CFAnews

May 1981
Volume 6
Number 4

CFA
Consumer Federation of America

Inside This Issue . . .

Consumer Federation of America extends an invitation to an evening of Commemoration and Revelry

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The Eleventh Annual Awards Dinner Salutes . . .

Senator Henry M. Jackson
Congressman Toby Moffett
Evelyn Dubrow, *Vice President, ILGWU*
Lea Thompson, *Consumer Reporter, NBC/WRC TV*

With Special Recognition for efforts on behalf of the FTC . . . Bob Packwood

Monday, June 15, 1981
Capital Hilton Hotel

Variable Rate Mortgages:

Playing the Numbers Game

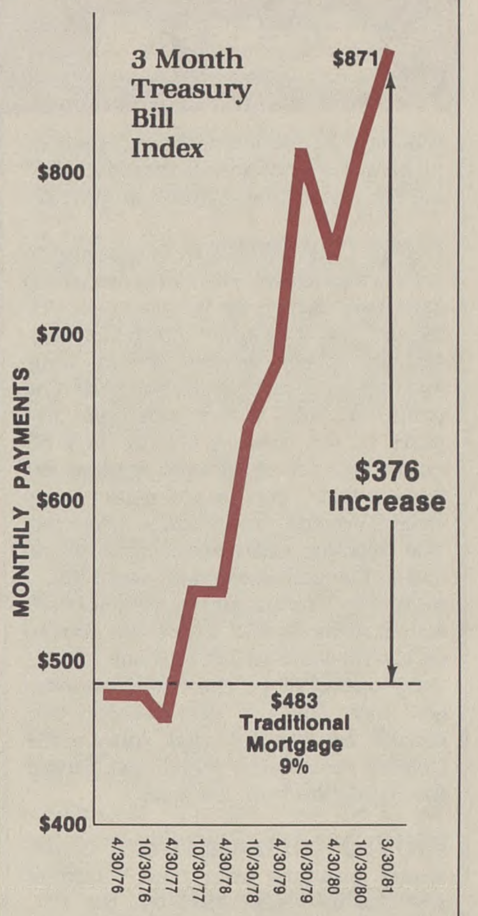
The Consumer Federation of America strongly attacked the recent decision by the Federal Home Loan Bank Board permitting savings and loan institutions to offer adjustable rate mortgages. "The FHLBB rule could have a profoundly negative effect on the economy," said CFA Director of Governmental Affairs Jim Boyle. "But the most devastating effect will be on homeowners who now will have no means by which to predict future mortgage payments."

A consumer impact analysis of the new floating rate rule prepared by CFA shows monthly mortgage payments can increase by over $350 in just a few years. The study also demonstrates the wide variance of monthly payments depending upon which of the four recommended indices the mortgage rate is linked. According to the CFA analysis, there would have been a $389 variation in monthly payments on a $60,000 mortgage from 1976 to the present if the interest rate was tied to a three month Treasury Bill, but only a $117 variation if the mortgage had been tied to the FHLBB's Cost-of-Funds rate.

Playing Roulette with Your Home

Consumers will come under increasing pressure to finance their mortgages through a variable rate loan as savings and loan institutions attempt to build up their industry's sagging profits. The interest rate on such an adjustable mortgage loan will be tied to the movement of a single specified index, with no limitations on the amount by which the lender may adjust the payments at any one time within the index's constraints, or any limitations on the frequency with which the payment is adjusted. There is also no upper limit on how much the the life of the mortgage. Nor is there any requirement to lower the rate if the indice falls.

