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CONSUMERISM

by Arthur Shenfield

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Suppose that you wanted to destroy the game of baseball and remove it from the American scene. One obvious way would be to make other games – football, basketball, perhaps even cricket – so much more attractive to the public that no one would wish to see or play baseball. That would be the normal competitive way to destroy it. In the days before people began to be ashamed of things American, it would have been called the American way.

But there is another way. Set yourself up as the champion of baseball and start a campaign for its protection and improvement. Declare that pitchers who cannot deliver a strike in two throws are obviously bad and must automatically be relieved. Twenty or thirty pitchers would then be required in every game, which would produce some tiresome difficulties. Lay it down that runners who do not attempt to steal bases clearly lack guts, and establish a rule that every runner must attempt a steal after reaching a base. It would not take long to get through nine innings at that rate. Best of all, hammer away at the obvious fact that all managers make mistakes, and hand the management of the play in every game to a committee of fans. You could be confident that baseball would not last very long under such a regime. Thus you would achieve a marvellous feat: You would destroy the game and yet go down in popular history as its great champion.

Though, pace Henry Ford, history is not bunk, popular history almost always is. The case of my mythical champion of baseball is likely to be paralleled in popular history by that of the modern champion of the consumer. The so-called consumerist movement is a movement of self-appointed friends of the consumer whose activities, if they were successful, would destroy him.

Let us consider the place of the consumer in an efficient, progressive economy. He should be sovereign. The purpose of the economy is to serve him and to serve him optimally. Of course what is optimal has to be defined, and we must examine this point very soon. But let us first be clear that the purpose of the economy is to serve him. It is not the purpose of an efficient economy to provide jobs. It is not its purpose to produce profit or wages, high or low. Its purpose is none of these things. However, it so happens that an economy which serves the consumer optimally will also produce jobs, profits and wages; indeed, except for possible short-run fluctuations, more jobs and better jobs, and higher profits and wages, than any other economy. These results are the incidental effects of the fulfillment of its purpose, the service of the consumer.

This is all elementary to the student of economics, but it is almost universally disregarded. Most people, especially politicians and voters, instinctively feel that the purpose of the economy, and the test of its success, is the production of jobs, profits and wages. In fact, when this is made its purpose, it becomes inefficient and backward. The indirect effects of success become the enemies of success if they are erected into direct objectives. Hence we may say that the successful economy is consumerist by definition. But that, as we shall see, is very far from being consumerist in the sense of the consumerist movement.

But now we must examine more closely the meaning of consumer sovereignty. First we must notice

im•pri•mis (ĭm-prī´ mĭs) adv. In the first place. Middle English, from Latin in primis, among the first (things). . .

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that it is a sovereignty with limits – in a sense a kind of constitutional sovereignty. The consumer has no more power than King Canute had to command the impossible; and if the economy fails to deliver the impossible, that is no reason to condemn it. Many of the condemnations to which it is constantly subjected are in fact condemnations of its failure to deliver the impossible.

Thus, while consumer sovereignty means the paramountcy of consumer choice, it does not mean that consumers can choose to have a Cadillac for the price of a Chevrolet. Of course it is always possible for some consumers to have this, but only by subsidy from others whose freedom and choice are thus abridged. It is impossible for consumers in general to have a Cadillac except at the price of a Cadillac. It is impossible for consumers to have cars without defects of design. Designs without defects do not exist. Of course it is possible to improve designs to the frontiers of knowledge, but then the consumer must be prepared to pay the price of a Rolls Royce, or more. It is impossible for consumers of mass produced cars all to have cars free from faults of assembly. It is in the nature of mass production that some statistical proportion of the product will be of faulty manufacture, and the price is set accordingly. Of course the proportion can be reduced or allowed to rise according to investment in inspection, but the various prices will reflect these differences; or alternatively, high investment in inspection may be paid for by designing for low performance (e.g. the Volkswagen). It is impossible for consumers to have completely safe cars. Such cars do not exist. Of course standards of safety can be set high or low, and prices will be set accordingly. It is impossible for consumers to be provided by producers with all relevant information bearing on their purchases. No producer could live under such a requirement and the consumer would then get nothing Of course the law may require the producer to provide a certain quantum of information (e.g. country of origin, type of material used, price per unit of weight, etc.), but since information bears a cost, it is impossible for the consumer to be provided with this information free of charge.

