

TABLE 4. Standardized Coefficients for Stepwise Regression of Three Models on Medication Decisions.

Independent Variables	Full Model	Status Resource Model	Behavioral Model
	Beta	Beta	Beta
Severity of Disorder	-.250		-.252
Treatable	.238		.230
Responsible Decision	-.222		-.214
Hurt Self/Others	.071		.059
Education	.047	.027	
Occupation	-.033	.041	
Multiple R =	.501	.050	.498
R <sup>2</sup> =	.251	.002	.248

N = 48

### DISCUSSION

The stepwise regression analyses demonstrate no support for labeling theory but does lend support to a psychiatric position regarding consumer satisfaction with psychiatric health services. The social characteristics of a consumer do not effect psychiatric diagnostic and medication decisions. These decisions are effected by the psychiatrist's perception of the consumer's actual behavior. In contrast to much previous research, the present study indicates that psychiatrists are adopting a more consumer oriented approach in their decision making. This approach should generate more service satisfaction among health care consumers.

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## FINANCIAL COUNSELING: EXPLORING AN INTEGRATION WITH FAMILY THERAPY

Mary J. Stephenson, University of Maryland<sup>1</sup>

### ABSTRACT

The purpose of this presentation was to examine the feasibility of the inclusion of family finance in the training of family therapists.

Families are experiencing high divorce rates, increased drug abuse and violence as well as rising financial difficulties. In coping with these problems many are seeking assistance from professionals such as family therapists and financial planners. Though family therapists generally have extensive training in therapeutic techniques they often lack the necessary tools to provide assistance in the technical area of finance (Foster & Allen, 1982). Conversely, financial planners are educated to work with the economics of family life but often lack the skills to deal with the interpersonal dynamics of families (Brandt-Erichsen, 1982). With this in mind, faculty at an eastern university have been investigating the possible integration of family therapy and financial planning through their Family Service Center.

The Family Service Center is a training and research arm of the University which enables graduate students in family therapy and their faculty, clinical experience with families. The faculty of the Center is currently experimenting with an integration of financial counseling with family therapy based upon the following principles (Hayden, 1982):

- Personality characteristics and family interaction influence family financial planning.
- Families should be actively involved in drawing up the financial plan designed to meet their goals and objectives.
- Financial planning is an on going process and in need of revision throughout the life cycle as the needs and dynamic interactions of the family change.

The process of integration at the University is three stage. In the first stage, which is currently underway, a family therapist and financial counselor are meeting jointly with client families.

Meetings are video taped and reviewed in order to design the program. The second stage encompasses the development and incorporation of the financial curriculum into the training of graduate students enrolled in family therapy. These students will be supervised as they practice their skills in counseling client families in the third stage.

Materials displayed at the poster session were:

- Photos of facilities at the Family Service Center.
- Proposed curriculum and teaching materials.
- Financial forms used at the Family Service Center.
- Format of the integrated counseling procedure.

Through this presentation the author established the workability of the integration of family therapy and financial planning in a university setting. The sharing of ideas and suggestions from professionals interested in the topic was very useful in the development of the program.

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<sup>1</sup>Family Resource Management Specialist, Maryland Cooperative Extension, Affiliate Assistant Professor, Family and Community Development

CONSUMER CONCERNS AS VIEWED BY CONSUMER JOURNALISTS

Mary-Beth Kuester, Consumer Communications Resources, Inc.<sup>1</sup>  
Michael Houston, University of Wisconsin Madison<sup>2</sup>

ABSTRACT

In 1977, a questionnaire was sent to 483 "consumer editors," (a census, not a sample), the total number of such journalists listed nationally in Working Press of the Nation. In 1983 a mailing was sent to the current list of consumer editors, same source, now totaling 575. The updated study was undertaken to provide a basis for assessing changes in consumer issues and the importance of the consumer movement as seen by these professionals selected as key informants who are leaders in communicating the thrust of consumer issues.

The broad objectives of the original study were:

1. to formulate an indication of current consumer concerns and their relative importance;
2. to elicit some measure of the degree of confidence held by these consumers for the effectiveness of the federal agencies currently moderating activities in their respective areas; and
3. to identify new trends that were developing in the movement.

In addition, a fourth objective: to provide a basis for comparison of the changes in concerns of consumers as viewed by consumer journalists since 1977, the original study, and 1983.

To facilitate comparison, the original survey content was included in the update study.

Questions were added to address topics of concern at the present time that were not issues in 1977 including interest rates, unemployment, deregulation of financial institutions, inflation etc.

Results: copies of findings of the 1983 study can be obtained by writing Mary-Beth Kuester, Consumer Communications Resources, Inc., P.O. Box 232, Madison WI 53701.

<sup>1</sup>President of Consumer Communications Resources, Inc.

<sup>2</sup>Professor of Business

## CURRICULUM SOURCEBOOK: FAMILY FINANCIAL MANAGEMENT

Karen E. Craig, Purdue University

### ABSTRACT

The Sourcebook is to serve as a resource for Cooperative Extension staff in state and county offices to define, deliver, and evaluate nonformal adult-education programs in family financial management. It includes an outline (with rationale for significance), educational resources, current data and statistics, related research, and priorities for the decade, with relevant evaluation strategies.

USDA funded a special-needs project to assist agents and specialists in developing and delivering programs to improve financial-management practices of Extension clientele. An advisory committee of eight Extension specialists and three USDA staff worked with the project.

Within Extension Home Economics, there has been a growing awareness of the need for a more concrete definition of the role of Cooperative Extension in helping families with economic problems.

The Sourcebook is not to be the curriculum to be followed for the period of 1983 through 1991, but rather an outline and rationale for the kind of financial-management program which can be presented in a county or state.

### CONTENT OF THE SOURCEBOOK

The Sourcebook is in five major parts. Each part can stand alone or be used in conjunction with other parts.

#### The Outline

The outline, developed with help from the advisory committee, has three major parts: Financial Management; Regulation, Market Conditions and Public Policy; and Family Resources. There are approximately 130 concepts within the outline. For each, a statement of rationale relative to the significance of the numbered concepts in financial management for families is included. Concepts may be repeated in each of the three sections.

#### Resources

Recommendations for resources for teaching and/or clientele use were solicited from Extension specialists in all states. Approximately 160 resources were recommended for review. The advisory committee members reviewed materials, using the following criteria: Usefulness to Extension programs, Focuses clearly on objectives, Accuracy of information, Technical quality, Ideas for programs, Free from bias (Affirmative-action program). Each resource is rated as to excellence by the reviewer. Resources are identified by concept number in the outline. Some resources included

were not reviewed.

#### Data

Agents, in particular, may find that they do not have current information for teaching. This section includes current statistics/data (approximately 40 types) for use in teaching. In addition, sources of data for updating the statistics are included. Each is also reported by the outline concept number.

#### Research

Approximately 110 research articles are abstracted in the Sourcebook. They are reported by outline concept number.

#### Priorities

Extension specialists from all states were asked to identify program priorities for the decade. The advisory committee developed three major priorities for the decade, which reflect the priorities suggested from the states. They are: To improve family management skills to maximize and extend income to cope with changing family circumstances and economic conditions; to develop family skills to use technology to conserve, use, and manage family financial resources; and to develop family skills in identifying the constraints and influences that government places on consumers in selection of housing, food, clothing, and transportation, among others. Evaluation strategies for each priority are included.

#### General References

The final section identifies agencies producing useful resources. Other general-references information of value in development and delivery of family financial-management educational programs is included.

County and state Cooperative Extension offices will have access to the Sourcebook at no cost. The Sourcebook was available in April, 1983.

ELDERREACH  
ELDERLY OUTREACH AND CONSUMER EDUCATION  
(A REPORT ON A JOINT TRAINING PROJECT)

Rosalie Powell, University of Wisconsin Extension<sup>1</sup>  
Shirley Swasey, Waukesha County Technical Institute<sup>2</sup>

This pilot project established a volunteer training program utilizing senior citizens (sixty years and older) to reach homebound elderly adults and/or socially disadvantaged countywide. Working as an outreach component of the Waukesha County Department of Aging, these trained volunteers provide information and referral as well as direct consumer education assistance to elderly persons.

The county Department of Aging requested and accepted the joint proposal to develop a training program for volunteers to work with an outreach program called Eldereach. Planning and implementation of the initial intensive two day training workshop and subsequent in-service sessions were accomplished through a joint effort of the Waukesha County Technical Institute and Waukesha County University of Wisconsin - Extension.

Thirteen volunteers selected to be trained were identified through the cooperation of several senior citizen agencies in the community. The intensive workshop session sought to address the complicated problems of the homebound older adult. An overview of consumer and economic concerns, insurance supplements to Medicare, Homestead Tax Credits, Medicare changes and forms, and availability of Title 19 funding were the consumer areas addressed. Additionally, presentations by county referral agencies such as Social Services, Mental Health, Para-legal Services, Visiting Nurses and Victim Assistance, identified resources available to the volunteers for information or further referral. Communication skills were also part of the workshop format with an emphasis on self assessment and the establishment of helping relationships. Although not trained in counseling techniques, the volunteers were encouraged to develop positive communication skills to use with potential clientele.

During the initial training and subsequent in-service sessions, resources for volunteers and materials used with clientele were organized into a portable filing system. Each file box was fitted with dividers in the following categories: Notes, Health, Insurance, Medicare,

Policies and Procedures, Resources, Social Services and Taxes. Additional dividers were supplied for future use. Resources were distributed and allocated to specific categories for storage. A master file was retained for future file duplication.

