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FCC Announces Cable Rate Rollback

The Federal Communications Commission took the first step toward reducing excessive cable television rates April 1, when it released its initial rate regulations to implement the 1992 Cable Act.

The regulations set a formula for determining "reasonable" cable rates — except for premium and pay-per-view services and equipment — in communities where cable does not face competition. The formula is based on the pricing practices of cable in communities where competition does exist.

The commission estimates that the rules will affect up to three-quarters of cable systems and cable subscribers across the country, with the cost savings to consumers from this "initial step" totalling approximately $1 billion.

A Small Step in the Right Direction

Although praising the regulations as "an important first step," CFA argued that the agency could and should have reduced rates even further. In its comments before the agency, CFA had advocated a pricing formula — based on pricing in competitive markets and historical price trends — that would bring down rates by nearly 30 percent.

"Despite the cable companies' predictable howls of protest, this was really just a slap on the wrist for an industry that has engaged in prolonged and flagrant price gouging," said CFA Legislative Counsel Bradley Stillman.

Under the regulations released in April, local franchising authorities and the FCC will be able to reduce cable rates either to the "reasonable" rate benchmark or by a maximum of 10 percent.

Such reductions will be based on rates as of September 30, 1992, in order to "negate the effects of any unjustified rate increases that may have occurred since the adoption of the Cable Act" in October, according to the FCC's news release.

Industry observers estimate that rates have increased somewhere between five and seven percent since the law was passed, and those increases will be wiped out automatically, Stillman said.

The commission also froze cable rates for 120 days beginning April 5 in order to prevent further rate increases while the rules are being adopted and implemented.

The regulations require that prices for equipment and such services as installation be unbundled and based on actual costs, which should result in substantial additional savings for consumers.

In a particularly positive move for consumers, the FCC adopted the same pricing approach for expanded cable services as it did for the basic tier. This will minimize any incentives to move popular programming off the basic tier in order to avoid rate regulation, Stillman said.

The primary difference between basic rate regulation and expanded service regulation is that rate regulation for the basic tier will be conducted primarily by local franchising authorities and will be automatic while regulation of expanded cable services will be conducted by the FCC in response to complaints of unreasonable rates, he said.

"People need to get geared up to file complaints," Stillman said. "Consumer participation in the complaint process is crucial to realizing the full benefits of the 1992 Cable Act."

Further Reductions Possible

The FCC also holds out the hope of further rate reductions in the future.

The agency plans to begin in September to review rates that remain well above the "reasonable" level after the initial 10 percent rollback. Such systems will have to prove that their unusually high rates reflect especially high costs, or have those rates further reduced.

In addition, the commission intends to continue to refine its reasonable rate formula, which may result in more rate reductions.

"CFA will continue to press for pricing formulas that bring the full benefits of the Cable Act to cable consumers," Stillman said.

House Passes Toy, Bike Helmet Bill

The House gave overwhelming approval in March to legislation that would require manufacturers to place warning labels on toys that pose a choking hazard to young children and require the Consumer Product Safety Commission to set uniform standards for bicycle helmets.

H.R. 965, sponsored by Rep. Cardiss Collins (D-IL), passed 362-38. It would expand on the current requirement intended to protect children under age three from choking hazards posed by small toy parts by requiring that the age labels on toys with small parts intended for children age three to five contain an explicit warning of the choking hazard.

In addition, balls intended for children under three would have to be too large to choke young children.

At least 186 children have choked to death while playing with toys since 1980. Another 2,700 are rushed to hospital emergency rooms each year when they choke on small toys.

"Few parents recognize the dangers presented by toys with small parts," said CFA Product Safety Director Mary Ellen Fise. "Most toy buyers understand the label — 'Not intended for children under three' — not as a safety warning but as a guideline regarding a child's intellectual development."

"By requiring labels that clearly identify the hazard, this act will enable parents to make informed decisions and, as a result, will save children's lives and reduce painful childhood injuries," she said.

The bill also requires the CPSC to develop a uniform federal standard for bike helmets. Such a standard must address both the risk of bike helmets' rolling off during a fall and the need for special protection of children's heads.

While CPSC is preparing the new standard, the bill requires that all helmets meet one of two current voluntary standards.

