

## **Consumers are More Important than Some Think**

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### ABSTRACT:

This paper adds to the literature that studies the effects of improvements in consumer skills on the degree of vendor competition. Historically, competitive models have largely taken consumer skills for granted, along with consumer self-interest, in the gathering, processing, and evaluation of raw information. Self-interest was expected to be sufficient for reaching optimal decisions. But we study the likely effect improved consumer skill levels can have upon intensity of competition, leading to the conclusion that the more skillful consumers are in performing their buying function, the lower vendor prices will tend to be; just as an overall increase in producer costs puts an upward pressure on prices. Of equal importance, is the higher likelihood that competition will be maintained. This not only leads to potential benefits for **all** consumers, both skilled and unskilled, it suggests opportunities for public policy to improve consumer skills at the elementary-secondary school level, which lead to social benefits.

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Historically, economists have emphasized the role of consumers, especially in recessions, as being mere consumers, whose task is to consume the flow of goods which leads to overall economic activity and employment. But there is another role that consumers, acting in their own best interests perform, which should be recognized, encouraged, and enhanced because it leads, surprisingly, to added benefits for **all** members of society.

### The Invisible Hand

Long familiar to students of economics is the theory that if producers and consumers act in their own self-interests, competition tends to yield the lowest prices of products, as if an "invisible hand" were guiding the process to do the greatest social good. First set forth by the Scottish economist Adam Smith in the 18th century, and although it has its critics, it has become the crown jewel of basic economic wisdom, recognized even by some collectivist societies. Economists have conventionally emphasized producers as being the primary heroes in this process, rarely drawing attention to the consumer. This misplaced emphasis is a mistake.

Not well recognized is that Smith's hand is at work among consumers. While conscious of the fact that productive efficiencies tend to lower product prices, the reader may not be aware of the importance of improved consumer skills in the production-distribution process. Shoppers, acting in their own yes, "greedy" **self-interest**, markedly reinforce the work of the hand in bringing lower prices, better services, and improved care for all. Any improvement in shopping skills is of benefit to society. This activity enables the most efficient suppliers to remain in business, reminding us again that greed may be good. Since the invisible hand is diligently at work in consumer activities, we should be thankful for greedy consumers.

### Competition

Defining competition is a tough task. At its foundations, however, is the notion that the buyer recognizes a "need" and searches for alternative ways to satisfy it. If there is more than one alternative (other products, other sellers), the buyer faces competition among vendors. If the seller is confronted by more than one buyer, there is competition among buyers. If a natural disaster like a hurricane causes a temporary shortage of certain goods, buyers naturally attempt to outbid each other for the community's scarce supplies, with as we know a marked jump in prices. People are outraged by this result, and often describe it with the pejorative "price gouging," oblivious to the fact that they are in effect attempting to outbid each other.

Searching for the best alternatives to the product one wants is one of the foundations of competition. They are not naturally available, but must be discovered; their costs identified, and then, as we well know, the products are evaluated. These activities involve shopping skills.

### **Some Implications**

While difficult to believe, society actually benefits if consumers were to take their self-interest more seriously, realizing that it is not morally wrong to act in furtherance of such interests. Society and consumers both benefit when the latter acquire more knowledge and skills, and obtain "more-for-their-money." Social benefits are available even if only a few people are so inspired. Not only do benefits of increased competition spread to all consumers, but there are other perks that society enjoys. Among these is a lessening of the need for government regulation, thus potentially reducing public expenditures. Another benefit from sharper skills is a decreased likelihood of seller-buyer misunderstandings, and fewer opportunities for fraud and deceptive sales practices.

Shopping can be more gratifying by extending the well-known practice of "couponing" and by adopting "organized couponing," methods that enable the consumer to use coupons more efficiently. Shoppers can learn to use digital information sources for both price information (e.g., priceline.com) and for the availability of coupons, skills that are only beginning to be widely developed. When consumers demand more shopping aids, entrepreneurs tend to provide them.

Through intensive search for best buys, consumers obtain the most favored prices. Of even more importance, however, is that in doing so they contribute to competition, thus putting a downward pressure on prices. Consumer self-interest not only drives prices down, but also helps keep them low. Strong self-interest, indeed, contributes more than we realize to buying efficiency.

Many acts are involved in the process of consumption. Needs must be assessed and determining how they may be met; what specific items to be acquired; their location; and

establishing their costs and conditions of availability. In terms of market impact, the consumer's most important function usually is choosing the product's vendor, because it is time consuming for the busy shopper to compare prices. The greater the success in finding satisfactory products, in driving good bargains, and keeping competitive vendors on their toes, the greater will be the intensity of competition among those vendors, and the more benefits members of society can share.

Economists can study and identify these specific benefits, but thinking of ways and means to improve consumer skills above and beyond those taught in elementary and secondary schools are a challenge for educators, economists, and visionaries. If the popular TV personality Suze Orman, for example, would televise a message on developing shopping skills to elementary school students, even for an hour per semester, it would be of immense benefit to children and ultimately, to society. For example, introducing high-school children to the grossly neglected subject of evaluating financial contracts, including home mortgages, is a must. But this is only the tip of the iceberg: There is much to be done in providing Smith's invisible hand a real helping hand.