After training, volunteers were asked to rank subject matter they found most-to-least useful. Rankings for the subjects in decreasing order included: Title 19 information, Communications, Insurance (Medicare Supplemental) Medicare, Taxes and Income, Health and Housing. Twelve of the thirteen volunteers indicated that the workshop did identify economic problems faced by the elderly.

Eight additional in-service programs that addressed specific problems encountered by volunteers in the field were designed and implemented during the nine months following the initial training. Upon termination of the pilot project, results with conclusions and recommendations were accepted by the County Department of Aging and were so well received that the project with additional in-service time budgeted, was refunded for 1983.

In this era of decreased funding and an increasing older population, it is crucial to utilize volunteers as a resource for services to the elderly. However, in order for a program to be effective, volunteers must be trained to understand the needs of the clientele they are serving and have expertise in the services they are offering. Properly trained volunteers can become a valuable asset to any service providing agency. This project, unique in its sharing of responsibilities between the two educational agencies and other community resources, could serve as a model for other groups and agencies. A complete report, Eldereach Training, including background, budget details, timetables, program schedules, resource materials, and evaluation can be obtained from project co-directors: Shirley Swasey, WCTI, 800 Main Street, Pewaukee, WI 53072, Rosalie Powell, U.W. Ex., 515 W. Moreland Blvd., Waukesha, WI 53186

<sup>1</sup>Extension Home Economist

<sup>2</sup>Continuing Education Coordinator

## CONSUMER EFFICIENCY: CAN IT BE OBJECTIVELY MEASURED?

Michelle Doiron, Virginia Haldeman, and Suzanne Badenhop  
Oregon State University

Consumer efficiency is used as a measure of ability to evaluate product quality. An equation developed by Sproles, Geistfeld, and Badenhop<sup>1</sup> measures the deviation of an individual's rank ordering of products from the rank ordering by Consumer Reports:

$$CES_j = \sum_{i=1}^k |R_i - C_{ij}|$$

where:

- k = number of alternative choices (brands)
- CES<sub>j</sub> = consumer efficiency score of the j<sup>th</sup> consumer for a given product set of k choices.
- R<sub>i</sub> = "Consumer Reports" rating of the i<sup>th</sup> alternative in the set of choices.
- C<sub>ij</sub> = rating of the i<sup>th</sup> alternative by consumer j
- $\sum_{i=1}^k$  = directs the summation of the absolute values over all k alternatives, and is derived from the first of Spearman's Rank Order Correlation

The purpose of the study was to a) identify attitudinal and behavioral factors which are related to consumer efficiency, and b) compare consumers' perception of their ability to evaluate product quality with their demonstrated efficiency. Data from a laboratory study conducted in 1978 at Purdue University were used for the analysis. The study used a random sample of 150 women from Lafayette, Indiana who were over the age of twenty and were not enrolled as students at Purdue University. The subjects were randomly assigned to one of three treatment groups to evaluate slow cookers. Each group was provided with different amounts and types of information. Subjects in treatment one (R<sub>1</sub>) used only the products to evaluate and rank product quality. Those in treatment two (R<sub>2</sub>) used products and market information, and those in treatment three (R<sub>3</sub>) used products, marketing information and extended information. Individuals in each group were directed to select the "best" slow cooker from a display of four brands. A consumer efficiency score was calculated for each subject by summing the differences between Consumer Reports rank ordering of the four slow cookers and the rank ordering by the participant.

Nine null hypotheses were developed to test the relationship between eleven independent and six dependent variables. Three statistical tests were used: X<sup>2</sup>, ANOVA, and Pearson's r. One null hypothesis was rejected (p < .05): the type of information respondents based their information on is not dependent upon treatment. There was a trend for the source of information used to change as the amount and type of information available increased. In R<sub>2</sub> the tendency was

to rely more heavily on product examinations in order to rank order the products. In R<sub>3</sub> the trend was for subjects to rely on the information cards or a combination of informational cards and product examinations as a basis for product evaluations. An important supportive observation was that levels of Consumer Efficiency were evenly distributed among treatment groups. Contrary to theory, the amount of information subjects were provided had no significant effect on their level of consumer efficiency. None of the subjects receiving perfect efficiency scores (i.e. CES = 0; n = 4) were members of R<sub>3</sub>.

From the findings, it is concluded that:

- \* Consumer's, give different weights to objective/technical information than Consumer Reports.
- \* The even distribution of consumer efficiency scores could be attributed to the existence of a variable or set of variables which was not controlled for or identified in measuring the level of consumer efficiency.

In a pilot study (student sample), subjects were found to be more efficient as they were exposed to increasing amounts of information. Those who were more efficient used combinations of product, market, and extended information. Since students are more comfortable with a laboratory/testing situation and have been trained to use objective/technical information to select products their product rankings are more likely to be similar to those of independent testing organizations than are the rankings of average consumers. Consequently, using Consumer Reports rankings as the sole measure of consumer's efficiency will continue to provide an inaccurate assessment until the general population has the opportunity to develop attributes which are similar to those of the student population. Hence, a new measure of consumer efficiency is proposed which allows the individual to rank the products based upon personally weighted criteria<sup>2</sup>:

$$CES_i = \sum_{k=1}^n [ |I_k - P_{kj}| v_k - |I_k - O_{kj}| v_k ]$$

where:

- CES<sub>i</sub> = consumer efficiency score of the i<sup>th</sup> consumer
- I<sub>k</sub> = ideal point of attribute k
- P<sub>kj</sub> = amount of attribute k that brand j is perceived to possess
- O<sub>k</sub> = objective rating of attribute k that brand j possesses
- v<sub>k</sub> = perceived importance of brand possessing the desired amount of attribute k
- n = number of attributes relevant to preference of brand in product category
- $\sum_{k=1}^n$  = directs the summation of the absolute values over all k

<sup>1</sup> Sproles, Geistfeld, Badenhop. "Types and Amounts of Information Used by Efficient Consumers". Journal of Consumer Affairs 14(Summer 1980): 37-48

<sup>2</sup> Adapted from — Winter "The Effect of Purchase Characteristics on Postdecision Product Reevaluation". Journal of Marketing Research 11(May,1974):164-171



# SHAPING A NATIONAL CONSUMER EDUCATION INSTITUTE

Rosella Bannister, Eastern Michigan University<sup>1</sup>

## ABSTRACT

A National Consumer Education Institute would serve as a catalyst to promote strengthened leadership, cooperation and communication among those educators, government, business, labor and community groups engaged in consumer education. The Institute would encourage networking and promote a multidisciplinary approach to consumer education. Consumer leader response to an Institute proposal was generally positive, with caution expressed regarding funding and governance.

## A NATIONAL INSTITUTE PROPOSAL

In November 1982, a proposal entitled The National Consumer Education Institute: Purpose, Funding Structure, Functions and Activities, was circulated by Hayden Green, author and teacher, Rosella Bannister, Michigan Consumer Education Center, and Lillian Mohr, U. S. Office of Consumer Affairs.

## FUNCTIONS

1. Maintain a library resource center, clearinghouse, and referral service.
2. Evaluate, publish, and disseminate consumer education materials.
3. Augment existing consumer education activities of schools, community organizations, business and government agencies.
4. Conduct or contract teacher training seminars and conferences which promote a multidisciplinary approach to consumer education.
5. Conduct or contract seminars and conferences for adult and community consumer educators.
6. Promote, conduct and disseminate consumer education research.
7. Encourage the development of regional academic centers for consumer education.
8. Promote the development of state consumer education associations.

## FEEDBACK TO DATE

Evaluative comments were received from consumer leaders representing secondary and higher education, ACCI, Coalition, government and business.

The functions were rated excellent or very good by 76% of the respondents. Further clarification of the Institute's activities was called for in order to avoid duplication with existing organizations.

The issue of corporate dominance was raised. Forty-two percent of the respondents felt that the proposed funding and governance plan was fair

<sup>1</sup>Director, Michigan Consumer Education Center

FOR FURTHER INFORMATION: Michigan Consumer Education Center, EMU, Ypsilanti, MI 48197 313/487-2292.

or unsatisfactory. One said, "More attention needs to be given to balancing representatives of consumer, education, government and business interests on the governing board."

Figure 1: How Consumer Leaders Rated the Components of the Institute

	Excellent or Very Good	Satisfactory	Fair or Unsatisfactory
Functions	76%	8%	16%
Funding and Governance	39%	19%	42%
Activities	75%	25%	0%

## Priority Functions

Respondents ranked the priority functions:

- #1 -- Resource Center, Clearinghouse
- #2 -- Teacher Training, Conferences
- #3 -- Networking, Regional Centers
- #4 -- Research
- #5 -- Augment Existing Activities

## Affiliated Centers

Thirteen respondents indicated interest in considering the establishment of an affiliated regional Center at the following universities:

University of Arizona	Northern Illinois University
University of Baltimore	Southern Illinois University
Colorado State University	University of Minnesota
University of Connecticut	University of Missouri
Eastern Michigan University	Purdue University
Howard University, DC	University of Vermont
University of Kentucky	

## NEXT STEPS

1. Revise and refine the proposal based on feedback and continuing dialogue with consumer leaders.
2. Enlist the support of a broad range of consumer educators.
3. Appoint committees to develop proposals to fund specific components of the Institute.
4. Establish the Institute in cooperation with existing organizations, affiliated Centers and networks.
5. Initiate and promote programs and services.