In 1990, 400 children were killed in bicycle-related incidents and more than 380,000 were treated in emergency rooms for bicycle-related injuries.

"This act is a sensible, well reasoned approach to two child safety issues that the CPSC had, despite compelling evidence, chosen to ignore," Fise said.

Safety Bills Introduced in Senate

Sens. Slade Gorton (R-WA) and Jay Rockefeller (D-WV) have introduced companion legislation, S. 680, to the Collins bill in the Senate. In addition, Sens. Richard Bryan (D-NV) and John Danforth (R-MO) have introduced separate bike helmet legislation, S. 228.

The Bryan-Danforth bill contains a requirement for a uniform federal standard for bike helmets like that in the Collins and Gorton-Rockefeller bills. It would also establish a grants program under the National Highway Traffic Safety Administration to promote the use of bike helmets by children under the age of 16.

Such grants could be used to enforce laws that require children to wear approved helmets while riding on bicycles; to assist children to acquire approved helmets; or to educate children and their families on the importance of wearing helmets.

It authorizes $2 million for fiscal year 1994, $3 million for 1995, and $4 million for 1996 for the grants program.

In April, Sen. Howard Metzenbaum (D-OH) introduced legislation on another hazard that CPSC has failed to address — infants and toddlers drowning in four- to six-gallon buckets containing liquid.

Since 1985, approximately 400 young children — or nearly one child a week — have drowned in four- to six-gallon buckets.

S. 799 would establish a uniform federal labeling requirement to warn of the drowning hazard and would require the CPSC to establish standards to reduce the hazard.

"The two measures required in this bill will help assure that parents learn of this risk and that buckets in the future are made differently to prevent these deaths from occurring," Fise said.

CPSC Refuses To Ban Baby Walkers

In April, CPSC once again refused to take action to address risks to young children — this time in a 3-0 vote not to ban baby walkers.

CFA, Consumers Union, the National SAFE KIDS Campaign, the American Academy of Pediatrics, and AAP's Washington chapter had petitioned the agency last August to ban the devices, which are associated with more injuries each year than any other juvenile product.

Nearly 29,000 children annually are taken to hospital emergency rooms with walker-associated injuries. Between January 1989 and October 1992, six children died in baby walker incidents, and studies show that one in three infants who use a baby walker are injured.

Among the serious injuries associated with baby walkers are: burns, head fractures, loss of teeth, abrasions and lacerations.

On a 2-1 vote, the Commission instructed the agency staff instead to prepare a proposal to look at options to address the hazards of baby walkers.

"This is an entirely inadequate response to the immediate hazards posed by the product," said Kristen Rand, Counsel in the Washington office of Consumers Union. "Once again, the CPSC is showing that it has the interests of corporate America at heart, rather than those of the nation's children."

'Credit Crunch' Policy Is Misdirected

By incorrectly focusing on regulatory burden rather than banking practices, the administration's "credit crunch" policy misses opportunities to improve the flow of credit to small- and medium-sized businesses and may in fact exacerbate the very problems it is designed to alleviate, according to CFA Legislative Representative Chris Lewis.

Released in March, the administration policy statement outlines a variety of regulatory and other administrative changes agreed to in principle by the four federal regulators of banks and thrifts — the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the Office of Thrift Supervision.

Those changes fall into five categories:

- reducing documentation requirements and allowing increased use of character judgments for loans to small- and medium-sized businesses;
- reducing appraisal requirements and changing other rules related to loans secured by real estate;
- liberalizing agency processes for financial institution appeals of examiners' decisions as well as agency processes for handling general complaints from the public;
- minimizing disruption caused by the examination process and refocusing examinations on risk to the institution; and
- conducting a review of all paperwork requirements and all regulations and interpretations to identify those which are burdensome and "do not contribute substantially to safety and soundness."

Concern Expressed Over President's Plan

While praising President Clinton's goal of creating a fairer distribution of credit and of reaching out to under-served areas of the economy, Lewis voiced concern over the credit crunch policy in March testimony before a House Government Operations subcommittee.

"We are fearful that some of the president's most sought objectives cannot be accomplished with the March 10 outline," he said. "Some, we believe, will have the opposite result, actually limiting loans in some areas and to certain classes of borrowers."

