THE POTENTIAL SECONDARY EFFECTS OF CONSUMER LEGISLATION: A CONCEPTUAL FRAMEWORK[1]

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An Abstract of a Paper

In recent years, numerous pieces of consumer oriented legislation have been passed at both the federal and state levels. The basic rationale for such laws is that they will improve consumer welfare by enabling the consumer to attain a higher level of utility through higher product quality, better information, and fewer risks of being tricked into making unsatisfactory decsions. Truth-in-advertising, truth-in-labeling and unit pricing laws, for example, make it possible for the consumer to obtain more accurate information and make more rational purchase decisions. Safety and quality standards reduce the risk that money and effort will be spent on products that may cause injuries, that don't work properly, or that produce other kinds of disutility.

Although such laws are usually assumed to have a beneficial impact on consumers, situations may occur when either (a) the law fails to accomplish its primary objectives because of poor design and implementation, weak enforcement, and/or illegal actions on the part of business firms that allow them to circumvent the law, or (b) the law leads to unforeseen strategy changes by business firms that tend to minimize or nullify the expected benefits of the legislation. Although these unforeseen reactions or secondary effects may be legitimate attempts by business to recoup losses suffered as a result of new legislation, they frequently serve to weaken the law's potential beneficial effects on the consumer.

Because the competitive structure of our economy and the motivations of corporate management make such secondary effects a likely product of new legislation, an analytical framework is needed to assist legislators in (a) evaluating the potential costs to the consumer of these secondary effects, and (b) comparing these costs with the expected benefits to be derived from consumer protection laws.

The paper considers the costs and benefits of consumer legislation from both a consumer and business perspective. The rationale and likelihood of different types of business reactions to consumer legislation and the possible consequences of such reactions on consumers are discussed in the context of an analytical benefit-cost framework. In addition, the paper considers the various measurement problems associated with performing cost-benefit studies in this area and outlines some alternative methods of dealing with these problems.

The amount of consumer legislation proposed and enacted at the federal, state, and municipal levels will undoubtedly increase significantly during the next few years. Consequently, it seems sensible to attempt to analyze objectively the ultimate benefits and costs of these laws. The objective and pot-

[1]This paper is based upon some of the ideas generated during the panel discussion of "The Problems of Regulating Dynamic Economic Systems" presented by the authors.

ential value of such benefit-cost analysis is to guarantee that our consumer legislation is not emasculated by its own secondary effects. It is a tool which can aid in the creation and implementation of consumer legislation that produces maximum benefits at minimum costs for the consumer.