



# CFA news

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## After Gulf War, Congress Turns to Home Front

If the lessons Americans learned from the Persian Gulf War are that "we can get into a war on the cheap" with "absolutely no sacrifice on the part of the American people," we have learned the wrong lessons, Sen. Paul Simon (D-IL) said in a Consumer Assembly '91 luncheon address.

"That is wrong economically, because the cost will be added to the deficit, and it is infinitely wrong socially," because pressing domestic problems will go unsolved as a result, he said.

At some point in the next two years, he said, interest on the debt will become for the first time in the nation's history the number one expenditure of the federal government. "To spend an increasing percentage of tax dollars on interest rather than on goods and services just doesn't make sense," he added.

Speaking one day after the president delivered his address to the nation at the end of the war, Sen. Simon took the president to task for failing even to mention the deficit or health care among his domestic priorities. With 31 million people, according to the most conservative estimates, without any health insurance, and perhaps 70 million more who are underinsured, "we have to do better in this country," he said.

Sen. Simon said another priority is campaign finance reform. "Why are we the only country among developed nations where one-fifth of the children live in poverty?" he asked. "I think it is because we are much too responsive to the affluent rather than to those in great need," he said.

### President's Energy Plan Panned

He also criticized the president for failing to put forward meaningful proposals in the area of education and energy. "We do not have an energy plan, and if we adopted the president's plan, which I



Sens. Paul Simon (left) and Richard Bryan discussed the implications of the Gulf War for U.S. domestic policy.



it would also help to reduce the trade deficit.

He said he believes the war has created a narrow "window of opportunity" in which to get the bill passed before the public's memory of the war fades.

"If the president were as bold and courageous on the energy front as he has been in fashioning a policy on the Middle East, I think we could do it," he said. "Unfortunately, the national energy policy that was unveiled, in my view, falls far short of what needs to be done."

### Public Supports Conservation

Public opinion analyst Earl L. Taylor, Vice President of Cambridge Reports, Inc., said that the public increasingly believes that increased energy efficiency and conservation are the answer to the nation's energy problems.

In 1989, 46 percent said it was more important to protect the environment than to develop new energy resources. By 1990, that number had risen to 70 percent, and it only dropped to 66 percent after Iraq's invasion of Kuwait.

Rather than dismiss the president's energy plan out of hand, "what we as consumer advocates and as citizens need to do is mobilize the American consumers on energy policy, as an issue that comes from the grassroots up to the federal government," said William A. Spratley, Ohio Consumers' Counsel. The message must be sent that energy efficiency and renewables should be the centerpiece of our policy, he said.

Larry Hobart, Executive Director of American Public Power Association, agreed, saying that "energy efficiency and environmental protection are inseparable."

"The United States should have alternatives to war as a means of preserving our energy security and economic well-being," he said.



would not vote for, we would still not have an energy plan," he said. "Conservation works, and we are doing almost nothing about it."

In another keynote address, Sen. Richard Bryan (D-NV) echoed that sentiment, saying that "conservation has to be part of a national energy policy." Emphasizing that he had voted in favor of the use of force, Sen. Bryan said "clearly our dependence on oil is a reason that in part caused our involvement in the

Persian Gulf."

In an effort to increase conservation, Sen. Bryan has introduced legislation to raise Corporate Average Fuel Efficiency (CAFE) standards to 34 miles per gallon by 1996 and to 40 miles per gallon by 2001. Such a standard would save ten times as much oil as drilling in Alaska's Arctic National Wildlife Refuge would produce. "Not only does it make good energy sense, it also makes good sense in terms of the environment," he said, adding that

## Consumerism Takes Root in New Democracies

The consumer movement is taking root in emerging democracies around the globe, but it faces tremendous obstacles, and American consumers have a responsibility to support its growth, Rhoda Karpatkin, Executive Director of Consumers Union, told a Consumer Assembly general session audience.

Karpatkin and Grada Hellman, Director of International Organization of Consumers Unions' Regional Office for Europe and North America, described the state of the consumer movement around the globe.

In Western Europe, the consumer movement is thriving, Hellman said, working

on a list of concerns similar to those here: food safety, financial issues, health, and the environment.

In Eastern Europe, however, where regimes are in transition, consumers are struggling with worsening poverty, product shortages, terrible pollution, serious unemployment, homelessness, and a whole range of new "shoddy selling practices," Karpatkin said.