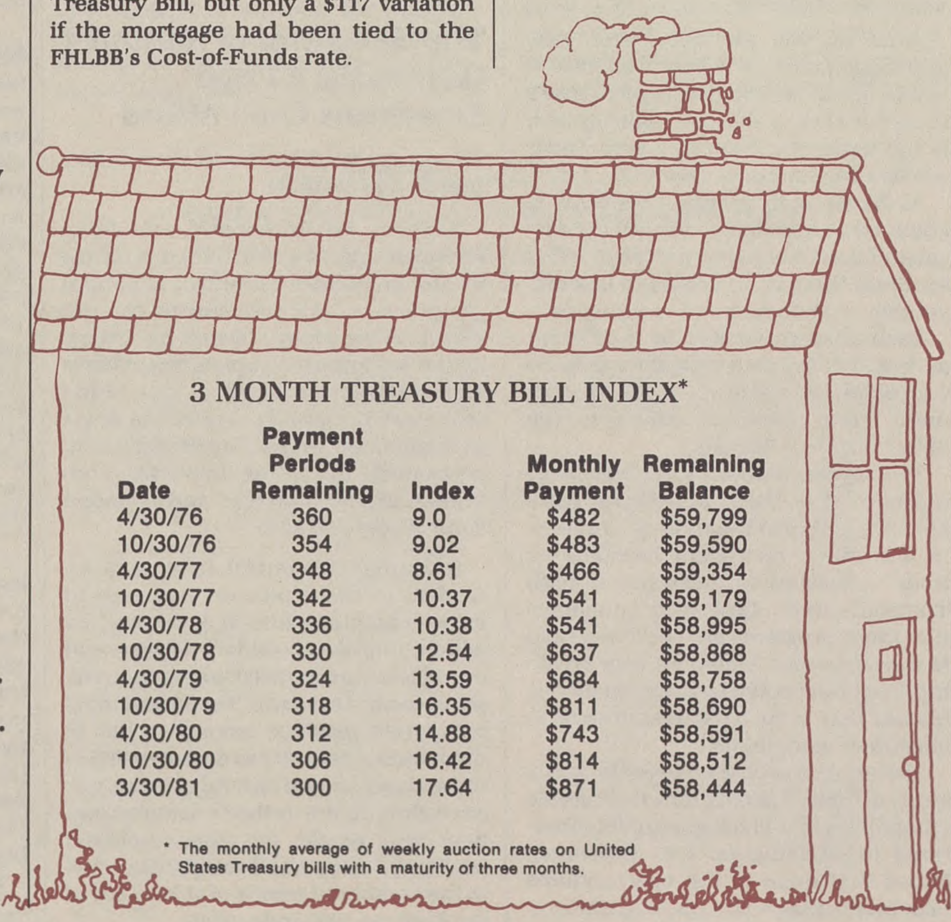
"Consumers won't know how much their payment will increase or when it will increase," Boyle said. "Given the wide variations between indices and an unlimited mortgage rate, buying a home may become like a numbers racket. If you bet on the right index and the right company, you may win. But if you bet wrong, you won't be losing just a few dollars, you might well loose your home."



Dire Consequences

The Board's rule will also pre-empt state usury ceilings on interest rates, Boyle pointed out, allowing savings and loans to charge interest on interest. "This creates a situation in which the stress of high interest rates on industries such as housing and automobiles, coupled with consumers' inability to meet rising mortgage payments, could mean massive foreclosures. Americans could be forced to suffer further recession and unemployment. And because the savings and loans will be reluctant to make loans to households whose incomes and homes might not appreciate fast enough to pay the accruing interest, the rule will bring back massive redlining and lock a large part of the population out of home ownership."

CFA is supporting Congressman Fernand St. Germain's (D-RI) investigation into adjustable rate mortgage instruments. Boyle will testify late this month before hearings St. Germain has called as chairman of the House Banking Committee.



3 MONTH TREASURY BILL INDEX*

Date	Payment Periods Remaining	Index	Monthly Payment	Remaining Balance
4/30/76	360	9.0	$482	$59,799
10/30/76	354	9.02	$483	$59,590
4/30/77	348	8.61	$466	$59,354
10/30/77	342	10.37	$541	$59,179
4/30/78	336	10.38	$541	$58,995
10/30/78	330	12.54	$637	$58,868
4/30/79	324	13.59	$684	$58,758
10/30/79	318	16.35	$811	$58,690
4/30/80	312	14.88	$743	$58,591
10/30/80	306	16.42	$814	$58,512
3/30/81	300	17.64	$871	$58,444

* The monthly average of weekly auction rates on United States Treasury bills with a maturity of three months.

Now You See It, Now You Don't

Whatever happened to those consumer protection regulations undertaken during the Carter years? Here's an update.

