


# THE CONSUMER'S WORLD

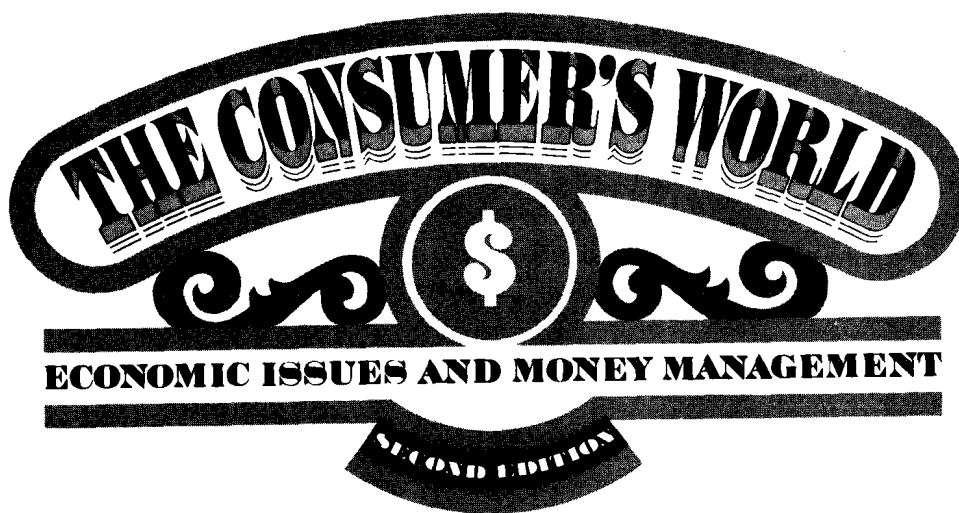


ECONOMIC ISSUES AND MONEY MANAGEMENT

SECOND EDITION



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**The Consumer's World: Economic Issues and Money Management: Resource, Second Edition**

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The editors for this book were Gail Smith and Alice V. Manning, the art and design coordinator was Tracy A. Glasner, the designer was Blaise Zito Associates, Inc., the cover artist was Elizabeth Thayer, the art supervisor was George T. Resch, and the production supervisors were May E. Konopka and Laurence Charnow. It was set in Times Roman by Bi-Comp, Inc.

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# Preface

The objective of *The Consumer's World* is to help people become more informed and better consumers. One cannot become an effective citizen/consumer without becoming more fully aware of factual information, developing favorable attitudes and a personal code of ethics, and making a commitment to helping to effect positive changes in the American marketplace. Informed consumers make wise decisions in the marketplace. These decisions ultimately raise the consumers' individual levels of living while also contributing to improvement in the morality of the marketplace.

Such an objective combined with a multidisciplinary strategy throughout *The Consumer's World* provides for an effective and appropriate educational program. This approach can be effective in such courses as consumer economics, personal finance, family finance, consumer finance, home and family living, money management, consumer issues, consumer problems, and consumer education.

The opening chapter highlights the basic consumer problems that are to be examined in depth. In all chapters students are given a distinct feeling for their involvement as consumers. Their attitudes and ability to critically analyze are challenged. The marketplace, its functions, and its reliance on consumer satisfaction are subsequently discussed. A special effort is made to introduce basic economic concepts and to explore the consumer's economic environment. And at every opportunity a strong emphasis is placed on the responsibilities of consumers.

The resource book is organized around three areas of consumer impact—consumers themselves, their effectiveness in the marketplace, and their preparation for the future. Each chapter opens with relevant problems confronting consumers, frequently using anecdotes and examples to gain and hold interest. A logical examination of the topic then

follows which is written from the point of view of the student. We have accepted the challenge to write an interesting text which the student will read thoroughly. Hence, the style of writing is crisp and concise, anecdotes are appropriate, and cartoons are used to incisively illustrate selected points. A closing section, "Points of View and Problems to Think About," stresses important present and emerging issues and problems for consumers to consider. End-of-chapter study aids include a vocabulary checkup, a review of essential ideas dealt with in the chapter, and issues for analysis.

*The Consumer's World* is a challenge. It is controversial. It is informative. It is factual. It is honest. We believe such an approach will make the reader a far better informed consumer who in turn will help shape a continually improving consumer's world.

A separate *Practicum* accompanies the resource text. The *Practicum* is designed to serve the student first as a self-study device, and second as an opportunity to draw upon knowledge and experience to solve problems. It contains performance objective statements that give dimension and meaning to the resource text. Self-check exercises help the students estimate their readiness to proceed with the chapter activities. The heart of the *Practicum* is its full range of problems, incidents, projects, and cases that engage the students in various simulated or real consumer roles requiring them to apply their own values and judgments.