There is no set of laws or regulations for consumer protection, she said. "Worse, there is no history of citizen participation in economic and political processes on which to base development of good legislation."

With so many problems, it is important to have "a consumer voice as they get solved," Karpatkin said. "The consumer organizations must participate in development programs and in the process of development in order to promote more appropriate use of resources, more equitable distribution of the fruits of the market process."

They also must help to promote and develop the democratic process in these countries, she said. As one of the first organized movements with global links, consumers can provide a "demonstration of how a good, democratic political process can work."

American consumers, in turn, need to be aware of what the rest of the globe is like, she said. We need to ask about the global impact of U.S. government and corporate policies, and "take a look at what is the global cost of the well-being of American consumers."

The protections we have in this country should be extended elsewhere. "There should be no double standard when it comes to safety and decency," Karpatkin said. "Consumers should be beneficiaries, not victims."

## Critics Fault Advocates' Misplaced Priorities

In a Consumer Assembly panel discussion assessing the consumer movement, a consumer reporter, an insurer, and an academic criticized advocates for misplaced priorities.

Award-winning ABC reporter Roberta Baskin and State Farm Associate General Counsel Herm Brandau found greatest fault with the public messages of some advocates that are communicated through the news media.

Baskin began by stressing that "we all need to work much harder in terms of picking the right issues." She suggested, for example, that the consumer movement had focused too much attention on Alar in apples and too little on the lead poisoning of children. Brandau said that one of the greatest misplaced priorities of the movement is its "unwillingness or timidity... to confront the problems of the civil liability system."

Baskin also emphasized that "you've got to get your facts straight or you can't expect the public to trust you." One of her examples, dealing with insurance, was also mentioned by Brandau, who faulted "elements of the consumer movement" for their "often unfounded and inaccurate portrayal of the record, motivations, and public policy positions of the insurance industry or particular companies." He expressed special disappointment at the failure of these advocates to recognize the industry's efforts on behalf of auto safety.

In addition, Baskin criticized some advocates for seeking press coverage without apparent regard for the consequences to consumers. Her example was one report on radon tests that discouraged consumers from having these tests conducted.

Similarly, Brandau charged some consumer groups with spending more time

and effort in planning media events than in carefully analyzing complex issues.

Lastly, Baskin suggested that the movement try to be more positive—"that's a good way of inspiring people to do good things"—and that it pay less attention to passing new laws and more attention to enforcing old ones.

Marketing professor Lee Richardson, a longtime consumer advocate and educator, also commented on the priorities and effectiveness of the consumer movement, but did so in the broader context of President Kennedy's four rights—safety, information, choice, and being heard. His conclusion was that "there has been progress... however, the job isn't anywhere near completion."

Regarding information, "new ways of delivering information ranging from labels and point of purchase to resource centers are needed."

Regarding choice, declining competition in a number of industries may require solutions beyond antitrust, such as the "deliberate alteration of industry structure."

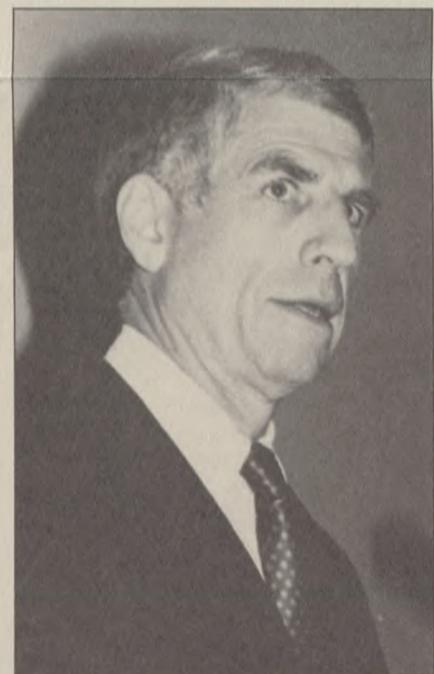
Regarding being heard, "little real progress has been made by businesses in obtaining policy input from consumers beyond the use of traditional marketing and public relations techniques."

The greatest failure of the movement, noted Richardson, has been its inability to facilitate the establishment of a federal consumer protection agency.

Richardson then outlined ten strategies that could help strengthen the consumer movement. "At the heart of its success will be the movement's ability to adapt to changing environments which can create and destroy its opportunities, sometimes quickly," he concluded.