The essential principle is that the sovereignty of the consumer is limited to that degree of power which he can exercise in free agreement with producers, freely choosing which producer to be served by. With such power he receives the benefit of least-cost production, but such least-cost he must meet. With such power he receives to the limit what is possible, but he does not receive what is impossible. This is the meaning of the optimal service of the consumer.

Now I must immediately scotch an error which is extremely widespread and which plagues even scholarly discussion of this subject. You may say that what I have described as the optimal service of the consumer is the state of perfect competition, for it implies that the producer is without power over the consumer's choice, subject to the limits of what is possible. But the real world is, and must be, a world of imperfect competition; and in imperfect competition producers have some measure of power, varying from low to high, over the consumer's choice. Hence the economy of the real world may merit criticism by the champion of the consumer, according to the degree and character of the producer's power. And since we live in a world ot giant corporations, such as General Motors, Dupont, and the like, which obviously have immense power, it is ludicrous to think in terms of consumer sovereignty unless some "consumerist" champion enters the lists on the consumer's behalf.

If you said this, you would be wrong. My analysis does not imply perfect competition. I believe in neither the possibility nor the desirability of perfect competition. I not only accept the regime of imperfect competition. I also approve it and believe it to be consistent with the sovereignty of the consumer. I do not believe that you make it bad simply by calling it oligopoly.

First, let me clear away a very common misunderstanding of the statistics of the matter. Most people are under the impression that the American economy is falling more and more under the sway of the large corporation, so that the time will come when half a dozen giants will control everything. This is false. There is little difference between the share in the economy of large corporations today and that of fifty years ago. Economic development is a matter of life and death. Companies rise and companies fall, and it simply is not true that the giant corporation goes marching on from strength to strength. Perhaps the most pathetic example is that of the United State Steel Corporation whose share of output has gone down and down in the past seventy years, although it is in an industry which is supposed to be above all suited to the large corporation.

Consider the case of automobiles, to which I have already referred. There are only four American producers, and three of them are giants. A clear case of oligopolistic power. Yet there is no other industry in which competition is more effective, or in which the consumer's sovereignty is more obvious. Partly this is because there is also the competition of imports and of used cars. Used cars are a most important source of competition in the car market. Yet the competition would be extremely effective even without imports or used cars. Take the case of detergents. Here there are three large producers, oligopolists all. Yet, except to the jaundiced eye of ill-instructed observers, the housewife has never been better served both in point of variety and in point of the constant technical improvement of the product.

I deny that the typical case of oligopoly is one which harms the consumer or which gives the producer power over the consumer. Look at the case of the Edsel car. Look at the case of Corfam, in which Dupont, the largest chemical giant in the world, invested millions of dollars and which yet failed. After years of expensive attempts to persuade him to accept Corfam in place of leather, the consumer turned his thumb down and Dupont retired beaten from the field.

How does the American economy in general measure up to the requirement of consumer sovereignty? Obviously better than any other known economy. This has always been the country above all others of abundant choice, and any visitor from another land with half an eye can see that it still is. This remains the case despite the fact that the private enterprise which understands the meaning of service to the consumer is more and more hampered by governmental activities which thwart it.

If this is the case, why is it that the consumerist movement has become so popular? Why has Mr. Nader achieved such immense fame? The basis of his popularity is fourfold.

First, while each consumer knows himself not to be a fool, he has an incorrigible tendency to believe that other consumers are fools. Hence he is easily persuaded that consumers need protection. The grim joke is that while Mr. Nader tells the people that they are fools as consumers (for that is his real message, though he does not put it that way), he assures them that they are not fools as voters with the power to implement his legislative proposals. Yet all experience shows that most people are much wiser as consumers than as voters.

Secondly, the myth of the power of the giant corporation is extremely potent. For most people it is obvious and natural that a company of the size of General Motors must have immense power. Even while he spurns its products and buys a Toyota or a Volkswagen, or for that matter, a Ford or a Plymouth, the average American is convinced that General Motors must have undue control over the economy. The alleged power of the giant corporation is a natural target for the successful rabble rouser.

Thirdly, there is discontent with the possible. I have already drawn attention to the inability of the economy to give the consumer the impossible. But, properly worked upon by propaganda, the consumer may not see it that way. Quite apart from the itch for what is beyond the rainbow's end, the limits of possibility are always moving. What is impossible today may be possible tomorrow. If Mr. Nader tells the consumer that the impossible is possible, why should he not believe him?

