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PROTECTING THE CONSUMER:

-- A SPECIAL MESSAGE --

**To Members of the Sixty-third Legislative Session
by
Governor Karl F. Rolvaag,**



Tuesday, April 23, 1963

Consumer Affairs

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**Mr. Speaker, Mr. President, and Members of the
Sixty-third Session of the Legislature of the
State of Minnesota:**

A free market economy depends, for the proper allocation of its resources, upon competition among producers and sellers for the business of an informed buying public. To the extent that consumers are prevented from making reasonable, informed choices by deception, concealment, fraud, or lack of education, the proper working of the market is impaired and money is diverted from the deserving into the hands of the unethical, the shabby, the inefficient, and the incompetent. Reliable sources estimate that millions upon millions of dollars are so diverted each year.

Our society requires of a citizen that he or she spend a quarter or a third of a lifetime preparing to earn a living. Great sums of tax monies, private contributions, and personal funds are spent to insure that today's citizen becomes a trained earner and producer.

However, we spend a great deal less effort concerning ourselves with the other side of the economy. We are all consumers, all members of the buying public. We are the "voters" in the economic election that is a free market. To the extent we vote intelligently, the workings of competition will insure that the producers of the best goods at the fairest prices, in

other words, the fittest, will survive; to the extent we are prevented from making educated choices, the bad may force out the good, to the detriment of all.

PURCHASER HAS INHERENT RIGHTS

In most areas, the proper way to solve consumer problems is to educate the consumer; there are, however, other areas where the complication of the problem, or the peculiar nature of the consuming public involved, makes it necessary for the state to protect the consumer.

There are several consumer rights, recently enunciated by President John F. Kennedy, which a well governed society should respect and protect. These are the right to safety from physical and mental harm, and from impositions through fraud; the right to make rational choices based on knowledge; and the right to be heard.

THE RIGHT TO SAFETY

There are before the legislature at this time a number of important measures designed to advance consumer interests and protect consumer rights. Several are designed to insure consumer safety in areas where technical specialization and the makeup of society make him relatively helpless to defend himself.

Trade Schools - S.F. 1016 and H.F. 1176 will codify and strengthen the laws regulating private, profit-making trade and correspondence schools. While many of these schools do a fine job of educating our youth, some have been a great source of concern to educators throughout the state; and legislation designed to curb the evils which have arisen deserves your earnest consideration.

Leases - Another bill, H.F. 1439, will expand the debt proration agency licensing law, in order to curb abuses which have arisen among these agencies.

Real Estate - S.F. 706 and H.F. 781 will require persons selling subdivided real estate, both inside and outside this state, to register with the Commerce Commission before selling in Minnesota. This bill is aimed at a well-known and widespread evil which has arisen in recent years, in which persons are being tricked into buying pieces of desert, swampland, and lake bottom in contemplation of retirement.

Dance Instruction - Another imposition upon our consumers which has grown up, and which was brought out in a recent federal mail fraud indictment in Minneapolis, involves the area of dance school instruction. It has been found that consumers are being "taken" for sums of money as high as seven and eight thousand dollars by glib-tongued, high-pressure salesmen for dance studios, who prey upon the lonely, the widowed, and the friendless, and induce them to sign contracts for dance lessons far in excess of their needs or their true desires. S.F. 682 and H.F. 707 are specifically designed to put an end to this type of practice by imposing a \$500 limit on the amount of contracts any person can sign for dance lessons at any given time.

THE RIGHT OF RATIONAL CHOICE

Referral Selling - Among measures designed to advance the consumer's right to make rational choices, I include such legislation as S.F. 847 and H.F. 904, designed to curb so-called "referral selling," wherein consumers are lured into believing they will receive expensive pieces of merchandise for nothing, in exchange for submitting the names of their friends to the seller as possible customers. Instances have been reported wherein this vicious and insidious practice has caused people to assume debts of eight

or nine hundred dollars, under the impression that the salesman was really only an advertising man, and that they would never have to pay for the merchandise. The continuance of this type of unethical sales practice diverts a great deal of money from legitimate businessmen, and to that extent injures the whole competitive structure of the direct selling field.

Consumer Fraud Bill - I also heartily endorse S.F. 408 and H.F. 322, the consumer fraud bill, which is designed to expand the powers of the state to deal with fraud, deception, and misrepresentation in connection with the sale of merchandise. This bill has unanimously passed the Senate, and deserves immediate attention in the House. While at the national level the Federal Trade Commission does a reasonably adequate job of controlling anti-competitive deception, the intrastate practice of fraud has grown into a field of great profit and great damage both to individual citizens and to honest businessmen.

Simple Interest - Also designed to enhance the consumer's right to make rational choices is legislation to require the statement of a simple interest rate figure in credit transactions. Owing to the existence of bracket interest rates, complicated credit plans, and the like, it has become virtually impossible for the consumer to discern whether credit is being extended to him at the lowest obtainable price. To the extent that consumers are prevented from making this rational choice, monies are diverted from efficient, low-cost lenders into the hands of high-cost lenders, and thus away from the purchase of more consumer goods. Further, consumers are induced into situations where they cannot cope with their mounting burden of debt, producing bankruptcies and other evil effects. Permitting lenders to practice what is in effect price concealment, is contrary to the theory and practice of a price-competitive economy, upon which this country was built, and upon which its prosperity depends.

THE RIGHT TO BE HEARD

Consumer Counsel - Legislation designed to protect the third right of the consumer, the right to be heard, has been introduced as H.F. 34, to create the office of consumer counsel, with the duty of advising the executive branch, the legislature, and the public on issues important to consumers.

I think that if we were to speak frankly among ourselves, we would have to admit that on many issues of great public importance, the only voices we hear are the voices of the lobbyists for interested private parties. Creation of the office of consumer counsel, which has enjoyed great success in California, would help alleviate this problem, and give those of us who are charged with the responsibilities of government an additional source of valuable information upon which to base our conclusions.

CONSUMER, BUSINESS INTERESTS ARE PARALLEL

It is all too often the case that businessmen feel apprehensive when consumer legislation is presented. This is unfortunate. The interests of consumers and businessmen parallel far more often than they diverge.

Five of the bills I recommend, those dealing with private trade schools, debt proration agencies, dance schools, referral selling, and consumer fraud, were produced by the Consumer Protection Advisory Council, appointed by Attorney General Mondale. This council included attorneys, trade association executives, heads of Chambers of Commerce, businessmen, labor leaders, and legislators, all of whom were able to find common ground in meeting these problems.

Passing these bills will not require significant increases in state expenditures. Some of them are, in fact, self-enforcing. Each will be of great benefit to the public, and each deserves bipartisan support. I strongly recommend that these measures be adopted.