An *Instructor's Manual* is also available. It contains teaching suggestions, course management guidance, numerous related readings, learning enrichment ideas, and test questions.

We wish to acknowledge our appreciation to those who contributed to the development of the second edition of *The Consumer's World*. We thank the thousands of students all across

the country and their teachers who have offered comments and suggestions based upon the first edition. Much appreciation is also extended to reviewers of various parts of the manuscript during its development, including Drs. Al Pender and David Graf of Northern Illinois University, Dr. John Burton of The University of Utah, and Dr. William L. Johnston of Oklahoma State University. We also wish to extend our appreciation to doctoral student Bobby H. Sharp of Virginia Polytechnic Institute and State University for

researching text material, and to secretaries Charlene Jones of Delta State University and Gail Heikkinen of Virginia Polytechnic Institute and State University, who did the final processing and typing of the manuscript.

Responsibility for the final content, errors, or omissions rests with the authors, of course.

We think you'll like this second edition a lot!

**E. T. Garman**  
**S. W. Eckert**

# Foreword

## A Nation of Consumers

Senator Charles H. Percy

We are a nation of over 220 million consumers. As consumers our demands are relatively modest. We ask for protection of our legal rights and the prevention of unfair or deceptive trade practices. We seek adequate product information, labels, and warnings; fair advertising, promotion, and sale practices; and the preservation of a free and informed choice in a competitive market.

As one who has spent over 25 years with a major American corporation, I can attest to the fact that what is good for the consumer is not only good for American business, it is *best* for business. Not surprisingly, most businesspeople are acutely aware of this and build their businesses on the philosophy that the product or service they produce is worthy of public acceptance. The corollary to this is, of course, that if a product or service proves unfit for the purpose intended, if it is unsafe or defective or its marketing deceptive, then those facts should be writ large so that an informed consuming public can make more rational decisions.

*The Consumer's World* represents a major breakthrough in communicating to the public the essence of what consumerism is all about as well as the larger implications of the consumer movement in the United States today. In the most graphic detail, the authors have assembled example after example of disregard of consumer interests by certain corporations in this country, large and small, and neglect of consumer interests by government bureaucracies at all levels.

When all is said and done, this carefully documented work constitutes a primer for avoiding the empty warranties and guarantees,

the deceptive packaging, the unfair pricing and bait and switch merchandising, the misleading advertising, and the anti-competitive conduct which we find, to our dismay, in all too many facets of our daily activity.

If instances of corporate, industry, and governmental irresponsibility are to be weeded out, then the consumer needs to be better taught to spot and deal with such conduct. If we are to separate out those few firms which act without regard for their customers from the overwhelming majority that do, it is through an education process that this can be accomplished. *The Consumer's World* provides the kind of instructive and sometimes common-sense cautions which will aid immeasurably in furthering informed and responsible consumer behavior. And in so doing, it should, in turn, have a positive effect on promoting more forthright remedial action by those companies and those industries whose good name and reputations are indelibly tarnished because of the indecencies of the few.

It is high time that we as a society say "ENOUGH" to ineffective flu vaccines, rancid food, filth-laden warehouses, squalor and inhumane treatment in nursing homes, and diseased blood used in transfusions. "ENOUGH" to leaded paint that kills children, to carbon monoxide that poisons auto passengers, to clothes that flare into flame, to contaminated roasts, to chicken wings pocked with tumors. "ENOUGH" to unfair property taxes, insurance inequities, and the erosion due to inflation of the purchasing power of all consumers.

Messrs. Garman and Eckert document many of these problems and more. They have immersed themselves fully in the fight for consumer protection and in so doing have stormed the battlements for quality in goods and services, fairness in advertising and promotion, and honesty in the marketplace.

I personally believe that the consumer movement, of which this book now becomes an important part, represents a yearning, felt by all of us, for an improved quality of life—for an America that works again, for an America that cares again, and for people, products, corporations, institutions, and a philosophy that support this society rather than embitter it or tear it apart.

If we are to achieve that and do away with

one-sided lobbying for loopholes and secret deals that sell out the consumer, we need a more informed and aroused public. Such information and cause for arousal is contained in the pages that follow. Perhaps the end result will be an affirmation of the interest of the many over the interest of the few and a realization that our society works best when a broader public interest overshadows narrow special interests.