Used Car Rule: In an attempt to avoid a showdown with Congress, which gave itself veto power last year over FTC regulations, the Federal Trade Commission effectively rejected its own long-awaited used car rule in mid-April. The proposed rule, which had been five years in the making, would have required used car dealers to disclose defects in their vehicles and state plainly what warranty protection is provided. The rejection came when none of the four other commissioners seconded a motion by Commissioner Michael Pertschuk, formerly FTC Chairman, to vote on the measure which had been tentatively approved by the commissioners last May. The FTC non-decision was lauded by the National Automobile Dealers Association which has fought the regulation from the start.

KidVid Investigation: Under strong pressure from both Congress and the television industry, the FTC staff formally recommended that the Agency abandon its investigation of TV advertising aimed at children. Although the staff conceded there is evidence that such advertising is a "legitimate cause for public concern," they said a ban is not practical. The staff did recommend that broadcasters and advertisers increase voluntary educational information about nutrition. While the National Association of Broadcasters was "delighted" by the "reasonable recommendation," Action for Children's Television (ACT) President Peggy Charren attacked the recommendation and promised stepped up action in "our battle against deceptive advertising aimed at children." Public comment on staff recommendations is open until June 8.

Patient Package Inserts: After more than a decade of involvement with patient package inserts and active lobbying from numerous public interest groups including CFA, the Food and Drug Administration last fall instituted a pilot PPI program to provide patients with written information concerning the safe and effective use of prescription drugs. The FDA said at that time that "the availability of patient information will translate into tangible health and economic benefits for the consumer." But despite deadlines set in already-finalized FDA regulations for manufacturer distribution of PPIs, the FDA began notifying drug companies in February that they need not comply with the deadlines. Public Citizen and two other groups brought suit in April to force distribution of the PPI, accusing the Department of Health and Human Services of being more responsive to the interest of the drug industry than to the health needs of the American public.

News Bulletin

As this issue of *CFAnews* goes to press, Congress is taking further action on consumer programs.

Consumers' Ed: In a surprise move that could wipe out the national program for consumers' education, the Senate Appropriations Education Subcommittee has cut all of this year's funding for the federal Office of Consumers' Education (OCE). Grassroots support is urgently needed.

CPSC: Despite strong White House pressure, the Senate Commerce Committee has reauthorized the Consumer Product Safety Commission for two more years and struck a provision for a legislative veto over agency actions. The Committee did, however, approve the Administration proposal to cut the CPSC budget by 30%.

Food Stamps: At least 1 million food stamp families will be cut off from benefits and millions more will have their food stamp benefits reduced under legislation approved by the House and Senate Agriculture Committees.

A Giant Ste Backward

The Consumer Federation of America has joine coalition of eleven national and local public interest g in the Washington, D.C. area to fight the removal of indi item prices at Giant Food supermarkets. Giant Foods, the first major supermarket chain in the country to re prices from grocery items in all of their stores.

Consumers who recently gathered for a demonst outside a local Giant supermarket were vocal in opposition to the move, calling it misleading and dec "Giant is telling consumers that their choice is item p or lower prices and this just isn't true." said CFA Legi Assistant Ken Barcus, a coalition leader. "According to G own estimates, its potential savings are miniscule an have never promised to pass those savings on to consu

Consumer leaders at the demonstration urged a b of Giant Stores until item prices are restored. They call removal of prices an assault on overall consumer consciousness which will cause consumers to suffer i main areas:

- checking product prices when shelf tags are
- comparing the costs of similar items not on t
- checking scanner accuracy at the checkout
- comparing item prices and budget costs at h

Barcus sharply criticized Giant's attempts to co prices is synonomous with lower prices. "Giant h promising lower 'warehouse prices' concurrently wi "This is the ultimate in misrepresentation. While Giant prices on others. Even the reduced items can be obtain

The explanation for Giant's lower prices on some i they admit the lower prices are really contingent on vo price."

Barcus concluded: "We hope the rest of the grocer item pricing as a way for consumers to make intellige

on the BOOK SHELF

No Access to Law

Laura Nader, Editor

What do you do when your new appliance fails to work as it should? If you're like most Americans, you write a complaint letter. This complaint system is the topic of a book by Laura Nader entitled *No Access to Law*.

