add some anecdotal interest to your convention, but also give a sense of people and issues over time.

One of the great joys of the Warne family when I was growing up in a large, old colonial farmhouse was that the attic had a great double bed which was always made up with fresh sheets and available to wandering friend or acquaintance. So the breakfast table of our household from my earliest memory was one of exciting people and ideas. The 1930's were a good time to live at a free motel for wandering intellectuals. As a result, when I reached the age of starting to write a diary, I found myself not writing the tales of the typical adolescent, but rather trying to keep a record of the people and ideas that had come into our household.

Obviously, my diary is not the beginning of the story of Colston E. Warne and his participation in the consumer movement. Perhaps I garnered my most precious insight of this beginning at the time Father wrote his own defense for not signing the federal loyalty oath in 1947. My father was on the Advisory Council for the Council of Economic Advisors as a consumer representative, and an oath of loyalty was required of all federal employees, even those who were volunteers. Father described himself as an upstate New York Yankee, about as American in background as one could get. His father was a farmer, a country store operator and seller of agricultural implements, a pillar of the Presbyterian Church in a community of five hundred that was a crossroad settlement in the Finger Lakes country. As a child I remember Dad describing clerking in his father's store when the only brand name items in the store were Nabisco crackers.

The College Years

From this exceedingly rural setting, Father moved to the neighboring institution of Cornell. It was there that he was a student of Professor Herbert Davenport who introduced him to the writings of Thorstein Veblen for the first time. It was also the time when he met his future wife, Frances Lee Corbett, who, significantly for the consumer movement, was not only majoring in science but was also a student of Professor Martha Van Rensaleer at the School of Home Economics at Cornell. Those of you who know Home Economics history know that this is one of the grand names of the field.

As I think back on the intellectual interaction of my parents, my mother always argued that there must not be a compromise in technical standards, and that the laboratories for the testing of quality were crucial. It is she who over the years has always kept tabs on the science journals and technicalities of the consumer movement. Someone described my mother once as the only lady who, at a cocktail party, discussed the nature of the lining needed in one's water heater. As I look at the role of Colston E. Warne in consumer history, I think we must also look at the role of Frances Warne who taught, wrote, and worked quietly in the field for her entire life.

After his marriage, Father went West from Cornell to the University of Chicago to study money and banking. There he found himself under the tutelage of Paul H. Douglas, then labor economist, later to become a consumer-oriented member of the U.S. Senate. It was Paul Douglas who introduced him to the field of labor relations and to the international cooperative movement.

The Pre-War Years

Basically, the question that Father was asking in the 1920's and 30's was what institutional

*President, Wellesley College

changes should a society initiate to maximize human welfare. He did a dissertation on Illinois cooperatives. He became increasingly interested in the rise of trade unionism in America. He and my mother travelled around the world. Always he appeared to be asking how different societies organize their consumption and production. He became acquainted with Stuart Chase, and F.J. Schlink, authors of Your Money's Worth and Arthur Kallet, co-author with Schlink of One Hundred Million Guinea Pigs. At the same time, as chair of the Pittsburgh branch of the American Civil Liberties Union, he became involved with the early organization of both the steel and coal industries in Western Pennsylvania and West Virginia. Later, as a teacher in Olivet, Michigan, in the summer of 1933, he assisted in the training of the individuals who became the key organizers of the Congress of Industrial Organizations (C.I.O.).

As I think of this background, it would appear that Father expected living standards to be raised in the United States both by a partial redistribution of income, through the labor movement, and by making the expenditure of personal income more rational. From this ideological stance, he expected in the 1930's the labor movement to be potentially a major support of the consumer movement.

Accordingly, when Consumers Union (CU) split from Consumer's Research in a 1935 labor dispute, and Father became President of this new effort to raise consumer living standards through product testing; he fully expected that the labor movement would jump in behind the infant consumer magazine, Consumer Reports. Labor, however, was far too concentrated on its own problems and it was the professionals of American society -- the teachers, technicians, scientists, and engineers -- who first recognized the significance of the testing of toothpaste and canned peas. It was then to this group that CU turned its attention. (Parenthetically, from the outset Consumers Union assured the integrity of its tests and the impartiality of its judgments by buying all test samples on the open market. Lacking money, they first had to start testing inexpensive items.)

One of my earliest memories was the tour that Mother, Dad, and I took to a major segment of American educational communities in the summer of 1939. Some people get their college tours, relaxed style; ours was arranged by a New Yorker who had never left Manhattan, and I still remember driving from Ohio State to Lawrence College in one day, then from upper Wisconsin to the University of Iowa the next, all at a time when the midwest was laid out in one mile squares and no super highways! Dad talked to any who would listen, telling them of Consumers Union and of his greater vision of a consumer movement that would include political action and consumer protection, as well as consumer testing. It was on this hard sweat that Consumers Union built its academic base during the 1930's. Dedicated consumer educators and librarians in secondary schools and higher education joined in support of CU. This core was strong enough so CU could survive World War II when no capital goods were available and Consumers Union found itself in a holding action.