## Prospects Good for Cable Reregulation

The primary Senate sponsor of cable reregulation legislation said prospects for passage this year are good. "We're in a better position than we were last year, primarily because of where we are in the legislative cycle," said Sen. John C. Danforth (R-MO).



Sen. John C. Danforth called for reregulation of cable-tv.

fighting well-represented and well-heeled interests," he said.

### Tele-marketing Abuses

In another session on telecommunications policy, panelists discussed telecommunications marketing abuses and remedies, both as they relate to marketing over the telephone and as they relate to marketing of telephone services.

Philip F. McClelland, Pennsylvania's Assistant Consumer Advocate, said 900 numbers pose the biggest problems in telephone marketing and are "the weapon of choice in consumer fraud."

"With a 900 number, you don't have to buy anything, the call itself is the product. By the time you figure out what it is they're trying to sell you, you've already bought it," he said. The situation is exacerbated by the fact that most consumers don't know they can dispute a charge

and have it removed from their telephone bill without risking the loss of their telephone service.

McClelland also described what he said were numerous examples of deceptive marketing of optional services by telephone companies themselves. "When a utility is also a marketer of optional services, particular safeguards must be applied to make sure that that marketing is conducted in an acceptable way," he said.

CFA Research Director Mark Cooper concurred. "Telephone companies have used their monopoly power and fear tactics to market inferior quality products at excessive prices" while keeping better products from consumers, he said. These are not problems associated with individual sales representatives, but are "systematic corporate strategy."

For this reason, optional services should be sold only through a separate transaction subject to guidelines that are

carefully set to prevent monopoly power from being used to oversell, Cooper added.

### Strong Protections Needed

Ken McEldowney, Executive Director of Consumer Action-San Francisco, recommended that telephone companies not be allowed to sell unregulated services as part of the call to set up services, that 900 numbers be abolished, that a cooling off period be required for any sale over the phone, and that a written contract be required for any sale by phone.

"I'm not convinced that anything short of recommendations this strong can protect consumers," he said.

James Young, Vice President for External Affairs at Bell Atlantic Corporation, said that these optional services "provide value that can enhance the quality of our customers' lives. We believe that consumers have a right to information about the products that Bell Atlantic offers."

## American Culture Commercialized

American culture is increasingly being commercialized, impoverishing both the culture and the lives of Americans, said Professor Stuart Ewen of the City University of New York, author of *All-Consuming Images*.

The means of this commercialization is images that are communicated most frequently through advertising. The images form a "language which says things," said Ewen, but people are not taught how to interpret the language. Consequently, the images communicate mainly to human emotions.

Advertising has profoundly affected different aspects of American culture—what it means to be a person and how one relates to society. Unfortunately, it encourages people to think of self as little more than the sum of the objects that one possesses, so that a person's value in the world is merely the sum of objects purchased.

One result of this changed concept of self is that "the whole idea of citizen has given way to the idea of consumer," to the detriment of society's civic life, he said.

Another broad societal change has been the shift from "an economy rooted in things to an economy that essentially consists of transactions in symbols." Consequently, values no longer have any attachment to things, but rather are attached to money, credit cards, junk bonds, stock manipulations, and other "pyramids of air that make people rich."

Ewen urged the consumer movement to respond to this commercialization by working towards "visual literacy" through encouraging its integration into education and by debating the question of consumption itself as a way of life. "We need to look beyond the future as a new product to be developed and sold," he concluded.

## Consumer Literacy Urged

Director of the U.S. Office of Consumer Affairs Ann Windom Wallace outlined five initiatives of her office to improve consumer literacy: 1) expanding outreach to minorities and other special groups; 2) making messages more compelling and relevant; 3) making costs and benefits of consumer education more apparent to policymakers; 4) defining essential body of knowledge profiles; and 5) examining consumer literacy in schools to find ways to incorporate consumer information more broadly in the curriculum.



S. 12 is very similar to legislation that was approved 18-1 in Senate Commerce Committee last year but never reached the Senate floor. It permits rate regulation where cable faces no true competitor, prohibits unfair business practices, and strengthens consumer service, he said.

"Cable television has brought consumers unprecedented access to news and information," he said, "but unfortunately cable's power is unchecked by competition or regulation." The result has been dramatic price increases and poor service. "I would rather have a competitive system than a regulated system, but, absent competition, it needs to be regulated," he added.