As Nader aptly states, "this book is about what Americans do with their legal problems when they perceive... that for them there is no access to law and yet they wish to respond to injustice."

Each chapter, written by a different author, focuses on a type of remedy for consumer complaints—from department store consumer offices to the Better Business Bureau.

Two articles, written by CFA legislative representative David Greenberg, highlight the complaint-handling problem. In a study of complaint handling by trade associations, co-authored with Thomas Stanton, Greenberg concludes that these programs are of no real help to the consumer. Moreover, they create the illusion accepted by government regulators that industry is responding to consumer complaints.

The second article by Greenberg is a study of three organizations that handle complaints in a black ghetto neighborhood in Washington, D.C. Greenberg found that none of the organizations effectively resolve complaints. Unfortunately, "complaint handling serves the needs of ghetto stores, the social agencies, and the city departments rather than those of low-income people." Greenberg concludes that for the consumer to improve his or her position, what is needed is a shift in the balance of power and this requires political change.

In an overview of the articles, Nader suggests another reform—opening the doors of access to law. "It is only when there is the real possibility of using the force of law that the extrajudicial, third party complaint handlers will work—from the complainant's viewpoint."

—John J. Tomko

No Access to Law *is available in hardcover ($27.50) and paperback ($12.95) from the publisher: Academic Press, Inc., 111 Fifth Avenue, N.Y., N.Y. 10003.*

The Decontrol of Natural Gas Prices: A Price Americans Can't Afford

Energy Action Educational Foundation Report and Analysis

Authors Ed Rothschild and Mike Podhorzer place a $600 billion price tag on the immediate decontrol of natural gas prices—a price Americans can not afford. Their report, issued by Energy Action, is the most complete quantitative and descriptive analysis to date of the four most discussed gas price scenarios in Washington: immediate deregulation; accelerated decontrol, 1981-1985; continued controls until 1985, and extended controls beyond 1985.

Immediate Decontrol. In most cases, readers of the report do not have to guess which scenario is supported by which interests. President Reagan and big oil support the $600 billion immediate decontrol scenario. The 20 largest oil companies produce more than half of the nation's natural gas and own 60% of the nation's known natural gas reserves. According to the author's calculations, decontrol would put the combined profits of the top 12 oil companies equal to the combined profits of at least 900 of the Fortune 1000 industrials.

Accelerated Decontrol. The ulcers of industrial and commercial users (utility companies included) nag a bit at oil's $600 billion price tag, of which they would pay $441 billion in added fuel, feedstock, and processing costs. But because of interlocking relationships with parent oil, or as Petroleum Club groupies, the pipelines, distributors, and failing auto and steel industries seem to be soothed by talk of a compromise position. Rothschild and Podhorzer report that during the period 1981-1985, accelerated decontrol will cost Americans $370 billion, out of which industrial and commercial users and utility companies would be paying $260 billion. Given the silence of industrial users in Washington, that does not seem to bother their ulcer as much as the decontrol proposal.

Continued Controls until 1985. Legislatively, this is where the U.S. stands today with natural gas pricing. Under the Natural Gas Policy Act (NGPA) of 1978, prices gradually rise until decontrol in 1985. The support for this position comes primarily from well-meaning political strategists who hope the voice of the status quo can be projected over the clamor of Reagan's rantings to "get government off people's backs."

But this position is deceiving. Energy Action demonstrates that starting with the average wellhead price in 1981 of $1.80 per mcf, the price in 1985 under NGPA will have reached $8.80/MMBTU. Chase Econometrics' forecast released

CFAnews

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demonstration vocal in their and deceptive. is item pricing CFA Legislative rding to Giant's scule and they o consumers." rged a boycott They called the nsumer price o suffer in four

Photo by Anne Averyt

tags are misaligned, missing or obscured

not on the same aisle (*e.g.*, frozen, fresh, canned corn)

heckout counter

costs at home

ts to convince consumers that the removal of item 'Giant has been running an advertising campaign ently with its removal of item pricing." Barcus said. ile Giant has lowered prices on some items, they raised be obtained at a lower price at a real warehouse store." n some items, Barcus said, "is buried in their ad where ent on volume sales—the more you sell, the lower the

he grocery industry will resist this move and maintain intelligent food shopping decisions."

in the April 13 issue of the *Oil and Gas Journal* shows a similar significant jump. Quote: ". . .if no changes are made in the anticipated decontrol of new gas by Jan. 1, 1985, the price of new gas will increase to $7.90/MMBTU . . . ."