# AN EXPERIMENTAL STUDY OF CONSUMER FOOD LABEL USE

Joel Rudd, University of New Hampshire<sup>1</sup>  
Nancy Finch Turner, University of New Hampshire<sup>2</sup>

## ABSTRACT

This paper describes a repeated-measures experiment designed to assess the effectiveness of various nutrition label formats currently under consideration by the Food and Drug Administration and the U.S. Department of Agriculture. The experiment will present consumers with information on several foods in one of the label formats and ask them to make a number of purchase decisions. Four information exposures, one week apart, will be utilized. Consumer effectiveness will be measured by the nutritional quality of the purchase decisions, the amount of time taken, and the level of satisfaction with the label format.

## BACKGROUND

It has recently become clear that the current nutrition label format is less informative and less useful to consumers than had been hoped when it was implemented by the Food and Drug Administration (FDA) in 1975 [1, 2]. Not only do relatively few consumers report regular use of the label, their effect is often to confuse and frustrate rather than to enlighten consumers.

The FDA and the Department of Agriculture (USDA) are in the process of revising the current nutrition labeling system. A number of revised label formats have been designed and are ready to be consumer tested [2]. The FDA/USDA research plan and an invitation for additional, parallel consumer research has been issued [3]. The research outlined in the present paper is an example of such parallel consumer research.

## OBJECTIVE

It is important to test the proposed nutrition label formats prior to implementation [3]. The revised label should be easy for consumers to understand and use. It should provide consumers with the information they want and need in a way that is not confusing or misleading.

The purpose of this paper is to briefly describe an experiment designed to test the relative effectiveness of the proposed label formats. The results of this experiment, along with others, will be used to determine which label formats should be market-tested [3].

<sup>1</sup>Assistant Professor, Department of Family and Consumer Studies.

<sup>2</sup>Graduate Assistant, Department of Family and Consumer Studies.

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## DESIGN

A 2 x 6 x 4 between-within analysis of variance design is proposed. The between-subjects variables are (1) Food Group Information (present, absent) and (2) Nutrition Label Format (current plus five proposed). The within-subjects variable is Time (four presentations, one week apart).

The Food Group Information variable is operationalized by including, for half the subjects, a short statement on the label identifying the food group to which the labeled food belongs (Grain, Dairy, Fruits/Vegetables, Meat). The intention here is to measure the effect of a direct link between a classic consumer nutrition education tool, the Four Food Groups, and provision of simple Food Group identification statement on the nutrition label.

The Nutrition Label Format variable consists of six alternative nutrition label formats. All six stimulus labels include serving size and number of calories per serving. The labels vary in the format (numerical, verbal, graphic, and graphic nutrient density) in which macro- and micro-nutrient information is displayed (see Figure 1).

The Time variable will enable us to measure the effect of "learning" or familiarity on the effectiveness of consumer use of the nutrition label information. In all cases, subjects will be presented with nutrition label information in the same format at one-week intervals.

FIGURE 1. The Six Nutrition Label Formats.

Label	Macro-Nutrients	Micro-Nutrients
1	Numerical	Numerical
2	Numerical	Numerical
3	Numerical	Verbal
4	Numerical	Graphic
5	Graphic	Graphic
6	Numerical	Graphic Nutrient Density

Note: Label 1, the current format, lists eight micro-nutrients; Labels 2-5, the proposed alternatives, list four micro-nutrients. Labels 2-5 also.

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AMERICAN HOUSEHOLDS--VICTORS OR  
CASUALTIES IN AN INTERNATIONAL TRADE WAR?

James P. Houck, University of Minnesota\*

Abstract

There are three main themes in this paper. The first is a brief look at households, consumers, and the role that international trade plays in their economic life. The second is a discussion of what trade wars are and how they differ from ordinary trade problems and protectionism. Third is a series of rough estimates of how a plausible trade war scenario might unfold and affect U.S. households. A few conclusions and implications round out the paper.

Pick up any recent issue of The Wall Street Journal, Newsweek magazine or your local newspaper. The chances are very good that you will see at least one story about today's international trade problems. Lurking someplace in most of these articles will be the term "trade war." That is what this paper is mostly about--"trade wars" and their impact on U.S. consumers and households.

There are three main themes in this paper. The first is a brief look at households, consumers, and the role that international trade plays in their economic life. The second is a discussion of what trade wars are and how they differ from ordinary trade problems and protectionism. Third is a series of rough estimates of how a plausible trade war scenario might unfold and affect U.S. households. A few conclusions and implications round out the paper.

HOUSEHOLDS, CONSUMERS, AND TRADE

International trade bulks large in the U.S. economy. Exports are about 8½% of our annual gross domestic product (GDP) and imports are a bit over 9% [1, 4]. In comparison, Japan, a nation we view as highly dependent on trade, exports merchandise and services equal to 11% of her GDP and imports an approximately equal amount. West Germany exhibits export and import percentages of GDP amounting to 22% and 21%, respectively. Incidentally, GDP is a measure of economic activity that is closely related to the more-familiar gross national product (GNP). However, GDP is more suitable for cross-country comparisons.

Like numerous other nations, United States' dependence on trade as a source of economic activity has been growing. In 1950-51, exports and imports amounted to only 4% and 3% of GDP, respectively, compared to 8½% and 9% today [1]. Consequently, trade and trade policy have become increasingly relevant to the people and businesses

of this country. The strength or weakness of our trade sector is a powerful determinant of employment, prices, production, and growth.

In addition, our trade and trade policy is very important to other nations and their people. The United States accounts for about 13% of all world trade [4]. No other single nation, with the exception of West Germany, comes anywhere near this amount. Therefore, the United States has, since before World War II, been a dominant force in setting the tone for international trade relations. We are the nation to which the rest of the world looks for leadership and direction. No really important or widespread change in the tenor and process of world trade can occur without the United States being a party to it--either actively or passively.

Table 1 is a brief profile of recent U.S. exports and imports. The pure theory of international trade suggests that nations will export those items for which they have a comparative advantage (can produce most efficiently) and will import those items for which they have a comparative disadvantage (can produce least efficiently). On this basis, the table 1 data suggest that we exhibit a net comparative advantage in food and agricultural products and capital goods. Our comparative disadvantage seems to be in consumer and automotive products and, of course, petroleum. (The latter averaged 58% of total industrial supply imports in 1980 and 1981.) Although the U.S. economy and its trade sectors are too large and complex for this simple characterization of comparative advantage to be very precise, these overall tendencies are clear.

TABLE 1. Profile of U.S. Exports and Imports, Average 1980 and 1981.

Item	Exports	Imports
	(percent of total)	
Food and agricultural products	16	7
Industrial supplies (petroleum)	30	53 (31)
Capital goods	34	13
Automotive products	8	11
Consumer products	7	15
Other	5	1
Total	100	100
Average annual value (billion \$)	\$226	\$252

Source: Survey of Current Business, U.S. Department of Commerce.

\* Professor, Department of Agricultural and Applied Economics

Consider international trade in relation to the household. Economists observe that society is organized into units of one or more people who live together as households. These units engage in two major economic functions in relation to the rest of society. They purchase goods and services for their own use, and they provide human services and other productive assets to the economy at large. More simply, they buy things and they hold jobs. It is on these two crucial economic functions that a nation's international trade most directly impinges.

#### Effects on Consumers

The array and prices of goods and services faced by households can be much different with international trade than without it. For the most part, trade makes available more abundant supplies and a more diverse selection of products than does self-sufficiency. (Self-sufficiency is sometimes called "autarky" by trade theorists.) Because sellers of domestic products face international competition for their markets, prices are generally lower than otherwise, both for products which are imported and, in the case of imported raw materials and intermediate goods, for further processed goods. Households, as consumers, clearly are benefitted by this aspect of international trade. Strictly consumers, people always should find it in their best interest to resist policies which increase tariffs, reduce import volumes, or otherwise penalize imported goods in the market place.

However, there is another side to the consumer's view of foreign trade. The immediate effect of an increase in a country's exports may be to stint domestic markets and to increase local prices of export goods. In the case of exported raw materials, prices of products which use these raw materials in further processing may be pushed up. This occurs because domestic buyers find themselves in vigorous competition with eager foreign buyers. When these changes occur suddenly, as they do in agricultural and many other raw material markets, consumers and their representatives may find themselves supporting export embargoes, export taxes, and similar efforts to shunt products into the domestic economy that otherwise would be exported.

Here are some general propositions that virtually all economists would agree with. International trade makes available to consumers a larger and more diverse bundle of goods and services at lower overall prices than does autarky. Compared with autarky, prices of imported goods and their domestic counterparts will be lower. Prices of exported goods may be higher. However, consuming households with specific incomes to allocate will be able to achieve more satisfaction from those incomes in the presence of trade than in its absence.

#### Effects on Employment

From the household's viewpoint, the effects of international trade on consumption decisions and expenditure allocations are rather straightforward.

The hard part is to analyze its effects on jobs and incomes across the economy. In what follows, we will emphasize the employment effects of changes in trade flows.

The elegant and timeless theory of international trade presumes that people and productive resources can move from sector to sector and job to job smoothly and easily in response to changes in economic signals and opportunities. In such a well-oiled world, people and capital are always fully employed. Industries which are technically efficient and whose output is in world demand set the standards for wages, rents, and dividends that all employers, large and small, must meet.

