Selling Government Programs

George Katona

Editor's Comment

George Katona prepared the following to be delivered 16 September, 1981 to the Philadelphia Chapter of the American Marketing Association as the prestigious Parlin Award recipient. Due to Katona's untimely death, he was unable to make the address which was presented instead by his close colleague, Richard T. Curtin (University of Michigan). The address argues for the need to conduct survey research as an input into public policy formulation, as a means of knowing how to sell public policy once determined, and as a vehicle for the assessment of effects of public policy implementation. Three areas of national economic policies are presented to demonstrate the rationale for the use of survey research–general price controls, cut in income taxes, and increases in interest rates.

In the presentation of the award on 16 September, 1981, Jerry Wind read the following award citation:

> George Katona (1901-1981) was not a member of the marketing fraternity. He had not published in marketing journals, or taught marketing courses. Yet, as the father of economic psychology (and founder of the Economic Behavior Program at the Institute for Social Research, University of Michigan), his work has had a major impact on the science and practice of marketing.
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> His conceptual and methodological innovations in behavioral economics centered on the explanation and prediction of changes in the economic system by analyzing consumer actions, attitudes, expectations, confidence and buying intentions. His stream of research which included the *Annual Survey of Consumer Finances*, the monthly index of consumer sentiment and numerous research reports, scientific publications and seminal book entitled, *Psychological Analysis of Economic Behavior* (1951), have had a major impact on marketing thought, policy and research practice. His popular books, *The Powerful Consumer: Psychological Studies of American Economy* (1960); *The Mass Consumption Society* (1964); *Psychological Economics* (1975); and *Essays in Behavioral Economics* (1980), have contributed much to the popularization of the marketing concept and advancement of consumer research.
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> His pioneering work and lifetime devotion to it have developed the area of economic psychology into a realistic, useful and growing area of research which has had a major impact not only on bridging the gap between economics and psychology but also on the development of consumer behavior research and marketing science and practice.
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> We are honored to have George Katona as one of the distinguished recipients of the Parlin Award. It is regretful that the award has to be presented posthumously, but the continued application of his work in marketing will be a standing memorial for his lifetime contributions.

The interdisciplinary discipline of behavioral economics, which George Katona founded, is rich with insights for macromarketing both on the conceptual level and in practical research issues and methods. In that spirit, the editors are pleased to include his last work, which is so germaine to macromarketing–"Selling of Government Programs."

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I shall talk today of a form of marketing to which this expression has been rarely applied. I shall discuss the selling of economic policy measures and even of plans and ideas about government policy.

The introduction of many new government policies and the introduction of new products are similar in that it is the *public response* to them which determines the success or failure of either the policies or the business decisions. In order to assess the probable public response and to devise steps promoting a favorable response, it is necessary to determine people's predispositions and attitudes. In other words, market research needs to be undertaken.

The source of the material used in this article consists of a series of studies carried out over the past forty years. The studies began during World War II when I analyzed the probable success of price controls, wage controls and rationing. Research on cyclical changes in the economy and especially on the influence of expectations on economic trends was carried out by the Survey Research Center of the University of Michigan in the last 35 years, and supplied extensive information that will be used today. In all those years we were greatly concerned with the influence on the economy of anti-inflationary measures undertaken by the government. In addition, policy measures intended to fight recessions provided much information.

There are, of course, government policy measures of a somewhat different kind as well. Take for instance the increase in social security taxes enacted a few years ago, which takes a large additional bite out of the income of every wage earner in 1981. Not only are these tax increases compulsory, but the public response to them is negligible because the additional taxes are simply withheld from paychecks by employers. In this case, public opinion may be of great influence at the time of the enactment of the law, because public opinion does influence Congress. But this form of political influence is rather different from our major concern, namely, the response by consumers and businesses to macroeconomic policies.

George Katona is the founder of the Institute for Social Research, University of Michigan.

We shall restrict our discussion to three major forms of economic policy, general price controls, a cut in income taxes, and increases in interest rates.

