

Who Protects the Consumer? Milton Friedman

In recent years consumer advocacy has been something of a real growth industry. It has been sparked in this country, of course, by Ralph Nader, who played the same role in developing the consumer advocacy industry that Henry Ford played at a much earlier date—and with much greater benefit to the consumer, I may say—in developing the automobile industry. But since Ralph Nader has developed into a multinational conglomerate, he has had many imitators and many successors; and there has been a whole host of organizations and agencies that have developed supposedly to represent the consumer.

The old agencies—the ICC, FDA, SEC, CAB, FCC, FTC, FPC—have been supplemented by a host of new ones: the NHTSA, the OSHA, the OPA, the EEOC, the CPSC, the CFTC, the NTSP, and so on. Note that one of the effects of the increasing crowding of the spectrum has been that they have had to go from three alphabetical letters to four.

In 1975 there were at least twenty-seven major federal government regulatory agencies. They issued 60,000 pages of rules or proposed rules in the *Federal Register*. Their regulations occupied no less than 72,200 pages in the Code of Federal Regulations. I went to my bookshelf and measured what that would mean, and that turns out to be not a five-foot shelf of great books, but a literal twenty-four-foot shelf of not-so-great books.

The expenditures of these agencies on your behalf have literally tripled from \$1.6 billion in 1970 to \$4.7 billion in 1975 and, unless I am greatly mistaken, we ain't seen nothing yet.

Those are only the direct expenditures; those are what the government spends through the budget. They do not include the costs which those agencies have imposed on the rest of us in the form of the standards mandated on us. If you take the simplest example that is most familiar to all of us, the so-called antipollution and safety requirements on automobiles, those amount to about \$500 to

\$1,000 worth on any automobile. If the government imposed a tax on each automobile of \$500 and used the proceeds to pay directly for those items, that would appear in the Federal budget. But there is no economic difference whatsoever between that and the present situation in which you and I pay for them directly, but are forced to pay for them whether we want them or not. So the Federal budget figures are a gross underestimate.

Well, we have had this enormous growth, and we are continuing to have it, in these agencies in expenditures, in rules, in regulations. Is the consumer better protected as a result? Can he now settle back and say, "Well, now, I'm all taken care of, I can forget about that"? My thesis, and one I am going to try to persuade you of, is that the answer is a resounding no! That on the contrary these agencies, these regulations, these bureaucrats have not only picked our pockets but they have left us less well protected than we were before. When we as consumers really need help, we will find the self-styled consumer advocates conspicuous by their absence.

The banning of the cyclamates and the proposed ban on saccharin, some of these people would claim, is pro-consumer. But then if you ask them whom are you protecting the consumer against, the answer is clear: himself. They re, they believe, pro-consumer by which they mean that they are forcing you to do what you would do of your own free will if you were as sensible and as smart as they are.

After all, the argument about saccharin and cyclamates is that they carry the risk of producing cancer. I have no competence whatsoever to question the scientific evidence on that; I wouldn't try to. But obviously the right way to handle it from the point of view of a believer in freedom is to let people know and let them make their own choice. Let everyone know what the risks are, saying they are one in ten million or one in a thousand—whatever may be the best evidence—have a

free press. But then the question is: Ought you not be able to make your own choice?

I am saying that I don't believe that some people sitting in Washington ought to be able to make that judgment for me. That's my business. I belong to me, not to them. It's my life at stake.

And let me point out to you how utterly inconsistent and contradictory are the people involved in this. There's not a person in one of these consumer agencies who would deny for a moment that the smoking of cigarettes is a far greater source of death from cancer and from other diseases than even the most extreme figures you could put on cyclamates and saccharin. If it is right, if it is correct, if it is proper public policy to protect the consumer against himself with respect to saccharin or with respect to cyclamates, the same logic says it is proper policy to prohibit smoking of cigarettes.

I refer to cigarettes, but of course you realize that the same thing is true of booze. Again, there is overwhelming evidence that the consumption of alcohol causes far more human deaths both directly and indirectly through accidents on the highways than any conceivable effect from saccharin or from cyclamates. Indeed, there is no doubt whatsoever that if you could effectively prohibit drinking you would save more lives on the highways than by all of the so-called safety equipment on cars. The seat belts and air bags don't even hold a candle, in terms of the number of lives that would be saved, to the cessation of alcohol.

Needless to say, I am not in favor of prohibition. I'm not in favor of prohibition of alcohol; I'm not in favor of the prohibition of smoking; I'm not in favor of the prohibition of cyclamates or saccharin. I am simply in favor of letting everybody know what the risks are and letting everybody do what he, in the fullness of his own wisdom and judgment, wishes to do.

Let me emphasize that I'm not questioning the motives of the people involved. There's an old saying that you all know, about what it is that the road to hell is paved with. Intentions are one thing; it's results we want to look at. Let me give you an even better quote and this is

one from Justice Brandeis going back, I think, to the year 1928 or 1929 in one of the

Supreme Court cases: "Experience should teach us to be most on our guard to protect liberty when the government's purposes are beneficial. Men born to freedom are naturally alert to repel invasion of their liberty by evil-minded rulers. The greater dangers to liberty lurk in insidious encroachment by men of zeal, well-meaning but without understanding."