Alas, the real world is not so neatly constructed. As economic and technical changes occur both at home and abroad, it is inevitable that old patterns of comparative advantage and relative efficiency will erode and new ones will evolve. Then, previously strong domestic industries may find themselves facing heavy competition from imports. New industries may spring up or others may begin expanding to meet new international demands. These are clear signals for economic adjustments.

In industries and sectors under strong import competition, firms may be forced to cut back output, lay off workers, and accept lower returns. In the long-run, firms may even have to close down. The survivors will become more efficient. For the people involved, managers and workers alike, this is a difficult and painful business. For immobile people with highly specialized skills and for plant and equipment with few alternative uses, there may be virtually no choice. Such capital will continue to be used even at low returns until it wears out, and the people will live with unemployment and despair.

It is not surprising that industrial leaders and their representatives seek protection from imports and onerous adjustments when their traditional markets are threatened. It is this search for protection that lies behind much, but not all, of the trade war threat that we will discuss later. However, to accuse adversely affected groups of selfishness, greed, or shortsightedness when they seek protection is to be naive about the real problems of economic adjustment.

Jobs lost to import competition are not often similar to those that open up in other industries, nor are they usually located in the same geographic areas. The presence of recession and generalized unemployment throughout the economy, as today, aggravates this picture even further. These factors clog and slow down the flow of people and other productive resources away from troubled, inefficient sectors to expanding, efficient ones. There is no general proposition on the employment side that suggests whether or not households are benefitted or hurt by changes in international trade. It all depends on who and where they are. For the economy as a whole, aggregate income and output are higher with more trade than with less trade. But it is a mixed blessing.

These then are two main economic effects that trade brings to households. We ignore the possibility that the household's taxpaying role is significantly affected by either (a) government costs of adjustment assistance to displaced workers, unemployment benefits, and export subsidies, or (b) government revenues from import tariffs or export taxes.

#### THE ECONOMICS OF A TRADE WAR

Despite strong theoretical arguments about the broad benefits of freer trade, its application will impose hardship on some industries and people. Those affected often argue successfully for specific protection against the full force of international competition. These deliberate actions include tariffs, import quotas, domestic content regulations, packing and labeling requirements, sanitary restrictions, variable import levies, export controls, export subsidies, and so on. This web of specific government decisions is a nation's trade and commercial policy.

The main reason that such a protective web evolves within every nation, is because the large benefits of additional trade are spread widely and thinly among numerous consumers and vigorous industries, but the costs and hardships, although smaller in total, tend to be focused on relatively few workers and firms. These few usually can articulate their problems clearly and press for help.

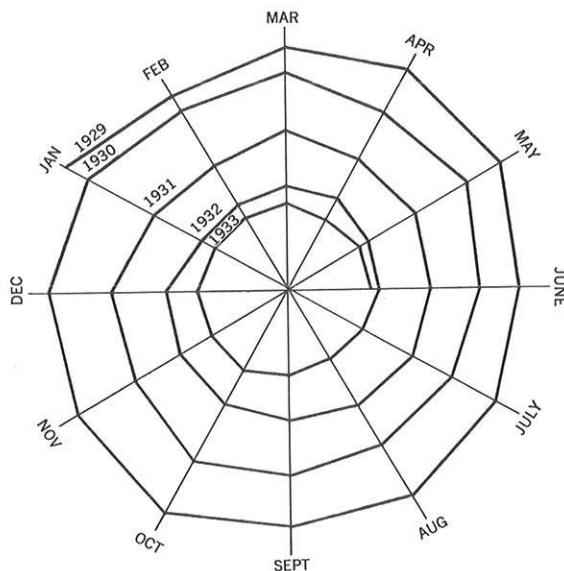
In times of growing prosperity and economic expansion, protectionist sentiments shrink and trade expands. In times of recession and general unemployment, protectionist sentiments intensify and spread. In such times, serious new efforts by trading nations to restrict imports or artificially expand exports can set off a chain reaction of retaliation by trading partners that can be called a trade war.

When one nation retaliates against another in a trade war, the reprisal falls on sectors other than the one which gained from the first protective action. The industries that take the counterblows are selected by the retaliator. These are export industries and are generally among the most efficient in the country. So more jobs are lost and resources idled than were saved in the first instance. Because the hallmark of a trade war is reaction and retaliation, inefficient industries are subsidized and efficient ones are punished all over the trading world. National income, employment, and output will tend to fall in trade warring nations. Prices in relation to income will rise, especially for imported goods and their domestic counterparts, and the selection of available products will dwindle.

As with most any war, it is difficult to know who actually fires the very first shot. Yet once begun, a trade war, like any war, can feed upon itself. For instance, one reason that international trade volume was cut in half in the early 1930's is that depression-induced tariff increases by the United States were met by retaliatory tariff hikes from other nations. This led to

another round of increases, and so on. This action and reaction strangled world commerce, intensified the Depression, and heightened international distrust prior to World War II, figure 1.

FIGURE 1. The contracting spiral of world trade (Source: League of Nations, "World Economic Study, 1932-3," Geneva, 1933, page 8)



#### A TRADE WAR IN THE 1980's?

Nobel Prize winning economist, Paul Samuelson, once stated two fundamental laws of economics. They are (1) economists cannot predict the future with accuracy, and (2) neither can anyone else. Hence, we cannot know whether or not a full-blown trade war will break out in the 1980's, or ever. However, the background conditions are becoming more and more ominous especially between the United States and its main industrialized trading partners. These conditions here in the United States include:

- 1) Widespread economic recession and unemployment.
- 2) Especially high unemployment in such import-competing industries as steel, automobiles, and related sectors.
- 3) Low farm prices and incomes caused partly by slumping exports.
- 4) A relatively strong dollar in international markets making U.S. exports look expensive to foreigners and foreign imports look attractive to U.S. buyers.
- 5) Unhappiness among U.S. politicians, policy-makers, and private interests about export and import trade policies of other nations which appear to be unduly protectionist and "unfair" to U.S. interests.

Numerous trade bills are now either in process or in preparation for this session of Congress. Some of the most notable involve minimum domestic content for various imported products, reciprocity in applying tariffs or import quotas to individual foreign exporters, general and specific agricultural export subsidies to offset similar subsidies by competitive exporters, and a bundle of protective measures for particular products and sectors under heavy competitive pressures. Passage of any of these bills could be the first clear shot in a trade war that could spread rapidly from product to product and country to country.

For purposes of argument and analysis, let us envisage a new series of actions and retaliations in trade policy here and abroad that reduce U.S. foreign trade by 25% in a relatively short time. Both imports and exports fall by this amount. Assume that the relative impact across products and industries is constant at 25%, and no other changes occur to muddy the water. Tariff, import quotas, and other similar measures are used by the warring trade partners.

To trace the effects of such a trade war, we use the empirical analysis of Alan V. Deardorff and Robert M. Stern in their 1979 report, An Economic Analysis of the Effects of the Tokyo Round of Multilateral Trade Negotiations on the United States and Other Major Industrialized Countries [2]. This report presents extensive tabular and text material on how recently negotiated, international trade concessions affect U.S. prices, employment, and economic welfare across the whole economy.

Much of the following discussion hinges on manipulations and extrapolations of the Deardorff and Stern estimates. However, those authors have neither endorsed nor even commented on this particular use of their research results. The main purpose here is to illustrate the general directions of change that could occur and to provide some idea of the approximate magnitudes. Readers interested in the specifics of the model's construction, estimation, and solution are referred to the original report.

Deardorff and Stern (DS) proceeded by identifying negotiated changes in trade barriers by the United States and several other trading nations and then solving their multinational model for changes in exports, imports, employment, and prices under both fixed and flexible exchange rates across tradeable goods sectors, non-tradeable sectors, and the whole economy. For this paper's analysis, an across-the-board 25% drop in both exports and imports was asserted. Resulting changes in employment and prices were estimated from the published tables under a flexible exchange rate regime.

#### Changes in Employment

Our hypothetical trade war has significant sectoral impacts on employment. As trade falls, employment tends to decrease in export-oriented industries and increase in import-oriented sectors. As table 2 shows, the trade war causes a net decrease

in employment in the tradeable goods sector of about 400,000 jobs. These people are either forced into jobs in the domestic, non-tradeable sector or into unemployment. According to the DS model, those that move into other jobs go mainly into the retail, wholesale, and personal services sectors. Although the DS model does not measure it specifically, one implication of this rearrangement in jobs is that wages and salaries on average would fall, at least for those pushed into employment outside the tradeable goods sectors.

Within the tradeable goods sector, it is not surprising to find that our hypothetical trade war damages the export industries like agriculture and industrial supplies (machines, chemicals, etc.) but favors those that compete with imports like textiles, wearing apparel, and plastic products. These results suggest that employment in the transport equipment sector falls with a trade war, a somewhat counter-intuitive conclusion. It occurs because, even though the United States imports many foreign automobiles, we export buses, trucks, automotive parts and supplies, as well as some cars, all of which are reflected in the table 2 employment results. See table 1 for the relative impact and export shares of automotive products. Apparently the automotive products we export are more labor intensive than those that we import.

All of the changes indicated in table 2 are estimates. Moreover, they are adjustments that occur strictly in response to an imaginary, trade-shrinking conflict whose effects are evenly distributed across all tradeable goods industries. It is highly unlikely that such an even-handed trade war would unfold. But with the current uncertainty about trade matters in the United States and abroad, it is difficult to create other plausible scenarios that are more likely to occur.