# Foreword

## Consumer Education

*Esther Peterson*

*Special Assistant to the President for Consumer Affairs*

One of the primary goals of the American education system has always been to teach people the skills and knowledge they need to earn a living. Our schools do a very credible job of teaching people how to make money. But that is only half the task. It is just as important to teach people how to spend money.

Fortunately, in the last few years educators have begun to realize that teaching people how to spend is important. This recognition, coupled with a new awareness of the increasingly complex and technological character of our marketplace, has added importance to a vital yet controversial discipline—consumer education.

Consumer education is an active study specialty which develops sound purchasing skills and provides a wealth of knowledge to help people make more intelligent marketplace and life-style decisions throughout their lives. It will help you gain the tools you will need to survive and prosper in the marketplace.

You may find the material covered by this book useful immediately. Or, if you are living at home, some of it may seem unimportant right now. However, in any case, you will find it of great practical value in the future. When you have to decide which car to buy, which life insurance policy will best provide for your family, or whether to buy or rent a home, consumer education skills will be very useful in helping you examine the options.

Consumers must learn to vote their dollars

effectively in their own best interests. As our society becomes more and more complex, it becomes more difficult to gather, study, and analyze all the various options available. Not only must consumers learn to read the fine print, they must know what the fine print means and how it compares with the alternatives.

Consumers must also remember that the best choice for their next-door neighbors may not necessarily be best for them. Each consumer is an individual, with individual wants, needs, and desires. They should learn to weigh all the possibilities and make the choices best suited to them as individuals.

Furthermore, while people must learn how to protect their health, safety, and pocket-books, they must also understand how government actions affect their lives. They must realize that while they can buy energy-efficient appliances and conserve energy in their homes, their utility bills are affected by rate decisions of state and local utility boards and by federal legislation; these rates will never reflect their needs unless they get involved.

Consumers must learn how the decision-making process works in order to influence it. Once they understand the intricacies of government, citizens can become more involved in the formation of public policy. By becoming more effective as consumers, people become more effective as citizens, improving our political system and reducing dissatisfaction with government and the marketplace.

You as consumers must let your voices be heard on issues that are important to you. Our health, safety, and economic well-being can be enhanced only if each of us acts as a watchdog over not only the marketplace, but also the laws and statutes that regulate it.



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# 1

# The Dilemma of the Consumer

## THE PROBLEMS

Today's American consumer faces a dilemma. How does he or she make choices about buying in a market that provides only poor opportunities for making wise decisions? How does one find answers to such questions as these:

"Which brand of mouthwash shall I buy?"

"How much down payment do I need for a house?"

"Which tires should I buy?"

"The bank turned down my loan. Where else can I borrow money?"

"Where should I invest money for retirement?"

Simple answers to these questions are unavailable, and the reasons for this are many: (1) Fraudulence, deception, and misrepresentation characterize every area of consumer interest. (2) Inequities, or unfair advantages, exist for many consumers. (3) Marketplace complexities often overwhelm consumers. (4) Consumers feel helpless in many dealings, and often assistance is not around when it is needed most. (5) Ignorance, or lack of sufficient buying knowledge, is common with many consumers. (6) Apathy, or a "why get involved" attitude, is typical of many consumers.

Let us examine these consumer questions more closely. For example, when deciding which brand of mouthwash to buy, are consumers aware of some of the propagandistic terms associated with mouthwashes? Consider the words "medicinal" and "deodorizing." Fraud! Deception! Misrepresentation!

The Food and Drug Administration (FDA) reports that commercial, over-the-counter mouthwashes have no medicinal value whatsoever. Nor are they strong enough to have a long-lasting effect upon mouth odor. For a mouthwash to be truly effective either as a medicine or as a deodorant, it would have to be so strong that it would be illegal because it would damage delicate mouth tissues. Cold water is just as good for cleansing the mouth, or a solution of one-half teaspoon of baking soda to a half glass of water may be preferable to those who like that "tingling feeling."

Certain inequities can be observed when a consumer decides to buy a home. The required down payment on a \$60,000 house can vary from \$300 to \$15,000, depending on the type of financing. Many potential homeowners have not served

in the Armed Forces and therefore cannot qualify for minimum-down-payment financing through the Veterans Administration. And strangely enough, low-down-payment financing may not be available through the Federal Housing Administration if the combined income of both husband and an employed wife is too low. The government, in the case of housing, may have inadvertently created inequities.