One further anecdote on survival. Early threats of libel suits threatened CU. One challenge which today seems quaintly dated was when Consumers Union prepared an analysis of contraceptive material with the assistance of leading medical specialists. An announcement was made of the availability of this booklet upon certification that the individual was married and seeking the information on a doctor's advice. CU was unpredictably faced with a suit to restrain the circulation of such an analysis in the U.S. mails. The matter was only resolved by a decision in the New York Circuit Court saying that the publication was permissable for it was even more conservative than that of the American Medical Association.

Post-War Years

While my story of the pre-war years is one of the survival and growth of an institution and the sharing of a dream, the post-war years for Colston Warne were a period of tremendous involvement and excitement in a wide range of fields.

It was from the solid financial base and support that Consumers Union enjoyed immediately after World War II, when capital goods spending boomed, that time and resources were available to develop other aspects of the consumer movement.

Part of the impetus for Consumers Union becoming involved outside of publication was not only the spur of idealism but also the spur of the Internal Revenue Service. In 1951 the Internal Revenue Service challenged the tax exempt status of Consumers Union. The CU lawyers successfully met this challenge but suggested that the reserves the organization had been saving for a day of recession ought to be allocated to good deeds. It was because of this that the original two to three thousand dollars offered to Ray Price and Henry Harap in the beginning of ACCI turned suddenly into seven or eight thousand and Consumers Union continued to pick up a part of the tab until ACCI became solvent in its own right.

Consumers Union next turned its attention to other consumer activities. For example, supporting efforts to give legal standing to class action suits emerged early on the agenda. CU was concerned with truth in packaging, truth in lending, Leland Gordon's weights and measures project, and a host of other issues. CU opened an office in Washington, D.C., an act which brought the organization in closer touch with an environmental concern. It was Consumers Union that placed Rachel Carson's Silent Spring in soft cover and sold it coast to coast at minimal cost.

In the 1950's, consumer efforts were also instituted on the state level. In Connecticut, under Governor Ribicoff, a Department of Consumer Protection was put together with startling visibility. The offices were on the first floor of the State Office Building. Thus, the very act of getting a license brought people in contact with consumer protection agencies.

In New York, Persia Campbell, a CU board member, aided Governor Harriman in establishing a Consumer Council. Father McEwen in Massachusetts and Helen Nelson in California were also pillars in this movement to build state support. In all these state activities I remember Dad testifying, writing, and assisting as best he could.

The 50's were an exciting period, but also not without their price. If you will excuse me, I will recount another personal tale. In 1951 Father and I travelled to Cincinnati where Consumers Union had been banned from the public schools on the grounds that the publication was subversive. McCarthyism was riding high. The local Civil Liberties Union and interested teachers lent their support until in 1953 the House Un-American Activities Committee gave CU a certificate of purity, clearing CU to work closely with schools.

Also in the period of the 1950's, I remember Dad's involvement in the issue of television and its use and whether it should serve the public or private interest. He posed radical suggestions, such as public channels and television for education. I remember his delight when later the British consumer reports (called Which?) began demonstrating their tests on television as a way of dramatizing product differences and raising consumer consciousness.

Creating an International Consumer Movement

But this gets me to another significant part of the life of Colston Warne because it was in the 1950's and particularly 60's that Dad became increasingly involved in creating an international consumer movement. As an outsider, I found it fascinating to see his travel pattern, for there seemed to be a direct correlation between rising consumer consciousness and the rise of commercials on television.

I also remember his tale of a trip to Pakistan, where the discussion was how one could protect the consumer from the farmer who, while bringing his milk into town, habitually stopped by the river to add a little water to his product. Objection was lodged, not that water was added (that was expected), but that the water was dirty. It was actually from his comments on the Pakistani reaction to his speech suggesting private consumer action that my own level of consciousness was raised on the role of volunteers in social change, for the Pakistani's reaction was to ask first, "What are those of you from abroad going to do? Or what can the government do?" rather than viewing individual volunteer action as a significant part of how one does get social change. Truly the U.S. consumer movement from food and drugs to nuclear power has been greatly influenced by volunteer action.

The Japanese were early in the international consumer movement. They were interested in a knowledge of standards as a way of assisting their growing industries in international competition to live down their pre-World War II reputation for poor quality.

