THE CHALLENGE OF CONSUMERISM
An Historical Perspective and Strategy for Future Business

An Honors Thesis (ID 499)

by

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"We are all continually faced with a series of great opportunities brilliantly disguised as insoluble problems."¹
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The Challenge of Consumerism

I. Introduction

Consumerism may well be one of the most unclear and misunderstood concepts of our time. Advocates see it as a champion of the singularly helpless consumer, while some business people see it as a signal of the destruction of our present economic system. Strangely enough, both groups are partly right. And both are at least partly wrong. True, consumers are gaining importance in the marketplace. But the cost of compliance with government regulations may far outweigh any benefits consumers might gain. True, consumerism will force some drastic changes in the way Americans do business. In the long run, however, the businesses' best interests will be served by having more satisfied customers.

As anyone in business knows, consumer satisfaction is not an easy task. Several factors are involved. The business person must be ever mindful of changing social, political, and economic conditions. There must also be financial resources sufficient to cover the cost of research and product development. Clear channels of communication must be available for business to obtain information on consumer preferences and priorities. The decision-maker must have the knowledge and experience necessary to make the optimal choice of alternatives.

This business-person need not, however, make all the mistakes for himself to gain the needed experience. Recent
history is full of examples of industries which failed to heed warning signals, and are now heavily regulated by the federal government. As George Santyana said, "He who cannot remember the past is condemned to repeat it." By continually working to keep the public both safe and satisfied, the business world can help save themselves and consumers from further regulation.

In the pages that follow, the consumerism/crisis-legislation cycle which has plagued the pharmaceutical, automotive, and consumer credit industries during the twentieth century will be briefly outlined. An explanation of what consumerism means to marketers and ways to identify or eliminate potential trouble spots conclude the paper. It is imperative that business understands the awesome power of organized consumers, whether rightfully indignant or hopelessly misguided. Only this recognition will allow business as we know it to survive.
II. Pharmaceutical Industry

The pharmaceutical industry has been regulated since 1906. That gives it perhaps the longest history of consumer protection in the United States. However this protection has not always been adequate, nor has it come without extensive efforts by consumer advocates. To fully understand the phenomenon, we must take a careful look at this long history.

Throughout the nineteenth century, the United States had been primarily a seller's market. Manufacturers could produce their product any way they chose, distribute it wherever and whenever they pleased, and charge whatever price the market would bear. This laissez-faire system left a buyer with little input into the design and marketing of the products he purchased. His choice was either to buy or not. If the consumer chose to buy, it was at his own risk.

In earlier years, this system had been adequate. However, the increasing number and complexity of drugs on the market made it nearly impossible for the consumer to make an informed decision. He had to increasingly trust the judgement of the seller of the goods. Therein lay the problem. The seller's livelihood depended directly upon the volume of sales and the profitability of the product. By taking time to test and experiment with a particular drug, the manufacturer significantly slowed the rate of entry of new drugs into the marketplace. In a conflict between personal profits and the well-being of a
faceless, nameless consumer, there was little question which
interest would logically win out.

While the existing business environment was certainly
ready for the advent of the new social movement, this alone
did not cause the advent of consumerism in the drug industry.
According to marketing theorist Phillip Kotler, a social move­
ment requires not only this structural conductiveness, but
precipitating factors as well. 2 In other words, this movement
needed leadership.

A consumer champion in the pre-legislation era was Dr.
Harvey W. Wiley, who worked for the Department of Agriculture
as the chief of the Bureau of Chemistry. For twenty-six years
he fought for legislation protecting consumers from adulterated
food and drugs. Through speeches, papers, and exhibits, he
aroused public indignation to the point where Congress had to
act. 3 After defeating close to two hundred similar bills, in
1906 Congress passed the one which established the Food and
Drug Administration. It was the first federal law of its kind.

While the 1906 law was hailed as a landmark in consumer
protection, it was actually far from adequate. The Food and
Drug Administration was formed to protect consumers against
drugs that did not meet industry standards. Any drug types
which were not widely manufactured or were developed after
1906 were not covered. The FDA was also to prohibit false or
misleading labels and false claims of curative effects. 4
Weakening these potential benefits was the emphasis of the act. No provision was made for preventing adulteration or mislabeling of drugs. Action could only be taken after someone was harmed.

The fight that Dr. Wiley had begun was soon picked up by a host of others. Magazines such as Collier's Weekly and Ladies' Home Journal, which had been so helpful in getting the original legislation passed, continued their attacks on patent medicines. The Journal of the American Medical Association exposed Listerine Antiseptic as being practically worthless except to cover up one odor with another. Disgruntled government workers such as Frederick J. Schlink, co-authored dozens of books exposing abuses by pharmaceutical houses and the inadequacies of the present law. In 100,000,000 Guinea Pigs, he and Arthur Kallett described the United States as a giant laboratory used to test manufacturers' products.

