Rational Choice, Consumer Vulnerability and Empowerment: Diverging Economic Perspectives and Issues for Debate

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Abstract: This paper discusses the issue of consumer choice seen from two quite diverging perspectives: rational choice theory and consumer empowerment as it is currently measured by available research at European Union level. The question we try to answer is: In what manner do the assumptions on consumer rational choice influence the actual understanding of choice and the improvement of the fairness of the choice? To this aim we review the basic theoretical ideas on rational choice and consumer empowerment, as well as the conclusions of previous research on Romanian consumers’ empowerment current situation. The main finding of this analysis is that Romanian consumer choice needs more awareness, an increase of consumer skills and more active individual involvement in discussing these issues.

Keywords: rational choice theory; consumer choice; consumer empowerment; consumer vulnerability

JEL Classification: M31; M38

1. Introduction

In the context of the current economic development, individual choice is the elementary piece that summed up creates the whole economic transactions, thus the economy itself. There are many choices that can be assigned a cost and a benefit and as a consequence analyze the profitability of the choice. However, this perspective comes with its limitations, such as the fact that for calculating costs and benefits there must a monetary evaluation of all the preferences of consumers. From the standing point of the consumer this is seldom made, and there are many aspects that are hard to monetize, most of them related to aspects key to human life, such as health and education issues, and all aspects related to love. At macro-economic level costs and benefits it can only be computed if there are money involved and their flow is clearly traced. Grey and black economy can only be estimated with a certain error, but they will hardly refer to key aspects of human life such those mentioned above. In addition to this comes the fact that at the moment of choice there are future benefits and costs that are many times difficult to estimate. This situation makes us arrive to the idea that the individual choice, the elementary piece of the current economic development, is highly imperfect and it would be beneficial for everyone to deeper analyze the process of choice.

These limitations of the theoretical perspective put a certain pressure on consumers and make of the realm of consumer choice a confusing and unclear area. In order to identify the aspects that put pressure on consumers mostly in an unfair way, we will look to the basic ideas of the rational choice theory and the main critique points that can be found, and next we analyze the situation of the Romanian consumer, starting from research report issued by the Joint Research Centre of the

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European Commission on Consumer Empowerment Index. Thus, we will look at the theoretical ideas of consumer empowerment as well as the way it is put into practice in the European countries. Surprising, or not, the Romanian consumer scores last among 29 European countries, Norway and Iceland included along with the EU countries. We can’t but ask ourselves what are the main points where consumers fail to truly stand as an equal counterpart to the producers, and the retailers and we also question the involvement of the untested assumptions on consumers? So, the main question this paper will try to answer is: when do basic ideas on rational consumer overlap those of consumer empowerment or consumer sovereignty thus impeding each other? In our conclusion we reach the idea that further debate on the power consumer and his/her practical limitations is much needed but doubled by awareness on unquestioned assumptions about consumers, in consumer society.

2. Rational Choice Theory

Economists, sociologists and political scientists have started building the Theory of Rational Choice around the idea that all action is essentially ‘rational’ and people calculate the costs and benefits of any action before deciding what to do. Along with this idea comes the assumption that people are motivated by money and the possibility of making a profit, but, importantly, it created a simpler setting for the choice which enabled the construction of formal and predictive models of human behavior.

At its basis, Rational Choice Theory states that consumers make decisions by calculating the individual costs and benefits of different options of action and choose the alternative that maximizes their expected net benefits. Several key assumptions underlie the model, as Jackson (2005) highlights: (1) individual self-interest is the appropriate framework for understanding human behavior; (2) ‘rational’ behavior is the result of processes of cognitive deliberation; (3) consumer preferences are exogenous to the model, so their origin or antecedents are taken as given, without questioning them.

Even though this model has been extensively criticized it remains the guiding framework for all economic policies oriented towards regulating the transactions between consumers and producers. Among the main ideas for criticism there are the cognitive limitations of individuals’ ability to take deliberative action, the influence of affective responses to this deliberation and the self-interested assumption denies the presence of social, moral and altruistic behaviors.

There are practical evidences for each point of critique. Many times, choice involves a multitude of mental ‘short-cuts’, such as habits, routines, heuristics, thus bypassing in a variety of situations the cognitive deliberation. At this point public policy for consumer protection comes with requests on information available for products, but is able to do this only after repeatedly discovering an unfair practice on consumers, that wasn’t diminished by the consumers’ power of rational choice. Marketing theory knows very well that consumers get to build affective relationships with products and decide at an emotional level what to buy and how to act. Some evolutionary neuro-physiology suggests that emotional responses precede conscious deliberation (Scott, 2000).