One of the great assets of Consumers Union in this international development was Florence Mason, CU's librarian, who followed every lead and inquiry coming to New York City from abroad. One of the most interesting days of my life was spent hunting for two engineers somewhere in the Yugoslav bureaucracy who had sent a letter of inquiry to Consumers Union. I met, among others, the Minister of International Trade who told me the workers' factories would never cheat consumers. Finally, I found the Yugoslav equivalent of the Bureau of Standards. It was here I discovered that they were interested in the international consumer movement and Consumers Union as a way of maximizing the benefits reaped from the goods they bought with their scarce foreign currency.

One of the most interesting debates to take place in the international arena was a discussion between consumer representatives from developed countries who were increasingly seeing the interrelationships of environmental problems to consumer problems, and those from developing countries who felt that all their country really needed was a little more air pollution from smokey chimneys and mechanization to create jobs and raise living standards. Always present, also, has been the tension between private agencies as independent watchdogs, or private agencies which took aid and assistance from those whom they were supposed to be watching. There has also been the question of private watchdog or public regulator and whether those regulated would eventually take over. These early tensions which have persisted throughout the history of the consumer movement unfortunately seem very much present even today.

Let me close by expressing once again my delight that as an organization, ACCI has chosen to recognize one man in whose life and experience one finds the full richness that has been that of the consumer movement. Within his experience, he has brought to bear the challenge of Veblen, the drama of the muckrakers, and the exactitude of measurement of science to the interplay of all those forces.

THE COURAGE TO WORK TOGETHER

C. R. Sitter*

Is there anyone here who is *not* a consumer? By the same token, is there anyone here who does not *produce* some kind of goods or services used by others? Those may sound like rhetorical questions, but they also illustrate a simple point, namely, that all of us are both producers and consumers. We wear two hats. We do it all the time without thinking about it.

That is how we behave as individuals. But for some reason, when we speak as consumer or producer associations, we all too often fall into the trap of visualizing ourselves either as righteous consumers battling irresponsible producers who are in search of exorbitant profits or, alternatively, as hard-working producers fending off endless demands from consumers with unrealistic expectations.

The Fever of Combat

To be sure, a few extremists thrive on and enjoy such open conflict. They no doubt encourage and exaggerate these stereotypes because they prosper from confrontation. Many otherwise very sensible people seem to get caught up in the "fever of combat" that these extremists generate. A state of mind develops. It becomes us against them! Good guys against bad guys. No matter what the issue, "If they are for it, we are against it." This is not a very constructive framework for progress but still is the predominant attitude, I am afraid, in relations between consumer groups and business groups.

There are, of course, some fundamental differences between interests of a buyer and a seller. Unfortunately, we often overlook the fact there is an even greater mutality of interest between them.

Ours is a heavily competitive society. We base many institutions and processes on adversarial relationships. Regrettably, at times we tend to glorify the contest as much as the end result. An adversarial system does oftentimes spur improved performance. It also provides checks and balances. Athletics, business, and many recreational activities incorporate it. Our Constitution relies on it, our judicial system is based on it, and our democratic election process requires it.

Competition and sensible conflict are indeed vital social processes. They are not, however, the only processes required in successful society. Accommodation and cooperation are two other well-recognized sociological processes that are essential for the effective operation of any complex social system. That goes for relationships between producers and consumers just as much as it does in the worlds of politics and athletics. Unfortunately producer and consumer interest groups do not yet appear to have attained the maturity to recognize very often their similarities of interest, to *accommodate* each other's interests with sensible compromises, and to *cooperate* actively when their interests are more similar than different.

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I said we have not yet "attained the maturity" to do these things. Let me explain what I mean: Children learn to compete as individuals long before they learn the more subtle skill of operating as a member of a team. To cooperate with others in seeking a common goal, at the sacrifice of individual gratification, is a discipline that has to be learned. It requires maturity and self-denial. It can be tremendously rewarding when it is mastered, but it does not come easily or naturally. We have to make it happen. Consumer groups and producers have not yet learned how to operate consistently as a team to make it happen. But we need desperately to do so!

Business Is Listening

While I am sure some businessmen still view the consumer movement with alarm, many also welcome it. Responsible consumer activities serve to stimulate businesses to do better when they become apathetic, or take their customers for granted, or lose touch with the needs and wants of the consuming public. All of us need such reminders and prodding from time to time. If we are smart, we listen to those we serve. We judge what is important and reasonable, and we act constructively on as many of those things as we can.

This is not to say that all consumer advocates are to be admired. There are a few who are in it for the joy of the fight, for the publicity and personal fame. They are extremists who demand protection for everybody from everything. They want more government regulation to solve every problem. They have an instinctive reaction that "anything business is for, we should be against." Such behavior does serious long-term disservice to the legitimate objectives of the consumer movement. Their few "dyed-in-the-wool" counterparts in business are not one bit better.