Extended Controls. As the other side of the coin to immediate decontrol, this last scenario is the public interest model.

Under immediate decontrol, consumers will be paying $600 billion more than under extended controls; under accelerated decontrol, consumers will be paying $370 billion more than under extended controls.

In a sequel to the report reviewed here, Rothschild and Podhorzer have translated accelerated decontrol and NGPA figures into increases in utility rates.

Accelerated decontrol could raise the average American family's utility bill from $505 in 1981 to $940 in 1982—an increase of 86 percent; NGPA, if followed strictly, could increase the yearly utility bills to $575—an increase of 14 percent. After a seige of double-digit inflation, consumers should look long and hard at extending controls to keep prices where they are, the authors conclude.

—Ann K. Lower

Copies are available for $5 from Energy Action, 2000 P Street, NW, Suite 310, Washington, DC 20036.

Contact a Congressman for Consumer Education

The U.S. Office of Consumer's Education may disappear unless individuals send a clear message to Congress that the program is vital. That is the assessment of CFA Director of Governmental Affairs Jim Boyle who is leading lobbying efforts on Capitol Hill to retain the program.

Boyle, a steering committee member of the Coalition for Consumers' Education, said: "Only if people around the country rally will we be able to save consumers' ed and to expand that program later on."

The House Appropriations Committee has already cut this year's funding for the national Office of Consumers' Education (OCE) by 25 percent and similar cuts are expected from the Senate. The 25 percent recission will mean a 50 percent cutback in grants awarded by OCE this year.

All-Out Assault on OCE

More severe cutbacks or the possible elimination of the Office of Consumers' Education may come when the authorization committee of Congress meet in the next few weeks to consider the fate of OCE in FY'82 and FY'83. The appropriations committees of Congress set the amount of funds for every Federal program, but they work from recommendations submitted by the authorization committees which describe the functions of each program and set limits on the amount of funds to be appropriated.

The authorization bill (S-1103) soon to be considered in the Senate for the Department of Education contains no provision for the Office of Consumers' Education. If the program is not authorized, no funds can be appropriated for it.

"Eliminating OCE would mean not only the end to a national program for consumers' education, but the effective end to many existing grassroots program," Boyle said.

Turning the Tide

The Coalition for Consumers' Education was formed in March to oppose any cutbacks in OCE. Directed by a broad-based steering committee, the Coalition now has more than 700 members and is mounting a letter-writing and telephone campaign to key members of the Congressional authorization committees. "Our efforts have been aimed at keeping OCE alive at the authorization stage, hoping that the appropriations committees will then vote the funds requested without further cuts." Boyle explained.

"We are at that crucial stage right now. There has already been a tremendous response in support of the Coalition's efforts, but it is essential to broaden that response," he said. "We need many more people to contact these committee members to drive home the importance of consumers' education. The writing campaign is essential to tip the scales in favor of continued funding for OCE."

Join the Effort

Boyle concluded: "The Department of Ed proposal to kill OCE comes at a time when consumers are faced with double-digit inflation and are being asked to more and more stand on their own two feet without government assistance. Consumer information is essential to them, and consumer ed programs are the only way for them to get that information."

If you would like to join the effort to save consumers education, fill out the following form and send it to: Ken Barcus, Coalition for Consumers' Education, 1314 14th Street, Second Floor, Washington, D.C. 20005.

☐ Yes, I want to help. Send me more information.