TABLE 2. Estimated changes in U.S. employment caused by a 25% trade-decreasing trade war, by ISIC group<sup>a/</sup>

Sector	Percent change in employment (percent)	Change in number of workers (thousands)
Agriculture, forestry, etc.	-11.3	-372
Textiles	+10.8	+128
Wearing apparel	+ 2.3	+ 27
Footwear	+13.1	+ 23
Industrial chemicals	- 4.2	- 46
Petroleum refining	+18.0	+ 32
Non-ferrous metal industries	+ 9.3	+ 28
Machinery, non-electrical	- 7.8	-177
Transport equipment	- 4.2	- 76
Plastic products, other manufacturing	+ 2.4	+ 31
Other tradeables	--	+ 2
Total, tradeable sector	- 1.8	-400

a/ Specific sectors listed for employment changes greater than or equal to 5.0% and/or 20 thousand workers.

## Effects on Prices

A trade war, like ordinary import and export protection, generally pushes an economy away from production reflecting comparative advantage toward that reflecting autarky. These changes will affect prices throughout a market economy like ours. Prices will soften and fall in net export sectors and rise in import-competing industries. Hence, price and production changes will be directly related. The DS model results also can be used to investigate the price consequences of our imaginary trade war.

Table 3 shows the estimated price changes in tradeable goods that occur in response to a 25% fall in exports. As export outlets are curtailed, prices fall for exportable items across the various categories. Notice the very large price decrease for agriculture and forestry export products. This is the result of (a) highly price-inelastic domestic demands for raw and semi-processed agricultural goods and (b) the heavy reliance of U.S. agriculture on export markets. The calculations suggest that price decreases for other export goods are in the 5-7% range or less. Recall, that these figures are approximations made from a study designed for somewhat different purposes. They are presented only as rough guides to the magnitudes involved.

TABLE 3. Estimated changes in indexes of U.S. export prices caused by a 25% trade-decreasing trade war, by ISIC.<sup>a/</sup>

Sector	Change in
	export prices (percent)
Agriculture, forestry, etc.	-59.7
Food, beverages, tobacco	- 4.8
Wood products, excluding furniture	- 5.1
Printing, publishing	- 4.9
Industrial chemicals	- 6.8
Pottery, china, etc.	- 4.2
Glass and products	- 5.1
Metal products	- 4.4
Machinery, excluding electrical	- 4.4
Electrical machinery	- 5.7
Transport equipment	- 7.1

<sup>a/</sup> Sectors listed for price changes greater than or equal to 4.0%.

Table 4 illustrates price changes that our trade war induces in the import goods sectors. New trade restrictions on imported goods create upward price pressures across the affected sectors. The first column in table 4 shows the estimated price changes for the newly-restricted import goods themselves--a relatively short-run view. The second column indicates overall changes in weighted price indexes which contain both imported goods and comparable domestic products. The values in the second column are smaller, reflecting (a) adjustments of producers and consumers toward

less-expensive domestic products and (b) the relatively large size of the domestic sector relative to imports. The second-column values are longer-run results.

TABLE 4. Estimated changes in indexes of U.S. import prices and combined indexes of import and home prices caused by 25% trade-decreasing trade war.<sup>a/</sup>

Sector	Change in indexes of:	
	Import	Home and
	prices	import prices
	(percent)	
Agriculture, forestry, etc.	+ 53.1	+25.5
Food, beverages, tobacco	+ 23.0	+ 0.5
Textiles	+ 23.2	+ 1.7
Leather and products	+ 17.7	+ 6.5
Wood products, excluding furniture	+ 14.8	+ 2.6
Printing, publishing	+ 12.8	+ 4.3
Petroleum refining	+233.5	+73.7
Glass and products	+ 16.2	+ 0.8
Iron and steel, basic	+ 17.4	+ 1.4
Non-ferrous metals, basic	+ 22.0	+ 6.0
Machinery, excluding electrical	+ 12.4	+ 1.0
Plastic products, etc.	+ 14.0	+ 6.9

<sup>a/</sup> Sectors listed for import price changes greater than or equal to 10.0%.

The import price increases tend to be rather large in response to a 25% hypothetical trade cut. Those for petroleum products and imported food and agricultural products are especially large. In addition, those for many other products and sectors are certainly not negligible. Moreover, we can surmise that, at least in some sectors, the diversity of items available at comparable prices is decreased when imports are substantially curtailed.

### A FURTHER EXAMPLE FROM AGRICULTURE

Occasionally, consumer groups propose that agriculture exports be curtailed to help fight upward food price pressures. This usually happens when retail food prices surge ahead of changes in the Consumer Price Index. Some analysis presented by George Hoffman of the U.S. Department of Agriculture sheds light on this issue and corroborates at least some of the results suggested by the DS model [3].

Imagine an arbitrary 25% cut in exports of the three, big-ticket agriculture commodities, corn, soybeans and wheat. Some manipulation of Hoffman's results reveals the price impacts of such a change throughout the agriculture and food system. After a couple of seasons, the full results of this export cut work their way through the crop and livestock sectors and into retail food prices.

On the farm, the prices of corn, soybeans, and wheat would fall almost immediately by 50%, 42%, and 68%, respectively. These grain price decreases then spill over into the livestock sectors. As they do, live-cattle, hog, and broiler prices fall by 22%, 37%, and 40%, respectively. Ultimately, these crop and livestock price changes induce a decrease in the retail food price index. But it is only a 5% drop. Hence, the costs of achieving a modest decrease in food prices by export controls are substantial at farm level.

#### CONCLUSION

International trade affects households in two main ways. The first is through the markets for goods and services which households buy for consumption. The second is through the labor market which provides employment opportunities and income for household members. Policy-induced trade restrictions affect these markets (a) by making import goods and their domestic counterparts more expensive and less abundant than otherwise, and (b) by protecting jobs and incomes in relatively inefficient import-competing industries and sacrificing jobs in relatively efficient export industries.

The empirical results presented in this paper are drawn from others' research and illustrate these ideas. Their implications are discussed within the context of a hypothetical trade war which slices 25% off all U.S. exports and imports. Although the figures are only approximations, they do support the general propositions about trade restrictions suggested by economic theory.

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CURRENT TRADE ISSUES: A WASHINGTON PERSPECTIVE

William Brew, Department of State; Washington, D.C. <sup>1</sup>

About four weeks ago, David Stockman spoke to a group of journalists. His opening line was "My thesis today is puzzlement." Although I do not intend to speak on the same topic as Mr. Stockman, my thesis also is puzzlement. Puzzlement at the attitude or lack of attitude of consumers and consumer leaders and groups toward international trade issues.

Consumer groups have focused on the problem of international trade in hazardous products, and properly so. They do not appear to have addressed the very important questions of protectionism and trade distortions. I would like, this morning, to discuss these three problems and the importance of fair and open international trade to consumer and citizen alike.

Although you may have already heard the statistical litany about the importance of trade to the United States economy, I believe that it is extremely important and will repeat it.

Since 1960, the combined annual export-import trade of the United States has grown from \$35 billion to \$507 billion, making us the world's largest trading nation. Even with inflation, that is a truly impressive increase.

Millions of American jobs are export related. Each billion dollars worth of exports represents somewhere between 24 and 35 thousand jobs. One out of five jobs depends in some way on trade. 40% of our cropland is devoted to production for export.

In 1981, United States farm exports were valued at about \$43 billion, seven times the value exported in 1970.

On the other side, we imported \$273 billion worth of goods in 1981, including many items which we do not readily produce.

On the financial side, the United States has traditionally been a large investor abroad; we have also attracted significant foreign investment. Some years ago, we were a net investor abroad but, by the 1970's we had ceased being a net capital exporter and had usually incurred a deficit in merchandise trade.

In sum, from both the financial and the trade perspectives, we have a significant stake in the international economic system, in terms of jobs and income, as well as in terms of maximum choice of products at the lowest possible prices, and in terms of competition promoting adjustment, strength and viability.

I said earlier that I wished to discuss three trade issues and consumer awareness and response to these issues. The first is the export of hazardous products, particularly to the Third World. There was a good deal of fear and consternation when President Reagan rescinded an executive order signed by President Carter which would have created a complex evaluation and licensing process for exports of a variety of hazardous products. There is no question that many nations are not in a good position to determine for themselves what products are hazardous under what circumstances, particularly when we consider the universe of products which are manufactured or prepared for testing and are, at least potentially, available for export. At minimum, what is necessary is a system of exchanging information on what responsible testing and evaluation organizations know about potentially hazardous products. Information alone may not be helpful, however, if the recipient is not able to use it effectively. The United States probably has the most extensive notification program of any country already in place. We also provide bilateral assistance to increase the ability of developing countries to use information of this type; assistance is also provided through United Nations agencies, such as the UNDP, to which we contribute.

Consumer and other groups, apparently in the belief that this was not enough (and perhaps they are right, particularly since other countries do not do this sought action at the United Nations last year.) This resulted in the passage of Resolution 37/137, by a vote of 146 to 1. The United States was the lone dissenting vote. Our "no" vote was redicated on budgetary grounds, for the resolution will apparently result in an increase in expenditures by the United Nations.

However, we did have practical problems with the resolution. The first draft of the proposed resolution, as suggested by the developing countries, with the apparent support of consumer and other groups, called for a simple ban on just about anything deemed dangerous. This was rejected by the developed countries on the ground that it ignored the benefits of some products which were also dangerous if misused. I suppose DDT would be an example. An approach based on information exchange was proposed as an alternative, but the next draft offered proposed only export controls, with exports to be permitted when the importer gave its informed consent. This was again rejected, and two more drafts were ultimately used to reach final agreement.