For starters, I believe the vast majority of businessmen agree that consumers have a right to protection from unscrupulous or fradulent business practices. Any business that fails to recognize that consumers have a right to fair treatment will and should suffer severely. Responsible businesses have no tolerance for "rip-offs" or fraud, nor do they have sympathy for misrepresentation of products or services. They do not condone failure to treat customers personally and attentively, or excuse reneging on promises, or negligence in correcting inevitable errors that occur in any business. The more enlightened ones also recognize that consumer expectations grow and change with the times and what was good enough ten years ago may no longer be adequate today.

As you know, consumers are no longer content simply with protection against rip-offs. Conscientious companies know that consumers are expecting more from them and they are striving to fulfill those expectations. That is one reason why business is spending billions of dollars a year in research and development to increase productivity, improve products and services, and meet emerging needs. Many businesses are also placing increasing emphasis on quality control, codes of conduct, business ethics policies, and consumer information programs.

Obviously, steps taken along these lines to date are not adequate; much more remains to be done. Consumers can expect more and, if their efforts are constructive, they can help business do more to meet their evolving needs. But by the same token there is no reason to sympathize with those who, as consumers, demand everything from those from whom they buy yet are willing to guarantee far less in the role they themselves also play as a producer. We have no ethical right to demand more than we are prepared to have demanded of us. In fact, there is nothing uniquely meritorious about the act of consumption. We have no sacred or constitutional right to complete satisfaction in our roles as consumers any more than we do in our role as citizens, parents or producers.

Sorting Out Our Differences

Having said that, we all recognize that there will be legitimate and changing differences between producers and consumers, both collectively and individually. These problems need to be worked out. How do we go about it? As producers and consumers, we have everything to gain and very little to lose by working together with mutual respect. If we do so, we can probably resolve most of our differences and make our economic system work better for all of us. We can cooperate on issues without retreating from our principles and goals.

That is not just my opinion. In a speech to the Society of Consumer Affairs Professionals in Business last October, Sandra Willett, Executive Vice President of the National Consumers League, sounded the same theme when she said:

> "Corporate interests and consumer concerns are not so far apart...It's better to talk together than to shout long distance. It's better to emphasize similar concerns than harp on the differences."

There are two functional routes for resolving differences between consumers and producers. One is the direct method, i.e., the consumers and the producers concerned with an issue work together to find an acceptable solution. The second method is indirect. In this case the issue is taken to a third party for resolution. The third party is usually government. In recent years this seems to be the more popular route for consumer groups. That is unfortunate, both because it signals a breakdown in the direct relationship and because in the long run government solutions often end up costing consumers at least as much as they gain from them.

The direct approach provides the quickest and most effective route for consumers and businesses to resolve their differences. A continuing, open dialogue between consumers and business is more likely to lead to improved understanding, growing cooperation, constructive solutions, and long-term benefits for both.

The indirect approach produces the opposite effect. When government is interposed as a third party, direct personal communication is lost and the process becomes adversarial. The principal parties (consumers and producers) address themselves primarily to the intermediary instead of to each other. Government then passes laws to address the perceived problem, issues regulations to implement the laws, builds a bureaucracy to administer the regulations, and raises taxes to pay for the bureaucracy. It sits in pontifical manificence in Washington, making decisions that end up raising costs for producers and prices for consumers.

A recent study estimates that the nation's 48 largest companies are spending $2.6 billion this year to comply with the rules of only six federal regulatory bodies. We as consumers are paying this cost, some as increased taxes, but most of it in higher prices of the things we buy.

Cases of governmental mismanagement of consumer issues are growing, be it interlocking seat belt systems, air bags, or a ban on saccharin. I am not arguing that there is no role for government; obviously there is. But whenever a direct solution or reasonable compromise can be found by direct communication between producers and consumers, I submit that *both* will be far better off if they solve the problem themselves rather than handing it to government to resolve.

Producers and consumers have on occasion worked together--without help from government--to solve some important consumer issues. Unit pricing in the food industry was prompted by a consumer suggestion to help shoppers compare prices. The food industry agreed to label items so that the price per quantity was readily apparent to the shopper. Now unit pricing is commonplace in supermarkets from coast to coast. Food producers and retailers also agreed to replace coded dating with open dating, so that shoppers can tell how long a perishable item has been on the shelf. Voluntarism can work if it is given a chance.

Is Business Serious?

I recognize that many of you may have reservations about whether large corporations, including large oil companies, are truly receptive to consumer proposals and interests.

Let's discuss a few specific consumer-oriented things Exxon is doing. We have established a consumer affairs group in Exxon USA whose function is to maintain an effective dialogue between Exxon and consumers, to ensure that the voices of our customers in particular and consumers in general are heard by Exxon management, and that our customers' problems are properly handled.

That is organization; now let's talk action.

1. With the aid of experts, we have revamped our customer complaint handling system, written a new complaint philosophy, and trained almost 1,000 personnel to handle customer grievances and questions. We are following up on all registered complaints to find out if customers are satisfied with the actions taken.