PRICE CONTROLS

At first sight, a general price freeze introduced by law or decree that imposes stiff penalties on those who raise prices appears to be a compulsory measure not dependent on the willingness of businesses and consumers to cooperate. Nothing could be further from the truth! First, there are countless instances in which external events determine the prices charged and the price controller must make exceptions by permitting price increases. It suffices to mention bad crops due to unfavorable weather or, during the last ten years, the increases in oil prices by the OPEC cartel. Second, and most important, if and when the majority of people do not cooperate, the enforcement mechanism breaks down. There are innumerable ways to circumvent price control—for instance, reduction of quality or service as well as black markets. Without the willingness of both sellers and buyers to make sacrifices for the sake of what is understood to be the common good, even a very large and efficient control agency would find it impossible to carry out its task. This is true even in a police state and not just in a democracy.

During World War II price and wage controls worked. This does not mean that prices and wages were stable. But World War II was the first great war in history fought without substantial inflation. We may recall that the American people in general approved of the war effort, and were willing to make sacrifices to insure victory. I published a book shortly after Pearl Harbor with the title, *War Without Inflation*. I called attention not just to the availability of economic-financial measures, but first of all to the prevailing psychological climate which would insure the success of controls. I also implied that inflation was much more probable after the end of the war than during the war because after victory was achieved, the patriotic motive for cooperation would weaken greatly. This was the case shortly after the war ended, and somewhat later public opinion forced the government to abandon the controls.

Of course, price control did not operate in a perfect manner during World War II. Very large

government bureaus had to be established to deal with thousands and thousands of requests for exceptions. Countless instances of price increases, evasions and cheating had taken place. But survey research revealed that (1) most businessmen and consumers were in favor of price control and rationing and asserted that they would abide by the regulations, and (2) in those instances when people evaded price controls they were apologetic and expressed regret about not being in a position to comply. The aggregate effect of all forms of evasion was therefore limited, and the prevailing expectation was for small rather than substantial price increases.

Price control was again introduced in the U.S. twice during the following decades. I shall not discuss the price controls of 1951 or 1971 except to say that the 1951 measures were introduced too late when they were no longer needed and the 1971 measures were introduced too early, long before rapid inflation set in. There was an outburst of inflation in 1950 after the outbreak of war in Korea and initial military defeats. But by 1951 the inflationary fever disappeared when people realized the limited nature of the Korean War. In 1971 the price increases were relatively small, and the government price controllers themselves appeared to disapprove of controls, which were gradually abandoned. Lack of success of these measures made price controls unusable in 1973-74, when prices began to increase rapidly.

After a period of rapid inflation in 1973-74, inflation subsided from 1975 to 1977, but beginning in 1978, double-digit inflation reappeared. In 1978 and 1979 the introduction of price control was urged by some experts, but President Carter did not follow their advice. Data obtained through survey research supported the President's position. The socio-psychological climate that prevailed at that time and still prevails today would have made it very difficult if not impossible to enforce a general price freeze. A sharper contrast could hardly be imagined than that between the climate during World War II and the late 1970s. While during the war, and also during the first twenty-five years after the war, optimism, confidence in the government and rising aspirations were the rule, in the 1970s people lacked confidence, were pessimistic, distrustful and skeptical.

It should not be inferred from what I just said about President Carter's policies that the measures he took against inflation were appropriate. Just because a general price freeze was not advisable, it does not follow that inflation could not have been fought more energetically. For instance, the price and wage guidelines could have been strengthened through penalties and primarily by granting tax advantages to those who adhered to the guidelines. But very little was done and the notion that the government was not only unable, but also unwilling to fight inflation spread across the country. Inflation came to be viewed as a permanent fixture of our age, expected to endure for many years.

TAX CUTS

An analysis of a rather different important measure of economic policy, the introduction of tax cuts, likewise yielded the conclusion that its success or failure depended on the public response to it. Together with my colleagues, I conducted extensive studies of the Kennedy-Johnson tax cut of 1964, by interviewing a panel of consumers several times in succession.

In 1962, when President Kennedy first proposed the tax cut, and during most of 1963, the majority of Americans agreed that it would be good for *them* to pay lower taxes but bad for the country. ("I'd like to pay lower taxes" and "The government can't afford it" were two frequent replies.) As late as in August 1963, the majority of respondents said that when the government had a budget deficit a tax cut was not feasible and therefore would not be passed by Congress. Only after the assassination of President Kennedy did new notions take hold. Many people began to accept the argument that a tax cut would serve to increase consumers' expenditures and therefore improve business conditions, generate additional income and, ultimately, larger tax payments to the Treasury.