Rational Choice has in itself some benefits like the fact that it highlighted the importance of balancing costs and benefits while deliberating but keeping only this perspective on choice lets unexplained many human choices, and leads to unpleasant surprises as economic crises. Maybe the latter would be sooner perceived if not only costs and benefits are put into equation but also the emotional preferences and material symbols – the unspoken language of social interaction. On the other hand the argument that human behavior is rational continues to be valid, meaning that it has an orientation towards a set of final goals, and it isn’t random. But these final goals can’t be money, as rational choice would say,
nor approval, as Exchange Theory, developed from Rational Choice would predict. If by rational behavior we understand motivated behavior (oriented towards a goal), this perspective leaves apart the unmotivated behaviors (expressive behaviors), as Maslow (1954) identified, which are part of every person’s actions.

3. Consumer Empowerment and Consumer Vulnerabilities

Consumer vulnerabilities refer to identifying those aspects where consumers need protection from economic policy decision-makers, as they may be the weaker part in their relation to businesses (Directorate-General for Internal Policies, 2012). Consumer protection is ensured at a certain level in all European countries and there are laws issued specifically for this end as well as institutions with the mission to ensure that these regulations are put into practice and respected. In an economic context, consumers are assumed to make rational choices, and consumer protection measures are generally introduced to support the consumer in his decision-making, and to deprive businesses of undertaking certain practices that are considered harmful to consumers.

For Danish consumers the preferred protection measure seems to be information requirements which support the consumers’ rational choices and primarily vulnerable consumers are seen to gain much from the detailed rules on price information. In UK in April 2011 a Consumer Empowerment Strategy was published which notes that there hasn’t been an attempt to deal with “vulnerable consumers” specifically as it is difficult to define this concept clearly, but under this term are seen those who have never used a computer, those who are widowed, those on low incomes and certain age groups are most vulnerable in at least some respects. Three particular initiatives are mentioned: (i) reforms to the post-transaction redress system to make dispute resolution easier; (ii) supporting the most vulnerable and disadvantaged consumers, particularly in dealing with information overload, product design and control, and in increasing awareness of alternative products and services; and (iii) making customer feedback provided on-line available to consumers who do not use the internet in order to facilitate their decision-making process. Under EU law “vulnerable consumers” mainly mean a rather stable group of consumers who are vulnerable because of their specific characteristics such as (mental or physical) infirmity, (young or old) age or credulity. In German law, the protection of vulnerable consumers is broader and also includes rather momentary and individual (unusually) exceptional situations of individual consumers in fear or under pressure. In Romania, the consumer protection law doesn’t mention specifically any group of vulnerable consumers.

The term consumer empowerment is a rather new concept used to describe consumers’ action and it is key to our analysis on consumers involvement in choice, since it provides the active perspective on the individual, and not passive, as coined by the vulnerability perspective. The empowerment of a consumer is a multifaceted concept encompassing skills, competences and rights, as well as the ability of the consumer to gather and use information and the capacity of the market to provide legal and practical protection devices (Nardo et al., 2011).

In sociology, Denegri-Knott, Zwick and Schroeder (2006) map the research on consumer empowerment presenting three dominant explanatory models: consumer sovereignty, cultural power and discursive power. Under the ideas of consumer sovereignty, a consumer is empowered when he or she is free to act as rational and self-interested agent. Consumers combine resources and skills to make producers do what they would not do otherwise. In the cultural model the market is a place of conflict between consumers and producers where the later try to condition and control consumers’ choices. Consumer empowerment resides not in the simple capability to stand firm against these maneuverings,
but it implies a strategic behavior, tactics to react to buyers’ actions and motivations and processes whereby communities of various form resist and attempt to distinguish them from markets (Kozinets 2002). Finally, the discursive model recognizes a positive role to the interaction between consumers and marketers, who are co-responsible of the market definition (Denegri-Knott, 2004; Holt, 2002). The notion of consumer empowerment is also used in the marketing literature (Hunter and Garnefeld, 2008) to indicate both a subjective state/experience related to an increase in abilities (Wathieu et al., 2002) or an objective condition related to greater information or understanding (Brennan and Ritters, 2004).

Len Tiu Wright (Wright et al. 2006, p. 926) suggests that consumer empowerment produces changes in consumers, who become less passive consumers in accepting whatever is offered by suppliers. She defines consumer empowerment, in marketing as \textit{a mental state usually accompanied by a physical act which enables a consumer or a group of consumers to put into effect their own choices through demonstrating their needs, wants and demands in their decision-making with other individuals or organizational bodies in the marketplace}. She argues that the real danger is “ignorance”.