2. In response to expressed consumer interest, we have developed and tested a program under which customers wishing to pay cash for gasoline could receive a discount. We are prepared to offer this opportunity more broadly to consumers but for reasons I'll discuss in a minute, archaic federal regulations still

prohibit our doing so.

3. We have established a consumer panel in Boston, chaired by a leading local consumerist, and composed of about a dozen state and local consumer representatives and leaders. We provide information to this group on a wide range of topics chosen by them. Company executives regularly visit with this group to answer candidly their questions.

4. I am a member of the Consumer Affairs Committee organized about two years ago by the American Petroleum Institute. This committee is working to increase awareness in the petroleum industry of consumer issues and to develop improved responses by all portions of the industry to legitimate consumer expectations.

5. An offshoot of this committee is an Automobile Repair Task Force, which I presently chair. This group has been formed to address this major area of consumer dissatisfaction. Among other things, it is working to upgrade mechanic proficiency in conjunction with the National Institute of Automobile Service Excellence (NIASE), a successful non-governmental testing and certification organization. It is also trying to develop a suggested code of conduct for service stations offering auto repair service.

6. In conjunction with the National Association of Women Highway Safety Leaders and NIASE, Exxon has prepared audio visual presentations and written material for group meetings on driving skills, car maintenance, and gasoline saving. By the end of the year, we expect approximately one million women to attend free instructional meetings using this material.

These are but a few of the consumer activities we have under way; perhaps they are enough to make the point--business is serious. We are trying to be alert to what consumers want, and what consumers need or don't like. Most businesses want to respond to those stimuli wherever possible, not for public relations reasons but because it makes good economic sense.

No business will ever satisfy all expectations of all customers. No individual here today will ever satisfy all the expectations of the others with whom he or she associates. That is simply not a reasonable expectation. What is reasonable to expect, however, is a genuine effort to work out difficult problems in good faith. That can only be done if we talk to each other, try to understand each other, work out reasonable compromises, and above all have the courage to work together when our interests are similar. Now, why should it take "courage" to work together? It is because the instinctive "we/they syndrome" or the "good guy/bad guy complex" still governs so many consumer/producer relationships.

Some Common Interests

You probably have on the tip of your tongue a list of issues where business and consumer associations have lined up on the opposite side of the fence. There have been and will continue to be such cases. It is also true that businesses have joined with consumer groups on several questions of public policy. Business and consumer groups have joined together in the fight against costly and unproductive government regulations and paperwork. We have joined in striving for reasonable protection of the natural environment, for example in the reclamation of land used for mining. Along with consumer groups, many oil companies have endorsed the 55-mile-an-hour national speed limit and encourage its enforcement. This, along with other energy conservation measures, will reduce upward pressure on energy prices.

Last year, a bill was introduced in Congress to provide federal funding for small claims courts in which consumers seek redress of their grievances. The bill was strongly supported by consumer organizations. The visceral "we/they" syndrome suggests that business would automatically oppose such legislation. But that was not the case. The bill was in fact endorsed by the Chamber of Commerce of the United States, the Business Roundtable, and the National Association of Manufacturers.

Let me offer some examples of oil industry issues where I believe the interests of Exxon and consumers are very similar, if not identical. Yet on few of these have there been effective consumer/producer cooperation.

1. Earlier I mentioned our testing of a discount for Cash program at service stations. Clearly, this is a pro-consumer program. A federal law was passed about two years ago removing old legal obstacles to this consumer option. We have tested the idea and are ready to try it on a large scale. However we cannot do so because of archaic Department of Energy gasoline regulations. Yet not one consumer group has joined in an effort to remove these regulations. Perhaps the reasoning is that "if Exxon wants it, it must be bad."

2. The assurance of a dependable supply of gasoline, home heating oil and other petroleum products obviously is in the best interests of consumers. That is what deregulation of domestic oil prices is intended to advance. Although deregulation will raise the price of petroleum products in the near future, over the long haul revenues produced by those increases can finance expanded exploration and production of domestic energy supplies and thus reduce U.S. dependence on uncertain foreign supplies that are rapidly rising in cost. Although almost 60 percent of this increased revenue will flow to government under existing tax laws, a so-called "windfall profits tax" is being proposed. Whether or not a "windfall profits tax" is imposed, consumer cost of petroleum products will go up the same amount. The effect of such added taxation will be to reduce the revenues available to producers to find and produce more U.S. oil. Thus, consumers will pay the higher prices for oil, but will be deprived of the full supply benefits that could accompany and justify this higher consumer expense. Yet I wonder how many consumer groups will see it in their interest to oppose this new tax.

3. Retail Divorcement legislation is another potential ground for producer-consumer cooperation. These laws in some states prohibit direct retailing by refiners.