The industry itself did little to reinspire public confidence. When drugs were tested, it was seldom on laboratory animals, as is done today. Often new developments would be tested on humans in other countries. Drug manufacturers cooperated with the letter of the law, but not the spirit. Risking any human life, whether native or foreign, was clearly not acceptable. More often than not, however, new drugs were not tested at all. Had the industry raised its own standards for testing at this point, further legislation could possibly have been delayed. However, one medical tragedy and the potential for another forced government to step in.
In the early thirties, Sulfanilimide was introduced as one of the newest wonder drugs. As a member of the family of sulfa drugs, it was, and still is, very effective at fighting certain types of infections. It was successful in capsule form, but doctors insisted that a liquid form was needed. Under pressure from the company, the new Elixir Sulfanilimide was never tested for safety or effectiveness. The solvent used produced a lethal mixture, and almost one hundred people died from using the miracle cure.

Another potential tragedy was close at hand. Insulin is a drug used to regulate the level of sugar in the blood; its correct use is a matter of life and death for the diabetic. The drug was originally developed at the University of Toronto, and manufacture was strictly controlled. The patent was due to expire during the thirties, at which time anyone could market the drug. To prevent the inevitable distribution of diluted or impure insulin, the Federal Food, Drug, and Cosmetic Act of 1938 was passed. It provided for prior testing and standardization or prescription drugs. Also included in this legislation are requirements for inclusion of directions for use and warnings against misuse. For the first time ever, FDA approval was required prior to the marketing of any drug.

The drug industry still refused to initiate self-control. Had the major companies set standards, further legislation could have been delayed for decades, but they refused to realize the inevitability of restrictions. In fact, secretive actions on the part of at least one manufacturer may have hastened the coming of new legislation.
The 1938 Act required that all drugs had to be tested and proven safe prior to their release for general distribution. The usual procedure was for the pharmaceutical house to test the drug and submit the results to the FDA for approval or rejection. In 1960, the Robert S. Merrill Company submitted test results for its new drug, Thalidomide. Tested in Great Britain and Germany, this sedative appeared to be quite effective at relieving nervous tension. Luckily, bureaucratic red tape delayed acceptance of Thalidomide long enough for further results to appear. By 1961, approximately one hundred cases of birth defects had been attributed directly to Thalidomide given to expectant German mothers. Almost a year later, the 1070 doctors who had been testing Thalidomide on their patients were finally notified of the danger. By this time, hundreds of infants had been permanently handicapped by the drug.6

Once again, Congress was forced to take steps to protect the consuming public. The 1962 Amendments to the Food, Drug, and Cosmetic Act were the most comprehensive yet. Since the passage of these amendments, drugs must be proven safe to animals before being tested on humans. A patient has the right to know when he is being given an experimental drug. Test records must be retained by the manufacturers, and injurious side effects must be disclosed. Perhaps the most powerful tool the FDA gained with this legislation is the authority to remove a health-threatening drug from the marketplace.
The consumer movement has undoubtedly had a tremendous impact on the safety and reliability of drugs. We can now feel fairly confident that our prescriptions are safe and effective, and have been proven to be so. The benefit to the consumer is obvious: he is safe. What may not be so obvious, however, is the benefit to the industry. The chance of an error that could be costly in terms of liability is greatly reduced. Consumers may have more confidence in an industry they know is governmentally supervised.

Why, then has business so vehemently opposed this regulation? There are many answers. One argument that has been used is that long testing and acceptance periods for drugs slow down their entry into the marketplace. Potentially, people could die whose lives would have been saved if the drug had been available sooner. This is true; however, costs must be weighed carefully. Far less damaging to the manufacturer's reputation is a drug released too late than one sold before it has been properly tested.

The industry may also argue that excessive regulation will require the use of a specialized legal staff to interpret the regulations. The focus could change from developing life-saving drugs to meeting regulations. This reflects the theory that people (and organizations) will optimize to the standard by which they are being measured. This change in priority also has slowed the path of needed drugs to the consumer.
Regardless of the reasons given, the bottom line for most companies is cost. Longer periods of testing are not only expensive in themselves, but many months' worth of sales revenue may be lost during a test period. Further, the documentation involved in federally regulated industries is time-consuming and expensive. Legal advice, clerical time, even storage space are costs which are necessarily passed on to the consumer. Extensive testing, while reducing the possibility of legal liability, brings a tremendous responsibility for the accuracy of these results.