Name: ____________________

Address: ____________________

City & State: ____________________

Zip __________ Telephone __________

Organization: ____________________

Congressional Representative:

____

Playing Politics with Lives

The health and safety of American consumers is in limbo as Congress toys with the future of the Consumer Product Safety Commission (CPSC). Congress was given a direct mandate by the Reagan Administration to curtail the Commission, leading to charges from CFA's CPSC Coordinator, Ron Wainrib, that the Administration "is playing politics with avoidable injuries and deaths in attempting to dismantle the CPSC."

Congress is now considering a number of possibilities for the future of the agency ranging from an Administration proposal for severe cutbacks in the CPSC budget to removing the independent status of the Commission by moving its jurisdiction into the Commerce Department or the Federal Trade Commission. Congressional action on the CPSC is expected by early summer.

As part of its efforts on behalf of the CPSC, CFA has compiled a chart of the agency's accomplishments which demonstrates its tremendous impact on consumer safety. "CPSC saves an estimated 2,135 lives each year and avoids an estimated 286,680 injuries yearly. Almost half of these would have affected children," Wainrib said. "The Administration's proposal to slash the CPSC budget by 30% and its staff by 25% will save the government an amount equal to the Defense Department's budget for one hour. But such a punitive action will render the CPSC a crippled agency, and increase consumer costs for medical treatment by a far greater amount than the budget cut will save."

Achievements Chart on the Consumer Product Safety Commission[1]

Deaths and Injuries Estimated
By Item Or Agent

Item/Agent	Type of Standard	Deaths Avoided/ Yearly	Injuries Prevented/Yearly
Toys: points, small parts	Recalled	6	31,000
Cribs	Mandatory Design	50	1,000
Scalding (Children)	Voluntary	18*	3,200*
Child-resistant caps	Mandatory	40	65,000
Strollers	Voluntary	—	8,000*
Gas-vented Space Heaters	Mandatory	50*	
Hot Water Scalds (Elderly)	Voluntary	18	5,400*
Tris	Ban	500**	
Benzene	Ban	600**	
Asbestos	Ban	680**	
Lawnmowers	Mandatory	—	60,000*
Ladders	Voluntary	39	45,570*
Bathtubs/Showers	Voluntary	134	66,310*
Playpens	Voluntary	—	1,200*
TOTALS		2,135	286,680

1. This report has been prepared by Consumer Federation of America. All Standards that have been included have been either promulgated and/or implemented during the period 1973 through 1980.
* Figures are projections from both emergency and non-emergency room reports.
** Cancers eventually resulting in death.

Cost-Benefit Analysis Takes a Plunge

by John J. Tomko
Legislative Aide

Cost-benefit analysis is like a bikini—what it reveals is suggestive, but what it conceals is vital. The Reagan Administration relied on cost-benefit analysis to support its recent proposal to relax or eliminate 35 air quality and safety regulations for cars and trucks. Yet in the case of passive restraints, the administration failed to consider one vital element—human beings.

By September 1, 1981, all big cars were to have been equipped with automatic restraints—airbags and automatic seat belts—which do not require conscious effort to be made to work. Now, the National Highway Safety Administration has decided to delay for a year the introduction of the automatic restraints in large cars and re-evaluate the entire auto restraint standard.

Restrained Analysis

On one side of the ledger are the so-called benefits of relaxing the government's mandate for passive restraints. The Transportation Department contends that the delay will free badly needed capital to help treat the ailing financial health of the American automobile industry. The Highway Administration estimated that the delay would save $105 in consumer costs per car and permit the manufacturer to defer $30 million of capital investment in automatic restraint systems.

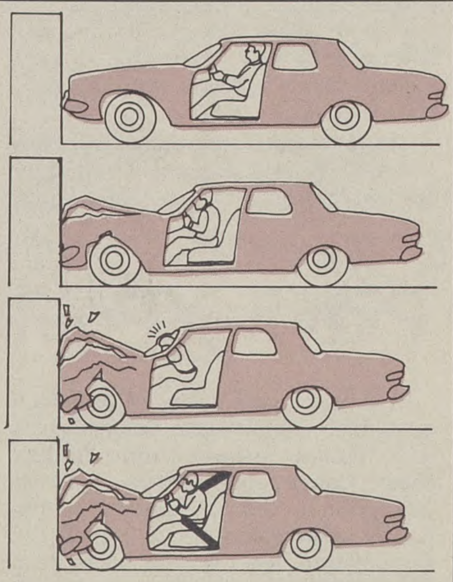
On the other side of the ledger are the costs of the delay. The Transportation Department's own analysis indicates that the postponement would result in approximately 600 additional motor vehicle deaths and 4,300 more injuries than would occur under the current schedule.