   Divorcement laws reduce competition and permit service station dealers to raise their margins at consumer expense. The Department of Justice has recognized this and opposes such laws. Many oil companies, large and small, together with independent wholesalers are actively opposing this type of legislation. But where are the consumer groups? We do not see any of them opposing this legislation even though many have been briefed on it and understand the issue. Why? Is it so hard to oppose laws that shield selected businesses from the discipline of competition at consumer expense simply because large oil companies might be on the same side of the issue as you are? I hope not!

I could go on with this litany. I could talk about the overall cost increases and adverse energy supply consequences that inevitably fall upon consumers when the price of government overregulation and protection finally has to be paid. But time does not permit this.

Consumers Pay For It All

The greatest illusion of all is that somebody else pays for the things that government gives us as consumers. Nobody else pays. Consumers and individual taxpayers, and that includes all of us, pay for everything.

All costs of regulation on industry, *all* costs of subsidies, *all* costs of government bureaucracy are inevitably passed on to us as higher prices and taxes. So let's recognize that every protection or government intervention that we ask for, or tolerate, is going to be paid for *totally* by us as consumer-citizens. If all of us wake up to that one simple but immutable fact, perhaps we will find both the courage, and the wisdom to work together to solve our problems rather than asking "big brother" in Washington to do it for us.

The basic questions are: "Have business and consumer groups come of age?" "Are we mature enough to cooperate when our interests coincide even though we may be in opposition on other issues?" I certainly hope so. Because real progress will only come if we do have the maturity, the wisdom, and the courage to work together.

PANEL DISCUSSION

PROFESSIONAL LICENSURE: WHAT ARE THE COSTS AND BENEFITS?

Moderator: Dr. Colien Hefferan
Presenter: Dr. Roger Swagler
Presenter: Dr. Steven Danish
Presenter: Dr. Charlotte V. Churaman
Reactor: Dr. Vicki Hampton
Reactor: Dr. William Gustafson

INTRODUCTION TO THE PANEL

Dr. Colien Hefferan*

The panel will discuss the implications of professional licensure in terms of three major sets of issues:

1) Cost, availability, and quality of professional services
2) Community-based helping professionals
3) Preparation of consumer professionals to participate in the helping professions, i.e., financial counseling.

Attention is given to both the consumer issue of the influence of professional licensure policies on the market structure, and also to the specific issues of participation in the help-providng network by those trained in consumer and financial concerns.

Roger Swagler will discuss the influence of licensure on entry restrictions in the professions, cost of services that are provided under restrictive market conditions, and cost of enforcement of licensure standards. Steven Danish will focus on issues related to the licensure of psychologists, the roles of indigenous caregivers, and the availability of helping professionals. Finally, Charlotte Churaman will discuss training efforts in the area of family financial counseling. She will report the results of a survey of programs designed to train individuals for roles as family financial counselors. Vickie Hahn and William Gustafson will respond to the papers discussing economic and social policy implications.

AN ECONOMIC ANALYSIS OF LICENSURE AND PUBLIC POLICY

Dr. Roger Swagler**

Licensure is an effort to regulate the quality of output through regulation of the qualities of input. In the case of professional licensure, it is felt that it is impossible to directly regulate the quality of output as one would with a product standard in other areas. Therefore, limitation is placed on the input, on the assumption that the quality of the input meets some minimal level. That is, if the practitioner meets a minimal level of competence, then the output should on the average meet some minimal level of acceptability.

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That is a very basic kind of definition, but it is important to keep it in mind because it focuses on what then becomes the basic problem with licensure. The problem is defining this unit of output or unit of service. If we are speaking in an area such as we are here today (largely of social services), and if we can think in terms of social workers, psychologists, and community relations workers, I think what I say will make a bit more sense.

If we are talking about that kind of provider of services, then what is the appropriate unit of output? What is this minimal level of competence you want to attain? You cannot talk about a minimal level of competence to be attained unless you can talk about precisely what it is the person does. That is why licensure works best in areas where that question is easiest to answer. Take surgeons, for example, we know there are certain things that surgeons do, and if people do them they should be considered surgeons, and if they don't, they aren't surgeons.

But in the area that we're talking about here, social service providers, the range goes all the way from psychiatrists who are licensed medical doctors, through psychologists, to social workers, to community action workers and community development workers who may have very little formal training and work with various types of community development or community action programs. There is a big difference between what people at one end of the spectrum do and what people at the other end of the spectrum do, but in the middle the lines get very, very blurry. If you talk about licensure in this area, what level do you set as the standard for the practitioner? This year, in Knoxville and in other counties in East Tennessee, we are working with two community action programs; both employ outreach workers who go out into the community and work with clients. In many cases, these people are providng services which are essentially social work services. In most cases, the outreach workers have little more than a high school education and in some cases they do not have that. Yet, looking at the dollar spent on the outreach worker, and the services received by clients in cost-benefit terms, the payoff is tremendous. The services delivered by these people to the clients measure up very well in terms of the cost of those services. But under any kind of licensing system, none of those people would qualify. The point is they do what they do very effectively and, very, very well.