The resolution which was adopted states that:  
". . . products that have been banned from

<sup>1</sup>Special Assistant for Legislative and Public Affairs

domestic consumption and/or sale because they have been judged to endanger health and the environment should be sold abroad by companies, corporations or individuals only when a request for such products is received from an importing country or when the consumption of such products is officially permitted in the importing country; . . ."

While this formulation may sound attractive, there are problems which are not self evident. First, who is to make the request, the government or a commercial importer? If the latter, is there any real protection? Second, the resolution ignores the fact that there may be dangerous products manufactured in countries which have minimal or no domestic standards. It not only discriminates against countries like the United States, which have domestic standards (although we may disagree on their efficiency or desirability) in favor of those which have not yet been able to develop them, but also probably provides no real protection.

There are, of course, other provisions of the resolution which seek to attain similar worthy goals but also present practical problems, but this is, I believe, a sufficient example.

But what impact will this resolution have? It may be the inception of a non-tariff-barrier to trade which does not accomplish its real purpose, the protection of health and environment, and thus imposes an unnecessary obstacle in the trading system. The GATT, of which the United States is a member, has been seeking to eliminate unnecessary barriers for some 35 years. The selection of a political forum, such as the General Assembly, where not all of the players may have the requisite expertise in the technical fields involved, may focus attention on the issue, but I believe that better progress would have been made toward the goal if other approaches had been taken.

The resolution, in the development of which consumer organizations played a role, is an example of a simple non-tariff-barrier. I would now like to discuss an approach to job protection which, in international economic jargon, is called a "trade-distorting performance requirement."

The "Fair Practices in Automotive Products Act," HR 1234, now has about 70 cosponsors in the House. Last year the same bill had about 230 cosponsors and was approved by the House by a vote of about 215-188. It was not approved by the Senate.

This bill is relatively straightforward: if an automobile company sells 900,000 cars in the United States annually, then by 1987, 90% of its product value sold here must come from United States sources. With lesser sales volumes, the percentage of United States value would be proportionally smaller. A sales level of 100,000 units per year would not require any United States value. If a manufacturer does not achieve this level, he would be allowed to sell

only a smaller number of vehicles the following year. For many foreign producers, this is a de facto quota of 100,000 cars/year - similar to those on televisions, shoes and clothing. The main selling point for the bill is that it would allegedly save existing automotive manufacturing jobs and provide incentives to increase future automotive and related employment. There is no question but that the automobile industry has been hard hit during the past few years. The Congressional Budget Office (CBO) reports that, from December 1978 to April 1982, the number of jobs in automotive manufacturing decreased -- plummeted -- from 762,400 to 459,700. We are all aware of the painful unemployment in Detroit and in steel producing areas. According to the CBO, four factors in particular have led to this decline:

- Slow economic growth and high interest rates;
- Increased productivity growth in the United States automobile industry, as manufacturers tried to meet heightened foreign competition;
- Increased auto imports as the market swung from standard to compact and subcompact models;
- Increased offshore sourcing of components as automakers sought to decrease production costs.

Will this bill actually help either the automobile industry or the overall economy? There are no clear and certain answers that can be reliably quantified. However, the CBO has made some very conservative estimates under various conditions, and they estimate that car prices could increase by \$500, about 6% as a result of passage of the "Domestic Content Bill".

Would employment increase? Almost certainly so in the automotive manufacturing and supplier industries. Again, using moderate assumptions in line with both the Bureau of Labor Statistics and industry studies, the CBO estimates an increase of 211,000 by 1990. If prices increased by \$1,000, the job increase would be 121,000, and if there were no price increase, the job increase in these industries would be 307,000.

However, when indirect effects and other sectors of the economy -- the results suggest clearly that the net effects for the United States economy, in terms of real growth, inflation and employment, though small, could be negative.

If there is trade retaliation by other countries, and such a step would be appropriate under the GATT, and likely in the face of massive reductions in their exports to us, the CBO has estimated a loss of 220,000 jobs in non-auto manufacturing industries, with a gain of 70,000 auto jobs - both five years after the law goes into effect.

The losers would be longshoremen, who unload cars, teamsters, who transport them, dealers,

who sell the, and, equally important, the many thousand who depend on United States export based businesses.

Beyond the probable increase in cost of the vehicles, there are other and real consumer costs. With relatively free trade, manufacturers tend to produce models to suit a variety of tastes and needs. In a protected status, however, it would be reasonable to assume production of a smaller variety of products. In addition, foreign producers would tend to send only the most expensive models, reasoning logically that they had better get the highest possible return on each vehicle entered within their de facto quotas. This has been the experience with other consumer products subject quantitative to limits, such as apparel - ans we are talking about practical limits.

I would also predict that, if the Domestic Content Bill is enacted, other sectors will line up, bumper to bumper, to seek similar protected status.

Will there be retaliation? I believe there will be, against such products as computers and electronic equipment and agricultural products.

Why have I talked about this bill to people interested in consumer welfare? I think everyone here is aware of the consumer interest in the bill; most were probably aware of it already. I am aware of only two consumer groups that have taken positions on the bill. It would harm consumer welfare, it would build barriers to trade, it would misallocate resources, and it would probably hurt the overall economy. This is clearly an area in which consumers should take an interest.

The third topic I would like to discuss is production subsidies, which lead to overproduction, which lead to the need to dispose of the surplus. Butter is a case in point. The United States price support program has set a price to the farmer which produces far more than the market will clear. The United States Government is buying the butter, freezing it, and storing it. Two years ago, we sold New Zealand a large part of the store butter we then held, because the warehouses were rapidly filling up. We are approaching that situation again. It is a real and immediate problem.

One approach was recently approved by the Senate Agriculture Committee to sell the surplus butter abroad at the rate of at least 150,000 metric tons per year at a price not less than the floor price set in the International Dairy Agreement. The Agreement price is very low, well below the current world price, which in turn is below United States prices.

Sales of a subsidized agricultural product in a manner which unfairly takes away some other country's traditional market is not permissible under the GATT.

Nonetheless, such a sale would probably increase consumer welfare in other parts of the world and it would recoup some of the cost of the domestic price support program. Other countries subsidize their agricultural exports -- this is a major source of contention between the United States and Europe. We do want to solve the problem. But there is no easy answer -- particularly since 150,000 tons is about one-fourth of the current international trade in butter and the price impact of such a sale would be very great. In addition, the only real market for such an amount of butter is the Soviet Union. Think of the subsidy we would be providing. You and I pay for it.

The consumer movement in the United States is probably the best organized and most independent in the world. It can be terribly effective. But it has not focused on interenational economic issues. My puzzlement is why it has not done so. I welcome this discussion as a strong first step in the right direction.

## INTERNATIONAL CONSUMER POLICIES

Robert R. Kerton, University of Waterloo<sup>1</sup>

Consumer protection policy and consumer research have paid pitifully little attention to the things which can be learned through the international exchange of ideas. These three papers provide a welcome increase in our understanding of international consumer matters. Moreover, they provide explicit directions on some valuable routes to take.

Hans Thorelli, author or co-author of six books on consumer topics in developed countries, gives a report of his recent appraisal of the situation in third world countries. In it he argues that research on these urgent problems is at a primitive stage. He further argues that policy priorities must be revised to account for strikingly different market and consumer realities in developing countries. Louise Trubek, Executive Director of the Wisconsin Center for Public Representation, lecturer, and author of papers on environmental protection and public interest law, presents some conclusions from a research/exchange project designed to make European and American policy-makers more aware of each others' work. She makes an arresting case for how little we know, and a compelling argument for how much is to be gained by learning from rich and diverse experience elsewhere. The third exposition is by Rhoda Karpatkin, Executive Director of Consumers Union, member of a number of national commissions, and an international consumer leader who has given much, most recently as Vice President of the International Organization of Consumers Unions (IOCU). The Karpatkin review extends the Trubek conclusion to include developing countries. She provides a concise summary of the crucial need for international action and a synopsis of some ambitious efforts of IOCU to provide consumers in developing countries with the skills and information needed to deal with the unconscionable threats to health and safety they now face.

The Thorelli survey points out that despite the obvious urgency of these consumer problems there is too little help available from research because the topic has been grossly neglected. Based in part on his recent research in Thailand, he posits that one critical distinction faced by consumers in poorer countries is the exceptionally high degree of risk to be faced when trying to make prudent consumer decisions. The risk arises from a lack of standards, predatory practices of certain sellers, food adulteration, etc. Information is scarce and therefore extremely valuable. The market ecology is different in developing countries so policy must be different. This is the reason that he

reverses the order of priority of the policies he has often argued as appropriate for developed countries: information policies, then educational measures, then consumer protection programs. In developing countries it makes little sense to give consumer information first priority before a fair framework of exchange exists. And—I would add—before consumers can interpret information, they first need to acquire a certain set of skills (consumer search capital). After the basic rules and skills have been obtained, informational and educational policies will take on more importance.

