

## **Consumers Are More Important Than Generally Believed**

**William Beranek**  
University of Georgia

**David R. Kamerschen**  
University of Georgia

Historically, economists have emphasized the role of consumers as being, well, mere consumers, whose task is to consume the flow of goods which leads to growth in economic activity and employment. There is, however, an equally important function that consumers perform which, because it leads to potentially major benefits not only for them but for all members of society. And this role, should be encouraged and enhanced.

### **The Invisible Hand**

Long familiar to students of economics is the theory that if producers and consumers act in their self-interests, competition among producers tends to lead them to sell their products at the lowest prices consistent with their long-run survival, as if an “invisible hand” were guiding the process to do the greatest social good. First set forth by the 18th century economist Adam Smith, 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 engines for economic growth and national wealth in a free-market, competitive economy. This misplaced emphasis is a mistake.

Not well recognized is that Smith’s invisible hand is at work among consumers, too. 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 self-interests, markedly reinforce the work of the invisible hand in bringing lower prices, better services, improved sales terms, and a myriad other benefits for all. For this reason, any improvement in shopping skills will be of benefit to both the individual and to society. This activity enables the most efficient, responsible suppliers to remain in business. Since the invisible hand is diligently at work in consumer activities, we should be thankful for the self-interest of 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 enjoys and benefits from competition among vendors for his business. If the seller faces more than one buyer, there tends to be competition among buyers as well. Consider, for example, the extreme case of a natural disaster, say a hurricane, causing temporary shortages of certain goods. Buyers naturally enter bids for available scarce supplies resulting in their wittingly, or unwittingly, attempting to outbid each other for the few goods. We all know that this yields a marked, temporary jump in prices. Merchants may employ various mechanisms for distributing the goods, but the fundamental process consists of customers out bidding each other for the remaining supplies. People of course are outraged by this result, and often describe it with the pejorative “price gouging,” oblivious to the fact that they are outbidding each other to capture what is left.

On the other hand, should a sudden surge in supply occur, say, a bumper crop, then suppliers outbid each other in the sense of offering lower prices to clear the market.

This extreme example is cited because it highlights the role of the consumer in the competitive, price-setting process. The outbidding among consumers takes place continually since disasters are only a matter of degree. Periods of non-disaster are the norm of course, but consumers still play an important price-setting role. In the short- and long-run, consumers outbid each other for the producers’ flow of goods and services.

One of the important foundations of competition is the existence of alternatives to the product the consumer wants. Identifying and then searching for them is often a formidable task. They must be discovered, their costs identified, and their usefulness evaluated. Searching for the best is often a challenge. These activities involve shopping skills, which consist not only of knowing how to negotiate, but also knowing how to collect an information base pertaining to the products and services of interest to the consumer.

## 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 individuals 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. An important benefit from sharper skills is a decreased likelihood of seller-buyer misunderstandings, and fewer opportunities for fraud and deceptive sales practices. This tends to lessen the need for government regulation, which reduces business and consumer compliance

costs as well as public expenditures. But note that a decreased need for consumer regulation does not imply an overall absence of need for such regulation.

Through intensive search for best buys, consumers obtain favored prices and selling terms. Of even more importance is that in doing so they contribute to competition, thus tending to put a downward pressure not only on prices, but provide overall better selling terms, better credit terms, improved customer treatment and so forth. Even though these more favored features may tend to induce some sellers to reduce the quality of their output, and cut back on other desirable features, the added competition will tend to curb such behavior almost always resulting in a long-run net benefit to consumers. In sum, competition can bring a whole constellation of net consumer improvements.

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.

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 vendors, and the more benefits members of society tend to share.

### **Shopping Skills and Education**

Economists can study and identify these benefits, but thinking of ways and means to improve consumer skills above and beyond those taught in grade 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 students, even for an hour per semester, it would be of immense benefit to children and ultimately, to society. Further, introducing high school students 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. Potential immediate benefits from enhanced individual skills are only beginning to be recognized; but society has yet to realize the immense secondary benefits from added competition.