While consumerism may have benefitted the drug industry, the resulting regulations probably did not.
# TABLE 1

Federal Legislation Affecting the Drug Industry

**Pure Food and Drug Act of 1906**—

1) Formation of Food and Drug Administration
2) Drugs must meet accepted trade standards.
3) No false or misleading labels
4) Disclosure of ingredients and/or substitutions
5) No false claims of curative effects

**Federal Food, Drug, and Cosmetic Act of 1938**—

1) Disclosure of variations from standards
2) Inclusion of directions for use
3) Inclusion of warnings against misuse
4) FDA factory inspections
5) FDA approval prior to marketing

**1962 Amendments to the Food, Drug, and Cosmetic Act of 1938**—

1) Biennial inspection of drug factories
2) Manufacturing standards set by FDA
3) New drugs must be proven safe to animals before testing on humans
4) Doctor must have consent of patient to test an experimental drug
5) Each batch of antibiotics must be tested for strength and purity
6) Drugs must be both safe and effective
7) All drugs on the market must have FDA approval
8) Clinical test records must be retained by manufacturers and reported on request
9) Labels and advertisements must disclose injurious side effects
10) Generic name of drug must be on drug label in specified type size
11) FDA can review generic names and simplify if needed
12) Health-threatening drugs may be removed from the market by FDA
III. Automotive Industry

"And it came to pass that to that land of fiery creatures which was called Detroiticus there came an advocate. Of little fame, but of great determination was he. And he spake unto them, 'For ye have loosed upon the land a plague of things, and these Things do maim and even kill my brethren, and these Things ye have called Corvairs. Yea, though are great and I am humble, I do call upon ye to remove this plague from the land. And this call I make for the Kingdom of Consumers.' And the advocate, he called Nader, returned to the capital city where he caused to be written new laws; laws which would aid and comfort his people, the Consumers."  

The automotive industry is one of the most highly regulated in the United States today. Auto manufacturers must answer to the EPA, FHA, FTC, and several other ingredients in the federal alphabet soup. And the major auto-makers are still confronted by consumer groups demanding more safety, higher gas mileage, less pollution, lower prices.  

However, this regulation is a relatively new addition to the automotive world. The first American was killed by an automobile in 1899, yet it was not until 1966 that safety standards in domestic cars came under the federal mandate. Consumer groups were by no means silent during this long period. The sad fact is, the auto industry, like so many others, refused to accept the inevitable until required to by law.
The earliest cars were not constructed for safety. Bumpers and brakes certainly helped to protect the car and its occupants, but the inside of the auto was full of danger. There were no seat belts to keep occupants from being thrown into the sharp protrusions on the unpadded dashboard. Breakable windshields caused untold damage. Windshield wipers, sashers, and defrosting systems were standard equipment only on luxury cars. Low- and medium-priced cars had no protection from the elements.

Though there were those who protested against these "assaults" on the American public, they were few and ineffective. The general attitude was that driver error caused most accidents and was responsible for most of the damage. One who was involved in an accident was careless and probably got what he deserved. Also, the fight for pure food and drugs was at the forefront of consumer consciousness throughout most of the thirties. Auto safety was a concern that would have to wait for another era.

By 1965 the attitude had begun to change. An enthusiastic young lawyer by the name of Ralph Nader had written a book telling of death traps in automobiles. Unsafe at Any Speed criticized specific features of some models of automobiles. The Book enjoyed only modest success until Nader, testifying at a Senate subcommittee on highway safety, reported being investigated by General Motors in an attempt to discredit his attack on the Chevrolet Corvair. This disclosure sent him
right to the forefront of public attention as the undisputed consumer leader against the auto industry.

At this point the industry made an attempt at cooperation with safety standards. A board of the four major U. S. auto makers was proposed to set safety standards acceptable to both the industry and the public. While this never came to pass because of possible anti-trust action, much information about safety and defects was released to the government. GM, Ford and Chrysler voluntarily complied with standards set by the General Services Administration on disclosure, but this was not sufficient for consumer advocates.

In 1966 the Traffic and Motor Vehicle Safety Act was signed into law. This act originated the National Traffic Safety Agency. Interim standards for new motor vehicles were set pending investigation. This act later set safety standards for trucks and buses, used cars and tires. Defects discovered after sale had to be brought to the owner's attention, and penalty fines were set for violation of these provisions. This law also gave the National Traffic Safety Agency extensive regulatory power over the automotive industry. Some of these regulations are described in Table 2.

Various auto-makers have been at odds with consumer groups and government since the passage of the 1966 Act. One of the more outstanding examples is the Chevrolet Corvair. In 1970, Ralph Nader reported to Transportation Secretary John A. Volpe that General Motors had been suppressing evidence that the Corvair had rolled over at speeds of as little as
twenty-six miles per hour. GM confirmed this, but added that the rolls were intentional to test experimental parts. Government studies confirmed that the cars were stable, but now Corvair was in the public eye. Negative public sentiment eventually forced GM to discontinue manufacture of the Corvair.