Elements of consumer protection might be borrowed from the experience of more developed countries. If so, cautions Thorelli, this must be done with great care to recognize differences in the ecology of markets, and it must be done with respect for the preferences of individual third world consumers. But this borrowing can go in two directions, as the presentation by Louise Trubek makes clear. There is a danger in being too close to our own experience with consumer protection and thereby failing to learn from other experiments. The Trubek paper makes an important contribution by providing a synopsis of the rich array of novel methods being used in Europe. Diversity is guaranteed by the nature of the European Economic Community, founded as it is on the 1958 Treaty creating an organization in between a U.S. style system and a voluntary body like the United Nations. When the United Kingdom, Ireland, and Denmark joined, it was agreed to include a council to co-ordinate consumer policy. The Bureau Européen des Unions de Consommateurs (BEUC), has a number of achievements, but two are particularly important: it has reduced the time it takes for one country to learn from another, and it has permitted the development of prospective consumer policies.

The Trubek presentation describes several alternative consumer protection methods. The "Nordic model" makes relatively little use of private consumer activity but has deployed an ombudsman and administrative justice with success. The "Latin model" makes considerable use of the court system but—surprising to Americans—little use of attorneys. The "Code Approach" used extensively in the United Kingdom and the Netherlands makes much use of voluntary codes. There is also a "Volunteer-plus model" which gives a central role to volunteers alongside a mix of public/administrative/legal resources. In Europe, national consumer groups provide real and dynamic leadership with consumer protection; and sophisticated professionals contribute much to this progress.

<sup>1</sup>Professor of Economics

If the Trubek presentation provides sound reasons for learning from and sharing in European experience, the Karpatkin paper shows that this can and should be broadened to include the whole world. Otherwise we are obliged to re-invent techniques for discovering the defective wheel and to work from scratch to re-discover, in each country, known health hazards. The Karpatkin work provides a concise introduction to the International Organization of Consumers Unions (IOCU) founded by five national consumer organizations - including Consumers Union - in 1960. She explains the transformation from a test-sharing organization which occurred about 1981 when IOCU had grown to include 115 consumer organizations in 47 countries. By that time the international nature of certain consumer problems was painfully obvious. One specific difficulty was, and is, posed by multinational companies which "... pursue private interests on a global scale, but which were not accountable to any (comparable) authority." This multinational threat in no way denies - as a questioner pointed out - the real gains to be made from international trade in reliable products whose advantages and costs have been fully and honestly presented. But far too many of the defective and dangerous products which have been restricted or banned in developed countries are now being sold with sophisticated

marketing techniques to third world buyers - buyers who lack both the private skills and the public facilities for basic consumer protection.

As counter-measures, IOCU has played a leading role in setting up Consumer Interpol, the international hazardous products network, Health Action International, and the Pesticides Action Network. These systems help to build or strengthen the consumer protection capability of developing countries. Single purpose campaigns are also organized. For example, the Karpatkin paper also provides a brief discussion of IOCU's role in correcting the over-selling of infant formula. The incentive structure had to be shifted so that many of the sellers of breastmilk substitutes now find it in their economic interest to market their product in ways which result in fewer infant deaths. All of these policies are founded on the basic consumer rights to life, health, safety and informed choice. It is striking that this rationale is common to the prescriptions contained in the Thorelli paper and the practical policies of the consumer movement as outlined in the Karpatkin presentation. In fact, all three papers provide a consistent strategy for urgently-needed improvements (a) to our understanding and (b) on the policy front.

CONSUMER LAW AND POLICY IN THE EUROPEAN COMMUNITY:  
AN AMERICAN PERSPECTIVE

Louise G. Trubek, Center for Public Representation, Inc.

ABSTRACT

This paper analyzes the problems in the development of positive consumer protection policies and programs in the European Community (EC). First, similarities and variations between the programs of the EC member states are analyzed in the context of the modern political economy of consumer protection. Then, problems and policies at the EC level are discussed. Finally, thoughts on the significance of the EC experience for American consumerists are presented.

This paper discusses the role of consumer law and policy in the process of European integration. Since 1957, a number of European nations have joined together to form the European Community (EC). The Community is designed to increase the free flow of goods and factors of production among the Member States, and to develop common policies in specific areas. Common policies include agriculture, antitrust, transport, and to a limited degree macroeconomic policy. The Community eliminated all internal tariffs and maintains a common tariff with the outside world.

Originally formed by six European nations (France, Germany, Italy, Belgium, Holland Luxembourg), over the years the Community has been enlarged by the addition of England, Denmark, Ireland and Greece, and there are now ten members. Although the primary goal of the EC was and remains the elimination of barriers to trade and investment among its Member States, and the development of common policies in fields directly related to economic integration, in recent years the Community has also sought to expand its activities into new areas like consumer and environmental protection.

The paper looks at the development of the EC's consumer protection activities from an American perspective. Since 1970, I have been a public interest attorney specializing in consumer issues, and have taught courses on consumer law and policy at the Law School at the Consumer Science Department of the University of Wisconsin-Madison. In 1980, I received a grant to work with others on a study comparing consumer law in the U.S. federal system and the system emerging in the European Community [1].

This study gave me an opportunity to observe the activities of the Community and to meet with consumer law specialists, and consumer groups in several European nations. This paper, which draws, on these experiences, discusses three major issues: consumer protection in the individual European Member States; the

activities of the European Community; and the significance of the developments for Americans, especially consumerists.

The European Community is a supernational entity created by treaty. The Treaty of Rome which established the EC, places certain limits on the Member States' ability to bar trade and investment from other Member States, and authorizes the EC institutions to pass certain kinds of legislation that bind Member States and may preempt contrary national legislation [2]. These powers give the Community the capacity both to create uniform laws binding in all the Member States as well as to require them to "harmonize" their national laws. In the European system, "harmonization" means bringing national laws into general agreement with common European approaches, but involves less than full uniformity of law.

One of the areas in which the EC has authority to create uniform law and/or require a degree of harmonization is consumer protection. The EC has a consumer protection service, and has taken some measures which would lead to legal integration in this area. However, while the EC has the legal authority to develop a communitywide system of consumer law and policy, superseding national regulation, these powers have to date been used sparingly. As a result, most of the protection currently provided for consumers in the ten Member States derives from the national laws of the respective States. Before analyzing developments at the European level, therefore, it is necessary to look at the policies that have been followed by the various members of the EC.

CONSUMER LAW AND POLICY IN THE  
MEMBER STATES OF THE EUROPEAN COMMUNITY

To analyze developments at the national (Member State) level in Europe, it is useful to distinguish two basic approaches to legal protection of consumers. The idea of government intervention in markets for protection of consumers is not a new one: it has long been recognized that the state must, at a minimum, establish the basic rules of the game for market transactions, preserving competition, banning fraudulent practices, protecting consumers against intentional and negligent injury. In this form of limited approach, which Europeans call the "liberal" view of consumer protection, legal protection is primarily assured by establishing specific rights and relying on individuals to enforce these rights in courts.

At least in recent years, there has been a recognition that effective consumer protection

often requires more substantial, direct or positive forms of governmental intervention as well. As the limits of competitive policy, antifraud laws, and individual legal rights have become more apparent, many countries have expanded the role of government in the consumer area. The newer approach adds to the traditional "liberal" form of consumer law such items as direct regulation of product quality and safety, continuing regulation of market activity by specialized agencies, specific disclosure requirements, prohibition of certain types of contract clauses, expanded consumer participation in government decision making, and creation of more effective mechanisms for redress of consumer grievances. I shall refer to this expanded approach as "the modern political economy of consumer protection."

Most the EC Member States have adopted substantial bodies of consumer protection law and developed affirmative national policies designed to protect consumers. Although there are major differences among the ten nations, it is clear that to one degree or another all have accepted the need to go beyond the more traditional "liberal" approach. Summarizing a massive study of the consumer laws of nine nations conducted for the EC prior to accession of Greece, Professors Norbert Reich and Hans Micklitz demonstrate that there are numerous areas in which all the nations studied have taken action to protect their consumers [3]. These include: common major concerns of mandatory product and price information; regulation of advertising, marketing and selling methods; some direct control of market prices and rates; control of quality and safety in consumer goods and services; mandatory warranty protection; regulation of unfair or unconscionable consumer contracts and clauses; control of consumer credit; provision of more adequate consumer remedies, legal advice and consumer complaint handling; and mechanisms for consumer participation in making and administering consumer law and policy.

While all the countries have shown concern for these areas there is great variation in the extent and degree to which European nations have implemented the various aspects of the modern political economy of consumer protection.<sup>1</sup> There are substantial variations in the substantive policy areas given high priority: for example, some countries have paid more attention to consumer credit than others. In addition, there are certain structural variations of special interest to American observers. These include:

(i) Methods and Legal Instruments for Consumer Protection

The EC Member States vary substantially; not only are their economies very different (compare Germany and Greece) but they also have very different legal traditions. Differences in constitutional structure and legal history help explain some of the major differences in the legal methods employed to implement consumer protection policy. Some countries rely on administrative and criminal law; others use civil law more heavily. In some, more emphasis is put on government encouragement for industry self-regulation. Thus Denmark and to some extent England, have created administrative supervisory and enforcement agencies--Ombudsman, Office of Fair Trading--where others rely more heavily on the court system. Some countries, especially England, Denmark and the Netherlands, have stressed the creation of voluntary "codes of conduct" for business; others rely more heavily on direct government regulation.

(ii) The Organization of the Consumer Interest and Its Capacity to Influence Policy

While all the European countries recognize that consumers shall have a voice in the formation and implementation of government policies that affect them, their approaches to consumer participation vary significantly. The problem of organizing effective voice for consumers is a complex one.<sup>2</sup> It is not easy to organize consumers as such, and all approaches to providing some institutional voice for the abstract interest of consumers present some problem. The Europeans have experimented with several approaches.