Lewis singled out as of particular concern the policy's heavy emphasis on the reliance on so-called "character loans" and its reduction in appraisal requirements, particularly the sharp reduction in "occasions where a licensed and qualified appraiser will be involved."

In addition to the safety and soundness questions raised by reliance on character in approving loans, "we think there is a strong inclination for these 'character loans' to go to established business, not to new development, not to enterprises owned by minorities and women," Lewis said. "New development, so badly needed in many communities, may be pushed further back in the line if big baskets of special character loans go to a favored few known by the local banker."

The strengthened appraisal requirements included in 1989 savings and loan reform legislation were in direct response to "the fraud involved in sleazy, inadequate, and outright false appraisals that were in the files of many of the failed savings and loans in Texas and elsewhere," Lewis said.

Not only will the new proposals add substantial risks to the deposit insurance funds, but "when real estate is overvalued by poorly trained or unethical appraisers, consumers can be taken for thousands of dollars in excess costs. And, when property is improperly undervalued — as often happens in communities that bankers do not know — consumers are unable to meet down payment requirements and fail to obtain mortgages, a result counter to the president's goal of expanding credit availability," Lewis said.

Furthermore, there is no reason to believe the proposals will reduce costs, since a 1992 CFA nationwide survey found no correlation between appraiser certification and cost, and since appraisal costs are borne by the borrower, not the bank.

Legislation Opposed

Lewis also argued against legislative proposals that have been floated in response to banks' campaign to weaken regulations.

CFA Legislative Representative Chris Lewis testified in March on the availability of credit for consumers and small businesses.

Among its other weaknesses, H.R. 59, Rep. Doug Bereuter's (R-NE) "Depository Institution Burden Relief Act," would repeal the already watered down requirement that banks disclose their small business lending practices, "the only pro-small business measure included in banking legislation in recent years," Lewis said.

CFA is also concerned about Rep. Joseph P. Kennedy's (D-MA) proposal to slash the capital leverage ratio for banks, "the only solid and straightforward tool that the regulators have to assess the capital adequacy of domestic banks," Lewis said.

Regulatory Consolidation Advocated

Lewis testified in support of legislation introduced by Banking Committee Chairman Henry B. Gonzalez (D-TX) to streamline the federal regulatory apparatus.

H.R. 1214, the Regulatory Consolidation Act of 1993, "seeks to end the duplicative requirements and poorly coordinated examination procedures of the existing four agencies through the creation of a single independent regulator — a regulator that is more efficient, less costly and more responsive to industry and consumer concerns," Lewis said.

"Nothing could do more to reduce regulatory inefficiencies and improve the regulatory climate for the banking industry than the consolidation of the regulatory agencies," he said.

Lewis also encouraged the subcommittee to conduct a study of banking practices that inhibit lending to small- and medium-sized businesses. Such a study should examine such issues as price discrimination, compensating balance requirements, and fees and other charges associated with small business loans, he said.

FHLB Should Target Credit Delivery Failures

In March testimony before the Federal Housing Finance Board on the future of the Federal Home Loan Bank System, Lewis advocated targeting the agency's resources to alleviation of weaknesses in today's credit markets.

Although not an exhaustive list, Lewis suggested as priorities for a revitalized FHLB System increasing the availability of credit:

- for non-conforming single-family housing loans, particularly for home buyers in rural and inner-city communities;
- for multi-family housing;
- for small businesses, particularly for those located in inner-city and minority communities; and
- for community-based economic development in distressed communities.

"These four market failures represent real opportunities for the FHLB System to refocus its resources and meet clear public need," Lewis said. "The capacities of the FHLB System to help bridge these gaps is considerable."

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Indoor Air Bills Introduced in Senate

Bills to address the hazards posed by indoor air contaminants in general and radon in particular were introduced in the Senate in March.

Senate Majority Leader George Mitchell (D-ME) reintroduced comprehensive indoor air quality legislation, S. 656, which is virtually identical to bills which passed the Senate in the last two Congresses but failed to pass in the House.

In addition, Sen. Frank Lautenberg (D-NJ) introduced S. 657 to extend and reauthorize the Indoor Radon Abatement Act. This bill is very similar to legislation that passed the Senate last year. The House passed a less comprehensive bill last year, but with insufficient time left in the session in which to resolve differences in the two bills.