A much more recent example of the tremendous impact consumerism has had on the industry is the Ford Pinto. Allegedly, the position of the gas tank makes the Pinto highly susceptible to catching on fire when rear-ended even at very low speeds. While refusing to admit any defect in the design, Ford has paid out millions of dollars, both in and out of court, to victims who suffered extensive burns in such accidents. In a case in Elkhart, Indiana, a prosecutor sought a conviction of criminal negligence on behalf of four teenagers who were injured or killed in a fiery rear-end collision. While Ford was acquitted, the negative publicity has been very damaging to their reputation.

The impact of the consumer movement is far from over in the automotive industry. The safety problems which are in the headlines today will be reflected in the laws and regulations of the next few years. General Motors, Ford, Chrysler, and AMC must make a concerted effort to identify and eliminate potential safety hazards before they become cause for public outrage. When auto-makers are fighting for sales, the company which satisfies consumers best will come out on top.
<table>
<thead>
<tr>
<th>TABLE 22</th>
<th>Federal Legislation Affecting the Automotive Industry</th>
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<tr>
<td><strong>Traffic and Motor Vehicle Safety Act of 1966--</strong></td>
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<tr>
<td>1) Interim standards for new motor vehicles</td>
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<td>2) Standards applied to trucks and buses</td>
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<td>3) Established used car safety standards</td>
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<td>4) Established standards and grading system for tires</td>
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<td>5) Provided for notification by manufacturers to new-car buyers of safety defects discovered after sale</td>
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<td>6) Set penalties for violations of standards</td>
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<td>7) Listed nationally drivers with revoked or suspended licenses</td>
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<td>8) Established National Highway Safety Bureau</td>
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<td><strong>1967 Commerce Department Standards</strong></td>
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<tr>
<td>1) More lights and reflective devices</td>
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<td>2) Head rests to guard against whiplash</td>
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<tr>
<td>3) Safety glass in windshields</td>
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<td>4) Reduce number of protrusions on instrument panels</td>
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<tr>
<td>5) Endurance and braking requirements for tires</td>
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<tr>
<td>6) Six lap belts in six-passenger cars</td>
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<tr>
<td>7) Elimination of wheel nuts, discs and hub caps that were hazardous to pedestrians</td>
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<tr>
<td><strong>1967 Commerce Department Standards (Revised)</strong></td>
<td></td>
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<tr>
<td>1) Seat belts for all forward-facing seats</td>
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<tr>
<td>2) Energy-absorbing steering systems</td>
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<td>3) Rupture-resistant fuel tanks</td>
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<td>4) Crash-proof door latches</td>
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<td>5) Padding of interior surfaces and protrusions</td>
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<tr>
<td>6) Windshield defrosters</td>
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<td>7) Shatter-resistant windshields</td>
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<td>8) Outside rearview mirrors</td>
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<td>9) Limited glare from metal surfaces</td>
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<td>10) Parking brakes, emergency lights to warn of brake failure</td>
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IV. Consumer Credit Industry

Consumer credit has been around almost as long as the exchange system itself. From the first time an article was sold with a promise of future payment, credit has been an integral part of our society. Credit sales now make up an alarming percentage of consumer product sales, so the situation is ripe for abuses. Where the abused are, consumerism follows.

In the early years of large-scale credit in Europe, a debtor who could not pay what he owed was thrown into debtor's prison. He would be forced to stay in prison until the debt was paid off; being unable to work, he remained in prison for life. Many of these people were "bought" out of prison by wealthy entrepreneurs to become settlers in the New World. Unfortunately, they brought the concept of the debtors prison to this country.

The first consumer credit reform took place in 1829, when Andrew Jackson took office as president. As a firm believer in rights for all men, he pushed for abolition of debtors prison. This was eventually accomplished, but most legislators did not share his noble motives. The overriding feeling was that creditors would now have a better chance at gaining payment of the amount owed if debtors were able to work. The practice of wage garnishment came into popular use instead. Now people who owed money were not prisoners of their debt, but slaves to it.
The theory of wage garnishment seems like a very humane and reasonable way to collect a debt. In practice, however, it is heavily weighted in favor of the creditor. In order to garnish a person's wages, a court order must be attained. While this step is wholly at the discretion of the creditor, the debtor is responsible for payment of court costs. To someone already heavily in debt, this added burden may prove very damaging.

Garnishment laws generally contain a provision that excludes a portion of the debtor's income from collection. This money is used for living expenses for the debtor and his family. The problem with this is that limits are seldom kept current. For example, the garnishee in Kentucky could keep only $16.87 per week in 1966. This exclusion level was originally set in 1910. Clearly, this amount was not sufficient for even one person to live on in 1966.