Fourthly, nothing is easier than to find cases in practice which to the eye of the naive observer bear out the foregoing. Take the case of the Corvair, on which Mr. Nader largely founded his fame and fortune. The Corvair had a design defect. It may be that it was an exceptionally bad defect. So much is true. But it is untrue that it displayed a special power in the hands of General Motors to foist an unsafe car on to the public; or that it illustrated a tendency for the whole industry to foist unsafe cars on to the public; or that the consumer had no remedy until Mr. Nader came riding in as a knight in shining armor. There will always be design defects. The great majority are of no significance to the motorist. A few are significant. When experience reveals them, they are put right. Or, if they cannot be put right, the model is withdrawn. Now this will happen under any system, polypolistic, oligopolistic or monopolistic. Of all the systems concerned the American is the one in which the organization of information is likely to lead to the speediest discovery of significant defects. It is a calumny to say that General Motors suppressed the information, once it truly was information. In fact they had no power to do so.

I have alleged that the consumerist sets up himself as the consumer's champion but in fact is his enemy. This is best revealed by Mr. Nader's remedies for the consumer's presumed helplessness. They are essentially threefold.

First, the establishment of new, better and stricter standards of quality, safety, fitness etc. for consumer goods. This is an assault upon the consumer, not his defence. It narrows his choice and raises costs against him. There are innumberable goods which many consumers are content to buy at the right price, even though their eyes are open to the absence of some quality which happens to be of no consequence to them. This would be the case even if those who set the standards were supremely wise and honest. In fact they would be politicians and bureaucrats with the common failings of their kind.

Secondly, the regulation of industry. Now America is very familiar with regulation. The I.C.C. was founded in 1887. Since then American industry has had to contend with the F.C.C., the F.P.C., the C.A.B., the S.E.C., and others. The story is one of sad failure, above all in the case of the oldest, the

I.C.C. Was there ever an industry more contemptuous of the demands of the consumer than the railroad industry has become? The I.C.C. was intended to protect the consumer against oligopolistic or monopolistic power. In fact it provided an umbrella for inefficient management and for hidebound labor monopoly. It is amusing to note that Mr. Nader has written a book on the I.C.C. in which he rightly damns it by bell, book and candle. Why, then, does he prescribe regulation as one of his prime remedies? Because he suffers from the natural malady of popular reformers. Regulation as it has been done by others is bad; regulation as it will be done by him and his proteges is good. But, as Professor George Stigler and others have shown, the canker is in the regulation, not in the character of the regulators.

Thirdly, the appointment of public interest representatives on the boards of large corporations. Here Mr. Nader dreams big dreams. With his new standards of quality, safety, etc. and with his regulators, he was thinking directly of the consumer. Now he is thinking about changing the whole corporate system and hence the essential nature of the American economy. General Motors is his enemy and General Motors is the paradigm of the American economy. But, as with his other remedies, his dream on examination either fades to nothing or becomes baleful. Who would appoint the public interest representatives? To whom would they be responsible? What knowledge would they have to control the malfeasances of their board colleagues? What knowledge of their activities would those who appoint them (the President? Congress? Local politicians? or Mr. Nader himself?) have? How would they be controlled without such knowledge? Either, and fortunately this is the more likely, the system would become a sham. Or it would become a centrally planned economy. But of course Mr. Nader does not know that the one thing above all others that plagues the centrally planned economy (e.g. the Soviet economy) and makes it hopelessly inefficient is the fact that the planners do not and cannot know what their minions are doing. Mr. Nader thinks that in his centrally planned system he would know what his public interest representatives would be up to. He is mistaken.

Like all self-appointed champions of the common man, Mr. Nader ends by despising him. He is all for the protection of the consumer. Yet now he proposed that on all university and college campuses there should be a mandatory - refundable fee of $3 payable by all students for public interest (i.e. Naderist) activities. Here the student is the consumer, but whether he likes it or not he must pay his $3 for what Mr. Nader offers him. If he does not like it, he may reclaim his $3, but first he must pay. Of course this is the oldest trick in the game. British trade unions, with their contracting-out system, have been playing it for years. Everybody knows that once they have paid their $3, many students will not bother to reclaim it, even though they would not have freely paid it in the first place. So much for Mr. Nader's present concern for consumers.

The consumerist movement is a typical populist movement. Its roots are ignorance and discontent. There will always be ignorance and there will always be discontent. Therefore there will always be populist movements. But like the others the consumerist movement will have its day and fade away. We shall not hear much of Mr. Nader in a few years' time.

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