"These bills would help to create an effective federal response to this serious human health threat," said CFA Product Safety Director Mary Ellen Fise.

The Environmental Protection Agency estimates radon alone causes 14,000 lung cancer deaths annually, while secondary tobacco smoke causes another 3,000 lung cancer deaths in non-smokers each year.

The cost to society in reduced productivity, sick time, health care costs, and disability associated with indoor air contaminants is estimated to be in the tens of billions of dollars.

Sen. Mitchell's comprehensive bill — which is co-sponsored by Sen. John Chafee (R-RI), Sen. Joe Lieberman (D-CT), and Sen. Lautenberg — is designed to create a coordinated and comprehensive federal response to the problem of indoor air contamination.

The bill authorizes $48.5 million a year through fiscal year 1995, including:

- $20 million for research and for health advisories describing the characteristics of each contaminant and the health threats posed at various concentrations;
- $10 million for EPA operations as the lead agency coordinating the federal response to indoor air problems;
- $12 million for grants to states for demonstrating indoor air quality management and assessment strategies;
- $1.5 million for a National Indoor Air Quality Council; and
- $5 million for a building assessment program to develop the most effective measures to identify the causes of "sick building syndrome" and the most effective measures to mitigate those problems.

The bill also requires a report to Congress on chemical sensitivity disorders, including multiple chemical sensitivities.

The radon bill — which is co-sponsored by Sens. Chafee, Mitchell, and Lieberman, as well as by Sens. Harris Wofford (D-PA), Bill Bradley (D-NJ), Daniel Patrick Moynihan (D-NY), and Claiborne Pell (D-RI) — would reauthorize the three programs that form the centerpiece of EPA's efforts to increase public awareness of the need to test and mitigate homes for radon.

In addition, it contains provisions to prevent radon problems in newly constructed buildings, to set guidelines for testing and mitigating radon in schools, to require school testing in high radon areas, and to improve disclosure of possible radon contamination in real estate transactions.

Rep. Joseph P. Kennedy (D-MA) is expected to introduce comprehensive indoor air legislation soon in the House, and Rep. Edward J. Markey (D-MA) is working on radon legislation.

President's Economic Plan Is Necessary

The president's economic plan unveiled in his State of the Union address in February is necessary medicine to bring down the federal budget deficit, stimulate the economy, and restore fairness to the nation's tax system, according to a CFA analysis of that proposal.

"The shift of federal spending from defense and other non-productive areas to investment in social and physical infrastructure will enhance both social welfare and, in the long run, the strength of the economy," said CFA Executive Director Stephen Brobeck.

The president's proposal combines deep spending cuts and substantial tax increases. The bulk of the spending cuts come from defense spending, with domestic programs facing more modest cuts, while the plan's tax increases will be borne primarily by the wealthiest individuals and corporations.

Approximately two-thirds of the resulting $678 billion in gross deficit cuts over five years is to be devoted to deficit reduction. The other one-third is to fund a variety of spending and tax-relief initiatives.

Much of the new spending proposed by the plan is to boost job creation and economic growth through a wide range of infrastructure, education, health, and local development programs. In addition, programs that benefit low income children, such as Head Start and immunization programs, get a particular boost in the Clinton plan.

The tax relief includes subsidies to working poor families to offset the effect of the plan's tax increases, particularly the proposed energy tax, as well as targeted tax incentives for business to help further stimulate the economy.

Plan Made Necessary By 'Taxcut and Spend' Policies

While acknowledging that the president's program requires consumers to make some sacrifices in the short-term, Brobeck called the proposed tax increases and spending cuts "a bitter pill to swallow that was made necessary by a decade of fiscally irresponsible, 'taxcut and spend' policies."

Without serious deficit reduction now, Congressional Budget Office projections suggest that, within a decade, the federal government will be functionally bankrupt — unable to afford adequate national defense, business regulation, and social services.

The tax increases in the program include: creation of a new top individual tax rate of 36 percent on taxable income above $140,000 for couples and $115,000 for individuals; a surtax on income over $250,000; an increase in the percentage of benefits subject to income taxes for upper-income Social Security recipients; a new top tax rate of 36 percent for corporations with income over $10 million; elimination of a number of business tax deductions; and creation of a broad-based energy tax.