Wise buying decisions are almost impossible to make when consumers buy items such as tires. Factors to consider include tire size, driving habits, prices, manufacturer, warranty, quality, and the numerous synthetics used to make tires. Then there are the various types and prices of tires that can fit a given automobile. "First-line" tires from one store may be "second-line" tires at the next. So then one must compare nylon, rayon, beaded, belted, bias-belted, elliptic, 4-ply rated, 2-ply, 24-month guarantee, 20,000-mile guarantee, \$39.95 per tire, and \$62.50 per tire! The marketplace leaves consumers very confused indeed when they are buying new tires, yet a poor decision can cost money and perhaps even lives.

The question of where to invest money for retirement suggests that consumers have a definite lack of knowledge of investments. Are government savings bonds a good investment? Will real estate provide a "nest egg" for the future? What type of public bonds have the highest yield? Are second mortgages a good investment? Insurance? Annuities? What about the stock market? Serious study, counseling, and planning are needed to develop an investment program, and they should begin long before retirement age.

These types of problems are commonplace, and we will consider them further in this chapter. *Fraud and deception* exist, but hopefully the consumer can learn to avoid them. *Inequities* also exist, but with effort the consumer may be able to eliminate many of them. The *overwhelmingness* of the marketplace, too, can be minimized if one has knowledge to help

in making decisions. So also can the *helplessness* of the consumer, which is less formidable than it seems if one knows where to turn. The underlying problem of consumer *ignorance* shows the importance of consumer education. And finally, consumer *apathy* can be understood, reversed, and turned into a more positive action effort.

## FRAUD, DECEPTION, AND MISREPRESENTATION

The uninformed and trusting American consumer is easy prey for the fraudulent and deceptive practices of dishonest businesses and individuals. If only 5 percent of the businesses in the United States are dishonest, that still adds up to approximately 260,000 companies. If we include the thousands of individuals who continually practice fraud and deception, dishonesty in the marketplace has got to be displayed in capital letters.

The principle of competition might suggest that unfair businesses will eventually be forced out of operation by honest ones, as it stands to reason that if people find out who the honest ones are and buy only from them, the dishonest ones will be eliminated. After all, consumers who were once "taken" should not fall for the same deception again. Nonetheless, dishonest business people have more than 220 million American shoppers to choose from and therefore do not need repeat customers—although the sad fact is that they often get them.

A formal education is no proof against fraudulent or deceptive practices, as the following example shows. A college senior was approached by a life insurance salesperson who interested the student in a policy. The salesperson then asked the student to sign an application form, stating that there was a \$10 application fee that would be refunded if the student later decided he did not want the coverage. The following week the student decided not to accept the policy after all. He



wrote the company and asked them to refund his \$10. They replied that the fee was not refundable, as was clearly stated on the original application form.

Fraud? Perhaps, but if this case were taken to court it would be a lost cause. True, the student obviously did not read the application thoroughly, but equally obviously he was misled by the insurance salesperson.

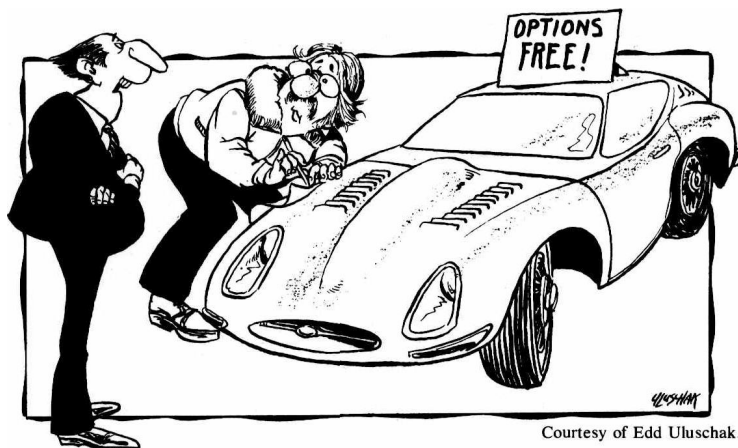
The courts have been hesitant to try to define fraud precisely. This is because such a definition would only invite the dishonest to find equally precise—and legal—loopholes. Legally, *fraud* is considered to be a deliberate deception that the plaintiff-buyer relies upon as being true. But the buyer must prove deceitful intentions, and such proof is usually not available. Court decisions and other government actions do help by stopping thousands of fraudulent practices every year. For instance, almost all shady operators do some business by mail, and federal mail-fraud statutes can be used to prosecute these cases. Nevertheless, legal loopholes and problems of enforcement permit millions of consumers to be deceived daily.