Danforth warned, however, that passing the legislation would not be easy. "We're

# Sweeping Insurance Reforms Proposed

**F**rom Sen. Thomas A. Daschle's call for a single payer national health care system to Andrew Tobias's plan for pay-at-the-pump auto insurance, congressional, regulatory, and consumer leaders in several Consumer Assembly '91 sessions urged major reform of the nation's insurance system.

"We live in a society that doesn't deliver its health care equitably," said Sen. Daschle (D-SD), adding that the only solution is comprehensive reform that would replace the current public-private health insurance system with one based on the Canadian single payer model.

Under such a system, Canadians pay only 11 percent of their health care dollars for administration of a system that guarantees universal access to affordable care. By contrast, Americans spend 25 percent of their health care dollars for administration of a system in which 38,000 people without health insurance seek health care each day, as "costs continue to put even routine care out of reach."

"The American system provides us with less choice and imposes greater burdens," he said.

Daschle, who criticized both Congress and the Administration for a lack of leadership on the issue, said "most proposed solutions simply add new programs to a system that is inherently unsound. . . They are band-aids when what we need is major surgery."

## Solvency Called Congressional Priority

Also delivering a keynote address, Rep. Cardiss Collins (D-IL), new Chair of the House Consumer Protection Subcommittee, defined insurance reform as a major congressional priority. She expressed particular concern about solvency. There is "a growing fear of insurance insolvency and that some insurance company promises will not be kept," she said.

"Congress can't ignore these problems just because states have a regulatory responsibility," she suggested. Congressional action could include setting federal minimum regulatory standards that state regulators would be required to implement.

Collins also identified private health insurance as a Congressional priority. "On long-term health insurance, as with



Sen. Thomas A. Daschle and Rep. Cardiss Collins described congressional priorities for insurance reform.



medigap, we must make sure consumers are getting what they need," she stated.

## Should Auto Insurance Be Socialized?

In a controversial session on whether auto insurance should be socialized, journalist and columnist Andrew Tobias faulted the present system for serving only lawyers, insurance agents, and accident victims hit by rich drunk drivers with insurance.

The best example of the "horrible waste and inefficiency," said Tobias, is the "tremendous amount of time and money spent just collecting premiums." "Why sell something one policy at a time that we require everyone in the country to have?" he asked.

Instead, Tobias suggested, all Americans should be automatically covered by policies that are serviced by insurance companies that bid for blocks of business, much as private insurers now compete for group health insurance contracts.

"Premiums" would be added to the cost of gasoline, which might increase the cost of a gallon by 60 cents.

Bob Hunter, President of the National Insurance Consumer Organization, noted that the system Tobias proposes would have numerous benefits, including: eliminating perhaps as much as \$13 billion of overhead cost; reducing fuel consumption, thus diminishing pollution and helping reduce the U.S. trade deficit; and increasing the importance of miles driven as a factor in insurance pricing. And, if the new system incorporated no-fault concepts, there would be additional dollar savings, he said.

Hunter, however, also noted there are problems to solve with a new auto insurance system, in particular, dealing equitably with the poor, administering a complex system, and winning political enactment of a "gas tax" to replace premiums paid to insurers.

John Martin, a President of Aetna Life and Casualty, criticized Tobias's proposal from an insurer's perspective. He began

by suggesting that, because of legislative reforms, auto insurance has become "increasingly unattractive as a business."

Martin said, however, that the new system "would be a nightmare to administer and end up discriminating against just about everyone." Moreover, "politicians don't have the fiscal discipline" to maintain the integrity of the new insurance fund, he said.

## Credit Life Criticized

In another Consumer Assembly session, a regulator, an insurer, and two advocates criticized existing credit insurance products and their regulation.

All panelists agreed that this insurance is overpriced. Although consumers should receive 60 or 70 percent of premiums in benefits, instead they receive less than 50 percent. Jean Ann Fox, President of the Virginia Citizens Consumer Council, said a study in Virginia found that, for the ten largest companies selling credit life and disability insurance, the average payout was less than 40 percent.

According to Jeff Johnson, Vermont Insurance Commissioner, these high prices are sustained by a marketplace that is not very competitive. Insurers compete for points of distribution, not for consumer business, and they do so by offering sellers high commissions.