A third problem has also arisen with garnishment. The original reason debtors prisons were replaced was to keep people working while they paid their debts. It became fairly common, however, for employers to fire workers for whom they had received writs of garnishment. Processing these writs takes additional time and expense in payroll preparation and a low-level employee was often judged not worth the extra cost. This leaves debtors without means to pay what they owe, and is little kinder than debtors prison. Unfortunatley, many of the provisions which allowed these practices were on the books well into the sixties and seventies.
Consumer interests were not totally ignored by the U. S. government after Andrew Jackson's notable reform. The Federal Reserve Act in 1913 and the McFadden-Pepper Act in 1927 set up savings departments and real estate loan programs in national banks. With a rapidly expanding economy, the demand for mortgage loans was tremendous. Everyone wanted to live the American Dream of owning his own home, and mortgage loans were the quickest way to do so. Therein lay one of the first major problems in the banking industry.

In the teens and twenties, the terms of mortgage contracts were often five years at simple interest, with one payment due at the end of the period. Borrowers were to save the money as was most convenient for them. The idea of paying later left many people unwilling or unable to save the necessary cash on their own. When they could not pay back at the end of the five years, most banks were glad to loan the principal plus the interest for another five years. This vicious cycle compounded interest very rapidly and left the borrower with no equity whatsoever in his home, should the lender choose to foreclose the mortgage.

This and a complicated web of other factors lead to the collapse of the American banking system in the early thirties. Hundreds of banks closed their doors permanently, and depositors lost thousands of dollars in the process. It was obvious that the banking industry needed help. Easy credit, though sometimes a useful financial tool had contributed to a virtual financial collapse.
The Banking Act of 1933 was passed in an attempt to shore up the failing system. One of the most notable features of this act is the establishment of the Federal Deposit Insurance Corporation. This would enable customers to recover up to a certain limit, money lost in the event of a bank failure. This act also enabled the Federal Reserve Board to limit rates on time deposits, and prohibit payment of interest on demand deposits. The same year, the Home Owners Loan Corporation was established to assist homeowners unable to meet mortgage payments.

After the banking system was stabilized, there was very little consumer action in the credit industry. This is not to say there were not abuses. The problems inherent in the wage garnishment system were discussed previously. The attitude throughout was the same: businesses were more in need of protection than were consumers. This lead to a Pandora's Box of problems that would come back to plague the industry in later years.

One of the more common and easy-to-use tactics used by lenders was to not discuss the total finance charges for a particular loan. For example, a piece of furniture might have been advertised for $50 down and $20 per month, with no cash price ever mentioned. This made it impossible to know what portion of the cost was actually interest. Even if the cash price were available, few people bothered to do the simple calculations required because the small payment size was so easy to manage.
Another frequently cited abuse is one which was perpetrated largely by financial institutions. A twelve hundred dollar loan, for example, was advertised at $40 per month based on thirty months. At first glance it appeared that this was an interest-free loan. What was not revealed until a potential borrower inquired is that the loan was actually discounted in advance, making the cash received only $936. The actual annual percentage rate for this particular loan was approximately 8.3%. Anyone not familiar with the concept of discounting was easily mislead.

These and other practices on the part of the credit industry lead to a number of legislative measures. The first, passed in 1968 is the Consumer Credit Protection Act, commonly referred to as Truth-in-Lending. The most important aspect of this law was disclosure of the annual percentage rate to allow for comparison shopping for credit. This was expanded later to include disclosure of total finance charges and monthly payments, among others.

The Fair Credit Reporting Act, passed two years later, gave consumers access to files of their credit history. Since this Act, individuals have the right to add comment to their files at the local credit bureau in the event of a dispute over the accuracy of the information in the files. As credit decisions may be entirely dependent upon information provided by the credit bureau, it is vital that consumers be allowed to obtain access to this information.
The Equal Credit Opportunity Act made sweeping changes in the factors used to determine credit eligibility. Passed in 1974, this law prohibits discrimination in credit consideration based on marital status or sex. This does not guarantee the availability of credit to singles and women, but rather removes those factors from consideration upon application. All income and other requirements must still be met by the applicant.

The Fair Credit Billing Act of 1974 set up procedures by which consumers can settle disputes with credit card companies. Under this act, the creditor is forbidden from collection attempts or unfavorable credit reporting during the period the dispute is being resolved. Creditors are required to respond to consumer billing error complaints. While the consumer may ultimately lose the appeal, he must be given an opportunity to have his protest heard.