Swing that around to ask what kind of situation you can define where you can set a level, and say "this will be the appropriate level for licensing." You can do it with psychiatrists, who dispense drugs and who are medical doctors. You can probably do it with psychologists; in most states they do and particularly because of requirements regarding payments from third parties (insurance companies and groups like that). When you get beyond that, it becomes very difficult. The point is the tremendous danger of getting what two of my colleagues have called a "Cadillac affect". Professors Gaston and Carroll did a study with the National Science Foundation on the quality of licensing and the quality of services. They found an inverse relationship in many cases between the strictness of licensing requirements and the actual quality of services received. The reason being that as licensing requirements became stiffer, fewer people were licensed, prices went up, and people did things themselves rather than hire others to do them. So the number of deaths from electrocution is inversely related to the strictness of licensing standards. The tighter the standards, the more deaths there are. It's a direct relationship.

The effect is that people who are in the field may be over-qualified for much of the kind of work that has to be done. When possible, identify a series of levels for licensure. If you set one level for licensing (or possibly two levels, as with licensing of social workers and clinical or psychiatric social workers), you set a minimum that is too high, and therefore, you get the same kind of effect that shows up in medicine, where medical doctors are over-qualified for much of the work they do. Again, it is not a point of saying "Well, do you want to feist off inferior services on people?" No, that is obviously not the point. The point is that the punishment should fit the crime; that the expertise of the practitioner ought to match the requirements of the group which s/he is serving.

With licensure, the tendency is for that minimum to be set so high that the people being served find the services are too expensive and suddenly they are not being served anymore. This becomes a very difficult problem when you introduce the professional side (that is, the group seeking to be licensed) which naturally wants the requirements set higher. Otherwise, why should they be licensed? Secondly, higher requirements are more exclusive and limit the practice of those activities to the people involved. There is a natural tendency for an upward bias, a desire for stricter entry requirements into the profession, which tends to compound the problem.

It is essential; this was shown by the social work case in Tennessee where the group could not decide who it was and what it wanted. In that case, there were too many diverse views within the profession about what constituted a social worker; they could not agree on a minimum level of competence. The result was that they were not able to get a licensing bill through the legislature. Which in terms of some of the problems I have touched on here, may not have been a bad thing.

It is not a question of saying licensing is good or bad. The key is to consider the unit of output and the particular type of service you are talking about. If you are talking about an area where there is a range from almost medical practitioners to community workers, unless the licensing system is flexible enough to incorporate the diversity (and most of them are not), the outcome is likely to be a system in which practitioners are over-qualified for what they do and prices go up, while the actual level of services received by the people goes down. That could be avoided, as I suggested, by a series of steps or grades where people at each level must pass stricter tests. But I think that has to be thought through very carefully.

From the point of view of us here, either as practitioners or as those concerned about consumer affairs, the key is to avoid the knee-jerk reaction to say licensing is good. It is a form of consumer protection; it effectively protects consumers under some very difficult circumstances. It may. It may also hurt the consumer interest in a number of ways, as I have indicated.

LICENSURE AND THE COMMUNITY MENTAL HEALTH NETWORK

Dr. Steven Danish***

One of the things I would like to ask, and it relates to the issues I am going to discuss, is what are some of the answers to some of the problems I am raising? What can consumers and consumer advocates do about it? How do we really define what services are, rather than who delivers the services? And which services are better for the consumer? Are there differences in the implications of the kind of services that are delivered for different consumers?

With those questions raised, I will start out by saying that as a psychologist I have been most concerned about psychological licensing and the unintended consequences of this kind of licensing. But some of the points I will make have relevance to licensing for other human service professionals.

In psychology, the issue has been to identify what determines competency with regard to psychology or the deliverers of psychological services, and what psychology really is. In reality, however, the issue has evolved into making sure that psychologists are eligible for reimbursement for third party payments, and making sure that people such as social workers and marriage and family counselors are kept out of the reimbursement system. That is what really has happened.

There are four ways these consequences have affected psychology. One way is the actual practice of psychology and the profession of psychology. The second way is the education of psychologists. The third way is the cost to the consumers. And the fourth is the personal cost to the consumer. Interestingly enough, psychology has only dealt with with the first one, which is really assuring and developing the profession of psychology. It has given only lip service to all the others. I want to focus on the costs to the consumer and the personal cost to the consumer.