Former insurance commissioner Jim Hunt echoed Johnson's analysis. He suggested that lenders who sell credit life and disability insurance are "doing an end run around the truth-in-lending law."

Mike Medland, Assistant Vice President and Regulatory Counsel of the CUNA Mutual Insurance Group, commented on credit insurance from the perspective of the largest credit insurance provider. Medland said that many credit unions provide credit life to borrowers without charge, but that other credit unions have been forced by regulators to charge for this service.

Nevertheless, the latter institutions pay out the large majority of premiums collected in benefits, and what remains is kept within the credit union and inures to the benefit of its members.

# Health and Safety Priorities Urged

**P**anelists in three workshops discussed what they see as priority consumer health and safety issues, including injury reduction, food safety and inspection, and environmental hazards.

Ellen Silbergeld, Professor of Toxicology at the University of Maryland School of Medicine, discussed the hazards of lead poisoning, which she described as a leading pediatric disease.

Seventeen percent of all children under five have lead poisoning, she said, and in inner cities the number is as high as 60 percent. In addition, 38,000 workers in California have occupational lead poisoning.

## Lead Poisoning Is National Disease

Despite the fact that "this is a national disease that poses a serious threat to the neurological development of children," use of lead in the United States is increasing.

Currently, the Environmental Protection Agency, Centers for Disease Control, and Food and Drug Administration are all exploring their policies related to lead,

and Congress is considering legislation.

Another priority discussed in two sessions was pesticide residues in food. Two hill staffers—Carolyn Brickey, Senior Counsel on the Senate Agriculture Committee, and William Schultz, Counsel to the House Subcommittee on Health and the Environment—identified this as a primary concern.

## Congress to Consider Pesticide Legislation

Brickey said Senate Agriculture Chairman Patrick Leahy plans to reintroduce legislation that would ban the export of pesticides that are prohibited for use in this country. Schultz said that, while he supports federal action, currently he sees the state and local level as the most interesting area in which to focus efforts on pesticide control.

Despite its failure, "Big Green" in California succeeded in focusing national attention on the issue, he said. In addition, many localities have passed laws, and there has been substantial litigation, particularly in California.

Ellen Haas, Executive Director of Public Voice for Food and Health Policy, said that, in addition to the problem of pesticide residues in food, there are serious inadequacies in the food inspection system. In particular, she said, we need a mandatory federal inspection system for fish and shellfish.

Carol Foreman, a former Assistant Secretary of Agriculture, agreed that the food inspection system is inadequate, particularly for poultry, but said it will be difficult for consumers to win improvements in light of the lack of support for food safety issues on the agriculture committees.

Other priorities discussed included the need to classify injury as a public health problem and devote the resources needed "to develop a major science base" on injury; the presence of acutely hazardous chemicals in our communities and the lack of adequate planning for possible accidents; and workplace safety issues, including asbestos, AIDS prevention, hazards associated with computers and video display terminals, and indoor air quality.

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## Congress to Restructure Banking System

**W**ith major reform proposals under consideration, the 102nd Congress must answer the fundamental question of what should be the function of our financial services industry in general and the banking industry in particular, said Sen. Donald W. Riegle (D-MI), Chairman of the Senate Banking Committee.

Sen. Riegle, himself the author of one of those proposals, said, "The ultimate test we have to apply is: how do we insure that American consumers continue to have access to the widest and most competitively priced financial services available anywhere and do it in a financial system that is stable and in a fashion that does not put American taxpayers at risk?"

The Treasury Department proposals will be given "a full and fair evaluation" in the Senate Banking Committee, Sen. Riegle said, but he added that he personally has "reservations about the wisdom of enacting such a sweeping program in one single bill."

### BIF Funding, Deposit Insurance Reform Are Priorities

Congress's top priorities should be recapitalization of the Bank Insurance Fund and reform of the deposit insurance system, he said. His bill would accomplish the latter:

- by improving regulatory oversight and expanding the ability of regulators to step in early and control the damage



Senate Banking Chairman Donald W. Riegle called for banking reform to increase safety while maintaining choice.

when a bank begins to get in trouble; and

- by restricting risky investments by banks and providing "incentives to act responsibly" through a risk-based system of insurance premiums.

Sen. Riegle said there is widespread support for such an approach, although disagreement remains over some of the details. More controversial, he said, are proposals to allow banks into insurance and securities activities, commercial purchase of banks, and interstate branch banking.