4. Discussion on Consumer Choice in Romania

The Consumer Empowerment Index calculated by JRC considers three dimensions of empowerment: (1) consumer skills, (2) awareness of legislation on consumer rights and (3) consumer engagement. The pillar measuring “consumer skills” aims at measuring the ability to perform basic arithmetic operations deemed necessary for consumers to make informed purchase decisions. It includes basic financial skills as the capacity of identifying the best interest rate for saving or deposit account, or the calculation of a yearly interest on a loan as well as the consumers’ ability to interpret packaging information and the various commonly used EU logos related to consumer information and protection. “Awareness of consumer legislation” describes the actual knowledge of consumers of several pieces of EU consumer legislation related to unfair commercial practices, length of guarantee rights validity, cooling-off period in distance or doorstep selling. “Consumer engagement” refers to many different aspects of consumer behavior: attitude in comparing products that aims at measuring the effort consumers make in obtaining information on products; consumer habits when reading terms and conditions aims at capturing consumers’ behavior when signing contacts; interest in obtaining information on consumer rights measures the pro-active attitude of consumers when looking for information on their rights; tendency to talk captures consumer attitude to talk about negative and/or positive experiences; and detriment and redress is related to consumers’ attitude when experiencing a problem causing a legitimate case for complaint.

Upon this index, Romania, Poland and Bulgaria rank at the bottom of the list with a score 31% lower on average, Romania obtaining a score of 11.05, while EU average is at 14.97 and ranking the last, Poland being the immediately above with a score of 12.46. Analyzing the score on the three composing pillars of the index, it results that awareness is the pillar where the gap between best and low performers is higher, followed by skills, while for engagement the country performance is more uniform. The figure below illustrates the values of the Consumer Empowerment Index on the three main pillars of consumer influence.
Figure 1 allows us to see how far are Romanian consumers situated compared to other European consumers, and it is obvious that it stands apart from the average on awareness and skills pillars, while for engagement the distance is smaller. We could say that Romanians are quite engaged in their actions as consumers but they lack the necessary skills and their awareness level is quite low. If we consider the affirmation above that “ignorance” is the worst thing that can happen to a consumer, then we can see that here we have an illustration on such a situation. As well, the fact that awareness is lower than skills makes sense as the learning process is triggered by acknowledging the fact that our information and skills are insufficient for the required task, in this case consumer choice. On the other hand, engagement has a bigger value so this could mean that Romanian consumers are moving towards increasing their skills and awareness.

In the light of the theoretical aspects discussed in the first parts of this paper we can argue that the assumption of perfectly rational choice from the consumer is far from being true and generally considering that consumers act as if they were perfectly rational isn’t providing very much help in increasing awareness on consumer issues. In fact, the contrary may be true, that rational choice unquestioned assumptions may limit the efforts of consumer on increasing awareness of his/her vulnerabilities and accomplishing more empowerment. In support for this suggestion we identified two main reasons.

Firstly, the assumption of rational choice in terms of balancing costs and benefits doesn’t question the way in which actual choice is taken, the limitations consumers face in assessing and predicting future costs and benefits as well as limitations in information processes that arise from the cultural and social context. In influence of important reference groups in the social context may limit this rational choice aimed to answer own interests as it can serve other interests then those of the individual making the choice. Collective influence can thus work in opposite direction to the individual interest, leading the consumer to make a reasoned choice based on external influences which in turn are taken into
consideration less in the deliberation process. Another problem with the assumption of perfect rational choice on consumer side is that it doesn’t explain the unsatisfactory choices, leaving the individual with frustrating experiences because the evaluation of costs and benefits is mostly subjective.

Secondly, the assumption of rational choice of consumers can prevent policy makers from taking into account more recent evidences on choice that come from psychology and sociology. Rational choice takes consumer preferences as stable and with no antecedents, which obviously can’t be true as they are characteristic to certain cultural groups. Current preferences are always based on a previous experience and the social evaluation of that experience will have an influence. The internal variables of choice depicted in psychology such as motivations, attitudes, values, perceptions, personality, lifestyle and education level, have an important influence in the choice, and very rarely could costs and benefits be analyzed taking into consideration personality or values or perceptions, as influence aspects.

5. Conclusion

At its root, consumer choice is the basic element of all economic transaction, yet considering it under the optic of the ration choice theory is not enough to provide understanding for the consumer, nor the companies involved in satisfying his/her needs and wishes or the policy decision makers aiming at protecting consumers or at predicting probable courses of action in order to ensure the needed regulations and infrastructure. In addition, the results of the research on consumer empowerment really draw an alert signal for Romanian consumers on their capabilities to face the challenges of the interaction with businesses as providers of goods and services satisfying their needs.

6. References


Online sources