One factor which leads to variation in consumer participation is the relative strength of national consumer movements. In almost all the EC Member States, there is at least one consumer information magazine which is quite similar to our Consumer Reports (indeed, many of these magazines were originally created with help from the U.S. Consumer Union). These magazines provide the financial base for consumer organizations, some of which play an active advocacy role. While there are such organizations in most EC nations, their relative strength and effectiveness varies, as do the overall consumer movements. In some countries like England, consumerism is well established and organized; in others the movement is only getting off the ground.

In general, consumer voice in public policy may be provided by specialized private consumer organizations, semi-public consumer bodies with regular governmental support, and other organizations, like unions, for which consumerism is just one among many concerns. In addition, separate groups may form "umbrella" consumer

<sup>1</sup>This discussion draws heavily on comprehensive research conducted by Professor Thierry Bourgoignie for our joint project. For a general discussion see Bourgoignie [4].

<sup>2</sup>For a general discussion of this problem see Trubek and Trubek [5].

advocacy institutions, like the Consumer Federation of America. All these approaches have been tried in Europe, but the emphasis varies from country to country. Specialized private associations are especially active in the U.K., Netherlands and Belgium. In some countries there are government-supported, semi-public consumer bodies that include advocacy among their functions (National Consumer Council in the U.K., C.R.I.O.C. in Belgium, Institut National de la Consommation in France, Siftung Warentest in the Federal Republic of Germany). In some countries, like Denmark, Netherlands and Belgium, trade unions and cooperatives have been especially active in consumer affairs. In several, e.g. Germany and Denmark, there are also national consumer federations.

#### CONSUMER LAW AND POLICY AT THE EUROPEAN COMMUNITY LEVEL

The European Community is a "supranational" entity created by the Treaty of Rome which was signed by the six original members in 1957. In labelling the Community "supranational," scholars try to suggest that it is more of a sovereign entity than an international organization like the United Nations or the General Agreement on Tariffs and Trade (GATT), but less sovereign than a federal system like the United States or Canada. Thus, while the Community, as such, has the power to create law directly binding on the Member States and on individuals and organizations within them, these powers are limited by the Treaty to specific areas of concern to the Community. All "supranational" law must derive directly from the Treaty, or be based on "legislation" enacted pursuant to it by the Council of Ministers. Since the Council includes the Heads of Government of all the Member States and effectively can only act when there is unanimity among all the members, its lawmaking powers are subject to substantial practical limits. In addition to the Council, the Community includes the European Commission, a supranational bureaucracy with power to propose new measures and implement those agreed upon by the Council, a Court of Justice with final authority to interpret the Treaty, an elected European Parliament whose role is primarily advisory, and an Economic and Social Council.

Consumer protection was not included as one of the explicit, priority goals of the Community when it was established in 1957. However, in 1972 the Heads of State of the Member Nations recognized the need for more active Community action in certain social areas, including consumer protection. Noticing that the Treaty of Rome sets forth as an objective of the EC "the constant improvement of the living and working conditions of the [European] peoples," the Heads of State indicated that consumer protection was a valid subject of community action and called on the Commission to develop a consumer program. In 1975 the Council adopted the

first EC Consumer Protection and Information Program, which recognized five basic consumer rights: protection of health and safety; protection of economic interests; redress of grievances; information and education; and representation ("right to be heard"). A second program was adopted in 1981. While this second program reaffirmed the Community's commitment to the consumer cause, it was more hesitant in tone, gave less stress to direct government intervention, and encouraged more use of voluntary industry codes of conduct. These policy statements confirm the Community's power to legislate in this area and suggest a commitment to what I have called the modern political economy of consumer protection [4].

While the EC's Consumer Programs contemplate EC action in all areas of consumer law and policy, so that the five basic consumer rights would be given effective protection, actual implementation has been slow and spotty [4]. The EC has taken substantial action in one area. A major objective of community policy has been to "harmonize" the various laws governing product standards. Conflicting national laws on product standard labelling, and packaging constitute a clear barrier to intracommunity trade, and the EC has issued numerous directives which require Member States to bring national law into conformity with common standards. While this activity is primarily designed to reduce trade barriers, the common standards have taken consumer concerns into account, so that in this field at least EC-level action has contributed to protection of the consumer's right to health, safety and information. In other areas little, if anything, has been done at the European level. For example, while the Commission has conducted studies and held symposia on the need for expanded consumer education and advice, increased consumer representation, more effective "access-to-justice for redress of consumer grievances, the Community has taken little concrete action in these areas. Further, while the Commission has proposed the passage of directives setting European-level standards in areas like misleading advertising, consumer credit, door-to-door sales, and liability for defective products, none of these proposals have been adopted by the Council as yet.

As a result, many European consumerists have become disillusioned about the prospects for an effective European-level consumer law and policy. It is fair to say that when the EC first moved into the consumer law areas, consumerists in many European nations looked to Brussels as a source of progressive legislation and policy that would enhance the situation of their national consumers. To a significant degree, the EC's first Consumer Program represented some of the most advanced thinking in consumer circles, and many European-level measures it proposed would, if adopted by the Council, have increased consumer rights in most Member States. Today, the picture looks quite different: since most of the proposed legis-



lation has never gone beyond the draft stage, the Community does not seem to be able to fulfill its early promise. Moreover, the Community may be seen by some as a barrier to more effective consumer protection in Europe. In the first place, the existence of draft European-level laws has served as a reason (or at least a pretext) for delaying reforms in national laws. Secondly, the European Court of Justice and the Commission have begun to subject national consumer laws to close scrutiny under Article 30 of the Treaty of Rome, which bans non-tariff barriers to trade, causing apprehension among some consumerist circles. While to date it is hard to say that pending European legislation, *per se*, has impeded national reform, and while national measures genuinely designed to protect consumers have withstood all Article 30 challenges, it is not surprising that Europe's consumer movement is beginning to doubt whether the EC institutions are their true allies. Recently, the Bureau European des Union de Consommateurs (BEUC), a federation of national European consumer groups set up to operate at the European level, expressed serious concern about the lack of progress in implementing the EC Consumer Programs [6].

BEUC identified three causes for the lack of progress at the EC level: "the Commission's lack of support and resources for its own programme, the Parliament's lukewarm--nay, hostile--response to this programme (the recent rejection of even the modest early-warning system on dangerous products is a good example of this), and, last but not least, the total indifference of the Council of Ministers" [6].

When my colleagues and I set out to analyze the causes of the EC's failure effectively to implement its Consumer Program, we identified two basic problems which seem to be hampering progress [1]. The first is the existence of potential tensions between the goals of the Program and the Community's primary mission, which is to facilitate the free flow of trade and investment. The second is the lack of an effective consumer movement at the European level and effective mechanisms for consumer input at the EC level [7].

The EC was initially set up to foster economic integration. Its primary concern has been to ban all intra-Community tariffs and gradually to reduce all other obstacles to the free flow of goods, services and factors of production within Europe. (We call this the "open borders policy"). The Community's concern with consumer protection stems in part from its desire to implement the open borders policy: if the several national consumer protection laws varied substantially, this lack of legal uniformity could hamper the economic integration process. To ensure that this does not occur, the Community has two policy choices: it can create strong but uniform consumer protection law at the European level, or it could simply limit the power of its members to pass any laws

benefiting consumers. In the first case, consumers would receive substantial protection under a single, European-wide set of laws, and business would not be hampered by a multiplicity of different rules or product standards, liability, consumer credit, marketing practices and the like. In the second, business would also face a uniform situation, in that there would be no legal intervention on these matters, but consumers would receive less protection than they now enjoy under their respective national laws.

The Community's first Consumer Program suggested that the Community had opted for the first of these approaches: Europe would evolve towards a system where a common standard would be followed in all areas where variation in national law would hamper economic integration. But in recent years some have felt that the EC was flirting with the second choice, which achieves "uniformity" by mandating deregulation as a European policy. It would not be fair to say that the EC has really made a clear choice between these polar options. Rather, what has happened is that the effort to create effective integration of consumer law in Europe has run into a lot of trouble. The EC institutions are not conducive to effective creation of uniform consumer law for the ten Member States: the consumer protection service is underfunded, there is no democratically responsive lawmaking institution at the European level, and the unanimity rule makes it hard to reach agreement on specific measures. In this situation, some may feel that it is easier to harmonize consumer protection and open borders by limiting national power to do anything, thus effectively deregulating the area, than to create a truly European body of law.

If the Community's primary concern for open borders and the lack of machinery to implement law at the Europe level appears as one cause of the lack of progress, the relative weakness of the consumer movement at the European level is another. Unlike the United States, where the consumer movement is organized at the national level and the public accepts the idea that federal agencies must deal with consumer issues, the European consumer movement is primarily organized at the Member State level and there is little "European" consumer awareness. While in individual nations European consumerists can have substantive influence on the media and policymaking, there has never been a European equivalent of Ralph Nader or the consumer reporting in our national media. The BEUC is a remarkably effective institution, considering its size and resources. But BEUC must operate largely within the closed, technocratic environment of the Brussels institutions. Since the European Parliament has only an advisory role in the consumer field, there are few incentives for the rise of legislative "consumer policy entrepreneurs" to support new laws and improvements in implementation. In contrast, industry is well organized at the European level, and has the resources to work closely