To offset the effect of the energy tax on the poor, the president has proposed a major expansion of the Earned Income Tax Credit, including new eligibility standards. This should counteract any tax increases for families making $30,000 or less.

Although much attention has been given to the tax increase for middle income consumers, "it appears that less than five cents out of every dollar of deficit reduction in the overall package will come from the middle class share of the energy tax, and another few pennies will come from their share of the increase in social security taxes," said CFA Research Director Mark Cooper.

"The program will collect the most taxes from those with the greatest ability to pay, the same affluent households that were not asked to pay their fair share of taxes in the last decade," Cooper said.

Energy Tax Controversial

Among the most controversial of the tax proposals, because of its affect on middle income consumers, is the energy tax, which would tax the heat content of fuels, measured in British thermal units.

Although consumer groups have traditionally opposed energy taxes as regressive, CFA endorsed the BTU tax as "the least objectionable" among the energy tax options available.

"A BTU tax spreads the burden, avoiding the great regional and fuel inequities of carbon taxes or the economic inefficiencies of oil import fees," Cooper said. "Because it is broad-based and not added directly to the consumer's bill, it gives the economy the greatest opportunity to adjust to the price changes."

Rural populations, however, would be asked to bear a greater share of the energy tax burden, because they consume more fuel.

"The greatest limitation of the president's program is that it discriminates against rural consumers," Brobeck said. "They will be asked not only to pay higher energy taxes, but also to suffer cuts in rural electrification and agricultural programs."

Plan Faces Tough Going In Congress

Although Congress was relatively quick to pass the broad outlines of the president's plan when it approved a budget resolution in April, the proposal still faces a tough road in Congress.

As of mid-April, the $16.3 billion stimulus package for 1993 — which was designed to create jobs and provide a short-term jump start to the economy — had been killed by a filibuster in the Senate.

The deficit reduction proposals must still be pushed through in a huge budget reconciliation bill. And the president's spending proposals — detailed in a budget he released in early April — must still be incorporated into the 13 regular appropriations bills.

Consumer Agency Budgets See Modest Increases

With the exception of the U.S. Office of Consumer Affairs, all the consumer agencies would see at least modest increases in their 1994 funding under the president's budget, according to figures provided by the USOCA, but several agencies would lose staff as part of the president's three percent across the board reduction.

For the Consumer Product Safety Commission the proposed funding increase is far less than the rate of inflation. The president's budget proposes a $42.3 million budget for CPSC in fiscal year 1994, up less than half a percent from its 1993 baseline funding of $42.1 million.

Furthermore, the already under staffed agency would be forced to cut 13 full-time equivalents from the staff in 1994, with additional cuts anticipated in 1995.

In contrast, the National Highway Traffic Safety Administration would see a 14 percent increase in its 1994 budget to $307 million for operations, research and grants to states. That total includes a 9.7 percent increase in funding for rule-making and a 25 percent increase in funding for safety grants to states.

Much of the grants increase comes in the $15 million the budget sets aside to implement incentive grants to promote motorcycle helmet and safety belt usage, although the basic safety grant program also would get an $8 million boost to $123 million.

The Federal Trade Commission would receive a more modest 2.5 percent increase in its budget, from $86.9 million to $89 million, but its staffing, in work years, would drop from 968 to 954.

Although the budget request for FDA would decrease sharply in 1994, when additional supplemental appropriations from 1993 and proposed stimulus investments in 1994 are added in, the agency would see a 17.2 percent increase in its budget, from $780 million to $924.3 million.

Similarly, the budget request for U.S. Department of Agriculture meat inspection would decrease under the president's budget, but this would be offset by an increase in user fees the agency would collect. The result would be a 5.6 percent increase in the meat inspection budget, from $489.9 million to $517.7 million.

In addition, the president has emphasized the need to increase the number of meat inspectors, and he included funding for that purpose in the now defeated $16.3 billion stimulus package.

The president's budget would hold USOCA funding steady at nearly $2.2 million by cutting one staff position and making other miscellaneous cuts.

"Overall, consumer agencies would fare relatively well under the president's budget when one considers the pressure to find cuts to help reduce the deficit," Brobeck said. "The CPSC, however, has been particularly devastated by budget cuts in the previous two administrations and can ill afford the staffing reductions proposed in the president's budget."