Is it possible to make use of the experience of 1964 in 1981? There can be no doubt that the task has become much more difficult in 1981. This year the two-digit inflation persisted, while in 1964 the price level was practically stable. Equally radical were the differences in the psychological climate in which the economy functioned. The differences between the 1950s and 1960s on the one hand and the 1970s on the other were so substantial that we chose the title, *A New Economic Era* for a book that

analyzed the trends arising in the 1970s. It follows that the success of a tax cut in 1981 depends on reversing the beliefs and expectations of the 1970s. The conviction that inflation and stagflation would continue for several years must be changed before a new tax cut can hope to accomplish its goal of revitalizing the economy.

The new tax cut must catch the imagination of the people by being viewed as a new beginning, the start of an era of growth and renewed stability of the economy. A substantial, repeated, enduring, and equitable tax cut may be suitable to accomplish this goal.

I might add that the first and proximate effects of a tax cut appear, of course, on the demand side. But strong stimulation of the purchase of enduring goods such as one-family houses and automobiles would extend to the supply side as well. Increased demand for such goods is not necessarily inflationary because the construction and auto industries operate at present far below capacity. Of course, such demand would lead to increased borrowing because homes and cars are purchased on mortgages or the installment plan. Yet the tax cut itself is expected to stimulate increased saving in the form of additions to liquid assets, which are greatly needed to make larger business investment possible.

To be sure, specific measures that stimulate saving, for instance by granting tax advantages to savers, might also be needed.

HIGH INTEREST RATES

During the last two or three years, rising interest rates have resulted from major policies introduced by the Federal Reserve Board, intent on restricting the money supply. The Reagan administration apparently approves of the high interest rates policy. We all know that in 1980-81 the prime rate charged by banks to their leading borrowers exceeded 20 percent three times and that interest rates have recently fluctuated to a greater extent than ever before. This policy was introduced and carried out without conducting any research on people's predispositions and attitudes. Some research on reactions to high interest rates was conducted during the past several years by the Survey Research Center, which can be summarized briefly:

1. Interest rates are seen as business costs. Both large and small businesses are thought of making use of "other people's money." Businesses are believed to transmit their costs to their customers and ultimately to the consumers. Therefore rising interest rates mean rising prices and are seen as inflationary.

2. Interest rates are also seen as part of the cost of buying homes and autos because of their impact on the cost of mortgage debt and installment loans. The two largest purchases made by the American people are therefore inhibited by high interest rates. In the opinion of many people, recessions and unemployment are thereby promoted.

3. Rising interest rates make people expect further increases in the rates. At times, these expectations result in increased borrowing in order to get the goods before one is priced out of the market—and not in reducing the amount borrowed.

CONCLUSIONS

The major conclusion that emerges from my discussion may be summarized in the following general proposition: The more extensive and the more radical policy measures a government proposes, the more necessary it is to conduct social research and market research. If the Reagan administration were a "do nothing" government, it might dispense with social and behavioral research. In fact, there is hardly any area of government expenditures which Mr. Stockman, the Director of the Office of Management and Budget, proposed to cut more sharply than federal grants in support of social research. In some instances, the proposed cuts amounted to 75 percent of the fairly small expenditures for social research during the Carter administration. In opposition to these proposals, I want to emphasize that a government introducing major new economic policies is in great need of survey research in three areas: (1) research must be conducted to find out what the public predispositions and attitudes are before a new measure is introduced; (2) the new policy measures must be explained to the people and research is required to find out what the provisions are that must be explained and how they should be explained; and (3) after the measure has taken

effect, its impact on consumers and businesses must be continuously assessed. Such research is required because the public response to government policies is not automatic and is not necessarily in accordance with what the government intends to accomplish.

Research on people's predispositions and attitudes toward new economic policies of the government is, then, in many respects similar to market research conducted at the time of the introduction of new or improved products by business firms. Yet there also may be some differences between the two types of research. Moral suasion, or persuasion in general, does not suffice to change the socio-psychological climate. Persuasion alone would fail because people must understand how and why economic policies would have beneficial results. Such understanding is not brought about by simple oft-repeated assertions that inflation will slow down or that prosperity is around the corner. The current economic attitudes and expectations were acquired and learned by Americans in the late 1960s and early 1970s under the impact of new adverse experiences. What has been learned cannot be unlearned. But it can be changed by the acquisition of new experiences. Today such new experiences are needed more than ever.

BIBLIOGRAPHICAL NOTE

Some of the concepts discussed in this article have been published before. See the following publications by George Katona:

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