The abundance of these consumer protection laws would imply that consumers are well taken care of when it comes to credit. However, this may not be the case. The people most frequently victimized by unscrupulous creditors are most often the poor and uneducated. While these protective measures do disclose information very valuable in making borrowing decisions, the people most in need of it are unable to use it. If annual percentage rates are not understood, they cannot be used effectively. In this industry, too, regulations have not provided as much as activists hoped.
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<tr>
<td><strong>Federal Legislation Affecting the Credit Industry</strong></td>
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**Federal Reserve Act of 1913**--
1) Established Federal Reserve System
2) Allows real estate loans and savings departments in national banks

**McFadden-Pepper Act of 1927**--
1) Increased time deposits lent for real estate
2) Raised mortgage terms to five years

**Banking Act of 1933**--
1) Shored up collapsing bank system
2) Created FDIC
3) Allowed national banks to have branches
4) Prohibited member banks from paying interest on demand deposits
5) Gave Federal Reserve Board authority to limit rates on time deposits

**Home Owners Loan Corporation-1933**
Assisted distressed homeowners by refinancing home mortgages

**Consumer Credit Protection Act of 1968**--
1) Prescribed manner in which finance charges are to be computed
2) Required disclosure of APR
3) Provided civil and criminal penalties for violations

**Fair Credit Reporting Act of 1970**--
1) Required reasonable procedures for collecting information about potential debtors
2) Allowed consumers to see and comment on their files
3) Provided for liability of violators
Equal Credit Opportunity Act of 1974--
  1) Insured non-discrimination in credit availability
  2) Set civil liability for violators

Fair Credit Billing Act of 1974--
  1) Established procedure for contesting billing disputes
  2) Specified penalties for non-compliance
V. Consumerism and Contemporary Businesses

Since the turn of the century, consumerism has played a vital role in the American economy. The results have drastically altered the way most industries manufacture, advertise, distribute and service their products. Consumers are more protected now than they ever have been. Yet, the meaning of consumerism is still unclear, and neither consumers nor businesses understand the full implications of it.

Much marketing literature describes consumerism as a somewhat temporary recurring condition brought about by specific factors in the environment. Another theorist describes it as an almost violent reaction to an environmental shift.

"The change . . . is not gradual, but sudden and disruptive. It is non-rational, usually bitter, and it involves much human conflict and a great waste of resources, often with considerable destruction of the gifts of the past."16

While a specific reaction will undoubtedly cause some changes, consumerism is more generally seen as more gradual.

Possible Causes

Marketing theorist Phillip Kotler describes six factors which are associated with a social movement. The first he lists is structural conduciveness.17 This can involve many things, but in the cases discussed, the main factor was an increase in product complexity. Drugs with unfamiliar ingredients were introduced to consumers over the counter.
mobiles improved in performance without a corresponding improvement in safety features. New and different clauses were added to loan contracts to make them even more unreadable. Problems definitely existed.

Consumerism also needs structural strains\textsuperscript{18} for development. These factors are primarily environmental. During all three of the major consumerism eras, the country has been plagued by a variety of social ills. Most notable of these has been sharply rising prices. Economic discontent left consumers looking for an industry scapegoat to blame. Under these conditions, confrontation was almost inevitable.

At this point in the consumer movements, generalized beliefs began to form.\textsuperscript{19} Writers of the day exposed a variety of heinous abuses by the subject industry. Out of this stage came books such as \textit{100,000,000 Guinea Pigs}, warning of the peril in which we placed ourselves when we took medication. The champion of the consumer against the automotive industry was Ralph Nader, who warned of the serious dangers we faced each time we got in our cars. The credit industry had no standout, but rather several literary critics, all of whom gave pitiful examples of the unthinkable wrongs perpetrated by the industry.

Writers alone cannot cause a revolution. Certain other precipitating factors\textsuperscript{20} must be present. Professional credibility was attained in all situations by attracting the attention of respected social and professional leaders. This in turn brought about a mobilization for action.\textsuperscript{21} Political
and media groups made the real or imagined injustices known to the public at large.

What is at last brought about is social control. The drug industry is regulated by the FDA. Automobile manufacturers must answer to the Environmental Protection Agency, the Federal Highway Administration, and often the FTC. The consumer credit industry must answer to the Federal Reserve Board under a variety of regulations.

It seems in retrospect that the time it took for the consumer movement to run its course gave the industries plenty of time to prevent or severely reduce the amount of governmental interference with which they are now faced. Yet even with these examples to learn from, other industries continue to move down the same self-defeating path. Why must this be?

The answer may lie in the age-old business philosophy that concentrated on supply rather than demand. It was long assumed that the public would consume as much as, and whatever could be produced. "The philosophy was that of the Scotchman who bought only one spur for his horse, figuring if one half would go, the other half would go too." While few businesses are likely to be that extreme today, remnants of this type of thinking can still be seen today. Companies make assumptions as to what degree of risk is acceptable to consumers, and act on the basis of these assumptions rather than gathering facts.