Riegle said he finds the bank powers and commercial purchase proposals "very questionable." While he does have some concerns about the effects of interstate

branch banking on community banking, he said, "there is an argument that can also be made... that when you get a broader geographic distribution in your banking system, diversity across a broader geographic base, there are some safety and soundness gains."

He also said that more needs to be done to improve the access of low income consumers to the financial system.

### Check Cashing Regulation

Because banks are not required to provide low-cost basic banking services, and because costs for basic services have risen dramatically since deregulation, many low income consumers have been forced out of the system and now cash their checks in largely unregulated check-cashing outlets, rather than in banks.

Speaking in a workshop on the role of states in regulating check cashing, Edward Haggerty, Chief of Staff for Rep. Thomas M. Foglietta (D-PA), described the amendment Rep. Foglietta attached to last year's money laundering bill. It called on states to regulate check-cashing outlets and impose a cap on fees of 1.5 percent. (The money laundering bill ultimately did not pass but is moving again in this Congress.)

Because only seven states currently regulate check-cashing outlets, abusive fees are often charged, Haggerty said, citing one case in which a man paid \$800 to cash a \$6,000 Social Security check.

New Jersey is one of the states which does regulate check-cashing outlets, but, even so, abuses abound and stronger

regulation is needed, said John Thurber, a Staff Attorney in the New Jersey Public Advocate's office.

In the wake of a study documenting routine overcharges of as much as 400 or 500 percent, the state's Department of Banking has proposed new regulations to:

- require receipts so there is a record of what was charged and include an 800-number for complaints;
- require signs in outlets showing maximum fees and including examples based on common government check amounts; and
- require outlets to make annual reports, including information on how much revenue they derive from cashing government checks.

Thurber said additional steps should be taken to deal with the problem of criminal activity in such outlets, which he said is commonplace.

Shelly Altenstadter, of the Treasury Department's Financial Crimes Enforcement Network, agreed that increasingly this agency finds money laundering in non-traditional financial institutions, such as check-cashing outlets.

Low income issues were also the focus of a panel on strategies for providing affordable housing. Representatives of the Resolution Trust Corporation's Affordable Housing Disposition Program, Houston Habitat for Humanity, and the Federal Housing Finance Board discussed public, private, and cooperative initiatives being undertaken to make affordable housing available to low income individuals.

## Are Consumer Reporters An Endangered Species?

**O**nce the darlings of the newsroom, consumer reporters have increasingly come under pressure from management to tone down their stories or risk losing their jobs, a panel of consumer reporters agreed. "Consumer reporters have a lot in common with the spotted owl. We are an endangered species," said Herb Weisbaum, a consumer reporter with the CBS affiliate in Seattle.

Like several other panelists, Weisbaum blamed much of the problem on the more precarious financial position of television stations, which gives advertisers more influence. Where once "a story had to be really negative to get complaints from advertisers," now "even basic pieces on how to buy a car" cause car dealers to pull their ads, he said.

This was the case for Sylvia Gambardella, who five months before lost her job with WCCO-TV, the CBS affiliate in Minneapolis, because of complaints and pulled advertisements after her reports on the auto industry. "I didn't do scathing reporting, but much needed news you can use for people in these recessionary times," said Gambardella, who has since gotten her job back. "These are tough times for television," she said. As a result, "consumer reporters are under intense scrutiny."

Ron Handberg, retired Vice President of WCCO, acknowledged that "advertisers are having an increasingly pro-active influence on the news." "It's chilling," he said, "more so than government censorship. Elected officials can be taken to task. We have no recourse against those in the private sector." A general manager responsible for the financial well-being of the station finds it difficult to resist this pressure, he added. "As the economic stature of the networks and affiliates shrinks, the leverage of the auto industry grows," he explained. If the auto industry is successful in boycotting stations, other industries will follow and will stop good investigative stories on their own industries, he said.

Andrew Schwartzman, Executive Director of Media Access Project, said another problem has been the failure of the Federal Communications Commission to enforce the requirement that programming be in the public interest. "Reporters and management will have to stand up and use the precedents that we set," he said.

Frances Cerra, who left her job at the *New York Times* after her articles on a nuclear power plant were killed by management, said she nonetheless believes that "the announcement regarding the death of consumer reporting is premature" and that current problems are part of the natural cycle. "Reform is followed by countervailing pressure and eventually excesses return," she said.

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