Consumers Want More Credit Card Information

Large majorities of consumers continue to want more information about credit card rights, costs, and benefits, according to a national survey conducted by Opinion Research Corp. of Princeton, N.J.

Moreover, consumers who most want this information are those who need it the most — the young, those with large credit card balances, and those worried about paying off credit card debts.

The survey was the second annual consumer credit survey sponsored and developed by CFA, Bankcard Holders of America, and AT&T Universal Card Services. Its release in mid-April was timed for National Credit Education Week.

"Last year, nearly one million Americans declared personal bankruptcy," said CFA Executive Director Stephen Brobeck. "Consumers need more information about the costs of credit and what their rights are when they can't pay the bills."

Card Holders Want Comparative Information

The following are among specific findings of the survey:

- 65 percent of those who own one or more credit cards indicated that it is important from them to "receive more information about the costs and benefits of different types of credit cards."
- 77 percent said it is important for them to "receive more information about [their] credit card rights."
- The groups most likely to want additional information are the young, Hispanics, those with large credit card balances, and those worried about meeting credit card payments.
- Respondents cited several sources that they would first turn to for more information about credit cards. The most educated are much more likely than the least educated to consult written sources (e.g., government publications and libraries). The least educated, many of whom said they "don't know," are most likely to turn to family or friends.
- 93 percent said that high school students should be required to take instruction in money and credit management.
- 72 percent said that credit card rates are "too high," and another 17 percent said that they are "somewhat too high."
- A majority (53 percent) are "very concerned" or "somewhat concerned" about meeting credit card monthly payments, but only 4 percent said that, if they did not have a credit card, it would be "harder for them financially."

The 1993 findings are strikingly similar to those for 1992.

The proportion who said that credit card rates were too high, however, declined slightly, from 79 percent to 72 percent. This decline may reflect an increase in the marketing of cards charging less than the 18 percent bank card average interest rate.

Directory of Education Materials Released

To help consumers learn more about credit costs, benefits, and their rights, the groups released a new directory of credit education materials.

"Take Charge of Your Credit: A Consumer Guide to Credit Education Resources" lists sources of free and low-cost credit education materials available through the government and non-profit organizations.

A free copy of this publication is available through the National Institute for Consumer Education by sending a business-sized, self-addressed, stamped envelope to: NICE, Dept. TC, 207 Rackham Building, Eastern Michigan University, Ypsilanti, MI 48197.

A Regulatory Agenda for the Information Age

Consumer advocates must put forward a positive agenda to create the information age now, according to CFA Research Director Mark Cooper, who is doing just that in modernization hearings before public service commissions throughout the country.

The infrastructure issue has taken on increased momentum lately as the new administration stresses the need to create an information super-highway and as increasing numbers of state utilities commissions face decisions about how to move ahead to create such a system.

"We consumer advocates must be progressives in the pure sense of the term," Cooper said. "We need to have a program by which technological progress enters the network, and ISDN must fit into the program."

"Consumer advocates and commissions must recognize the economic and evolutionary nature of the telecommunications network," he added. "It is crucial to treat the concepts of necessity, convenience, adequacy, and efficiency as relative economic concepts in order to have sound public policy in telecommunications.

"In short, having spent four years refuting the telephone companies' desire to over-invest in the network, we must now combat the consumer advocate's inclination to under-invest," he said.

Narrow-band ISDN Network Advocated

CFA has advocated deployment of a narrow-band ISDN network using digital switching and ubiquitous copper wires to deliver information age services far more quickly and cheaply than the fiber optic system advocated by telephone companies.

Through a narrow-band ISDN approach, it is possible within four years to make available to nearly every household a thirty-fold increase in the capacity of their current telephone lines to deliver a wide range of services, Cooper said.

Furthermore, virtually all of the investment necessary to achieve this rapid deployment of the copper-based information age would have to be made to achieve a workable broad-band network at a later date.

"And it can come at a cost of a few dollars per month. Indeed, the increase could be funded out of the current excess profits of the telephone companies, while overall telephone rates could be declining," he said.

Failure to invest now in a narrow-band network would be just as much of a mistake as investing too much in a broad-band network, he said.