First, it would be important to describe psychological services. I think we need to be aware of what psychology is and what it is supposed to be doing, at least as defined by psychologists. The application of certain principles by which psychology is delineated includes but is not restricted to diagnosis, prevention, amelioration of adjustment problems, and emotional and mental disorders of individuals and groups, hypnosis, educational and vocational counseling, and the resolution of inter-

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personal and social conflict. Now if you can find anything that does not fit, then we can be very clear as to what is psychology.

We need to be clear about the difference between the licensing laws and credentialing and certification laws. Licensing restricts a person from performing an activity. Theoretically, a mother could not help her child because that is something that psychologists are licensed to do. Certification, in contrast, says who is good to do it, but it does not restrict the practice. That is a big distinction because licensing is obviously much more costly than certification. That is one thing we want to be clear about.

One of the benefits of licensing is that, theoretically, it insures competence. But first we need to look at the examination process in psychology. It is a multiple choice examination which measures your ability to do well in general psychology materials, and your ability to do well on multiple choice examinations. A consumer representative on the California Psychological Board took the licensing examination. She had one psychology course twenty-two years before she had taken the test, did not have a degree, and she scored in the 55th percentile. The passing score that term in California was the 67th percentile. Given the fact that there are cram courses to aid psychologists in learning how to take the examination, I think she made a mistake. If she had gone to one of those cram courses, she would probably have scored in the 90th percentile. As she asked in her letter to a journal, what are we really getting when we see a licensed psychologist? We are getting someone who almost is at her level, and she is not a psychologist, who can pass exams as well as she can.

Flextner, who is the father of medical education, said some sixty years ago that multiple choice exams are not the way to validate knowledge about medicine. I would dare say psychology should have learned that and followed through on it. I wonder whether examinations for some of the other professions fall into that same trap? Competency is not assured by the licensing exam.

The second intended benefit of licensing is to protect the public from fraudulant providers. In fact, this does not happen. The licensing process and the board process tend to focus on entry into the profession; the process avoids and does not deal with the practice part. Once you enter, you are there forever. You have to do something criminal to have your license taken away from you. Again, all we need to do is look. Psychologists have done a very good job following the medical and psychiatric model for meeting their financial needs. But they have failed to consider the problems the medical profession has had in trying to have peer review and other forms of consumer protection. Very few psychologists are reported, and very few lose their license. In a study recently conducted by Paul Pottinger in the medical profession, it was found that out of 1,000 cases of medical incompetence, only 16 were reported by their peers. The majority were reported by consumers and others. Again, I do not think we are really protecting the public.

If the benefits are not so great, what are the costs? One cost, is related to supply and demand. When the supply goes down, and it is drastically going down by the licensing laws, then the costs are going to go up. It is going to be more difficult to find providers who can supply the psychological care that people need. But it is not just the supply and demand issue. As medical economists have recognized, it is who delivers the services, and in what form they deliver the services. When we force the service deliverer to be at the doctoral level, that makes a big difference.

Increasingly, because of third party payments, the delivery of helping services is being done in private practice. As a matter of fact, 54.7 percent of the psychological services now are performed in private practices. That's up about 25 percent in five years. Why? Because of reimbursement and third party payments; because people can make more money in private practice than they can working in clinics. That is a second cost.

The third cost is the effect on innovation. As reimbursement becomes the dominant mode of payment, there is little reason for prevention. If you prevent things, you lose your money. So community mental health centers are in a situation where instead of doing the prevention that it would be nice to have them do, they cannot do that because they would be cutting their own throats if they did that. They are keeping people out of the system; that will provide them with additional money.

The fourth cost is the accessibility of services. Repeatedly, studies have shown that most people in need are not seen by mental health providers. Even in Boston, which has probably the largest percentage of professional mental health providers, they are still very much undermanned. Most people are not seen by professionals.

One thing we really have to consider is the cost to the person. Licensing and credentialling are totally related to reimbursement, and because of that, all activities are designed to help reimbursement. One of these activities is that, in order to be reimbursed, the client has to be labeled. S/He has to be labeled as mentally ill in order for the provider to be reimbursed. It is a health care operation, and if you look at the most recent diagnostic and standards manual of the American Psychiatric Association, everything is a mental illness. Reading difficulty is a mental illness, and marital problems are a mental illness in order for the provider to be reimbursed.

What effect does this have? First, let us look at the effect it has on the family of the client. It disassociates the family from that person. It says to the family, "Listen, this person has a disease; you have nothing to do with it; you cannot help. You are not trained; it is not your fault." The person is out there alone; the provider and the client have to work this out.

Many of you are aware of the negative effect of hospitalization and how important it is to keep people in the community so they can have their supports. Well, if they are "sick", or "mentally ill" by definition, most people do not know how to support them. So they get out of the way and they leave them alone. The decision to leave them alone is based on a rather fraudulent concept: that these people really are sick when in fact most of these problems are really problems of living. Problems of living are most affected by the support system in which a person exists. So here you're taking