Reliance on this antiquated production orientation also deludes the manufacturer into believing that the only costs
involved are those short-run costs caused by production changes. What is not taken into account are potential losses of sales caused by dissatisfied consumers or bad publicity and the cost of complying with government regulations, should they come about. According to marketing theorist David A. Schon, "...the basic assumptions and governing variables our organizations have built on no longer seem to be quite appropriate to circumstances as we confront them."²⁴

Positive Influence

To anyone involved in the marketing side of business, the arguments against a production orientation may sound very familiar. The reason is simple: they are at the very base of the marketing concept. Phillip Kotler goes one step further by saying consumerism is the marketing concept in action.²⁵ By identifying it as such, this social movement loses much of the opposition it has traditionally experienced.

Any company or industry which works to keep abreast of the social climate surrounding its products and practices may, in fact, benefit from consumerism. An opportunity exists for great success for those firms which choose to accept the challenge of consumerism and make changes in accordance with environmental changes.

The first way in which business benefits from consumerism is through the necessitated provision for more reliable product information to the final consumer. Better and more complete product information allows the purchaser to make a
more intelligent decision. This more efficient buying means a reduction in expenditures for unneeded and unwanted goods. Therefore, more efficient buying will lead to more real purchasing power\textsuperscript{26} and more satisfied consumers.

Across-the-board consideration of consumer interest would allow curtailment of certain advertising expenditures.\textsuperscript{27} For instance, institutional advertising to demonstrate corporate good citizenship would be superfluous if this social accountability were an accepted standard of performance. This reduction in advertising could substantially reduce the cost of goods to consumers. Yet the effect on aggregate demand would be minimal; what few sales were lost by lack of visibility would be made up for by more sales from the lower price.

Ideally under the consumer orientation, social costs generated by the manufacture and use of products should be absorbed by the producer. As a certain amount of profit is necessary to maintain a dynamic organization, part of these costs would undoubtedly be passed along to the consumer. However, if this absorption does not take place, the chances are very great that federal, state, or local regulators will step in. When this happens, the cost for control is increased dramatically, and may not be nearly as effective.\textsuperscript{28}

A more clear recognition of social conscience on the part of business will also have another benefit. The concept is fairly simple and logical, yet almost daily one can read of a firm or industry which has failed to accept it. A reduction
of unsafe and ineffective products will result in more satisfied consumers. Not only will this satisfaction reflect on the particular product, but the entire firm may be viewed more favorably.

Consumerism should not be seen as detrimental to marketing activities, nor should it be viewed purely as a plea for corporate good citizenship. "The problem of consumerism, with all of its implications is something business leaders must face squarely--not for altruistic reasons, but because the well-being of our companies and our competitive enterprise system depends on it."30

Failure to Respond

The benefits of responsiveness to consumerism are clear, yet many industries fail to heed the warning signals. What is in store for them down the road? In 1976, there were five dozen agencies administering some one thousand consumer programs. The annual cost to tax payers for these programs was approximately $3 billion annually. The rapid growth of the federal bureaucracy may have doubled that amount by 1981. The $3 billion came from both personal and corporate income taxes. This hurts businesses in two ways. First part of that money comes directly from the corporate pocket. Second, the drain on taxpayers reduces their purchasing power considerably. Another point to remember: the inefficiency of federal bureaucracy is well known. Federal regulation as opposed to self-regulation increases the cost of control substantially.
and reduce its effectiveness. Government regulations can enforce minimums, but only a healthy business/consumer interface can stimulate the striving for excellence.32

There seems to be little question at this point that to be successful in contemporary society, businesses must be responsive to consumer preferences. Yet, the problem is much more easily defined than the solution. To prosper during periods of consumer unrest, business must give up the practice of selective inattention which has been so prevalent in the past. This refers to a systematic failure to observe whatever would conflict with their view about reality. This is the attitude which idolizes the status quo. In a time of rapid change, this can be devastating to business.

When business has failed to meet the needs of consumers, government forces have moved into the vacuum caused by unfulfilled desires. Since these areas of consumer interest are so diverse, they provide unlimited opportunities for legislators and regulatory agencies to institute additional rules. To avoid these new requirements, business must demonstrate that it can do a far superior job if it regulates itself. Mere argument will have very little effect on government regulators; most will want proof.

Product Strategy

A business must not stop with becoming aware of the changes within and without the marketplace. To observe environmental phenomena and not respond would be suicidal. One area in which the company must be particularly responsive is product research.
and development. This is the area around which some of consumerism's most sensational stories have been centered. Nothing works better to agitate and infuriate the public than stories of hideous damage caused by defective products—especially if there is any indication of prior knowledge on the part of the manufacturer.