One instance of consumer fraud and deception is an example of “bait and switch” that involved Sears, Roebuck and Company. Sears had advertised a portable zigzag sewing machine (which sewed on buttons and made buttonholes, monograms, etc.) for a nationwide sale price of \$58 (the “bait”). However, people inquiring about the sewing machine were told by Sears salespersons across the country that the machine was noisy, was hard to adjust, did not sew buttonholes well, etc. Others were told the warranty on this machine was not as good as the one on the more expensive models or that there would be a long wait for delivery for the machine on sale. The customers were then encouraged to buy higher-priced sewing machines (the “switch”). The Federal Trade Commission (FTC) investigated these sales and got a consent order from the company to refrain from such a deceptive practice.

Another case of deception concerns the husband of the late Mrs. Lois Barker, who received a C.O.D. parcel addressed to his wife shortly after her death. This being a very emotional time for Mr. Barker, he could not possibly return something that his late wife had apparently ordered. After paying the \$17 bill, he opened the parcel to find a cheap plastic trinket box, certainly not worth more than 59 cents and not an item that his wife would have ordered at all. Mr. Barker had clearly fallen into an unordered merchandise trap.

Even presumably worthwhile charitable organizations' efforts to help others can be fraudulent or deceptive. Take the case of Philip Gordon, a professional fund-raising consultant, who established “The United Fireman Fund.” This organization was supposedly developed to help the widows of firemen killed in the line of duty. After two years \$120,000 had been raised. Of this, \$90,000 was paid to Mr. Gordon and the remainder was divided between actual widows and the executive director of the fund (again, Gordon).

No idea or business practice is ignored by those who want to deceive or misrepresent. Sincere efforts toward self-improvement frequently go astray because of the deceptive practices of others. For example, Mary Jane Price, single and slightly overweight, saw an advertisement for exercise lessons at a local health spa that were guaranteed to “tone up sagging muscles so that life can be an exciting adventure again.” A free physical fitness analysis was offered. Mary Jane visited the health spa. While there she was weighed, measured, and photographed. The instructor said that with a little work she could be a “new person.” In dreamy excitement, Mary Jane signed a contract for 1 year of weekly sessions for \$400. After a few weeks she realized that she could just as easily continue the exercise program on her own, but the \$400 was nonrefundable. At the end of the year the instructor took new measurements and photographs to show her the improvement she had made. Since Mary Jane had already decided to



There's no charge for the options—mind you, the car's extra.

Courtesy of Edd Ulusach.

end the sessions, she did not buy the bargain offer for additional sessions. She saw through the plan and didn't want to get "bitten" twice. The first "bite" of \$400 had been large enough.

All too frequently, incidents involving the selling of goods or services to consumers are not actually considered fraud. Such cases, which fall just short of fraud in the eyes of the law, are often considered *deceptive practices*. The way in which the product or service is being offered to the unknowing consumer is deceptive because it does not tell the whole truth. *Misrepresentation* is often a problem, too, since this includes a false statement of fact made innocently and without any intent to deceive. Honest business practices, together with honest consumers, would eliminate most forms of fraud, deception, or deliberate misrepresentation. Unfortunately, those who disregard these ethical or moral practices are only too numerous.

Misrepresentation can be illustrated by those "freebies" which can create problems for the unwary consumer. A classic example is the merchant who advertised that a 48-piece set of stainless steel flatware would be included *free* when a couple bought a 120-piece set of dinnerware. Bob and Lou Guthrie thought they were really getting a bargain when they made this purchase. Later Lou priced similar sets of flatware and dinnerware separately

and found that the price they had paid for the dinnerware had been marked up to include the cost of the flatware. They still had the merchandise, but they were disappointed to find that they had purchased it under such false pretenses.

Hasty decisions and ignorance can make one a victim of misrepresentation or deceptive practices without one realizing it. For example, Marilyn Day answered the doorbell one morning to find a handsome young man wishing to show her samples from a set of encyclopedias. She invited him in, and he explained to her the fine quality of the books. He pointed out the many uses that he was sure her intelligent children would find for the encyclopedias. Along with the books, she would receive a dictionary and five yearly supplements to the set. This offer was for a limited time only. Becoming more and more convinced, Mrs. Day asked the salesman a few questions about himself. He claimed to be working his way through college and really needed customers. This was the clincher. Mrs. Day could not resist the deal and the opportunity to help him. She signed a contract for the books. Mrs. Day had had no intention of buying encyclopedias and had not discussed the matter with her children.

In the months to come, Mrs. Day found that her children used the encyclopedias provided by their school instead of the ones at home just