Regulatory, Pricing Principles Outlined

To further that goal, Cooper has developed regulatory and pricing principles for adding ISDN capabilities to the network as "a consumer-friendly, mass market increment to basic service."

Narrow-band ISDN is a "bottleneck technology at the core of the monopoly franchise" which upgrades the network architecture and, as such, "is a technological improvement in the provision of basic service," Cooper said.

Although not every technological advance should be supported by consumers as a network evolution, narrow-band ISDN should be supported because:

- it is affordable and does not just "bring high-end applications on-line for the wealthy few;"
- it has a reasonably identifiable market and thus does not pose unnecessary risks to captive ratepayers;
- it will promote competition and decentralized approaches to information services;
- an alternative that provides similar, nearly universal access is not available through the private marketplace;
- it has "significant externalities associated with it," will "promote the public safety, health, comfort, and convenience," and will be adequate and efficient;
- it involves a relatively small expenditure that can be privatized at the margin; and
- it is an incremental evolution of the network.

For these reasons, it should be pursued as an increment to basic service, not as a premium service priced as a profit center, he said.

Specific Pricing Principles Proposed

"We do not advocate making ISDN basic service, however," Cooper said. "At the beginning, it should be priced on a privatized, mass-market-oriented basis. It should cover its direct costs and make a system average contribution to fixed costs.

"Over time, it may evolve to a ubiquitous service and have its rates lowered toward a purely basic service," he said.

With these goals in mind, Cooper outlined four choices residential telecommunications consumers should have available to them in the information age:

- lifeline tariffs to ensure access to essential service for low income households;
- basic service, flat rate tariffs at the least cost possible to provide necessary voice communications;
- mass-market information service tariffs to ensure the widespread availability of access to information services; and
- premium service tariffs, which price truly discretionary value added services as profit centers, as long as those profits flow back to lower the cost of basic service.

"The only way we can achieve a consumer-friendly, universally accessible information age quickly is for consumers and policy-makers to form an alliance to insist on the next, logical step in the development of the public switched network," Cooper said. "We must compel the telephone companies to take the small steps necessary to make this huge increase in capacity available at relatively low cost."

Furthermore, to remove incentives for telephone companies to drag their feet, deployment of a broad-band network should be "contingent upon the demonstration that the capacity of the narrow-band ISDN network has been exceeded," he said.

Investor Protection Bills Progress in House

In March, the House gave overwhelming approval to legislation to prevent abuses of limited partners by general partners in limited partnership "roll-ups."

Roll-ups are highly controversial reorganizations in which two or more of the finite-life partnerships are combined into a single infinite-life, exchange-traded investment. While roll-ups almost universally generate lucrative fees for general partners, the American Association of Limited Partners estimates that, since 1983, roll-ups have resulted in an average loss of 71 percent and a total loss of $1.7 billion for limited partners.

H.R. 617, introduced by Rep. Edward J. Markey (D-MA), passed on a 408-6 vote. It would limit compensation general partners can receive; require more meaningful and understandable disclosure; require that limited partners have an opportunity to opt out and receive alternative compensation; and provide for an independent assessment of the fairness of the proposed deal.

The bill is very similar to legislation which passed the House last Congress. It was blocked in the Senate, however, by the maneuverings of Sen. Phil Gramm (R-TX), despite strong bipartisan support for the measure.

Sen. Christopher Dodd (D-CT) has reintroduced last year's Senate bill. Although it is very similar to the House bill, S. 424 contains substantially weaker protections for limited partners who oppose roll-ups. "Fairness demands that limited partners be allowed to opt out and receive alternative compensation when presented with a questionable deal that changes the fundamental nature of their investment," said CFA Director of Investor Protection Barbara Roper.

In April, the House Energy and Commerce Committee approved H.R. 578, legislation to increase registration fees for investment advisers to fund more frequent inspections. The bill also would increase the amount of information advisers are required to provide their clients about compensation arrangements that may bias their recommendations. Added to the bill in subcommittee was a provision to create a toll-free number investors could call to get information on an adviser's disciplinary history.

No action has yet been taken on S. 423, which includes only the fee increase, without the House bill's other provisions to improve oversight and without the strengthened disclosure requirements.

"Congress should move quickly to adopt the stronger House versions of these two bills," Roper said.

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