At one time, consumers wanted to know little more than the price of the item under consideration. Now, a multitude of factors may enter the decision process. The purchaser may want to know, in addition to the price, safety of the product, its expected performance, and whether or not it is covered by a warranty. Such information as the manufacturer's hiring practices, amount of pollution generated by production or use, and the social relevance of the item may come into play.33

The argument may be brought up that no business can develop a product, taking all these things into consideration, and expect it to sell. This is probably true. What business must attempt to do, however, is to balance these social factors with the issues of marketability and cosmetic appeal. Ideally, products should combine intrinsic appeal and long-run benefit.

Another factor relating to social costs must be kept in mind. In the short-run, consumers will care very little about industry safety efforts, and may even oppose them. This is no defense for the business. Ford Motor Company offered seat belts as an option on many of its cars during the mid-1950's. Response was so low they were dropped; yet prior to the 1962
Highway Safety Act, auto makers were blasted by consumer advocates and politicians for failing to incorporate safety features in their cars. This attack was far more damaging than a temporary sales decrease would have been.

Corporate Honesty

A policy which must be adopted by contemporary business is openness and honesty. This must be applied to dealings both with consumers and with government officials. A business leader may shudder in horror at the thought of baring the corporate soul to all the world. With today's public hunger for scandal, any major problems are likely to be discovered in spite of attempts at coverup. How much less damaging it is to tell the facts than to let exaggerated rumors spread and multiply.

This policy of honesty can bring great benefits in the form of good press relations. A firm which has had a history of being honest and cooperative with the media is far more likely to be contacted for comment prior to the release of a potentially damaging news story. This comment may give the firm an opportunity to clarify facts or explain circumstances, in addition to demonstrating a generally cooperative attitude. Further, this good relationship with the media may encourage greater use of public relations material supplied by the company—in effect, free public communication.

Industry leaders must also maintain a trusting relationship with the government officials interested in specific areas of the business. Many agency investigations are instituted because of unnecessary secrecy on the part of the company or
industry. If regulatory personnel are kept informed by the industry on the state of the art, the chances of an investigation ever coming about are greatly reduced.35

Industry Response

Lastly, sophisticated business management will logically seek to identify specific areas of consumer dissatisfaction and take appropriate action. There may be areas within an industry which do not conform to the usual pattern of consumerism. Although somewhat narrower in scope, these pockets of dissatisfaction may end up to be just as damaging as a more broad-based problem. The only way to effectively deal with these situations is to actively seek them out before they are catapulted to the forefront by politicians or the media.

Insuring that most potential trouble spots are identified requires a systematic effort. Aaron S. Yohalem has developed a process he calls "Consumer Trend Analysis."

"1. Analyze the demographics of consumerism as it affects specific operations.
2. Define those areas where consumer segments are correct or misinformed.
3. Make the adjustments necessary to meet legitimate complaints.
4. Undertake the communications effort required to alert the public and its elected leaders to the adjustments made and to the areas of public misunderstanding or misinformation.

It is vital that problem areas be not only identified, but handled as well. A firm must be very careful not to give false hope and then disappoint the consumer. That would be far more damaging to their reputation than if the issue had not been identified at all. It is nearly impossible to make a general statement of what type of solution is best. However,
both the market appeal and the long-run consequences of any decision must be considered.

Toward the Future

In retrospect, it is fairly easy to see the costly errors made by industries facing a wave of consumerism. It is vital that these mistakes are not forgotten, but used as a basis for identifying and preventing future problems. Modern industry must remain ever mindful of changing priorities in contemporary society. Products must be developed which consider the totality of involved factors, rather than just the physical makeup. A healthy, trusting attitude between business and all of its publics—consumers, media, and government, must be established and maintained. A successful firm will be able to identify and address areas of consumer dissatisfaction before the issue becomes explosive.

"When knowledge is not retained, as among savages, in infancy is perpetual. Those who refuse to remember the past are condemned to repeat it."

--George Santyana
END NOTES


2 Ibid., p. 295.


4 Murray, p. 296.

5 Kelly, p. 21.


7 Murray, p. 145.

8 Peterson, p. 25.


10 Ibid., p. 17.


12 Haskins, p. 90.

13 Ibid.


16 Kelly, p. 295.

17 Ibid.

18 Ibid.

19 Ibid.

20 Ibid.

21 Ibid.
22 Kelly, p. 19.
23 Gardner, p. 2.
24 Murray, p. 297.
25 Ibid., p. 296
26 Ibid.
27 Ibid.
28 Ibid.
29 Gardner, p. 45.
30 Ibid., p. 46.
31 Ibid., p. 102.
32 Ibid., p. 3.
33 Kelly, p. 574.

36 Kelly, p. 575.
BIELIOGRAPHY