Yet when announcing the delay, Transportation Secretary Drew Lewis described the loss of safety benefits as "negligible." He noted that the re-evaluation of the automatic restraint rules might even enhance safety in the long run.

The rest of the story becomes clear as one examines the findings of two cost-benefit studies of passive restraints not cited in the official government figures.

Multiplying Costs

Robert Vinetz, Chairman of the Transportation Hazards Committee of the Southern California Chapter of the American Academy of Pediatrics, used Lewis' own estimate of the death and injury toll from a one year delay and a DOT formula to compute subsequent costs. He calculated that when medical costs and the price of lost wages and productivity for accident victims are totaled, the delay will end up costing approximately $4.5 million. The actual price would be far greater, Vinetz contended, since medical costs are escalating with stunning speed and may go up as much as 500% during the lifetime of the big cars that will be sold without restraints.



Even more revealing is a study by Yale Professor William Nordhaus, financed by five large insurance companies. Nordhaus concluded that delaying the passive restraint rules would eventually cost five times what it would save—a differential of about $200 million. If passive restraint requirements for all car sizes are delayed until 1985, the eventual net cost would be approximately $4.5 billion.

These savings can also affect insurance costs, for many insurance companies currently offer a 30 percent annual discount for owners of cars with passive restraints. Nordhaus calculated that the savings in lower insurance premiums could exceed $200 during the life of the cars—two to three times the costs of restraints.

And what about the financial health of the American automobile industry? Nordhaus concluded that the estimated impact of the proposed delay on the automobile industry is "miniscule." Overall, he expects there to be little or no improvement in the health of the automobile industry from the delay proposal.

The Final Count

The bikini theory of cost-benefit analysis is at best inadequate. In the case of passive restraints it was used to suggest so-called economic benefits, but, in reality, it concealed the far greater human and economic costs of delay.

Carving Up the Food Stamp Program

The House and Senate Agriculture Committees are now concluding work on food stamp legislation that could well bring back hunger to millions of American families, according to CFA Food Specialist Joanne Weistling. "The Reagan Admionistration's proposed cuts of nearly $2 billion were devastating enough," said Weistling, "but they will be more than doubled if a bill sponsored by Senator Jesse Helms is approved. The Republicans have promised that the 'truly poor' will not be affected by budget cuts. But these proposals to slash food stamp benefits by up to 40% make a mockery of that promise. What the Republicans are doing is taking food from the tables of the poorest American families."

The food stamp subcommittee of the House Agriculture Committee adopted a bill in late April which cuts benefits by $1.3 billion, more than the $1 billion cut recommended by the House Budget Committee, but far less than some subcommittee members wanted. Deeper cuts are expected when the full committee takes up the final bill in early May, including a reinstatement of the Reagan Administration proposal to reduce stamps for families whose children receive free school lunches. That proposal was rejected by the subcommittee in its mark-up of the bill.

Even greater difficulties are expected in the Senate. The Helms (R-SC) proposal includes reinstatement of purchasing requirements which were eliminated in 1977. At that time families were required to spend 26% of their net income to buy food stamps. The Helms proposal for a 33% expenditure of net income to buy food stamps "will force the very poor out of the program altogether," warned Weistling. Testifying before the House subcommittee in March, Weistling attacked the cash requirements as "devastating," and added they "will create a new administrative nightmare to enforce, requiring another government bureaucracy whose sole purpose is to collect money." She also warned of increased administrative errors, dual issuance systems and soaring administrative costs which would offset any budget savings stemming from the cash requirement.

A study by the Congressional Budget Office confirms the debilitating impact of the proposal. Benefits would be cut by 40% and at least 4 million recipients would be unable to buy the food stamps. The greatest impact would be on the rural poor, but the elderly and single mothers on welfare would also be adversely affected.

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