How can the consumer be protected? How is he protected? The clear answer, the answer that in my opinion cannot be denied, is that the most effective protection of the consumer is free competition, free competition at home and free trade throughout the world. It is the free market, the free private market, with free competition everywhere that is his best protector. The great danger to the consumer is from monopoly whether it be private or public. The great protection to the consumer is having alternative sources of supply. The thing that keeps the consumer from being exploited by Mr. X is that if Mr. X tried to charge him too much he can turn to Mr. Y.

People often say to me, why do you make such a big difference between private enterprise and government enterprise? What difference does it make whether you have a great big General Motors Corporation, it's a bureaucracy of the most extraordinary size, or whether you have a great big government corporation producing automobiles? Well it makes a big difference, and the difference is that there is no way in which General Motors can get a dollar from you unless you agree to hand it over. General Motors cannot send a policeman to pick your pocket, but the U.S. Government can, and as a result General Motors must serve your interests in a way which the U.S. government as a whole, or a government agency, does not have to. It's the possibility of other competition. It's because if General Motors doesn't serve your interest, you can buy a Ford product or a Chrysler product, or you can buy a Volkswagen, or you can buy a Toyota. That's what prevents General Motors from exploiting you.

Let me emphasize: competition does not protect the consumer because businessmen are more softhearted than bureaucrats or because they are more altruistic or because

they are more generous, but only because it is in the self-interest of the entrepreneur to

protect the consumer. And on this subject let me quote to you from what the father of modern economics, Adam Smith, wrote 200 years ago in *The Wealth of Nations*.

"It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own self-interest. We address ourselves not to their humanity but to their self-love and never talk to them of our own necessities but of their advantages. Nobody but a beggar chooses to depend chiefly upon the benevolence of his fellow citizens." So it's not from benevolence but from self-interest.

To return to the FDA, suppose it weren't there. What would prevent business from distributing adulterated products? It would be a very expensive thing to do. Consider the story that many of you have heard of a New Jersey firm which had been producing and marketing a high-quality soup product for fifty years very profitably. After fifty years of apparently safe operation, one case of adulterated or contaminated soup cans got out. That company very shortly went bankrupt. That's not a very sensible business practice.

What about the claim that the consumer cannot judge the quality of complex products, that he therefore requires the government's support and help? The market provides a very excellent answer. When it comes to complicated products, the consumer doesn't really trust his own judgment; he trusts the judgment of middlemen. Let me illustrate. No ordinary consumer is an expert about the quality of shirts, ties, shoes, goodness knows what. If one of them goes bad, if you find it's defective, do you go back to the shirt manufacturer? No, you go to the department store from which you bought it. The department store is acting as your middleman. Indeed, the reason the department store can exist and make money is because it can get the consumer to have confidence that the department store will sell him a good product for the price. In the same way you rely on a Sears Roebuck or a Montgomery Ward or a General Electric or a General Motors, not because they are altruistic but because it is in their self-interest to get the reputation and the

standing which would be destroyed if they consistently turned out bad products.

What about the claim that consumers can be led by the nose by false advertising, the claim that people like John Kenneth Galbraith have done the most to promote? The simplest answer is that the consumer can't be. And if you don't believe it, ask Mr. Ford what happened to the Edsel, promoted by an enormously expensive advertising campaign—one of the great duds of all times. The fact is that the consumer ultimately is going to decide on the quality of the product he buys and not on the claims. On the contrary he is going to be put off by the claims.

Finally, and most important, does it pay enterprises to engage in false advertising? It's like the question of whether it pays them to produce shoddy products. Of course occasionally a fly-by-night outfit can make some money by fooling people. But you know, Abraham Lincoln was absolutely right when he said many, many years ago, "You can fool some of the people all the time, you can fool all of the people some of the time, but you can't fool all of the people all of the time."

The profits of most enterprises depend on continuing customers; they don't depend on a one-time sale. And it is therefore in the long-run self-interest of the company to be sure that its advertising corresponds to the product it is selling. As I say, of course, there will always be some shoddy products, there will always be some quacks, there will always be some con artists. We've got to wait until the next world before we get rid of them. But we have to look at the real world.

I think that as consumers we are pretty good, if you leave us alone. But I think in our role as citizens we're terrible. And for good reason. If you're going to buy something every day it pays you to look into whether that's good or bad. If you are going to deal with the grocer daily, you'd better be pretty sure that he is a reasonably reliable grocer and that you'll get what you order and that he won't shortweight you or shortchange you.

But you may get to vote once a year—on what? On a long, long list of propositions, with very little relationship between your vote

and what ultimately happens. How much time does it pay you to inform yourself about that?

It's just a waste of time and energy; you're not going to influence anything.

So it's understandable, in my opinion, why the individual is far better a consumer in his private capacity than he is as a citizen in his public capacity. And what we have to do from

that point of view is to drive home that lesson and make individuals recognize the enormous importance of setting a limit to the powers that we grant to the government.

From: *Bright Promises, Dismal Performance: An Economist's Protest* by Milton Friedman, 1978